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AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS FOR 2000

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HEARINGS

BEFORE

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, FOOD AND
DRUG ADMINISTRATION, AND RELATED AGENCIES

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JAMES T. WALSH, *New York*

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NOTE: Under Committee Rules, Mr. Young, as Chairman of the Full Committee, and Mr. Obey, as Ranking
Minority Member of the Full Committee, are authorized to act as Members of all Subcommittees.

HENRY E. MOORE, **JOHN J. ZIOLKOWSKI**, **MARTIN P. DELGADO**, and **JOANNE L. ORNDORFF**,
Staff Assistants

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AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RE- LATED AGENCIES APPROPRIATIONS FOR 2000

THURSDAY, FEBRUARY 11, 1999.

OFFICE OF INSPECTOR GENERAL

WITNESSES

ROGER C. VIADERO, INSPECTOR GENERAL

JAMES R. EBBITT, ASSISTANT INSPECTOR GENERAL FOR AUDIT

GREGORY S. SEYBOLD, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS

DELMAS R. THORNSBURY, DIRECTOR, RESOURCES MANAGEMENT DIVISION

STEPHEN B. DEWHURST, BUDGET OFFICER

OPENING REMARKS

Mr. SKEEN. Let's come to order. We are on the record.

Today, we will hear from the USDA's Inspector General's office. We have read your written statement, and we appreciate the broad overview of the USDA programs, that your testimony provides for us, as we continue hearings on the President's fiscal year 2000 budget request.

We have the authority on all that. Mr. Dewhurst is here again, and with that kind of help, we are going to expedite this thing. He is writing out the check already. [Laughter.]

Mr. SKEEN. Roger, your prepared statement will be printed in full for the record. We know you and we like you, and we would ask that you would be brief in your opening remarks so that we can get on with the questions.

We had a 4-hour marathon session with Secretary Glickman yesterday. We would like to keep this focused today if we can, and so it is all yours.

Mr. VIADERO. Good afternoon, Chairman and Members of the Committee. I am pleased to have this opportunity to visit with you again today and discuss the activities of the Office of Inspector General. Before I begin, I want to introduce members of my staff who are with me here today.

Mr. Chairman, Ms. Kaptur, we have Jim Ebbitt, of course, the Assistant Inspector General for Audit, and we have a new person, Mr. Greg Seybold, who is the Assistant Inspector General for Investigations who has joined us recently.

Mr. SKEEN. Welcome, Mr. Seybold.

Mr. VIADERO. We have Delmas Thornsbury, the Director of our Resources Management Division, and as you, Mr. Chairman, we feel blessed that we have the esteemed Steve Dewhurst, the Department of Agriculture's Budget Officer at the table with us here today.

Mr. SKEEN. Let's not overdo it. [Laughter.]

Mr. VIADERO. I want to thank the committee for its support during the nearly 4½ years since my appointment as Inspector General. We have tried to work closely with you, and I hope that you have been able to address some of the concerns you have toward us and gotten proper responses.

OIG's mission is to perform audits and investigations of the Department's more than 300 programs and operations, recommend policies, and actions to promote economy and efficiency and prevent and detect waste, fraud, and mismanagement in these programs and operations.

We keep you and the Secretary informed about problems and deficiencies, and report criminal violations to the United States Attorney General.

We have a diverse staff of auditors, criminal investigators, and other personnel in offices throughout the Nation to carry out these activities. I am proud to say that in fiscal year 1998, we continued to more than pay our own way.

In the audit arena, we issued 220 audit reports and obtained management agreement on 1,122 recommendations. Our audits resulted in questioned costs of over \$112 million. Also, as a result of the audit work, management agreed to recover more than \$39 million and put another \$128 million into better use.

Most importantly, implementation of our recommendations by USDA managers will result in more effective operations of USDA programs.

Additionally, our investigative staff completed 815 investigations and obtained 777 indictments, 604 convictions, and in excess of 2,780 arrests. Our investigations also resulted in \$81 million in fines, restitutions, other recoveries, and penalties during the year.

We continued to work closely with agency officials during fiscal 1998 to address key issues and to expand our cooperation with other Federal, State, and local law enforcement and audit agencies to help us broaden the impact of our work. Working together, our staffs identified program weaknesses and program violators. Capitalizing on the staff's respective expertise, we created solutions for positive action.

In 1999, we are focusing our efforts primarily on food safety and smuggling of uninspected, unapproved food products, carrying unwanted pests and diseases into the United States that affect the wholesomeness of the Nation's food supply.

We are also focusing our audit efforts on the Department's financial accounting systems, Farm Credit programs, the Rural Rental Housing Program, the Food Stamp Program including its electronic benefits transfer efforts, and the Child and Adult Care Food Program.

In addition to investigations and emergency responses to threats to the health and safety of food, our investigative priorities include investigations of sponsors abusing the child and adult care pro-

grams, employee integrity issues, and fraud in the Department's loan, regulatory and benefit programs.

Mr. Chairman, at this time, I would particularly like to focus on our year 2000 law enforcement initiatives. The quality or wholesomeness of the Nation's food supply from production to consumer is of special concern to this office. Investigations of any criminal activity that pose a threat to the general health and safety of the public remain our highest priority. Criminal investigations have usually involved the processing and sale of adulterated meat or poultry and egg products, criminal tampering with food products consumed by the public and product substitution, adulteration or other misrepresentation of food products which are regulated or purchased by USDA.

Recent and ongoing investigations involving real or alleged threats to food products intended for the public have necessitated the immediate—I say again, immediate deployment of OIG agents and auditors to several U.S. cities. These cases have involved real or threatened adulteration or contamination of meat with everything from E. coli bacteria or listeria to HIV-infected human blood. Some of these products were destined for or actually ended up in the National School Lunch program or on military bases. The increasing threat to the wholesomeness of domestic and exported food requires not only vigilance, but also advanced preparedness, including preemptive operations.

Profit-motivated criminal activity that threatens the food industry can cause economic disruption, while victimizing innocent members of the community.

Likewise, threats of criminal adulteration and biological contamination of food products from outside the food industry for extortion or ideological motives can victimize and disrupt the Nation's food production and distribution systems. These threats must be resolved through a vigilant and established emergency law enforcement and health and safety response.

A threat in a Milwaukee, Wisconsin, meat plant is a good example of these types of dangers. This past December, December 19, 1998, a plant received a threat of biological contamination using HIV-infected human blood. We immediately deployed 30 special agents, including eight bilingual agents to converse with Spanish-speaking plant employees, and four auditors to the scene to determine the validity of the threat and to identify those responsible.

Personnel from the Food Safety Inspection Service assisted in this investigation, with FSIS staff taking the lead role in ensuring that potential contaminants had not been introduced to the food chain. Our investigative efforts to resolve this bioterrorism threat continue.

By the way, Mr. Chairman, we have a joint investigation ongoing with the FBI and several of the other large health agencies such as CDC on this issue, and it is a continuing operation. To date, approximately 580 interviews have been conducted, and I am pleased to be able to report that extensive testing of the samples taken from the plant has not indicated the presence of HIV-infected human blood.

We are currently investigating a significant case involving another meat company alleged to have intentionally adulterated and

misbranded beef and pork products, which have also tested positive for E. coli bacteria. Approximately, 4 million pounds of this company's meat product containing ground pork or ground beef are under voluntary hold at various school districts, prisons, military installations and the like. In addition, another 1,600,000 pounds of this product are being retained or detained at these facilities.

We have also investigated other cases in which health and safety of the public were at serious risk. For example, in Buffalo, New York, three feed company employees recently pled guilty to Federal charges and are awaiting sentencing for their role in selling canned meat products to the public which were unfit for human consumption. This product was being shipped from a Canadian company to the feed company to be used exclusively as animal food, but was diverted by these individuals to be sold for human consumption.

I have a picture of the deplorable and unsanitary conditions at the plant that I want to show you. This is a tub of unidentified waste and food product, if you will, found just sitting around outside the open site.

The Office of Inspector General needs to be prepared to immediately respond to these emergency situations. To do so, we must be equipped with the specialized equipment, protective clothing, and supplies necessary to ensure the health and safety of our personnel responding to these crises.

We also need to be mindful of the economic impact of closing a major food processing plant. To our knowledge, the Milwaukee plant I mentioned earlier had violated no laws and had been successfully implementing the new food safety procedures for inspecting meat and poultry plants.

The Hazard Analysis Critical Control Point system, or HACCP as you know it, inspection procedures—yet, its production line was successfully halted by outside forces. Tons, actually millions of pounds, 15 million pounds of this product were put on hold, and the facility was temporarily shut down.

Due to our rapid response and deployment of considerable staff resources, we not only helped protect the health and safety of the consumers, but also allowed the plant to reopen, reemploying approximately 1,500 people with a minimum disruption of production, lost profit, and impact on the local economy as opposed to an indefinite and costly closure.

The costs of rapid response by OIG, such as this, are indeed great. In addition to the personnel time and the disruption of other critical OIG work, to date we have expended approximately \$40,000 alone in unanticipated travel costs in the Wisconsin investigation. This figure will continue to rise until the matter is resolved.

Another form of criminal enterprise that poses a significant threat to the Nation's food supply and its economic well-being is smuggling of uninspected, unapproved food products into the United States. A direct result and a byproduct of smuggling is the danger that comes from pestilents, whether insects, fungi, bacteria, or viruses not previously present in the United States, could be introduced here.

As a result, entire crops of the United States agricultural industry, such as citrus, vegetables, trees, and other plants or beef, poultry,

try, and pork products could be severely, severely damaged, devastating the economy of the local communities producing these products, as well as reducing both the quantity and quality of our Nation's food supply.

OIG has begun an anti-smuggling campaign to interdict and suppress foreign contraband that is dangerous when consumed by the American population and potentially catastrophic to the economic stability of certain agricultural products. Ongoing criminal investigations are targeting smuggled fruits, vegetables, plants, and other commodities or animals that bring high dollars in underground black-market commerce. This initiative requires significant agent resources dedicated to intelligence collection, undercover operations, and foreign law enforcement cooperative efforts that cross the international boundaries. These activities normally require extensive surveillance utilizing high-tech investigative devices and equipment.

The smuggling of infested fruits into the United States is indeed a serious law enforcement problem because of the criminal profit. It is tremendous while the deterrent is grossly inadequate at present.

Animal pests and disease importation are a severe problem, for instance, in Florida, and due to the favorable climate in most of the Southeastern United States, the pests and diseases could easily spread throughout the area.

The costs to protect the industry are staggering. Since 1980, over \$256 million in California, State and Federal funds, have been spent to eradicate medfly infestations in quarantine areas.

In the last 10 years, Florida has spent in excess of \$150 million to eradicate such infestations. A risk to the agricultural industry including exports is clear. The State of California alone produces in excess of \$25 billion in fruits, nuts, and vegetables annually, about 55 percent of the Nation's output. About \$11.8 billion of these commodities is exported to other countries each year.

In carrying out successful smuggling operations, OIG must perform extensive travel, procure and maintain the necessary specialized equipment needed to investigate these incidents, provide essential protective supplies and equipment to ensure the health and safety of our agents and auditors, and provide specialized training to our staff, to prepare them to cover various types of such emergencies.

OIG must also provide state-of-the-art, Y2K-compliant automated data processing equipment and systems to track data, analyze intelligence-based information, and provide faster and more responsive information to better support this mission work. All of these items are essential to ensure that this office can adequately address this critical public health and safety issue concerning the quality and wholesomeness of the Nation's food supply.

Just before I conclude, Mr. Chairman, I would like to show you and the committee another example of our work. This is a picture of a set of counterfeit plates we found being used by store owners and a wholesaler to relabel the illegally received WIC formula so that it could be resold to commercial sources, another large area for us to look at.

Mr. Chairman, I am sure you are happy that this concludes my presentation, and I would be pleased to respond to any questions you or any of the members may have.

Thank you.

[The prepared statement and biographies of Roger C. Viadero and Gregory S. Seybold follow:]

**UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL**

***STATEMENT OF ROGER C. VIADERO
INSPECTOR GENERAL***

Before the
HOUSE APPROPRIATIONS SUBCOMMITTEE
ON
AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION,
AND
RELATED AGENCIES

February 11, 1999



STATEMENT
of
ROGER C. VIADERO
INSPECTOR GENERAL
OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF AGRICULTURE
before the
HOUSE APPROPRIATIONS SUBCOMMITTEE ON AGRICULTURE,
RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION,
AND RELATED AGENCIES

February 11, 1999

INTRODUCTION AND OVERVIEW

Good afternoon, Mr. Chairman and members of the Committee. I am pleased to have this opportunity to visit with you today to discuss the activities of the Office of Inspector General (OIG) and to provide you with information on our audits and investigations of some of the major programs and operations of the U.S. Department of Agriculture (USDA).

Before I begin, I would like to introduce the members of my staff who are here with me today: Jim Ebbitt, Assistant Inspector General for Audit; Greg Seybold, Assistant Inspector General for Investigations; and Del Thornsby, Director of our Resources Management Division.

I want to thank the Committee for its support during the nearly 4-1/2 years since my appointment as Inspector General. We have tried to work closely with you, and I hope that we have been able to address some of your concerns.

OIG's mission is to perform audits and investigations of the Department's more than 300 programs and operations, recommend policies and actions to promote economy and efficiency, and prevent and detect fraud, waste, and mismanagement in these programs and operations. We keep you and the Secretary informed about problems and deficiencies and report criminal violations to the U.S. Attorney General. We have a diverse staff of auditors, criminal investigators, and other personnel in offices throughout the Nation to carry out these activities.

I am proud to say that in fiscal year (FY) 1998, we continued to more than pay our own way. In the audit arena, we issued 220 audit reports and obtained management's agreement on 1,122 recommendations. Our audits resulted in questioned costs of over \$112 million. Also, as a result of our audit work, management agreed to recover more than \$39 million and put another \$128 million to better use. Most importantly, implementation of our recommendations by USDA managers will result in more effective operations of USDA programs. Additionally, our investigative staff completed 815 investigations and obtained 777 indictments, 604 convictions, and

2,780 arrests. Investigations also resulted in \$81 million in fines, restitutions, other recoveries, and penalties during the year.

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In FY 1999, we are focusing our efforts primarily on food safety and smuggling of uninspected, unapproved food products carrying unwanted pests and diseases into the United States that affect the wholesomeness of the Nation's food supply. We are also focusing our audit efforts on the Department's financial accounting systems; farm credit programs; the Rural Rental Housing Program; the Food Stamp Program, including its Electronic Benefits Transfer efforts; and the Child and Adult Care Food Program. In addition to investigations and emergency responses to threats to the health and safety of food, our investigative priorities include investigations of sponsors abusing the child and adult care programs; employee integrity issues; and fraud in the Department's loan, regulatory, and benefit programs.

Before I discuss some of our specific audit and investigative activities, I would like to update the Committee on the status of our forfeiture authority.

I am pleased to report to you that on the forfeiture front, with this Committee's strong support, we are now authorized to receive proceeds from forfeiture actions arising from our investigations. Our memorandum of understanding was signed with the Department of Justice in May of last year and, since that time, we have been a fully participating agency in the Justice Department's Asset Forfeiture Fund.

Special Health and Safety Initiative

Mr. Chairman, at this time, I would like to discuss our special law enforcement request for FY 2000. This effort will be a major endeavor for the agency, and we ask your support to provide the resources necessary for it.

The quality or wholesomeness of the Nation's food supply, from production to the consumer, is of special concern to OIG. Investigations of any criminal activity that poses a threat to the general health and safety of the public remain our highest priority. Criminal investigations have usually involved the processing and sale of adulterated meat or poultry and egg products; criminal tampering with food products consumed by the public; and product substitution, adulteration, or other

misrepresentation of food products which are regulated or purchased by USDA.

Recent and ongoing investigations involving real or alleged threats to food products intended for the public have necessitated the immediate deployment of OIG special agents and auditors to several U.S. cities. These cases have involved real or threatened adulteration or contamination of meat with everything from E. coli bacteria or Listeria to HIV-infected human blood. Some of these products were destined for or actually ended up in the National School Lunch Program or on military bases.

To address these types of emergencies, we are entering into joint activities with other Federal and State agencies to share intelligence and conduct undercover operations. Doing so will help us stem the threat to the food supply from packing plants and other facilities and target criminal enterprise in general.

The increasing threat to the wholesomeness of domestic and exported food requires not only vigilance but also advanced preparedness including preemptive operations. Profit-motivated criminal activity that threatens the food industry can cause economic disruption while victimizing innocent members of the industry. Likewise, threats of criminal adulteration and biological contamination of food products from outside the food industry for extortion or ideological motives can victimize and

disrupt the Nation's food production and distribution systems. These threats must be resolved through a vigilant, established emergency law enforcement and health and safety response.

A threat in a Milwaukee, Wisconsin, meat plant is a prime example of these types of dangers. This past December, the plant received a threat of biological contamination using HIV-infected human blood. We immediately deployed 30 OIG special agents (including eight bilingual agents to converse with Spanish-speaking plant employees) and four auditors to the scene to determine the validity of the threat and to identify those responsible. Personnel from the Food Safety and Inspection Service (FSIS) assisted in this investigation, with FSIS staff taking the lead role in ensuring that potential contaminants had not been introduced into the food chain. Our investigative efforts to resolve this bioterrorism threat continue. Approximately 580 interviews have been conducted to date. I am pleased to be able to report that extensive testing of samples taken from the plant has not indicated the presence of human HIV-infected blood.

In another significant case, an OIG Emergency Response Team was dispatched to a Nebraska meat plant to investigate an outbreak of E. coli bacteria when 15 people in Colorado became ill after eating ground beef patties that came from the plant. Two plant officials have been indicted and await trial for misleading FSIS and OIG during our attempts to determine the source of the

E. coli bacteria. Some 25 million pounds of ground beef were recalled due to this contamination, which, at that time, was the largest meat recall ever in the Nation.

Additionally, we are currently investigating a significant case involving another meat company alleged to have intentionally adulterated and misbranded beef and pork products, which have also tested positive for E. coli bacteria. Approximately 4.4 million pounds of this company's meat product containing ground pork or ground beef are under voluntary hold at various school districts, prisons, military institutions, and other facilities. In addition, another 1.6 million pounds of this product are being retained or detained at other facilities.

We have also investigated other cases in which the health and safety of the public were at serious risk. In Buffalo, New York, three feed company employees pled guilty to Federal charges and await sentencing for their role in selling canned meat products



Tub of Unidentified Waste Found at Site

to the public which were unfit for human consumption. This product was being shipped from a Canadian company to the feed company to be used as animal food but was diverted by these individuals to be sold for human consumption. In a second case in New York, an FSIS inspector pled guilty in Federal court and was sentenced to 6 months in prison for accepting bribes from the owner of a slaughter facility to permit the slaughter of livestock, including 3-D (dead, diseased, or dying) cows, without the benefit of inspection. In Pennsylvania, the owner of a slaughterhouse pled guilty to conspiracy, while three employees pled guilty to violating the Federal Meat Inspection Act. These individuals were caught slaughtering 3-D cows after the FSIS inspector had left the premises and then commingling the unwholesome product with meat that had been inspected.

We have initiated audits of the new food safety procedures for inspecting meat and poultry plants, the Hazard Analysis Critical Control Point system, or HACCP. Since an increasing number of processing plants are becoming subject to HACCP, the safety and wholesomeness of the Nation's meat and poultry supply are dependent on HACCP being successfully implemented. Meanwhile, our efforts to actively address the problems of food safety, posed by those who put it at jeopardy and who are motivated by profit or ideology, present special concerns for us. OIG needs to be prepared to immediately respond to these emergency situations. To do so, we must be equipped with the specialized

equipment, protective clothing, and supplies necessary to ensure the health and safety of our personnel responding to these crises.

We also need to be mindful of the economic impact of closing a major food processing plant. To our knowledge, the Milwaukee plant I mentioned earlier had violated no laws and had been successfully implementing HACCP inspection procedures. Yet, its production line was successfully halted by outside forces, tons of its product were put on hold, and the facility was temporarily shutdown. OIG's rapid response and deployment of considerable staff resources not only helped to protect the health and safety of consumers, but it also allowed the plant to reopen--reemploying approximately 1,500 people with a minimum disruption of production, lost profit, and impact on the local economy as opposed to an indefinite and costly closure.

The costs of rapid responses by OIG such as this are great. In addition to the personnel time and the disruption to other critical OIG work, to date, we have expended approximately \$40,000 in unanticipated travel costs in the Wisconsin investigation alone. This figure will continue to rise until the matter is resolved.

Another form of criminal enterprise that poses a significant threat to the Nation's food supply and its economic well-being is smuggling of uninspected, unapproved food products into the

United States. A direct result, and a byproduct of smuggling, is the danger that forms of pestilence--whether insects, fungi, bacteria, or viruses--not previously present in the United States could be introduced here. As a result, entire crops of the U.S. agricultural industry--such as citrus, vegetables, trees and other plants, or beef, poultry, and pork products--could be severely damaged, devastating the economy of the local communities producing these products as well as reducing both the quantity and quality of the Nation's food supply.

The Administration has begun a new initiative to counteract the invasion of unwanted and mostly foreign species of plants and animals. By Executive Order, the President has established an Invasive Species Council, which the Secretary of Agriculture will Co-chair, to ensure a safe and wholesome food supply and prevent the spread of unwanted, invasive pests.

OIG has begun an antismuggling campaign to interdict and suppress foreign contraband that is dangerous when consumed by the American population, and potentially catastrophic to the economic stability of certain U.S. agricultural products. Ongoing criminal investigations are targeting smuggled fruits, vegetables, plants, and other commodities or animals that bring high dollars in underground "black market" commerce. This initiative requires significant agent resources dedicated to intelligence collection, undercover operations, and foreign law enforcement cooperative efforts that cross international

boundaries. These activities normally require extensive surveillance utilizing high-tech investigative devices and equipment.

The smuggling of infested fruits into the United States is a serious law enforcement problem because the criminal profit is tremendous while the deterrent is grossly inadequate at present. Longans are a good example. Longans are prized Asian fruits. They cost \$1 a pound from distributors in Taiwan and are sold illegally in U.S. markets at \$7 to \$10 per pound. Often they are contaminated with fruit flies. Although banned in the United States, sealed containerized shipments of longans are routinely, and legally, allowed into U.S. ports for transshipment to Canada. Intelligence efforts have documented that semi-trucks, which can carry 40,000 pounds or more of containerized longans, have transported shipments into Canada, where the fruit is not prohibited, only to turn around and smuggle the shipments back into the United States, thus, allowing for pest infestations in this country.

One well-known example of a devastating pest that has been introduced into this country is the Mediterranean fruit fly, commonly called Medfly. One of the world's most destructive agricultural pests, it attacks more than 250 kinds of fruits, nuts, and vegetables, causing major economic losses. Whole States can be beset with severe crop losses and economic problems caused by this and other such pests. In the past 4 years,

Florida has been faced with severe outbreaks of oriental fruit fly, citrus leaf miner, brown citrus aphid, citrus canker, African beetle, leather leaf anthracnose, pine short beetle, and sweet potato fly in addition to the Medfly infestations. Animal pests and disease importation are a severe problem in Florida and, due to the favorable climate in most of the southeastern United States, the pests and diseases could easily spread throughout that area. The costs to protect the industry are staggering. Since 1980, over \$256 million in California State and Federal funds has been spent to eradicate Medfly infestations in quarantined areas. In the last 10 years, Florida has spent more than \$150 million to eradicate such infestations.

The risk to the agricultural industry, including exports, is clear. The State of California alone produces over \$25 billion in fruits, nuts, and vegetables annually--about 55 percent of the Nation's output. About \$11.8 billion of these commodities is exported to other countries each year.

In carrying out successful smuggling investigations, OIG must perform extensive travel; procure and maintain the necessary specialized equipment needed to investigate these incidents; provide essential protective supplies and/or equipment to ensure the health and safety of our agents and auditors; and provide specialized training to our staff to prepare them to cover various types of such emergencies. OIG must also provide state-of-the-art Y2K compliant ADP equipment and systems to track data;

analyze intelligence-based information; and provide faster, more responsive information to better support this mission work. All of these items are essential to ensure that OIG can adequately address this critical public health and safety issue concerning the quality and wholesomeness of the Nation's food supply.

Mr. Chairman, at this time, I would like to highlight some of our other audit and investigative activities.

AUDIT AND INVESTIGATIONS ACTIVITIES

MARKETING AND REGULATORY PROGRAMS

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

We have investigated various types of criminal acts involving APHIS programs. An investigation in San Francisco, California, provides a good example. In this case, two businessmen pled guilty to causing the delivery of misbranded food for introduction into interstate commerce in this case. A joint investigation conducted by OIG, the U.S. Customs Service, and the U.S. Food and Drug Administration disclosed that the businessmen smuggled bird nests, abalone, fish maw, scallops, and dried oysters from Hong Kong by commingling these products with their legitimate imports of frozen shark fins and other food products. The two businessmen received 3 years' probation and were each

ordered to pay a \$3,000 fine and restitution of \$1,500. A third individual is pending trial on similar charges.

In Oregon, six individuals are awaiting sentencing after they pled guilty on Federal charges of theft for their part in a conspiracy to fraudulently acquire and sell over 100 dogs to medical research facilities. The six defendants have also agreed to testify against a former USDA-licensed dog dealer, her husband, and their son, who have all been indicted for conspiracy and mail fraud related to the scheme. Our investigation disclosed that the dealer and her associates either stole dogs or obtained them under false pretenses over a 15-month period. The dealer then falsified APHIS forms in order to conceal her activities. She also forwarded false documents to the Oregon State Department of Agriculture.

AGRICULTURAL MARKETING SERVICE (AMS)

Oversight of the Fluid Milk Promotion Program Needs Strengthening

Our review of the Fluid Milk Promotion Program indicated that AMS and the National Fluid Milk Promotion Board need to improve their oversight and controls over the program's activities to ensure that assessments on fluid milk are used in accordance with the Fluid Milk Promotion Act. Those assessments, from approximately 370 processors, totaled about \$169 million from December 1993 through June 1997.

Neither AMS nor the Board provided adequate management or oversight of program activities. AMS left most oversight efforts to the Board. The Board delegated most administrative functions to two contractors and was not actively involved in the day-to-day operations of the program. One contractor, the Milk Industry Foundation, was responsible for performing various management and administrative services. The other contractor, the Board's Administrator, was responsible for collecting assessments, accounting for funds, and performing compliance reviews. These services were provided through contracts with the Administrator's public accounting firm. Altogether, the Board's Administrator, either as an individual or through his firm, had three sole-source contracts with the Board.

Although AMS was responsible for reviewing and approving all contracts, the Board paid over \$127 million for contracts, representing 75 percent of the funds collected through the program, without AMS' approval. The Board entered into these sole-source contracts without any competition to ensure the most cost-effective procurement of services.

The Act requires that the Board obtain title to all assets developed using program funds. In one case, the contract to procure photographs, taken as part of a major milk-marketing campaign, the popular "Milk Mustache" or "Got Milk" advertising campaign, did not include language to secure title to the photographs. Consequently, the program expended almost \$130,000

in royalties for the continued use of the photographs. The photographer still has control and possession of the photographs, which were developed using over \$2.7 million in program funds.

Overall, neither AMS nor the Board has determined, as required by the Act, whether the program has resulted in increased milk consumption. While this marketing campaign has been highly visible in the marketplace, no independent studies have been performed to determine the campaign's impact on fluid milk consumption.

We recommended that AMS: (1) suspend Board program activities until a plan is developed whereby the Board will take full control of its activities and comply with the Act, including establishing guidelines for awarding contracts to ensure that contracted goods and services are obtained in the most cost-effective manner; (2) require the Board to determine the effectiveness of its research and promotion activities to increase fluid milk consumption; (3) require the Board to obtain AMS approval on all contracts before any funds are obligated or expended and that the Board obtain title and possession of all assets acquired with program funds; and (4) require the Board to assure that audits of its books and records are conducted using generally accepted Government auditing standards.

AMS did not agree to suspend the Board's activities. However, it has agreed to institute improvements and is continuing to work with the Fluid Milk Board to strengthen management controls.

FOOD, NUTRITION, AND CONSUMER SERVICES

FOOD AND NUTRITION SERVICE (FNS)

Operation Talon

In previous testimony, I informed you we had initiated "Operation Talon." This special law enforcement initiative, made possible by the passage of Welfare Reform, involves the exchange of information between law enforcement and State social services agencies. Specifically, law enforcement fugitive records are matched with social service agencies' food stamp recipient records, and the information is used by law enforcement officers to locate and apprehend dangerous and violent fugitive felons who may also be illegally receiving food stamp benefits.

Overall, Operation Talon has been the most successful investigative initiative we have yet undertaken. To date, this initiative has resulted in the arrest of over 3,650 fugitive felons. This has included 26 wanted for murder or attempted murder; 11 for rape or attempted rape; 8 for kidnapping; and 1,202 for assault, robbery, or drug offenses. This has also resulted in the arrest of 18 fugitive felons wanted for child

molestation. A number of States are removing arrested fugitives from their food stamp rolls, which will result in savings to the Food Stamp Program and allow food stamp benefits to continue to go to the needy for whom they were intended. One particularly rewarding note is that 2 of the 18 fugitives wanted for child molestation have also been charged with violating State "Megan's Law" statutes. In one of these cases, OIG and the Hudson County, New Jersey, Sheriff's Department arrested a convicted child molester for failing to register as a sex offender. The fugitive had moved without notifying appropriate State officials and eluded the authorities until he provided his new address to participate in the Food Stamp Program.

One recent Operation Talon success was in Austin, Texas, where our special agents worked with Texas law enforcement officials in apprehending over 75 fugitive felons. We have additional warrants and anticipate the arrest of numerous other fugitive felons in this highly successful operation. Operation Talon is an ongoing initiative, and, working with local law enforcement agencies, we are planning future arrest operations in many parts of the country.

Food Stamp Program (FSP)--Coupon Trafficking

We are continuing to devote significant investigative resources to combat fraud in the Food Stamp Program. Ever since the program began distributing food stamps to needy Americans,

unscrupulous people have been willing to devise methods to unlawfully benefit from this important program. There are basically two types of traffickers--the street traffickers who buy or barter food stamps or EBT card benefits for cash or other nonfood items, and the retailers who purchase or redeem unlawfully obtained food stamps or cards from eligible recipients.

We have conducted several significant food stamp trafficking cases in the last year. Investigations conducted of large-scale fraud operations in New York, Philadelphia, and Detroit are good examples of these. In these investigations, we have thus far identified 55 store owners and employees involved in the unlawful acquisition of some \$99 million in food stamp benefits. This has resulted in the arrest and conviction of many of these individuals, some of whom have been sentenced to prison terms and ordered to pay millions of dollars in restitution. Our investigations into these matters continue, and we anticipate additional persons will be charged.

Child and Adult Care Food Program (CACFP)

Last year, I testified about a special law enforcement initiative we had undertaken with one of the targeted programs being CACFP. I indicated that we would continue "sweeps" of program sponsors to find those who are abusing the program to remove them from sponsorship, to prosecute them if warranted, and to recover

ineligible payments. Since last year, our CACFP initiative has been designated as a Presidential Initiative which we named Operation "Kiddie Care."

Our efforts have been very successful. Currently, we have 29 open CACFP investigations. As of December 1998, 54 sponsors in 23 States were being audited or investigated. We identified 37 sponsors as being seriously deficient, a term used by FNS to designate sponsors who could be terminated from the program unless the deficiencies are addressed promptly. Fourteen sponsors, who had been receiving a total of \$24.4 million annually, have been terminated from the program.

In Ohio, seven persons, including the director of the sponsoring organization operating a local child and adult care food program, pled guilty to conspiracy to submit false claims for issuing or receiving reimbursement payments for in-home day care providers who did not exist or did not have children in the home. This ongoing investigation has identified 11 people to date who conspired to set up more than 40 false providers. This conspiracy, which had been ongoing since 1988, resulted in the submission of false claims for reimbursements totaling about \$1.1 million. The investigation continues with additional prosecutions anticipated.

In another California case, an executive director of a sponsor retained food reimbursements to cover the salary he claimed to

earn in California while he was actually working for another enterprise and living in Wisconsin. He also had a vehicle in Wisconsin for his personal use which was being paid for by the California sponsor. We are currently investigating about \$231,000 of program funds paid to this individual.

We will continue with Operation "Kiddie Care" as long as we find evidence that abuses exist. Returning integrity to this important feeding program and protecting the resources of the American taxpayer are high priorities for OIG and FNS.

Special Supplemental Food Program for Women, Infants, and Children (WIC)

One of the primary purposes of the WIC program is to provide funds to pregnant women and families with small children to allow them to purchase certain nutritious food items. In an effort to curb fraud in the WIC



Counterfeit Plates Used in Trafficking

program, we are continuing our investigative activities in this

area. One such investigation occurred in conjunction with the Columbus, Ohio, Division of Police; the Ohio Department of Taxation; and the Franklin County prosecutor where we conducted a 12-month undercover investigation into trafficking of WIC infant formula and untaxed cigarettes. Investigators determined that store owners and a wholesaler received the formula through the black market, removed its "not for retail sale" marking, and sold it commercially in area stores and to businesses in other States. In two separate "buy-bust" cases, store owners and managers were arrested for illegally purchasing hundreds of cases of WIC formula and hundreds of thousands of cartons of untaxed cigarettes. Both investigations were linked to a Columbus commodity wholesaler at whose warehouses between \$500,000 and \$1 million in commodities were seized. The owner and the manager of the first "buy-bust" case pled guilty to racketeering and trafficking in WIC benefits and untaxed cigarettes. The owner and manager in the second case pled guilty to trafficking in WIC benefits and untaxed cigarettes. Their corporation pled guilty to racketeering, and the wholesaler is now a fugitive.

FARM AND FOREIGN AGRICULTURAL SERVICES

FARM SERVICE AGENCY (FSA)

OIG and FSA Managers Meet

In a joint effort to further agency cooperation, OIG and FSA

senior managers and other policy makers met at a roundtable conference in San Antonio, Texas, the week of December 7, 1998, to explore and embrace new ways of working together. Prior negative experiences brought many participants to the conference with an "us versus them" attitude. In the roundtable, OIG auditors, special agents, and FSA program officials were able to explain obstacles they frequently encountered in accomplishing their agencies' missions. Working together as part of a united team, the participants identified several opportunities to improve communications, and all participants left with a new appreciation for the other's needs. We look forward to improved working relationships with FSA's Administrator and his hardworking staff.

Noninsured Crop Disaster Assistance Program (NAP) Overpayments

We reviewed 1996 crop-year program payments in California, Florida, Georgia, and Oklahoma, where \$26.9 million in benefits--out of a total of \$45.9 million nationwide--were paid as of July 31, 1997. We found hidden or inaccurate reporting of production and the use of incorrect yields to compute payments for 23 of the 98 cases. We found that because the estimates and adjustments used to determine loss could not be verified, the process for determining the actual amount of loss allowed producers to obtain unwarranted program benefits. This was a major problem for seeded wheat forage in Oklahoma. For other crops--strawberries, cherries, and onions--production was based

on information reported by the producer which also was not verifiable as actual production. We recommended that FSA collect \$411,000 in overpayments. FSA has agreed to review the payments and collect any overpayments to which relief provisions did not apply.

Overpayment of Emergency Assistance to Producers in the Upper Great Plains

In January 1997, FSA implemented two programs to provide assistance to endangered livestock caught in the blizzards and cold weather in North and South Dakota. The Emergency Feed Grain Donation Program (EFGDP) provided 100-percent cost-share assistance to livestock producers for snow removal and to feed their livestock in immediate danger of perishing. The Foundation Livestock Relief Program (FLRP) provided 30-percent cost-share assistance for area producers to enhance the diet of foundation livestock--or breeding stock--weakened by the severe winter weather.

Because the two programs ran concurrently with different cost-share rates, some producers improperly received assistance for supplemental feed purchases under EFGDP instead of FLRP. This allowed the producers to receive 100 percent of the feed cost compared to the 30-percent cost-share. In addition, we found that producers were paid excessive snow removal costs during a 15-day extension period and for snow removal when they

already had access to normal feed supplies. FSA improperly authorized \$2.5 million of FLRP payments to 23 counties in Iowa, Montana, Nebraska, and Wyoming adjoining the disaster area. We recommended FSA strengthen its oversight role in certain areas to help ensure that future disaster assistance is limited to identified areas and require county offices to act on the cases where excessive EFGDP and FLRP payments were issued. FSA believes its existing controls are generally adequate; but, due to the complexity and difficulty of administering emergency and disaster programs, procedures to improve oversight will be incorporated into future programs. FSA agreed, subject to the finality rule, to recover the overpayments.

Environmental Benefits Index Scores Controls Could Be Improved

Under the Conservation Reserve Program (CRP) producers receive annual payments from FSA to take highly erodible cropland out of production and establish and maintain a vegetative cover on it. During signup, producers designate tracts of land determined to be environmentally sensitive, which are reviewed and scored according to values on the Environmental Benefits Index (EBI). One subpart of the index identifies the environmental benefits of the land, such as providing cover beneficial to wildlife. It also specifies what numerical scores may be given for the different kinds of conservation practices--planting mixed grasses, legumes, etc.--that the producer established to enhance each benefit. Tracts that have been awarded higher scores are

regarded as more worthy of conserving and qualify for CRP consideration ahead of tracts with lower scores. Tracts that fall below a minimum score are excluded from the program.

We reported that the Natural Resources Conservation Service's (NRCS) implementation of CRP exhibited significant control weaknesses. These included improperly modified point scores for various environmental ranking factors and subfactors in some States. In addition, producers in some States received high scores for preserving cover beneficial to wildlife or for protecting threatened and endangered species even though the required cover or endangered species were not present on the tract of land. Such inconsistencies can result in greater CRP consideration for cropland in one State, even though its environmental benefits are no greater than those of its neighbors. We identified approximately 2,900 offers nationwide with annual rental payments totaling about \$13 million that were at risk of incorrect acceptance into CRP. NRCS management issued guidance that addressed some scoring problems noted in our review.

FARM SERVICE AGENCY (FSA) INVESTIGATIONS

Historically, one of our primary activities has been the investigation of criminal violations of the various farm loan programs administered by USDA. We continue to conduct such investigations with great success. A good example is a honey

producer in Idaho. This individual was sentenced to serve 28 months in prison and ordered to pay USDA over \$3 million in restitution after he pled guilty to submitting false statements to FSA in order to obtain over \$6 million in loans and subsidy payments.

RURAL DEVELOPMENT

RURAL HOUSING SERVICE (RHS)

OIG and RHS Join Forces to Combat Fraud and Abuse in Rural Rental Housing (RRH) Program

OIG and RHS combined efforts to identify, investigate, and prosecute owners and management agents that had abused or defrauded the RRH program. We targeted owners and management agents who were suspected of abusing the program.

Joint OIG-RHS teams physically inspected 631 apartment complexes and then examined the financial records of apartment complexes operated by 32 owners and management agents in 13 States. The teams identified over \$3.5 million in misused funds and uncovered serious physical deterioration of some apartment complexes, including conditions that posed health and safety risks to the tenants. Our work is continuing, and we will issue a summary report later this spring.

An investigation in Washington State centered on a prominent local attorney who was a general partner of multiple limited partnerships which owned federally financed and subsidized low-income housing projects. The attorney had built 65 apartment projects in 20 States under the RRH program. Our investigation disclosed that the partner submitted false and fictitious construction invoices to RHS and to the lending banks which administered RHS loans in order to divert \$176,000 in funds from four RHS loans. Our investigation also showed that he received kickbacks from the bank where loan funds were deposited. In order to conceal the kickbacks, he submitted fictitious invoices to the bank for purported legal services rendered. He also failed to disclose \$95,000 in income derived from the diverted funds and other sources on his 1995 individual income tax return. He pled guilty to making false statements, receiving unlawful payments, and filing a false Federal income tax return. He was sentenced to 21 months in prison and ordered to pay \$300,000 in restitution.

Problems Exist With Electric Program Loan Funds, Borrowers

We evaluated the Rural Utilities Service's (RUS) electric program because of its high dollar value--approximately \$32 billion, potential for large losses--writeoffs of more than \$1.7 billion and about \$8 billion owed by troubled borrowers, and recent changes in legislation and in the industry. We found that the eligibility criteria prescribed by law and regulation for

hardship loans and prioritization of applications for municipal rate loans did not take into consideration the applicant's financial strength, loan amounts, or local user rates. Also, the Rural Electrification Act of 1936, as amended, and regulations did not allow RUS to ensure that guaranteed loans benefitted only truly rural areas. This could delay funding for improvement of electrical services to the most needy borrowers and in truly rural areas.

We recommended that RUS seek legislative change and amend regulations so that hardship loan funds can be targeted to areas of greatest need by taking into consideration financial condition and local area user rates and by ensuring municipal rate loan funds benefit only truly rural areas. Although agency officials generally agreed with our findings, they did not agree with our recommendations to seek a legislative or regulatory change.

INSURANCE

RISK MANAGEMENT AGENCY (RMA)

Reinsurance Companies' Quality Control Systems Lacking

RMA delivers multiple-peril crop insurance programs through standard reinsurance agreements with private insurance companies. Under the agreements, the companies are required to develop quality control plans consistent with the agency's policies and

procedures that safeguard against waste, loss, unauthorized use, and misappropriation. This past year, we reviewed the quality control processes of reinsured companies operating under agreements made with RMA in 1995. We found that, although the quality control systems generally complied with the terms of the agreement, they did not effectively improve program delivery, ensure program integrity, and adequately measure or report on program performance. The consequences of poorly specified requirements in the reinsurance agreements were insufficient data collection, maintenance, and reporting requirements; ineffective oversight of quality control operations; and insufficient controls against conflicts of interest. As a result, program officials cannot rely on reinsured companies' quality control reviews.

We recommended that RMA, in consultation with crop insurance organizations and experts, adopt appropriate professional standards for quality control and, in particular, controls to deal with conflicting sales and claims adjustment operations that affect the integrity of crop insurance programs. The agency concurred with our recommendations for improved quality control processes but not with our findings and recommendations for improved controls against potential conflicts of interest. We are working with RMA on the disputed recommendations.

Nonirrigated Crop Insurance Yields Set Too High and Practices Not Viable

Prompted by an OIG hotline complaint, we audited RMA's first year, crop-year 1998, extra long staple (ELS) cotton insurance program in the Texas counties of Glasscock, Midland, Reagan, and Upton. We determined that the transitional-yields, or T-yields, and established yields based on historical averages for nonirrigated ELS cotton were set exceptionally high. Also, we questioned whether the growing season and rainfall were sufficient to produce ELS cotton in these four counties. We reported that, as a result of these issues, RMA could incur excessive losses of about \$12 million for the 1998 crop-year alone. Similarly, we disclosed that high T-yields for nonirrigated popcorn in the Rio Grande Valley resulted in indemnities totaling about \$5.5 million for 1997, and nonirrigated dent corn T-yields for 1998 were sufficiently elevated to result in losses of between \$2.2 million and \$2.8 million in Tom Green County, Texas.

Officials in the four counties stated that these were not locally accepted practices because more water is required than the counties receive in rainfall and the growing season is too short for ELS cotton to properly mature. Therefore, we concluded that nonirrigated practices were not viable in the cited counties and recommended that, effective for crop-year 1999, RMA discontinue coverage for ELS cotton in the four counties named in the

complaint, popcorn in the Rio Grande Valley, and dent corn in Tom Green County. RMA agreed.

RESEARCH, EDUCATION, AND ECONOMICS

COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)

Schedule A Extension Appointees' Rights Need Clarification

There are approximately 8,000 Schedule A appointees working nationwide in the State Cooperative Extension System (CES). The appointees receive Federal benefits including participation in the Federal Health Benefits Program and civil service retirement plan. In 1990, the Civil Service Due Process Amendments extended coverage to these appointees. Our review of adverse actions taken against two appointees by one State university CES director disclosed that the universities are not always aware that protections such as counseling and appeals procedures apply. In this case, the university had offered no protections and stated that its own policy allowed the CES to dismiss the appointees without recourse. The Office of General Counsel provided CSREES with an opinion that these positions fall within the due process requirements of the Merit Protection System. USDA's Office of Human Resources Management confirmed that Schedule A appointees are Federal employees for purposes of civil service protections.

On December 9, 1998, the Merit System Protection Board ruled that the individual taking actions against the two employees was within Federal jurisdiction. The case was remanded to an Administrative Judge for further adjudication. OIG has encouraged CSREES to work with the National Association of State Universities and Land Grant Colleges to inform all CES offices of the appointees' current status and assist them in developing suitable personnel procedures for these positions.

ACCOUNTING, FINANCIAL, AND INFORMATION MANAGEMENT

Financial Statement Audits

As required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act, we completed seven financial statement audits of the Department's programs. We issued unqualified, or "clean," opinions on the FY 1997 financial statements of the Federal Crop Insurance Corporation, the Commodity Credit Corporation, and the Rural Telephone Bank. Audits of the Rural Development mission area and the Food and Nutrition Service resulted in qualified opinions. Rural Development received a qualified opinion because we were unable to assess the reasonableness of its estimated loan subsidy costs for loans obligated after FY 1991.

In FY 1997, FNS received a qualified opinion because we were unable to assess the reasonableness of its gross, non-Federal

accounts receivable for the Food Stamp Program and the related account balances and notes to the financial statements. I am happy to report that on February 1, 1999, we issued an unqualified opinion for the FY 1998 financial statements for FNS.

For FY 1997, we issued a disclaimer of opinion on the Forest Service (FS) and the USDA consolidated statements. FS received a disclaimer due to significant financial system weaknesses which include the lack of an integrated general ledger and supporting subsidiary records. The USDA consolidated statements received a disclaimer of opinion for FY 1997 because the Department could not provide assurance that its financial systems provide information that is relevant, timely, consistently reported, and in conformance with applicable accounting principles. In addition to financial system problems, numerous internal control weaknesses exist that materially impact the Department's ability to report accurate and reliable financial information.

A disclaimer of opinion has been issued to the Department for each of the last 4 years. This means that the Department, as a whole, does not know whether it correctly reported the amount of revenue it received, the cost of its operations, or other meaningful measures of financial performance. The Department and its agencies have recognized the weaknesses and have put considerable effort into improving their financial systems and reporting processes. While plans have been made to fix these problems and actions have been taken to address some of the

weaknesses, more must be done. The Department is carrying out its Financial Information System Vision and Strategy project aimed at developing a single integrated financial management system that meets all Treasury and Office of Management and Budget requirements and fulfills the needs of USDA. We continue to assist departmental and agency officials in these efforts.

Information Resources Management

Department Progressing With "Year 2000" Conversion

The Year 2000 issue has the potential to limit the Department's ability to deliver its programs. In April 1997, we began a continuing review and assessment of the Department's Year 2000 conversion efforts. Most recently, we completed a review of the renovation and validation efforts of seven agencies. This review determined whether the agencies had devised a strategy to convert, replace, or eliminate impacted hardware and software; fully tested and certified systems identified as compliant; and adequately assessed data exchanges and communicated with the exchange partners. Overall, we determined that the agencies are progressing in their Year 2000 conversion efforts; however, improvement is needed in some areas.

Our review disclosed that FSA had reported four mission critical systems--the Highly Erodible Land and Wetland Conservation system, the Cotton Rate Offer system, the Daily Terminal Prices

System, and the Marketing Assessment System--as Y2K compliant without performing any validation testing. Also, FSA reported that its Warehouse Rates Management System and the Processed Commodities Inventory System would not be implemented until June 1999. The Foreign Agricultural Service reported that its Financial Accounting and Reporting system will be implemented in April 1999. The Animal and Plant Health Inspection Service reported its Information System Upgrade Project would not be implemented until September 1999. In addition, FS reported its data exchange agreements generally consisted of informal verbal agreements which did not fully establish the data conversion responsibilities of each exchange partner.

Due to the time sensitivity of the Year 2000 issue, these findings and others have been provided to the affected agencies in interim reports. The agencies have responded to our recommendations, and an audit report consolidating our findings will be issued later this year. Currently, we are reviewing personal property, facilities, and equipment because of their reliance on embedded microprocessor chips.

EMPLOYEE INTEGRITY

The investigation of serious misconduct by USDA employees remains a high priority of OIG. During FY 1998, OIG issued 55 reports of investigation concerning serious allegations of misconduct by USDA employees. Our investigations resulted in 23 convictions of

current and former employees and 80 personnel actions, including reprimands, suspensions, resignations, removals, and alternative discipline.

In July 1994, a tropical storm struck southern Georgia, causing serious flooding and millions of dollars in damage. As a result, NRCS negotiated and funded numerous watershed repair contracts under the Emergency Watershed Protection Program (EWPP). After we received confidential information from a private sector contractor, our 18-month investigation developed evidence showing that two NRCS employees, who were responsible for managing EWPP contracts, accepted cash bribes from a contractor in exchange for special considerations in obtaining EWPP contracts. A third employee arranged for a contractor doing business with NRCS to perform construction work on personally owned land. The cost of this work was then improperly billed to USDA. During July through September 1998, the three employees entered guilty pleas in U.S. District Court to violations resulting from their acceptance of bribes and gratuities. One employee was fined and placed on probation while the other two employees are awaiting sentencing. All three employees resigned from NRCS.

A Louisiana Rural Development county office employee pled guilty in Federal court to embezzling and misapplying over \$82,000 in rural housing loan payments she had received in her office. She was sentenced to serve 6 months' imprisonment, to be followed by 4 months' home confinement. She was also fined \$10,000 and

ordered to pay nearly \$24,350 in restitution. The employee resigned soon after we initiated our investigation.

CONCLUSION

This concludes my statement, Mr. Chairman. As you can see, the work of OIG is far-reaching and expansive. I appreciate the opportunity to appear today and present this information, and I hope that my comments have been helpful to you and the Committee. I will be pleased to respond to any questions you may have at this time.

* * * * *

USDA Biographical Sketch

Roger C. Viadero

Office of the Deputy Secretary: Inspector General

Roger C. Viadero was sworn in as inspector general of the U.S. Department of Agriculture on October 18, 1994.

As inspector general, Viadero provides leadership in promoting economy, efficiency, and effectiveness in USDA programs, and in preventing and detecting fraud and abuse in those programs. He is responsible for all audits and investigations relating to the programs and operations of USDA.

Prior to becoming USDA's inspector general, Viadero has been with the Federal Bureau of Investigation since 1979 in a variety of assignments. These included, chief internal auditor for the New York Division, management consultant on internal audit and audit control procedures for police departments across the country, professor at the FBI National Academy, and chief of the audit unit for the FBI at its headquarters in Washington, D.C. Before joining the FBI, he spent ten years in the New York City Police Department as a police officer, homicide investigator and fiscal officer.

Viadero is the author of numerous articles on law enforcement and management. He received a bachelor's degree in public accounting and a master's of business administration in management accounting from Pace University in Pleasantville, N.Y.

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BIOGRAPHY

GREGORY S. SEYBOLD
Assistant Inspector General
for Investigations
U.S. Department of Agriculture

Gregory S. Seybold was selected as the Assistant Inspector General for Investigations, Office of Inspector General, U.S. Department of Agriculture, and reported for duty on October 5, 1998.

Before joining USDA, Mr. Seybold held senior executive positions at the Office of Inspector General, General Service Administration, where he was Deputy Assistant Inspector General for Investigations from 1995 through 1998; and at the Office of Inspector General, U.S. Department of the Interior (DOI/OIG), where he was Deputy Assistant Inspector General for Investigations from 1987 through 1995. From 1981 through 1987, Mr. Seybold held positions as Chief, Special Investigations Branch; Special Agent-in-Charge, Eastern Region Investigations; and Senior Special Agent with DOI/OIG.

Mr. Seybold began his 20-year career within the Inspector General community as a Special Agent with the Office of Inspector General, U.S. Department of Transportation (DOT/OIG), and was a member of the cadre of criminal investigators transferred to DOT/OIG from the Federal Aviation Administration (FAA) in 1978 pursuant to the Inspector General Act. Prior to that time, Mr. Seybold spent 6 years with the FAA Air Transportation Security Service as a Special Agent in the anti-skyjacking program.

In 1972, Mr. Seybold began his Federal law enforcement career as a Deputy United States Marshal after concluding 3 years of active military service, including the Vietnam conflict, as a U.S. Army Military Intelligence officer.

A native of New Orleans, Mr. Seybold holds a B.A. degree in political science from The Citadel in Charleston, South Carolina.

Mr. Seybold and his wife reside in Fairfax Station, Virginia.

OPERATION TALON

Mr. SKEEN. Thank you, Roger. We appreciate the effort to get on with this meeting.

On page 86 of the explanatory notes, as I read it, that is part of your justification to increase your confidential fund authority from \$100,000 to \$125,000, and the special law enforcement initiative known as Operation Talon would involve extensive undercover-type operations and would be expanded nationwide. The Talon initiative was proposed last year. The best we can tell is that there are no funds requested in fiscal year 2000 for Operation Talon.

Would you explain in more detail how the operation fits into the request for an increase to the confidential fund? Would you give me some idea of the other parts of the justification for the increase? The confidential fund states that current limitation is insufficient for all nationwide undercover investigative operation, and you might give us some specific examples.

Mr. VIADERO. Yes, sir.

I think I have supplied every Member of the Committee with two reports. The first report is our Operation Talon report, and the second one is the Forest Service Timber Sale Environment Analysis.

Regarding the reason why we did not ask for an increase as part of Talon, we now mold Talon in as we can pay for it, a pay-as-you-go operation across the country.

Mr. SKEEN. I see.

Mr. VIADERO. We are primarily concentrating on places that we have at least the suboffice at, and we do not have to incur as much in travel costs. So we have smartened our operation up for that.

Last week, I met with the National Governors Association and the individual superintendents of State police or highway patrols across the country. In particular, three of our larger, more populated concentrated States want to resume an Operation Talon in their State.

In particular, Mr. Hinchey, we met with Jim McMahon, a dear friend from New York State Police, and we are planning an operation across the southern tier from Buffalo right through Albany. That will be a joint operation between the Office of Inspector General and New York State Police, but using the resources of the violent fugitive warrant squads that Jim has in place up there.

We can give absolution if you surrender today.

Regarding the \$3 million request, this is primarily due to us responding to this somewhat—I do not want to exaggerate it, but this issue was an exploding issue for us, being able to respond to these health emergencies.

We presently have at a minimum six health cases ongoing, food safety cases. These are exceptionally costly, as I mentioned, just in the travel and per diem cost, much less removing personnel from routine operations such as Talon and taking them and moving them across the country.

So, as far as the increase for the confidential fund, the current \$100,000 amount is insufficient to provide the funds for all of the undercover operations that we have identified.

Particularly, part of the \$3 million includes the smuggling operation. The smuggling operation is envisioned, if I can give you a

thumbnail sketch on it. We are finding—and let's take medfly as an example, when there are literally hundreds of other examples to use, and other types of pestilents and fungi coming in, but if we get a freighter full of, let's say, longans, which is an Asian fruit, which are known to carry medflies—and we know that they carry medflies because we have interdicted them—they are allowed lawfully to come into the United States. They are then transshipped to Canada. Canada does not really care because, as you well know, any frost will kill off a medfly.

Once they hit Canada, they are transshipped illegally back into the United States. When they first enter, they are in sealed containers, which meets our APHIS and Customs requirements. They then get transshipped to Canada. They are not even unloaded. They are just off-loaded to another truck, and they are transshipped right back to the United States.

These fruits and vegetables that we find coming in here from Canada, for the most part, as we found, our intelligence lets us know that they end up on the west coast.

The initiative would include us training, and we have chatted with our APHIS counterparts—would let us use some APHIS dogs that would be trained specifically for this operation, and we would be working, for instance, in areas such as weight stations to ascertain and locate the vehicles and then from there normal investigative procedures in vouching and tracing through the books and records at the terminus of the fruit.

This is really a big issue, and again, we would like to run a pilot project, particularly in Florida because in Florida, as I understand it, they have 20 international points of entry. So that is somewhat manageable, and it is a peninsula. So we can control the access, egress and exit routes out of the State a little bit better, and that is what the bulk of the money is for.

When you look at agriculture as being 15 percent of the gross domestic product, or roughly \$1 trillion, we look at this as sort of a minuscule amount to be invested into this great portion of the economy.

CONFIDENTIAL FUNDS

Mr. SKEEN. Roger, can you give me some specific examples of where you are conducting an undercover investigation, and that the confidential fund limitation actually caused a problem for you?

Mr. VIADERO. Mr. Seybold, do you have anything?

Mr. SEYBOLD. Years past, in addition to the operations that we were conducting in smuggling, we had utilized the sting operations for the purpose of our Talon operation. This requires the leasing sometimes of facilities that will accommodate large numbers of fugitives that we are in the process of identifying and getting in, mainly for the purpose of being able to execute mass arrest with the least amount of concern for injury for our agents and for the arrestees.

These operations can be extremely expensive, and depending upon what other investigations we have had ongoing during that year, it will and can create some shortages for us.

Mr. VIADERO. Mr. Chairman, the last page of the Talon report gives you some flavor for what we have been able to do.

When you open the door for a fugitive operation, generally we are not talking about the creme de la creme of our society, needless to say, and to turn some people in, they want to be paid to let us know where they are.

Mr. SKEEN. So the limitation has a real effect on whether you can get information or not that you need?

Mr. VIADERO. Yes, sir. That is street information that we are purchasing here.

I am very proud of this. We have gotten approximately two dozen people for murder, but, more importantly, I would like to draw attention to the 15 child molesters because, with those 15 child molesters, we have received 2 that have not registered, that have been found guilty under the State's Megan law statutes. That is just, gosh darn, great to participate in because these are the real lechers in society. They are the ones that are taking care of the future generation here, and I am very proud that we picked those up.

Mr. SKEEN. Thank you.

I think we are going to have a recess so we can go vote.

Mr. VIADERO. Sure thing.

Mr. SKEEN. We will continue from that point on. That is the second bell.

Mr. VIADERO. Thank you, sir.

[Recess.]

Mr. SKEEN. We will go back on the record.

Ms. KAPTUR. Marcy, it is yours.

FINES, RESTITUTION, OTHER RECOVERIES AND PENALTIES

Ms. KAPTUR. Thank you very much, Mr. Chairman, and we welcome you, Mr. Viadero. We are always so happy to have you before the committee, with all of your fine colleagues who do such a fine job.

I have a few questions here. One relates to page 3 where you talk about the total of all investigations before your division of USDA resulting in \$81 million in fines, restitutions, other recoveries and penalties during the year.

This year, you are requesting an appropriation of \$68 million. I guess my question really is, of the \$81 million in fines, restitutions, et cetera, how much of those dollars actually come back to the Government of the United States, and in what form?

Mr. VIADERO. As I understand it, ma'am, the bulk of that \$81 million does come back to the United States. Most of it goes to main Treasury.

Ms. KAPTUR. What would be the logic behind that?

Mr. VIADERO. That is the way the Department of Justice and the Treasury handle it. We get nothing back on it. It does not go back to the programs. It gets counted against the main U.S. budget.

Ms. KAPTUR. This is an area, I would have to express to the chairman, I have a personal interest in. I do not know if this is a governmentwide policy or not.

Mr. SKEEN. Well, let's make it policy.

Ms. KAPTUR. I just think that they do such a tremendous job that we ought to really look into why these dollars flow back to Treasury now, in spite of the fact that we appear to be running annual surpluses. Maybe now is a good time for us to look at the flow of

these dollars and to what extent we might be able to redirect them back into USDA. I do not know whether that is even possible.

Mr. SKEEN. That is something that has a lot to do with the efficiency of operations.

Ms. KAPTUR. Yes.

Is the IG aware of any other agency that receives fees that are reimbursed directly to the agency? Or, perhaps we could ask you to work with Mr. Dewhurst and get back to our committee, if we wanted to develop an argument to the executive branch that this is atypical. Do we have enough information, or are there other exceptions that were made if it truly is an exceptional way of handling these dollars? Are those dollars spent by Justice or strictly go into the general Treasury?

Mr. VIADERO. As I understand it, Ms. Kaptur, Justice actually is a conduit back to main Treasury. The Justice receives the funds for the Judiciary. The fines and most restitutions come in through the court system.

Ms. KAPTUR. Let me ask Mr. Dewhurst. What would be a good way for me to be thinking about this if my objective were to take the funds that had been received as a result of your investigations and direct them back to USDA?

Mr. DEWHURST. Well, I am thinking about that.

We have some user fee programs in the Department, for instance, where we grade meat, and we charge a fee for that service. There is a specific law that causes that money to come back into the Department and go back into the program which provides service.

So the dedication of receipts to a certain purpose is not totally unusual in the Government. It happens, but I am not aware that it happens very often when you are talking about fines or criminal penalties or that sort of thing. Most all of those go back into the general Treasury, but, obviously, you can write a law that dedicates those receipts to a certain purpose. It would be a question of how you did that. I just do not know what the governmentwide situation is. My impression is most of those things go back in the general Treasury.

Mr. VIADERO. Yes, and they go to the general fund.

However, Ms. Kaptur, what would be most helpful is, particularly on the audit side of the House—for instance, when Congress appropriates funds, such as the emergency appropriation, the disaster money, if USDA follows what AID does, when there is a program appropriated, either a certain dollar amount or a certain percentage of the program gets budgeted for the Office of Inspector General to do its review and oversight and report back to the Congress with. That would greatly help us.

For instance—is it \$6 billion, Steve?

Mr. DEWHURST. Yes.

Mr. VIADERO. If we received even 1 percent of the \$6 billion that is going for the emergency farm loans, that would greatly help us. It is either pay me now or pay me later. They are either going to be allowed to get out there and commit these egregious acts, and some of them do it unknowingly because there is no oversight out there, or we can get in and work with the States and the various USDA agencies up front and prevent the frauds from happening.

So it is pay me now or pay me later. We would just as soon get the money and work with them and prevent it. I do not think you need any more papers and reports from us telling you that something is wrong out there. We would be happy to report that something is right when we find it.

Ms. KAPTUR. We appreciate your advice on that, and I think you more than pay for your presence. I guess the thought that runs through my mind is if we had twice as much money, would we recover even more?

Mr. VIADERO. Absolutely.

I am constrained as the Inspector General, and this organization and these fine folks that are with me here today, we are constrained due to the limited resources.

Mr. Chairman, before we left, I sort of fumbled over a question. I would be happy to respond to you with a detailed answer on the reason for the additional confidential funds and how exactly the breakdown of that \$3,118,000 will be.

Mr. SKEEN. If you would do that, I would appreciate it.

Mr. VIADERO. Yes, sir.

[The information follows:]

The Office of Inspector General (OIG) has begun a long-term initiative to identify and prosecute organized transportation and distribution networks responsible for the smuggling of foreign animals and plant products contaminated with pests and disease into the United States. Smuggling or shipment through deceit of produce, plants, animals, and birds are an ever more serious problem to American agriculture because of the pests and diseases which can and are inadvertently brought into the United States via these products and animals.

As part of this initiative, OIG has teamed up with APHIS and local agriculture officials to conduct surveys of markets to locate illegal produce. These surveys have shown that illegal Asian fruits are readily available in west coast markets from Los Angeles, California, to Seattle, Washington. Often, the fruit is not displayed in the store but is held in back rooms and provided to customers upon request. In Florida, USDA and OIG officials have conducted sweeps of stores in Miami, Tampa, and Orlando and again discovered smuggled fruits and vegetables from Asia and Central America.

OIG and other law enforcement agencies do not have sufficient reliable contacts within the communities where OIG has found these illegal products; therefore, we must develop a network of informants. Confidential fund incentive payments to individuals within communities/businesses will allow OIG to develop intelligence to identify when and where these products are entering the United States. As OIG moves forward with this initiative, additional confidential fund expenditures for information will be necessary to allow OIG to intercept these contaminated products before they can enter the United States and cause disease or pest outbreaks.

In addition to our smuggling initiative, we have increased our investigative workload in the area of public health and safety. These types of cases vary considerably and have been mentioned by the Inspector General in his testimony. They vary from meat packers who process and sell adulterated beef from sick and dying cattle, to companies which sell tainted products to school systems and other tainted food products to the public. Again, we need to use confidential funds to develop sources in these industries.

A total of \$2.6 million of the requested increase would be used to purchase supplies and protective clothing and surveillance equipment and travel expenses, training, vaccination and immunization shots, and expertise services. This would allow OIG to enhance and effectively apply its criminal investigative and law enforcement expertise in responding to emergency situations threatening the Nation's food supply. The remainder of these funds would be used to enhance OIG's computer hardware and software capabilities to support this investigative endeavor.

Ms. KAPTUR. I would like you to think on this line of questioning that I have pursued here, and if you have other recommendations you wish to make for us—and I am going to ask for Mr. Dewhurst to do me a favor and talk with some of your colleagues across the

Government and see if all of these various funds go through Justice to Treasury, and now in a time of relative surplus annually, maybe we should be rethinking some of this to the agencies that are actually doing the work.

Mr. Chairman, I have many other questions that I wanted to submit for the record, but I do want to ask a question on this Russia food aid because it is a significant amount of money, \$1.7 billion, most of that, over a billion, going into the transportation costs, over 60 ocean freighters of various types of commodities.

RUSSIA'S FOOD AID

Ms. KAPTUR. We have worked with the administration since October to beef up the investigatory and logistical support on the ground.

I have to tell you, when the Secretary testified here yesterday, that my own view, the best thing in the agreement is if the first six freighters' cargo gets ripped off in some way, they will not send any more. They will figure out what went haywire, but I have two sets of concerns regarding what is happening.

Number one, that the Commodity Credit Corporation, in spite of even past experience of some failures in this regard, are now prepared to double the amount that has been sent in past years with some greater oversight, but not the kind of certainty that I would want if I actually owned that cargo myself.

So I had one set of concerns about logistical support, auditing support. It is not clear to me whether auditors are now serving on some of these working groups that have been set up. There are a couple of monitoring groups in the United States and in Russia. USDA will send four monitors and get another five from the embassy, from Treasury, from AID, from other personnel serving in Moscow.

Most of the people will be based in Moscow, and less than 10 percent of what we are sending will be spot-checked, which means that 90 percent is out there somewhere.

All of the proceeds from the sale of those donated commodities will be placed in what is called the Russian pension fund. Until we got involved, there was not a dime of this aid that was going to be directed toward the development of a privatized agriculture in Russia, which right now is breaking the back of the country.

If you look at what is really going on there and in the adjoining Ukraine, the lack of reform there is quite troubling, and only with the seed, the 15,000 tons of seed, were we able to get a separate account set up to use to support the development of a privatized agriculture so we could actually relate to livestock growers in New Mexico or wheat growers in Missouri or hog producers in Ohio, our input people and so forth, and that is really a problem.

I do not understand why the Commodity Credit Corporation at the same time as it is interested in sales cannot also be interested in the development of privatized agriculture in some of these other countries, and so my question to you really is, you did a report back early in the decade about what had gone wrong with prior shipments. However, part of that report really did not deal with privatization and the extent to which USDA dollars and USDA tax-

payer dollars had helped to contribute to the privatization of agriculture. How are you involved in oversight on this shipment?

Mr. VIADERO. Once again, we have not been invited in to participate in this, and this is a perfect example, Ms. Kaptur, of you pay me now up front or pay me later at the back end.

For instance, I will ask Mr. Ebbitt to jump in on this one because it was his folks that directly had impact and did those reviews.

Mr. EBBITT. Thank you, Ms. Kaptur.

As Roger indicated, FAS did not come and say please come and join us. As we frequently do, we invited ourselves into the process early on from the standpoint of going over to Foreign Agricultural Service and saying what are you doing relative to monitoring plans.

We found out that, much to your direct involvement, they were really trying to beef up the plan that they had, and so we have in effect reviewed the plan that they put out.

We had a meeting with FAS staff and indicated to them that—I think you said it best. If it was your own truckload, your own shipload going over there—I told them. I said I did not feel very comfortable with what I saw down on a sheet of paper as far as their oversight efforts.

Part of it is based on a promise from the embassies and consulates around Russia and the rest of the former Soviet Union countries to have staff available, but other than the promise, they do not have people identified. There is no schedule.

Some of that is difficult from the standpoint that they do not know for sure yet where all of these shipments are going to be delivered, what ports they are going to go into. So it is somewhat difficult to develop a schedule, but right now, really, all they have is a promise from those folks.

Our comment back to them was it surely would help if they had some kind of a schedule, some kind of a commitment, more than just this promise that they currently have. It is going to be a major effort.

When we were there the last time, back in the early '90s time frame, most of their monitoring staff was located in Russia, but most of their monitoring staff was one person. They were monitoring in Moscow. They were looking at the paperwork flow that came in.

They did not have people there to follow this stuff around, where was it going, what was happening to it. That just was not there.

We talked about a shipment of butter, for example, that was going to be monetized. It was going to be sold on the local market and the local currency used, and part of it was supposed to be used for privatization and things of that nature.

The controls were simply just lacking. The butter was sold at certainly less than the U.S. anticipated that it would be, and it was not easy to track the money as far as what happened to it. It was not easy to track the commodities.

FAS has a massive job or task that they are faced with in this monitoring process, and I think given the amount of money that is going to be delivered, it is perhaps a bit foolish to expect that the complement of people that they have so far indicated will be involved will in fact be able to provide much in an oversight process.

Ms. KAPTUR. Well, I would very much appreciate your recommendations in this area and what we could do to tighten up the agreement.

Do you have access to the agreement to read it?

Mr. EBBITT. Yes, we do.

Ms. KAPTUR. You do?

Mr. EBBITT. Yes.

Ms. KAPTUR. I would be very interested in your comments on where it is today.

I know where we are compared to where we started with them in October, but I am also very interested in your recommendations. If we are to require a set-aside of dollars related to this shipment to increase the auditing staff associated with it, what would it require?

We have 60 ocean freighters going over, starting later this month. As far as I am concerned, it is just a billion dollars being shipped there in the form of food, and from a foreign policy standpoint, just following the dollar flow would be an interesting one, but we are not properly equipped to do that, in my opinion, in spite of the ambassador's involvement over there and some of the little teams he is pulling together. This is a lot.

The Europeans even admit they have got a similar shipment. They admit that they figure it is all going to be stolen. So what are we doing as a freedom-loving country to help to encourage the reforms that we have tried so hard to achieve inside that country? It seems to me, this is going to be—especially with the presidential elections coming up there, there is just too much temptation to divert this for the money that it can be sold for and to do other things with it.

So I really want your recommendation, and I will take that under consideration, both this committee, the full committee, and on the floor, how do we strengthen the agreement and what kinds of resources do we need for proper auditing at not just the Moscow level, but down into the regions.

Mr. VIADERO. Ms. Kaptur, when Jim came back and we met and we chatted about it, I asked for us to get ahead of the curve and develop a little plan. So far, it is approximately—the high end is just about \$5 million, and that includes transportation, translators—and needless to say, transportation and drivers and translators in a foreign country are essential, and staff time. So it is about \$5 million to do it, and that would be going to the individual ports, both domestic ports and foreign ports, and then monitoring distribution at various distribution points.

Ms. KAPTUR. Thank you very much.

Mr. Chairman, I will wait for a second round and let other members question. Thank you very much.

Mr. SKEEN. Thank you.

Mr. Kingston?

AMERICORP

Mr. KINGSTON. Thank you, Mr. Chairman.

Mr. Viadero, last year we had talked about Americorps owing the USDA \$290,000, and I had asked you about it and you were going

to look into it. To my knowledge, I never got a response. I could have, but I am not aware of it.

Do you remember what happened? Did you get your money back?

Mr. EBBITT. To be honest with you, Mr. Kingston, I do not recall offhand.

I know we did look into that, but I do not recall what the answer was. I would be happy to go back and check into that for you.

[The information follows:]

Since the release of the December 1996 audit report, we have worked closely with USDA agencies and obtained legal opinions from the Office of General Counsel (OGC) as to the best way to deal with questionable payments totaling \$520,139 to the Greater Jackson Youth Service Corps (GJYSC). Our audit identified about \$230,000 in unsupported or unallowable expenditures. A Bill for Collection has been issued, but we do not feel that recovery is likely. The money is owned by a small, non-profit organization and the bill issued over a year ago has not been paid. The storefront previously occupied by GJYSC is vacant and the telephone disconnected.

Our audit also questioned an additional \$290,000 based on GJYSC failure to meet the terms of the service agreements. Based on advice from OGC, the Department will not seek recovery of this amount. We concur in this decision, given the small chance of successful collection.

Mr. KINGSTON. Since the President is proposing to increase Americorps 2½ times, it would be good to know.

Also, there was a problem with some of the ex-employees misusing credit cards and I think current credit cards. I think you were moving in the right direction, clamping down on that. Are there any other misuses that you know of this year?

Mr. EBBITT. Not really.

In fact, when we went back and put all the statistics together, the Department of Agriculture really had a good track record relative to credit card use. We had identified, as we talked last year, where a number of individuals that had in fact abused the card, but when you looked governmentwide, USDA was really at the top of the list as far as not misusing the card and also on having low delinquencies. So we were pretty satisfied that the Department was doing the right thing relative to that credit card.

Mr. KINGSTON. I did get the impression that you were moving in the right direction.

Please look into Americorps because it is a pretty big chunk of money to be owing another Federal agency.

Mr. EBBITT. We will be right back to you on that.

Mr. KINGSTON. Thank you. Mr. Chairman.

Mr. SKEEN. Mr. Boyd.

SMUGGLING

Mr. BOYD. Thank you, Mr. Chairman.

Mr. Viadero, I have a couple of issues. You need to pardon me. As a new Member, I am still trying to understand exactly all the things that you do and how you do it, but the two issues I would like to discuss, number one, I was pleased to hear you talk about the efforts to try to detect or stop the illegal shipment of contraband which may introduce some sort of pest.

We had a discussion here yesterday about a citrus canker outbreak in Florida that is currently going on. We do not think it came in under those conditions. We think it was probably an unintentional act of one plant somebody brought in as a gift, but we

certainly would support and advocate a redoubling of efforts, particularly with Florida, as you said, with 17 international ports. If you might elaborate on that some?

Mr. VIADERO. Yes, sir.

Mr. BOYD. I noticed that you did not in your Talon report have any instance in Florida.

Mr. VIADERO. There is an operation planned for the State of Florida.

So far as the smuggling operation is concerned—and please understand there is no smuggling operation in Operation Talon. Operation Talon is totally based upon welfare reform that you folks up here at the Congress passed, and this allows us to take the outstanding fugitive felons and compare them to food stamp recipient rolls, and then we take that match and we work with the State, county and local authority, together with my agents here, and we go out and apprehend these people.

The smuggling initiative to me is just, if you pardon the expression, a no-brainer. We see States putting in hundreds of millions of dollars to eradicate, and we are asking for a couple of million dollars to prevent.

So the scale so far as we have seen them are sort of weighted in our favor. Would I rather spend \$150 million out of my State budget or see the Federal Government toss \$2-or \$3 million and prevent this thing from happening to begin with?

We are more than pleased—I must say, we are very pleased with the results of previous operations that we have seen in the State of Texas and California, which involved Mexico because Mexico's economy is greatly dependent upon agriculture. So there are checks on both sides of the border there, particularly for pests because that would also devastate their economy as well.

So far as we see it, needless to say, there are more than 100 types of pests and fungi and bacteria, but we can get in there and develop a plan, and that is all we are asking for. This is seed money, if you will. Develop a plan. Run a pilot project to see if we can get a handle on this, and then we will take it out to the other—needless to say, the next great State, which would be, so far as economy is concerned, California. If it gets into the fertile valleys, we have a real problem in the country.

EBT FRAUD

Mr. BOYD. Thank you very much.

The second issue has to do with benefits fraud work.

Mr. VIADERO. Yes, sir.

Mr. BOYD. Would you elaborate about the process you go through to determine the existence of fraud before you turn it over to—I believe you turn it over to the Justice Department for prosecution. If you would, please talk about that process a little bit.

Mr. VIADERO. Okay. Let's start with a program, food stamps, since most people know how the food stamp program works. Fortunately, the paper coupons are leaving us. They will be gone by 2002, and all States will be on electronic benefits transfer, the EBT card.

It was this office that had the lead from the Government to establish the controls. People in Government were going to let this system roll out in all 50 States and it had no controls.

Now, from this IG's point, I have a simple response to controls and auditing. I have two questions. Are there controls in place, yes or no? Next question, are they working, yes or no? Well, in this case, they were not working because we did not have any, and we are still working on developing the controls and particularly working with the vendors to develop the individual fraud profiles that will be in place.

So now we are going to come up—and I am also happy to say that just within Philadelphia and New York, we developed 55 targets and had cases that are being litigated now totalling \$99 million in benefits. That is an awful lot of money, \$99 million in just two cities.

To that end, though, we take the case. We develop it. We present it to the United States Attorney, who will give us a prosecutive opinion. From that stage, as a general rule, we will go to a grand jury and indictment, and then we are at a trial.

Mr. BOYD. I am more particularly interested in the agricultural—and Mr. Seybold just handed you a note. I suspect he may even know where I am headed here—on the agricultural side, rather than the food stamp side.

We recently had a case in Florida that was prosecuted and I believe ended up being thrown out, and some people were hurt pretty badly in the process. My question was directed at how far do you go and how sure are you that you got your ducks in a row before you turn it over to the Justice Department for prosecution.

Mr. VIADERO. Just understand, we are like any other Federal criminal investigative agency. I am a careerist from the FBI before I got this job. We take a case. We will present it to the United States Attorney who will give us a prosecutive opinion, and we then work with that office if it chooses to prosecute. The investigation is over once we get the prosecutive opinion for the most part.

The people are indicted by a grand jury of their peers, and they are tried by a jury of their peers. Once that case goes to trial, the investigation is over. So it is left up to the individual United States Attorney.

I have been in this business for 31 years. I have sort of become numb to if you lose a case, and you do not win every one. I am not trying to be trite with this, but some people will say their lawyer was better than our lawyer, and in many cases, that is why we do lose the case.

Mr. BOYD. Thank you very much.

Maybe Mr. Seybold and I can sit down and discuss some more specifics on that later on.

Mr. VIADERO. Sure thing, no problem. Thank you, sir.

Mr. BOYD. Thank you, Mr. Chairman.

Mr. SKEEN. Mr. Dickey?

Mr. DICKEY. No questions.

Mr. SKEEN. Jo Ann? There she is.

FARM CREDIT PROGRAM

Mrs. EMERSON. Thanks, Mr. Chairman.

I have three questions that are all on different subjects, but obviously all relate since you are the overseer of management here.

The first has to do with the farm credit program and farm loans. I have a very, very intensive agriculture district, and I told the Secretary yesterday that with our emergency loans, only 15 percent have been given out and they are out of money already, just for example. There are lots of other problems.

I noticed in your report here, you talk about the overall management of the farm credit program as being of concern to you, and I just wonder if you might elaborate on that somewhat for me, please.

Mr. VIADERO. Yes, ma'am, and I am going to ask Mr. Ebbitt to please step in.

Mrs. EMERSON. Great.

Mr. VIADERO. Please step in.

Mr. EBBITT. Thank you, Mrs. Emerson.

In particular, you mentioned the emergency loan program, and Roger was talking about this earlier. The best place that the OIG can be effective is at the front end of the process. There is not a lot of value to come in after the fact and say you made the wrong payment or you made the wrong loan. So it is important for auditors particularly to be out there when these program dollars are being awarded, be it an emergency loan, be it an emergency disaster payment of some sort or whatever.

What we want to do, as sign-up is happening, we want to be there, be able to provide information back to managers who are running this program to say County X is being operated differently than County Y or State A versus State B. There are differences in how you are administering the program. You need to bring them into line. That is where we can be most effective and utilize the dollars appropriated to us most effectively in these kinds of loan areas.

I think it is a given. In an emergency situation where loans are being made, program dollars, payments are being made, you have people that need money. They have real needs, and you have a lot of people, generally, in a lot of these emergency situations that show up at the door of the county office, all needing help at the same time. Everybody is rushed, and that is when mistakes happen. That is really what our concern stems from is that you have county offices frequently that are faced with a lot of people, all at the same time, all need help, all need assistance, and they are all making these decisions at the same time.

So we want to be there at the front end to try and get a good look at it and be the eyes and ears, if you will, of management, give them feedback as they are running the program. That is where we can be most beneficial.

Mrs. EMERSON. But wouldn't you all say that the management of the farm credit program is of concern? Is that just based on investigations and seeing people who perhaps should not be getting loans, way-too-high-risk people?

Mr. EBBITT. Well, it is some of all of that. It is based on a long history of us seeing these kinds of programs occur over the years. Every time we look at these programs, you can rest assured we are

going to find problems, and we do find problems. We give them to management quickly so that they can change.

Mrs. EMERSON. Do you make recommendations——

Mr. EBBITT. Yes.

Mrs. EMERSON [continuing]. About how to change them as well?

Mr. EBBITT. Yes. Oh, absolutely. We make recommendations to management based on what we have seen and what we think they need to do to strengthen the program activity.

Mrs. EMERSON. That leads me to a question that I was not going to ask. In my particular congressional district, we have had a real problem with the LDPs for cotton producers, particularly because our State and local FSA offices have said mistakes were made based on dates of the 709's, but we are being stonewalled at USDA on it.

So it presents somewhat of a dilemma, and I do not know if you all get involved in investigating those sorts of things or having to sort out those kinds of problems.

Mr. EBBITT. Well, on occasion, we do. In fact, last year, we talked to Mr. Nethercutt about the CRP program, and the exact same thing there. In the CRP bid process, we saw a lot of problems, a lot of differences in the awarding of points and deciding who was going to be accepted under the conservation reserve program.

Primarily, again, County A was handling it one way, County B one way, and so on, and we said this is not making sense here. We immediately made some recommendations to NRCS and FSA management to try and fix that.

We went in after the fact because we were asked to do that, to do exactly what you are talking about, to try and sort through some of that and figure out why these differences had occurred.

LDPs are a real, real issue. You have LDPs and farmers are standing in line. They are knocking at the door of FSA county offices to make their applications, to sign up right now in large numbers, with frequently small county office staffs trying to handle all of this, and mistakes are going to happen when you have that kind of a situation.

Mrs. EMERSON. Yes. In our particular case, what happened was wrong dates were given for filing and that sort of thing, which has caused a huge or much lower payment to our cotton producers as opposed to, say, those in Arkansas.

Mr. EBBITT. I am not sure I understand the problem of——

Mr. DICKEY. Wait a minute. What did you say about Arkansas? [Laughter.]

Mrs. EMERSON. Do you have cotton down there in your district? I am teasing you, Jay.

Is that a request that we can make to you all to help us look into the situation?

Mr. EBBITT. Certainly. I mean, that is the kind of thing that we can try and do.

We do have audit staff out around the country right now, as sign-up is occurring. I am not sure exactly which area you are talking about.

FEDERAL CROP INSURANCE PROGRAM

Mrs. EMERSON. Yes. Perhaps I will follow up with you, if that would be okay, because it is something that goes way back to September. We have been trying to get USDA to sort it out, and we have not been able to do that yet.

Another question, and one which obviously is related because it deals with the fact that our farmers are in crisis right now, you all also mentioned that the Federal crop insurance program is plagued with abuse, conflict-of-interest problems. Tell us a little bit about that and suggestions that you perhaps have made because this is a huge problem.

For example, in my district, our cotton producers, again, pay \$4 for every \$1 of coverage. Whereas, corn would be a 14-to-1 ratio. It is too expensive for a lot of our folks. What suggestions or what recommendations have you all made to fix the program?

Mr. EBBITT. Well, particularly when you get into the ratio area, I am not an expert in that field. I am not an insurance—

Mrs. EMERSON. Actuary?

Mr. EBBITT [continuing]. Underwriter, actuary, but, in fact, we are working with the Risk Management Agency presently.

I know you are thinking of some changes here in Congress on what you might want to do with the Risk Management Agency and the program, but we want to try and bring some suggestions to the table as you are having that debate in this next cycle. We are working on that right now.

Specifically regarding claims and claims adjustors, we have had concerns. We mentioned conflict of interest. One of our concerns is that you have agents that sell insurance. You have the same agents in the same companies that then turn around and adjust any losses that occur. We have examples. We have investigations and cases that have been made where that has been a problem.

You have got some inherent conflicts built into that kind of a process, and so it is in that area specifically, but we are also looking at broader areas where we are hoping to make some suggestions as we get into the springtime this year.

FOREST SERVICE

Mrs. EMERSON. We desperately need it.

My last question, and one that I normally would not bring up because our subcommittee does not have direct jurisdiction, but since you brought the Forest Service study that you did, as well as the fact that I have got four-fifths of the Mark Twain National Forest in my district, which is probably 90 percent of it, and over a million acres, I have been extraordinarily concerned about the management or mismanagement of funds within the Forest Service.

Last year, in the House Ag Committee, we learned that overhead costs were totally out of sight, comprising, we were told, up to 40 percent of the budget. Just how bad is the problem over there, and what suggestions have you made as far as streamlining and perhaps helping to reduce the administrative overhead so that those monies can be used for the timber sale program and money actually can go to producers rather than bureaucrats?

Mr. EBBITT. The Forest Service has many challenges, believe me. I guess I would characterize them as "challenges." They have major things they are trying to deal with.

Financial management is one of their primary challenges. The IG, every year, we are required to audit the financial statements of the Department of Agriculture, including the Forest Service, and so far, we have not been able to attest to the numbers on their financial statement. In other words, in accounting parlance, we have had to give a disclaimer of opinion. We do not know what the right answer is, nor does the Forest Service, and that in and of itself, as you might expect, makes it almost impossible to have good numbers regarding overhead and how much is really in the pot and what should not have been there and what should have been there. Because their systems are in such a state of disrepair, the questions, you cannot answer them very well right now.

Mrs. EMERSON. Okay.

Mr. EBBITT. The Forest Service has a number of things that they are trying to do to fix that, and they are working hard at it, but they are not there yet. I would prefer that you ask the Forest Service when they are going to get that fixed.

Mrs. EMERSON. Oh, I understand that, but that is why I asked you because you all—

Mr. VIADERO. Well, Mrs. Emerson, let me respond. As somebody said, Forest Service and financial management is like military and intelligence and jumbo shrimp. They just do not—

Mrs. EMERSON. Oxymoron.

Mr. VIADERO. Yes, thank you.

The other part—and one of the reasons we brought this to the attention of this body, a Forest Service report—is that when you folks appropriate funds for us, we get appropriated for the Department of Agriculture, and 10 percent of our work is spent annually on average in the Forest Service.

Perhaps, Mr. Chairman, if you see fit, you and members of this body to perhaps call over to the Interior, Appropriations Committee and perhaps give us a hand and some relief and get—we do a lot more work in the Forest Service, and we would like to see some appropriations. Since the Forest Service gets funded from the Interior appropriation and we are doing 10 percent of the work, it is sort of that this is a pro bono job that we end up doing for the Forest Service.

Thank you for bringing that up.

Mrs. EMERSON. Well, I did just in a very selfish way, and I realize it, but it is important.

I do want to say that where you say here that they actually took immediate action to correct something, that perhaps we could expand that to take immediate action on correcting things that impact people's lives, those who harvest the timber, et cetera. So, hopefully, we can figure out a way to help you do your jobs.

Mr. VIADERO. Again, ma'am, I am here 4½ years, and I think the Forest Service has come a long way in the time that I am here, especially under the leadership of the Chief, Mike Dombeck, who is very concerned with these issues and does in fact work with us to correct them.

When the Forest Service initially started with the financial statements, they expensed everything. I do not know if you are familiar with the rules of accounting at all. They did not depreciate, amortize, or otherwise depreciate or deplete any of their assets. They just said, "Oh, they are the largest bridge-builders and largest road-builders in the world, and they just took everything. Oh, okay, \$9 billion. We will expense \$9 billion this year instead of taking it over 30 and 50 years," just as a quick example.

Mrs. EMERSON. I appreciate your candor.

Mr. VIADERO. Yes, ma'am. Thank you.

Mrs. EMERSON. Thank you very much, Mr. Chairman. Thank you.

Mr. SKEEN. The message is received at Interior because I am on that committee as well.

Mr. VIADERO. Thank you very much, Mr. Chairman.

Mr. SKEEN. Mr. Hinchey.

Mr. HINCHEY. Thank you very much.

Mr. SKEEN. And another member also on the Interior Committee.

MEDFLIES

Mr. HINCHEY. Thank you very much, Mr. Chairman.

I want to thank the gentlemen for the work that you do. I think it is very critically important in the food production and distribution system and making sure that the food supply is safe.

I was intrigued by your story about the medflies coming in sealed containers on a particular fruit. I did not get the name of the fruit.

Mr. VIADERO. Well, one example that we used was a longan. It is an Asian fruit. It is prohibited to this country to begin with, but they smuggle them in, anyway.

Mr. HINCHEY. So it comes in here, in sealed containers. It is transhipped across the United States to Canada—

Mr. VIADERO. Yes, sir.

Mr. HINCHEY [continuing]. Without being opened, just unloaded and reloaded, and then in some cases shipped back.

Mr. VIADERO. Yes, sir.

Mr. HINCHEY. And you have to be vigilant in those instances to make certain that any contaminated product in those shipments does not stay here or does not get into the United States.

Mr. VIADERO. Yes, sir.

Mr. HINCHEY. That sounds like a very tough job, especially if you are doing it in that way, on a kind of ad hoc basis.

It seems to me that if we thought about it, we might be able to come up with a program that would deal with this in a broader way because I am struck by the almost Herculean task it must be for an agency like yours to deal with an issue like that ad hoc, given all of the products that are coming into the country.

Mr. VIADERO. Well, again, we have entered into an agreement, an arrangement if you will, with our friends and brethren at APHIS, the Animal Plant Health Inspection Service, who needless to say are responsible at points of entry.

To put it the best way and in its most descriptive form, we work and play very well in the sandbox with APHIS. We support them because we have the powers of arrest that they do not have. So we work with these folks on a daily basis.

We ran our ideas past them insofar as training the animals to detect these scents, and they said they can train the dogs to do this. Again, we are asking for these funds. It is a pilot project. I think if we can take the pilot project—and if you will, it will come right down the thruway, right across the southern tier coming in from Buffalo, right across the southern tier, down through 81. We are fortunate because, for instance, right here in Virginia, we have the weigh stations where every truck has to stop both on Route 81 and on 95 here. It would be our point to develop the interdiction if we do not get it at the border at one of these truck stops where it would not be out of the ordinary for somebody to be walking around with a dog and just follow that vehicle down to its terminus point and begin the investigation with books and records there.

CONTRABAND

Mr. HINCHEY. But you must have some kind of a suspicion or a lead that a particular truck might be carrying that kind of contraband?

Mr. VIADERO. Yes, sir, and that goes into our—that separate issue that I said to the chairman I would respond back to him on, on the additional confidential funds. You are only as good as your cheapest informant, if you will, and that is what the monies will go for. A large amount of the monies will go for the purchasing of that information.

Mr. HINCHEY. I am still curious about this issue because I think that in spite of the very good work that you are doing that there might be some programmatic way to deal with this, which would relieve us of the obligation to be paying such specific attention to individual trucks.

Mr. VIADERO. I think Mr. Seybold—

Mr. HINCHEY. Seybold, yes.

Mr. SEYBOLD. Yes, Mr. Hinchey. What I was going to add to that is the two-pronged effort that we are embarking on as far as interdiction, the more complicated side of the effort is to identify, infiltrate, and then resolve the criminal enterprises that are responsible for the shipments.

The interdiction of shipments is something that can be done certainly in an inspection mode. It is somewhat similar to the way APHIS is set up at our airports and ports. However, the infiltration of the actual criminal enterprise—because to get the individuals receiving the smuggled goods, the contraband, it is probably good from the standpoint of removing that contraband from the public.

However, if we do not get the enterprise by the neck and get that strangled, then it is a constant process. So that is really the more complicated area that you are addressing, and it is one of our priorities at this point.

Mr. HINCHEY. I would imagine also in the case of these exotic fruits that they are targeted for a specific population.

Mr. VIADERO. They are generally ethnic-based.

Mr. HINCHEY. Ethnic-based.

Mr. VIADERO. Yes, sir.

Mr. HINCHEY. Right.

Mr. VIADERO. Yes, sir.

In addition to that, I would also like to add that we also have an agent that is on staff at Interpol because we are participating, an actively participating agency, at Interpol, and we have run this by Interpol personnel both here and in Lyon, and they have no problem in cooperating with us because they also count on us to clean our products up.

We have certain pests here that would be detrimental to their products, and again, we do put out some \$25 million worth of products there. So they are equally as concerned. They have said they would help us out.

Mr. HINCHEY. Turning to the Food Safety issue of contaminants in the food supply, I think you pointed out in your testimony, E. coli, listeria, things of that nature, seem to be becoming more prevalent.

In your experience, is that true? Have these instances become more prevalent over time, or are we seeing a flare-up of them recently?

To what extent are these problems an example of faulty inspections and careless attitudes on the part of the meat processors as opposed to an actual criminal enterprise which is designed to bring about poor quality meats in the market in a concentrated way?

Mr. VIADERO. I would probably start off by saying yes, we do see a marked increase in these type cases, and here is the accountant coming out in me, the capitalist. It is because a lot of these plants are running at the margin. So the more they put out there, the better the margin.

On the other side of it, though, we have three concerns. The first concern is the public safety overall. The second concern is the safety of the employees, both the plant employees and the auditors and agents that I send in, and that FSIS, the meat inspectors are there—necessarily do not have the proper equipment to go in there, just plain safety equipment. We cannot afford that. The third thing is the continued financial viability of the going concern of the plant itself.

If we can use two examples, we have one place, one investigation ongoing now where—since it is at the grand jury, I will be careful how I put this, but let's put it like this, that we observe that certain compounds, cleaning compounds that we believe to be bleach, regular Chlorox, and sanitizer added to 1997 food product and reprocessed and dated into 1998 product, and people may have gotten sick on it.

Now the Department through FSIS puts a hold on the product, but routinely, the company must pay for the recall. The company pays for the recall.

However, the next day after the execution of a search warrant on his plant he shot and killed himself. He had a problem. As Jim said, we have challenges. He had a problem.

Now we end up with this product, 1.6 million pounds of that product located in Miami storage facilities. No recall was issued by the Department because the product was already detained. Now, that is just a lousy excuse because sooner or later—and this has an economic impact, if you can bear with me on this.

The meat locker—it is only a matter of time until somebody says, “Oh, there is hamburger sitting there, and I am going to take some,” okay?

The second part of it is, that directly impacts on Food Nutrition Service’s commodity program because some of these cities are saying you are going to get this commodity out of my lockers or I am not going to buy your commodities anymore, I will go out and put it on the street for bid. So that has a double-edged sword; number one, public safety; number two, the economic impact because it is always, it is not the money—it is the money. That is the bottom line. It has an economic impact, too.

I would also like to say that this company put food into the school and the military program as well as prisons and jails, and the average fat content of this product was over 29 percent. How we got involved, one of the prisons called USDA and said this product is rancid. That is how we got involved, and we find that the overall food safety issues, we feel we are a little behind the curve in them.

So far as the reporting, that is because of HACCP and the tests required by HACCP that the plants in many cases—not all cases, but many cases—are able to find this out in a much faster vein.

Mr. HINCHEY. Thank you very much.

Mr. VIADERO. Yes, sir.

Mr. SKEEN. Mr. Walsh.

EBT

Mr. WALSH. Thank you, Mr. Chairman.

Mr. Inspector General, thank you for coming in today, and we welcome all your staff. It is good to see you.

Just really one or two questions, on food stamps and electronic benefit transfer. EBT, we all felt, would deter and prevent fraud, waste, and mismanagement and abuse. It would prevent the use of food stamps from becoming black market money, and it would eliminate that problem.

I just wonder what your experience has been with the EBT program so far, and what, if any, significant data you have on its successes or failures and what you are encountering in your investigation of this new program.

Mr. VIADERO. Well, first of all, we cannot speak too highly of EBT, not to be glib, but it is taking the fraud off the street and puts it in the store where it belongs. That is what it has done.

It has eliminated—the bulk of it has eliminated street trafficking. We do not see people exchanging stamps for cash or stamps for drugs. We generally do not see the street operation going on.

What we do see and what EBT enables us to do is to readily—I mean quickly, like overnight—identify through the development of a fraud profile, working with the vendors that are handling it for the States, the processing companies themselves, whether it be Deluxe or Citibank, one of the financial institutions such as that, that is handling it. It allows us to identify suspect retailers and recipients.

For instance, if you were to take Greg, Roger, and Jim and let’s say that we go to a 7-Eleven in Alexandria, Virginia, and that Greg shows up at 3:00 in the morning and buys \$400 worth of food prod-

uct, Roger shows up at 3:01 for \$300, and Jim shows up at 3:02 for \$400. That kicks out a bell to us because that does match the fraud profile.

For instance, we have all been to 7-Elevens and WaWa's, and at 3:00 in the morning, they cannot ring up product worth large dollar amounts in a minute, much less \$1,100 worth in 3 minutes. So that is one identifier.

The other identifier that we have in there is, for instance, that Greg's profile would say he normally buys in a major food store between 4:00 in the afternoon and 9:00 at night, and that is pretty much the rule for the average person in the country. All of a sudden, what are we doing out of a major food store and what are we doing processing these types of purchases at 3:00 in the morning, basically the maxed-out amount on that card for that month.

Additionally, the investigations that we have had have been astronomical as is usual in food stamp coupon cases. We currently have food stamp coupon cases in four locations involving 55 individuals and \$99 million worth of product. Those cases are being identified. They are being tried as we speak. That is an example.

Now, try this. Can you imagine how long it would take to go in and traffic in food stamps in individual stores? My agents do not like me because of this because now, instead of the work that used to take 6 months, it should take about an hour and a half with the machines, and you do not even have to put your cup of coffee down. We are getting these things in through printouts. The machines are doing the job for us.

EBT has put integrity back in the program. It has helped put a lot of integrity back in the program. However, in one store just in New Jersey, we went in and found three cigar boxes. What happens is the people sell their EBT benefits. So we found cigar boxes filled with approximately 60 EBT cards in there. That translates, at max, at about \$400 per card. CPA, cannot pass arithmetic. And we keep it simple, about \$400 a month for those people. You know, we are talking in the area of \$24,000 of benefit per month.

EBT went in five northern counties in New Jersey during July of 1997. We did an operation involving 10 stores and roughly \$9.5 million worth of food stamp benefits, including one individual. You folks will all get a kick out of this.

This individual, based upon his food purchases that he stated to FNS—he did about \$150,000 a year in food purchases or food sales, right? Now, he reports that part. He does not report the \$1.6 million worth of food stamps. Now, hopefully, food stamps buy food purchases. So, again, CPA, cannot pass arithmetic. This is not rocket science for us to figure out here.

Mr. WALSH. How does the scam work with the purchase of the cards?

Mr. VIADERO. Well, the cards are issued by the individual State. The State is still responsible for the issuance of the card and qualifying the recipients.

Normally, what happened, let's say that—

Mr. WALSH. I mean, with the store owner buying the cards, how does that scam work?

Mr. VIADERO. Generally, they will buy them for about 50 to 70% of the food stamp benefit on the card. People really want cash. It might even be a stolen card and pin number that they are buying.

Mr. WALSH. Not knowing what the total purchase-ability of that card is?

Mr. VIADERO. He knows very readily. The merchant can take it and run it through the EBT machine, and that puts out the maximum benefit that is on that card.

Mr. WALSH. Okay. So then he buys it for \$100. They get the cash so they can go buy whatever they are going to buy, and then how does he use that card?

Mr. VIADERO. He just runs the card through the machine as if that person is there and puts the benefit on there. Again, let's say a \$400 benefit. He gets \$400 a month every time he runs that.

Mr. WALSH. Credited to his electronic account?

Mr. VIADERO. That is right, and it is deposited in his account that night. So we have even made it better for those folks because they do not even have the bother of filling out the forms and going to the bank. It is automatically wired to their account.

However, EBT has really helped put integrity back in the program. Needless to say, on the investigative side, we only talk of the negativeness of the card, the crime, but on the audit side, on the financial management side, it has helped FNS control the costs.

Mr. WALSH. While you still have fraud, it is concentrated now between the shopkeeper and the beneficiary, the recipient of the benefit.

Mr. VIADERO. Right. For the most part, we have taken the street person out.

Mr. WALSH. It adequately reduces the points of contact with crime.

Mr. VIADERO. I will give you the glowing example of what this has enabled us to do. Nothing like talking to the cop on the street, and one of the police officers in New Jersey that worked with us said we knew EBT came in. I said to him, "Yeah? How did you know?" He said, "Because all the small take-out places closed up that week," all the take-out food places that are not authorized to take food stamps. Well, what was the message there? People were going in and trafficking their food stamp benefit. They cannot do that because the take-out stores are not authorized establishments. So, in other words, those places went out of business.

Mr. WALSH. Well, that is great. That is a great report. The problem is human beings are incredibly smart, and always, where there is a will, there is a way. So stay alert, because somebody else will figure out a way to beat you and you will just have to figure out a way to catch them.

Mr. VIADERO. It didn't take them much time in Texas to learn how to beat the system. I would also like to say, we have an outstanding relationship with both the Texas Department of Human Services and their Inspector General, who work closely with us.

MILK PROMOTION

Mr. WALSH. The best thing about EBT is not only the savings to the taxpayer, but also because it makes the temptation to engage in fraudulent activity go away. People are hopefully spending that

money on their kids and keeping their families healthy, and the taxpayer and the farmer and everybody else who are involved in this are getting a boost in their bang for the buck that we are spending for poor people who need good nutrition.

One other question, and that is on this milk promotion board. I notice in your testimony oversight problems that exist with ag marketing services and their relationship with the National Food Milk Board. I understand that there are a number of other promotional boards that have oversight problems.

Can you comment on the problems that you found and how prevalent this is, this oversight problem with these promotion boards?

Mr. VIADERO. Well, I will address this. I will also ask Mr. Ebbitt, when I am finished, to give you the more macro view.

What we have had in this specific board was \$170 million collected in assessments to the processors. Of that, \$127 million was spent without AMS approval. The advertising was let to a firm, 3 months before the board was seated and before the request for proposal. So we did have a problem with that because this money—

Mr. WALSH. Before the request for proposal?

Mr. VIADERO. Yes, sir, before.

Again, the not-too-bright agent in me says there is a keen investigative clue. So we had \$127 million of this money already encumbered or obligated prior AMS approval. That is number one.

Number two, we had approximately \$3 million on the "Got Milk" campaign those photographs cost this Government about \$12,500 every time one is displayed again because AMS failed to oversee the contract. This is what we mean by giving it back to AMS. We have no problem with the photographer. I only wish I could get, since I am eligible to retire, the attorney that cut her contract to make me a similar contract. She has all of the rights, the copy-rights to the property, the photographs. We end up paying every time we want to use those photographs. We end up paying for them, which we should have the right to that. That is another example.

The bottom line is AMS did not perform its oversight function for 75 percent of the money. The Secretary is supposed to sign off on it, and AMS is supposed to sign off on it. AMS did not perform its oversight function.

So far as the other programs are concerned, the honey board, the cotton board—

Mr. WALSH. Why don't we leave it at that. I do not want to monopolize the time.

Mr. VIADERO. Okay.

Mr. WALSH. Thank you.

Thank you, Mr. Chairman.

Mr. SKEEN. We have got a vote on, but, Mr. Latham, we will cut you off at the second bell.

LDP

Mr. LATHAM. All right. Thank you, sir.

Welcome. I always appreciate your testimony very much.

We have had some real problems in the discrepancy reported regarding the posted county prices in the Midwest. In my district, I border with Minnesota, South Dakota, and Nebraska, three States.

We have a lot of people who are close to the border who will actually go, say, up to Minnesota or South Dakota to sell their grain there because there is such a huge discrepancy between the price, and the posted county price in Iowa.

Have you looked into any of this?

Mr. EBBITT. No, Mr. Latham. We really have not gotten into that specific issue there.

Mr. LATHAM. Do you have any plan to look at it?

Mr. EBBITT. We are spending a lot of time in the whole LDP area and all these payments that are being made. I am not real familiar with that particular problem.

FOOD SAFETY AND FOOD IMPORTS RESPONSIBILITIES

Mr. LATHAM. There are huge discrepancies right across the State lines, and basically, what happens, they will deliver the grain, say, in South Dakota and then they will have to haul it back to Iowa for the delivery point. It is a mess.

On page 3 of your written testimony, you stated that in fiscal year 1999, we are focussing our efforts primarily on food safety and smuggling of uninspected, unapproved products carrying unwanted pests and diseases in the United States that affect the wholesomeness of the Nation's food supply.

I would like to know what duties you are doing that is different, really, from the food safety and food imports responsibilities within like the FSIS, APHIS, and FDA. Is there a redundancy here, inspecting the inspectors or what?

Mr. VIADERO. No, sir. FSIS and APHIS, they are not criminal investigators.

Mr. LATHAM. Right.

Mr. VIADERO. They have no authority to open up a criminal case. We are the enforcement arm for the Department.

Each of our responses initially is to get there, number one, public safety, safety of employees, and the continuing financial viability of the going concern, keeping the plant open.

So we initially go there to determine if in fact there is a criminal case, as there is out at EMPAK Foods in Milwaukee, Wisconsin—I am sorry—there is not. It was initially responded to both by the FBI and this office.

The FBI had it open as an extortion case and a bioterrorism case, weapons of mass destruction, because it was alleged to be human HIV-contaminated blood product, and we responded the same way and we worked with them.

We are monitoring at this time, for instance, as it appeared in the paper today, certain outbreaks of listeria and listeriosis. We are monitoring those.

In certain cases—we have several cases. We have about six cases open right now in that arena that are criminal cases. So we are taking it one step beyond the review of FSIS. They are going to handle their meat and safety issues. We are going to handle the criminal side of this. We are going to find out who is doing this.

Mr. LATHAM. Okay.

Mr. Chairman?

Mr. SKEEN. That is the second bell. We can hold this longer, or do you want to come back? Does anybody else want to close it up now or hold it?

Mr. LATHAM. Would I have a chance to ask one more question, and would we have time, do you think?

Mr. SKEEN. Well, when we come back? Well, we will just come back.

Ms. KAPTUR. I have a couple of questions.

Mr. LATHAM. You do? Okay, then fine.

Mr. SKEEN. We will come back. [Recess.]

Mr. SKEEN. Let's go back on the record.

Marcy, we will turn it over to you.

COMMODITY CREDIT CORPORATION AGREEMENT

Ms. KAPTUR. Thanks, Mr. Chairman, and thank you for doing a second round. This will not take long, I hope.

I wanted to ask the Inspector General if you could comment for us and bring to the record the current Commodity Credit Corporation agreement that the administration is working on with Russia. I think we would like to place that in the full record for this hearing, but then also, would you be in a position to comment on it and how it might be strengthened?

Mr. EBBITT. In the record, Ms. Kaptur? Is that what you are asking?

Ms. KAPTUR. Yes.

Mr. EBBITT. Yes.

[The information follows:]

[CLERK'S NOTE.—The requested Commodity Credit Corporation Agreement is printed in response to Ms. Kaptur's question for the record beginning on page 104 of this Hearing record.]

Ms. KAPTUR. If that could be done in a timely way because the first sales are to occur late this month, if they have not already been negotiated and the shipments begun.

Mr. VIADERO. Yes, ma'am.

Ms. KAPTUR. I also wanted to ask you, have you ever done investigations of the Commodity Credit Corporation and its sales in foreign lands?

Mr. EBBITT. Well, I am thinking. I mean, we did the work in Russia, the last go-around. I know we have, Ms. Kaptur. I do not have recall right now, but, again, I can check the record on that.

Ms. KAPTUR. My concerns there really deal with diversion of product.

As it was explained to me, I asked the question when do the commodities become the property of the country to which we are shipping, and I was told from the moment they leave our shores.

I guess I had a question about that, especially when it is a humanitarian shipment being sent to a place where the rule of law is not the same as ours. I have a lot of questions about the way the CCC handles sales in countries that do not have the full—we do not have the same opportunities in the court system to recover a product if it is lost. I wonder if you have got any thought to that.

Mr. EBBITT. I guess I cannot really answer right now. I am going to have to go back and take a look at that.

I think General Counsel will have to weigh in, too, as to when does it become the property of the foreign government. They are going to have to give the advice on that, and once it becomes the property of the foreign government, most probably—and again, I am talking off the top of my head here—the agreement that FAS signs with the foreign government will dictate what they can do with the commodity or how they can handle it and program activity that they are to carry out with that.

If they do not follow that agreement, if they do not carry out the agreement to the terms that the agreement calls for, I would expect that that would be the vehicle by which FAS could go back against the foreign government, if that were the case.

In other words, it would not really matter who that commodity belonged to if it was not used in accordance with the agreement. FAS, I would think—but, again, I think General Counsel would have to weigh in on that. FAS would have a claim to go back against the foreign government because of the agreement.

Ms. KAPTUR. But as I read the prior report that you produced from the early 1990's, that was not done in the Russian situation, for example.

Mr. EBBITT. Yes.

Mr. VIADERO. Again, let us go back. We are going to have General Counsel—pull the agreement, and General Counsel will give us an opinion on it, and we will report back to you as to specifically the ownership of the property, when it becomes the property of another nation.

Ms. KAPTUR. All right.

Mr. VIADERO. This way, we will get it on the record with you and we will work with you and develop the proper response on this.

Ms. KAPTUR. I appreciate that, Mr. Viadero.

We also would like to share with you privately some of the information we are receiving from organizations like the Center for the Study of Transnational Crime and Corruption and some of their observations about the nature of the current agreement and how it might be strengthened.

Am I correct, you stated to the committee that you as an office have not yet been asked to partner with the Department and the Foreign Agricultural Service in auditing the shipment?

Mr. EBBITT. Well, I think the answer to that is yes.

When I met with Foreign Agricultural staff, I asked them—I said what do you expect the OIG role to be, and at that point, they said, well, come on in. That was just about 2 weeks ago.

Mr. VIADERO. I have not received anything in writing or any phone calls from any of the sub-cabinet or other Secretary's office asking us to participate in this venture. So any negotiations that have gone on have been informal and probably at the staff level, the same way you guys are going to be in, anyway, but the initial response when we asked if we were going in, we were told no. That was the last official communication that I received was no.

Ms. KAPTUR. May I ask you this question? It is my understanding the Department is thinking about and reviewing the possible involvement of certain private sector organizations to be added to the monitoring efforts that they are considering. Why

would they go to the private sector rather than involving the IG's office?

Mr. VIADERO. I have absolutely no idea, ma'am. It is my understanding that these other firms or other firm that would be considered, again, is after the product is shipped and distributed. So we get back to, okay, so now you are going to report on all that went wrong.

Again, our thought was let's get in and do some up-front work and try to prevent anything from going wrong.

CHILD AND ADULT FOOD INVESTIGATIONS

Ms. KAPTUR. I would just like to say for the record, the people of the United States are paying for the FBI to be located in Moscow, with a special office there relating to crime and corruption, and the diversion of dollars and product outside of that country—and it just seems to me, with your experience and with the types of skills that your people bring or that you could add to the organization you already have put together there—it just seems to me, it is a logical addition and a very important addition, and I really cannot understand why the Department of Agriculture has not formally requested—it is troubling to me that the Department has not more fully involved you from the beginning.

I wanted to just for a moment say that I read in your formal testimony the child and adult food investigations that have been going on there, and this was a very high priority of your office over the past year. I think you formally began those investigations within the last year.

Mr. VIADERO. Yes, ma'am.

Ms. KAPTUR. Are they yielding the types of results that you expected? I noticed there were some indictments. I cannot tell whether you have recovered anything yet from that or not, but is this an area that needs additional resources?

Mr. VIADERO. Yes, ma'am. This is a continuing problem, and again, we are working with Food and Nutrition Services under the special nutrition programs just to clean the program up.

It is unfortunate. Again, as I say to the question from—I believe it was from Mr. Nethercutt—I'm sorry—Mr. Walsh—our work on the investigative side, we do not have a lot of resources. So it is basically targeted. This was a joint audit and investigative effort. So everybody or every organization we looked at has somewhat been targeted for matching a fraud profile that we developed, and we are almost at 100 percent of those sponsors that we find to be errant.

To date, as of December 1998, or January 1st of this year, 54 sponsors in 23 States have been audited or investigated, and 14 so far have been terminated. Several others have been indicted and prosecuted. So far as the benefits are concerned, again, we have gone out and will share with you that picture last year that we showed of the vacant lot in the testimony. That was a sponsor that fraudulently received monies for the center that was located in that vacant lot that was out in Toledo. So we did get a successful prosecution on that.

Ms. KAPTUR. I hope you keep working in Toledo. Try harder.

Mr. VIADERO. Well, actually, you will be happy to know, it is not as bad as we thought.

Ms. KAPTUR. Other places?

Mr. VIADERO. Yes. It is not as bad as other places. That was the New Jerusalem issue, and seven persons including the sponsor and director entered guilty pleas. They had been doing this since 1995, and they set up more than 40 false providers, resulting in submission of false claims of more than \$750,000. That is a lot of money.

The investigation does continue, and we are in the process of restitution. Again, we do not get that restitution.

Ms. KAPTUR. Will you have a continuing emphasis on this particular set of investigations over this next year?

Mr. VIADERO. Yes, ma'am. There is more than enough open cases right now that we are carrying as open cases and auditing and investigating than our resources allow us to handle. That is fundamentally why we have had to back off. I am out of people. I am out of people. Some of them are beginning to look like—if you recall the movie, "Gone With the Wind," some of them are looking like Rhett Butler coming back from the war. Q01

These people—auditors spend in excess of 70 percent of their time on the road. So that puts a lot of strain both on them professionally and on their personal lives as well. We are out of people.

Ms. KAPTUR. That is why I go back to my request of Mr. Dewhurst. If you could really look across the Government and give us some insight on this, maybe we can do something here to try to help and to augment the staff.

There was quite a bit of excellent testimony presented on the tainted foreign imported food coming in here, and can you detect the most troubling entry points in the country? Are there certain areas that are more vulnerable than others?

Mr. VIADERO. Yes. We have had some smuggling investigations. The vast majority of our criminal cases have been on the West Coast. For instance, we worked with APHIS on a shipment containing dried snakes. Because they are used as Asian aphrodisiacs, they are all—viper snakes are all venomous.

In another Conex, we had several thousand bear scrotums and testicles, which, again, are used as Asian aphrodisiacs. At the same point of entry, we also seized several thousand pounds of deer antlers and tendons. Just the tendons were taken off the hind quarter of the deer, which are used in Asian medicines. So, needless to say, we would have our large concentration or large effort at that port.

So far as the East Coast ports, we have not seen direct importation of prohibited fruits and vegetables coming in from both South America and from Asian ports being transhipped into Canada and then back into the United States.

We really do not have too—our borders are really, fairly open.

Ms. KAPTUR. Finally, for the verbal questioning, on the meat plants that you highlight in your testimony, you do not reference who they are. Are these vest-pocket plants, or are these major corporations whose names we would know?

Mr. VIADERO. They are large corporations within the meat business. And again, I am sure you know that many of these compa-

nies, their names are owned by several other companies, and the parent company, yes, would be most notable who owns them.

Ms. KAPTUR. With HACCP and other inspectors in there, why would this be happening, then?

Mr. VIADERO. Well, that is our question. That is our question.

Again, the company in Wisconsin was victimized. They were a victim. The other companies—and again, I have to be careful, and you will bear with me, please, that a lot of these cases have been accepted for prosecution and are under grand jury review. So I am limited to what I can say here on the record.

We just find that the response time—I mean, we have one question as to why FSIS pulled the stamp, if you will, removed the inspectors, which in essence shut a plant down on December 31st, yet did not have a recall of product until January 22nd. That is more than 3 weeks. So that sort of makes me wonder. If you are going to stop the inspection and pull the stamp, shut the plant down, why don't you recall the product if you had basis to shut the plant down. That is just an example, if you will, of one of the cases we have.

Ms. KAPTUR. All right. Thank you very much, and thank you, Mr. Chairman.

Mr. VIADERO. Thank you, ma'am.

Mr. SKEEN. Mr. Latham.

Mr. LATHAM. Thank you, Mr. Chairman.

I would like to know, have you done any work in seeing the effectiveness of these aphrodisiacs? I am kind of interested in those.

Mr. VIADERO. I have got more hair in my comb in the morning than I have on the top of my head. No, I have not seen the effects of that. Thank you. [Laughter.]

Mr. LATHAM. Okay. This committee is just full of levity, right, Mr. Chairman?

Mr. SKEEN. It is full of something. [Laughter.]

INFORMATION TECHNOLOGY

Mr. LATHAM. Just one subject matter I would like to hear your response to, in the last 2 years, trying to get after somehow in the Department, the information technology systems and the authority given the information officer and the 29 different agencies, each with their own systems. Can you give me any insight? Are they doing anything over there? Is it business as usual?

Mr. EBBITT. Well, this is another challenge for the Department of Agriculture, and it is a huge challenge, Mr. Latham.

One of the main areas—and they are moving ahead, particularly at the county office systems, our county offices throughout the United States. There is a major effort underway to bring all of those offices with the same kind of technology, same kind of telecommunications, same wiring, et cetera, huge costs involved, a lot of—just an awful lot of work just to get it all set up, but I think to that end, at least there—I mean, the Department now has a plan and they are working on that plan to move that effort forward, but it is certainly not all accomplished yet and there is a big challenge there to get that accomplished.

Mr. LATHAM. Has Ms. Reed given the authority to actually make changes, or is it still dependent upon each of the agencies signing

off, or can she actually make things happen? I mean, does she have that authority? Do you know?

Mr. VIADERO. Yes, sir. She has the authority under the Chief Information Officers Act.

Mr. LATHAM. In reality?

Mr. VIADERO. Yes, sir.

Mr. LATHAM. But that has been the problem before is the agencies basically have ignored guidelines set down from the Department. In the past, they have each gone ahead with their own systems and not worried about what the other agency next door is doing. It is just if she has got the authority, they are ignoring it.

Can you give me any—okay. I think we are back to square one again.

Kind of in the same area, do you have an update or anything on the Year 2000 compliance department? Do you look into that?

Mr. VIADERO. Yes. Yes, we do.

Mr. EBBITT. Yes. We have been spending a lot of time monitoring what the Department is doing, and I think in most areas, the Department, they have identified the systems that are critical and the kinds of fixes that need to be made. They have a plan to fix them.

Their plan would indicate that in some areas, they are behind the time frames that have been set forth by OMB to make these fixes. They are telling the Department, they are telling the Secretary that they can have these things fixed by the Year 2000, the things that are critical. Some things will not make it, but they are not in the critical areas.

Mr. LATHAM. Can you define the critical areas?

Mr. VIADERO. Well, throughout the Department, each particular agency has identified systems critical to their operations, and that will vary, of course, from agency to agency depending on the program that they are delivering.

I have forgotten the example number. There are 4- or 500 different—it is right here—354. Steve had it right here, 354 critical systems in the Department. He has got a good chart here. Maybe he can share that.

Mr. LATHAM. It is probably here.

Mr. EBBITT. But, again, they are telling us that they are going to make it.

Now, in our next phase, we are going to be looking at their testing processes to see if they are on target with our testing processes, what are the tests showing.

Down at the National Finance Center, which is so important to USDA's operations, a lot of—first of all, employee salaries are paid out of National Finance Center, as well as about 40—almost 50 other Government agencies are paid out of National Finance Center. We have been down there. That operation appears to be on target with identifying and fixing the problems, and the National Finance Center is reporting 100-percent compliant on that.

Mr. VIADERO. I would also like to add, Mr. Latham, we will know how well everything is working on April 1st because New York State is the first State to become Year 2000. So far as distribution of benefits, particularly from the large entitlement Departments, Agriculture, HHS, HUD, New York State, it will be online first. So our machines have to kick into a 2000 date to correspond to New

York State. So we have worked very closely with John Ortego and the Chief Financial Officer, Sally Thompson, to ensure that the National Finance Center is up to par.

We are, however—and it was reported by Ms. Thompson, the CFO there—I am sorry—by Ms. Watkins who is in charge of FNS—the problem is that some of the States do not want to report back to the people whether or not they are Y2K-proof.

Mr. Attmore who is the State auditor in New York—we share a committee together of—this is a real boring committee of auditors. You think this is a lap-slapping time, you ought to go to one of those meetings. He assures me that New York State is up and running, but we will know, again, on the 1st, and then, again, right here in Virginia because Virginia starts a May 1st fiscal year, 21 States are July 1st, and the rest are October 31st. So we will be challenged in the next 6 to 8 weeks here.

Mr. LATHAM. I would just kind of go back to my first question. The ultimate test for the Department is to see if they are coordinating their efforts and cooperating and to see if they can now e-mail from the North Building to the South Building, and that which they have not been able to do before. I mean, that is the amount of cooperation the Chief Information Officer has. Hopefully, things have gotten better. I would question it.

Thank you, Mr. Chairman.

Mr. SKEEN. I thank all of you, and I think that enough has been said.

Roger, yours is always one of the most interesting groups that we visit with. You do your work, and you do it very well. You are well-accompanied, and I can assure you that we are going to try to help you get the compensation that you need to keep doing your work and expanding on it. I think you have been under-recognized, which is not an unusual thing around the Government.

Mr. VIADERO. Thank you, Mr. Chairman.

Mr. SKEEN. I think you have done well.

Anyone else? Marcy?

Ms. KAPTUR. No, Mr. Chairman.

Mr. SKEEN. Thank you all, and we are adjourned.

Mr. VIADERO. Thank you.

Mr. SKEEN. We also would like to know if we have other questions that we can send to you—

Mr. VIADERO. Absolutely.

Mr. SKEEN. We appreciate that.

Mr. VIADERO. Happy to have them.

Mr. SKEEN. Glad to have you.

[The following questions were submitted for the record:]

Office of the Inspector General

RESOURCES USED TO MONITOR THE FOOD STAMP PROGRAM

Mr. Skeen: Please update the table that appears on page 328 of last year's hearing record, which shows how much of your budget is spent on monitoring the food stamp program, to reflect fiscal year 1998 actuals and fiscal year 1999 and 2000 estimates.

(The information follows:)

Budget Spent on Monitoring the Food Stamp Program

<u>Fiscal Year</u>	<u>Amount</u>
1991	\$11,225,000
1992	12,839,000
1993	13,775,000
1994	18,600,000
1995	19,743,000
1996	17,952,000
1997	16,914,000
1998	16,684,000
1999	16,600,000*
2000	16,600,000*

*Estimated

SERVICE CENTER INITIATIVE REVIEW

Mr. Skeen: Please bring the Committee up to date in terms of oversight of the Service Center Initiative.

Respondent: Although we have planned to undertake a review of this critical initiative, due to lack of resources and other high priorities, we have been unable to staff the review. The General Accounting Office (GAO) has characterized this information technology modernization effort as " * * the biggest, most costly and complex in the department's history." GAO reports that the life-cycle cost estimates of the effort exceed \$3 billion. GAO has also reported that the initiative has been plagued by inadequate and inefficient planning, acquisition strategies, and project management. We will schedule a review of this activity if additional resources become available.

EBT PROCESSOR OPERATIONS

Mr. Skeen: Please update the Committee on the President's Council on Integrity and Efficiency working group to develop standards for audit on EBT processor operations.

Respondent: We are currently incorporating final comments into the Electronic Benefits Transfer (EBT) processor review guide and expect to have a final document available for use as interim guidance within the next few weeks. The document will be submitted to the National State Auditors Association Electronic Commerce Group for its endorsement on February 28, 1999. We will subsequently forward the guide to States and to the Office of Management and Budget (OMB) pending final publication by OMB.

FOOD STAMP CASES

Mr. Skeen: Provide a table similar to the one that appears on page 331 of last year's hearing record showing the number of food stamp cases that were issued, the number referred to the Department of Justice, and the number accepted by the Department of Justice, for fiscal year 1998.

(The information follows:)

U.S. DEPARTMENT OF AGRICULTURE - OFFICE OF INSPECTOR GENERAL
FOOD STAMP PROGRAM REFERRALS - FY 1998

<u>STATE</u>	<u>CASES ISSUED</u>	<u>REFERRED TO DOJ</u>	<u>ACCEPTED BY DOJ</u>
ALABAMA	1	1	0
ARIZONA	3	0	0
ARKANSAS	1	1	1
CALIFORNIA	17	10	4
COLORADO	12	6	3
CONNECTICUT	4	4	0
DELAWARE	1	0	0
DIST OF COLUMBIA	10	8	7
FLORIDA	9	2	2
GEORGIA	8	5	4
GUAM	1	1	0
HAWAII	2	1	1
ILLINOIS	11	8	6
INDIANA	10	4	1
IOWA	1	1	1
KANSAS	2	2	2
KENTUCKY	2	2	1
LOUISIANA	18	13	9

MARYLAND	11	3	1
MASSACHUSETTS	18	9	0
MICHIGAN	5	3	3
MINNESOTA	15	1	1
MISSISSIPPI	3	2	2
MISSOURI	16	9	8
NEBRASKA	6	5	0
NEVADA	1	0	0
NEW JERSEY	24	15	6
NEW YORK	68	41	13
NORTH CAROLINA	94	47	16
OHIO	27	8	2
OKLAHOMA	7	2	0
OREGON	3	0	0
PENNSYLVANIA	41	19	15
SOUTH CAROLINA	10	8	4
TENNESSEE	1	1	1
TEXAS	49	26	5
UTAH	2	2	2
VERMONT	1	1	1
VIRGINIA	17	10	3
WASHINGTON	2	1	1
WISCONSIN	2	0	0
TOTAL	536	282	126*

* The number of cases accepted by the U.S. Department of Justice (DOJ) does not include 104 additional cases accepted for State prosecution.

STATE MEDIATION PROGRAM

Mr. Skeen: Bring us up to date on the State Mediation Program.

Respondent: During the period of March 1996 through December 1998, we have issued nine reports disclosing the results of our evaluations of the mediation program administered by eight State agencies. Our reports identified problems with program operations, reporting results, and reimbursements for nonmediation services--thereby being ineligible for reimbursement. As part of its corrective actions, the Farm Service Agency (FSA) issued revised regulations and administrative directives to improve program operations, both within FSA and at the participating States. Participating States must now report sufficient information, allowing FSA to more effectively monitor and evaluate State mediation programs. FSA also provided additional guidance on reimbursable program costs to the State agencies. Based on the revised regulations and additional guidance and direction by FSA to the participating States, we have reached management decisions on all reports except one. While we had some differences of opinions, we were committed to work with FSA to improve the program for the future.

We acknowledged that the State mediation programs were being evaluated under standards that were not fully described or prescribed when we conducted our evaluations. Both OIG and FSA agree that the corrective actions by FSA should prevent similar problems in the future.

We would also like to report that FSA did not recertify the mediation program administered by a Texas State agency and instructed the Texas State executive director to implement its own mediation program for producers and borrowers in the State. The earlier State-administered program is still under investigation. We are continuing to work with FSA to accept its management decisions on all recommendations in the State of Texas report.

YEAR 2000 UPDATE

Mr. Skeen: Provide an update on the work you are doing to review the Year 2000 initiative.

Respondent: In April 1997, we began a continuous review and assessment of the Department's Year 2000 conversion efforts. Over the past 2 years, we have reviewed the activities of 10 agencies (Animal and Plant Health Inspection Service, Agricultural Research Service, Farm Service Agency, Food and Nutrition Service, Food Safety and Inspection Service, Forest Service, National Agricultural Statistics Service, Office of the Chief Financial Officer, Office of the Chief Information Officer, and Rural Development) which cumulatively operate over 70 percent of the Department's critical systems.

Overall, we determined that the agencies are progressing in their Year 2000 conversion efforts. However, we found that improvement is needed in many areas. For example, we identified four mission-critical systems that will not meet OMB's March 1999 implementation deadline. Some agencies had established what appeared to be unachievable schedules for validating and implementing systems by March 1999. Also, some agencies reported systems as Year 2000 compliant prior to completion of validation testing of the systems' modifications. Other agencies' data exchange agreements generally consisted of informal, verbal agreements which did not fully establish the conversion responsibilities of each exchange partner. In addition, agencies' business continuity and contingency planning were only in their early stages.

Currently, we are finalizing the results of our review of vulnerable systems and processes, which includes buildings, facilities, laboratory and scientific equipment, and telecommunications processes. Additionally, we have recently initiated a review to assess the adequacy of the validation efforts at seven agencies.

FINANCIAL STATEMENT AUDITS

Mr. Skeen: Please update the table that appears on page 333 of last year's hearing record showing which financial statement audits you contract-out and which you do in-

house as well as the cost of each audit to include fiscal year 1998 actuals and fiscal year 1999 estimates.

(The information follows:)

<u>Audited Agency</u>	<u>Method of Performance</u>	<u>FY 1998 Cost</u>
FCIC	Contract	\$183,000 ¹
RTB	In-House	174,000
CCC	In-House	858,000
FNS	In-House	970,000 ²
FS	In-House	749,000 ³
RD	In-House	747,000 ⁴
AARCC	In-House	111,000 ⁵
Consolidated	In-House	335,000 ⁶

¹ Contract amount plus other costs incurred by OIG.

² The cost to audit FNS during FY 1998 was \$412,000 less than FY 1997 due to improvements in FNS' overall financial internal control structure. Because a high level of reliance could be placed on the agency's internal controls during FY 1998, the degree of fieldwork needed to gain reasonable assurance on the financial statements could be significantly reduced from efforts needed during previous years.

³ The actual cost to audit FS during FY 1997 totaled \$155,000. FS was not able to produce auditable financial statements for the year ending September 30, 1996. Consequently, we could not perform a full-scope audit of its statements and financial operations for that year. Due to the lack of auditable statements, less audit work was needed during FY 1997 when compared to the cost of financial statement audit work performed during FY 1998.

⁴ The cost to audit RD during FY 1998 was \$293,000 less than FY 1997 due to the cyclical coverage of operations needing detailed control testing. Additional fieldwork was required during FY 1997 to audit RD operations not tested during the previous fiscal years.

⁵ This is the first year OIG began auditing the financial statements for AARCC, a new corporation within USDA.

⁶ The actual cost to audit the USDA consolidated statements during FY 1997 totaled \$238,000 or \$97,000 less than FY 1998. Due to scope limitations (such as the lack of auditable FS statements), less financial statement audit work was needed during FY 1997 when compared to the cost of audit work performed during FY 1998.

Except for the Forest Service (FS) audit, costs should not vary significantly for audit activity during FY 1999. This is contingent on the Food and Nutrition Service (FNS) maintaining a strong financial internal control structure so that necessary audit work remains minimal. When FS has completed its current effort to verify and value its real property inventory, a concerted audit effort will be needed to perform sufficient tests to verify the reported amount. Real property is a material financial statement line item for both FS and USDA.

WIC PROGRAM

Mr. Skeen: Bring us up to date on all the audit and investigation work you are doing in the WIC Program.

Respondent: The Women, Infants, and Children (WIC) violations are also often discovered during our investigations of food stamp trafficking and are charged in the same indictment. However, since the investigations were initiated as food stamp cases and tracked as such in our management information system, we are unable to identify WIC program statistics from these cases. Of the WIC cases we track directly, we currently have six open unreported WIC program investigations. During FY 1998, we obtained three indictments and \$1,250 in monetary results.

Because we have devoted so much of our resources to audits of the Child and Adult Care Food Program, we were not able to provide as much coverage as we had anticipated in the WIC program. However, we recently completed a review of the WIC program in Texas. We plan to perform additional audit work in the WIC program in FY 1999. An audit of administrative costs will evaluate the adequacy of the administrative and accounting controls in the WIC program. We also plan to do audit work in the Northeast and Midwest of WIC Food Delivery Systems and vendor monitoring to evaluate State agency monitoring procedures used to identify high-risk vendors and to prevent overcharging to the WIC program by vendors.

CCC FINANCIAL AUDITS

Mr. Skeen: What was your cost of performing audits of CCC financial statements in fiscal year 1998? What was the reimbursement from CCC?

Respondent: Our in-house cost to perform audits of the Commodity Credit Corporations's (CCC) financial statements during FY 1998 cost \$858,000, which was \$16,000 more than the \$842,000 reimbursement from CCC.

REIMBURSEMENTS

Mr. Skeen: Please update the table that appears on page 335 of last year's hearing record showing the reimbursement received, and the actual cost of the audit for CCC, FCIC, and RUS, to include 1998.

(The information follows:)

<u>Audited Agency</u>	<u>Fiscal Year</u>	<u>In-house/ Contract Cost ¹</u>	<u>Reimbursement</u>
CCC	1991	\$ 1,183,000	\$ 675,000
	1992	1,017,000	723,000
	1993	832,000	752,000

	1994	827,000	741,000
	1995	931,000	857,000
	1996	981,000	795,000
	1997	850,000	842,000
	1998	858,000	842,000
FCIC	1991	218,000	200,000
	1992	277,000	208,000
	1993	255,000	216,000
	1994	210,000	210,000
	1995	225,000	225,000
	1996	218,000	170,000
	1997	183,000	170,000
	1998	183,000	170,000
RTB	1991	184,000	175,000
	1992	231,000	210,000
	1993	236,000	233,000
	1994	189,000	170,000
	1995	175,000	175,000
	1996	244,000	170,000
	1997	272,000	170,000
	1998	174,000	170,000

¹ Contract amounts, as appropriate, plus other costs incurred by OIG.

USDA FINANCIAL STATEMENT AUDITS AND OPINIONS

Mr. Skeen: Please provide a list of all USDA financial statements your office audits along with the opinions you provided on those financial statements.

Respondent: The agencies audited and the respective opinions we issued on their financial statements for the year ending September 30, 1998, will be provided for the record.

(The information follows:)

<u>Audited Agency</u>	<u>Audit Opinion</u>
FCIC	Unqualified
RTB	Unqualified
CCC	Disclaimer
FNS	Unqualified
FS	Disclaimer
RD	Qualified
Consolidated	Disclaimer

For the Alternate Agriculture Research and Commercialization Corporation's (AARCC), we issued a disclaimer of opinion on its financial statements for the year ending September 30, 1997.

USDA FINANCIAL STATEMENT AUDITS

Mr. Skeen: Does your office perform audits of other USDA agencies' financial statements?

Respondent: In addition to agency financial statements, we have also reviewed the annual financial statements prepared for USDA's working capital fund. As yet, these statements have not been auditable due to the lack of supporting documentation.

OUTSIDE PUBLIC ACCOUNTANTS

Mr. Skeen: Please update the table that appears on page 335 of last year's hearing record showing the amount of funds expended for outside public accountants hired under contract, to include fiscal year 1998 actuals and fiscal year 1999 estimates.

(The information follows:)

<u>Fiscal Year</u>	<u>Contract Amounts</u>
1989	\$ 102,000
1990 ¹	774,000
1991 ¹	1,937,000
1992 ¹	1,660,000
1993	338,000
1994	258,000
1995 ²	396,000
1996 ²	397,000
1997 ³	162,500
1998	0
1999 est.	0

¹ Includes FNS Child and Adult Care Food Program contract audits.

² Includes audits of tobacco manufacturers.

³ RTB audit previously contracted out, now being performed in-house.

CONFIDENTIAL FUND OPERATIONAL ACTIVITIES

Mr. Skeen: Update the table that appears on page 336 of last year's hearing record showing the amount spent for confidential operational activities, to include fiscal year 1998 actuals and fiscal year 1999 estimates.

(The information follows:)

<u>Year</u>	<u>Available</u>	<u>Spent</u>
1990	\$ 87,000	\$ 67,151
1991	89,000	42,445
1992	95,000	89,500
1993	89,000	42,445
1994	95,000	83,995
1995	95,000	80,577
1996	95,000	69,337
1997	95,000	79,322
1998	95,000	66,461
1999	100,000*	100,000*

*Estimated through the end of the fiscal year.

Throughout the year, as we conduct day-to-day investigations, we often have a need for more confidential funds than appropriated for this purpose. During our numerous undercover investigations, we utilize confidential informants whom we pay for important information concerning criminal activity.

Because these needs vary so greatly depending on the particular workload, the \$100,000 limitation can restrict the agency's investigative flexibility.

HOTLINE

Mr. Skeen: How many complaints did you receive through the hotline in fiscal year 1998?

Respondent: The hotline received 2,452 calls, letters, and walk-ins in FY 1998.

HOTLINE RESPONSES

Mr. Skeen: How many were you able to look into; how many were referred to an agency; how many were referred to the Department of Justice; and how many went unanswered?

Respondent: OIG inquired into 175 of the hotline complaints received in FY 1998, 6 of which were referred to DOJ for prosecution. We referred 1,933 complaints to the appropriate USDA agency. Of the complaints referred, we requested a response on 627; 828 complaints concerning food stamp recipients were forwarded to the Food and Nutrition Service for corrective action with no response required, and 478 additional complaints were for minor violations that required no response back to us. Of the remaining complaints, 39 were referred to other law enforcement agencies for action while no action was taken on 55 complaints because they contained insufficient

information. We also referred 250 complaints directly to the appropriate State agency to more efficiently address their concerns.

INDICTMENTS, CONVICTIONS, AND SUITS

Mr. Skeen: Please update the table that appears on page 337 of last year's hearing record on the number of indictments, convictions, and lawsuits for fiscal year 1998.

(The information follows:)

FY 1998 INDICTMENTS, CONVICTIONS, AND SUITS

<u>AGENCY</u>	<u>INDICTMENTS</u>	<u>CONVICTIONS</u>	<u>SUITS</u>
AMS	51	9	1
APHIS	18	5	0
ARS	2	3	0
FAS	5	2	0
FNS	570	475	35
FS	0	3	0
FSA	47	49	19
FSIS	13	18	0
GIPSA	5	3	0
NRCS	5	1	0
RHS	13	15	3
RMA	12	2	2
RUS	8	0	0
SEC	24	19	3
Other	<u>4</u>	<u>0</u>	<u>0</u>
TOTAL	777	604	63

AUDIT AND INVESTIGATIONS RESULTS

Mr. Skeen: Please update the table that appears on page 337 of last year's hearing record showing the number of audit reports, investigative reports, indictments, convictions, and lawsuits filed, to include fiscal year 1998.

(The information follows:)

		<u>Fiscal Year</u>				
		<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Audit Reports . . .	261	328	282	255	220	
Investigative Reports	1,079	974	956	958	815	

Indictments	856	967	941	664	777
Convictions	886	859	738	703	604
Suits	84	66	106	52	63

OIG FIREARMS

Mr. Skeen: Please update the table on page 338 of last year's record showing
OIG owned firearms.

(The information follows:)

OIG Owned Firearms

<u>Type of firearm</u>	<u>Number</u>
9mm semiautomatic pistols	376
.357 cal. revolvers	11
.38 cal. revolvers	52
12 gauge shotguns	49
Miscellaneous rifles and handguns maintained at headquarters for training purposes only	35

BUDGET REQUEST

Mr. Skeen: Provide a detailed breakout of your request to the Secretary; the
Secretary's request to OMB; and the OMB allowance.

Respondent: OIG's initial budget request to the Secretary was for \$147,291,000; the
Secretary's request to OMB was for \$90,807,000; and the OMB allowance was
\$68,246,000.

USE OF INVESTIGATIONS AND AUDIT RESOURCES BY AGENCY FOR FISCAL YEAR 1998

Mr. Skeen: Provide tables similar to the ones that appear on page 338 of last year's
hearing record showing the breakdown of OIG's resources and the percent of each that
went towards investigations and audits of each agency under USDA for fiscal year 1998.

(The information follows:)

Use of Investigations Resources by Agency
FY 1998

(Dollars in Thousands)

	Total OIG		Investigations			
	Dollars	Staff- Years	Dollars	Percentage of OIG Dollars Per Agency	Staff- Years	Percentage of OIG Staff-Years Per Agency
RMA	\$ 3,140	38	\$ 1,292	41	13	34
FSA	11,866	136	6,853	58	68	50
FAS	300	3	189	63	2	67
FNS-FSP ..	16,684	173	14,320	86	141	82
FNS-Other ..	8,433	103	2,770	33	27	26
AMS	1,113	12	736	66	7	58
APHIS	790	8	657	83	6	75
GIPSA	151	2	151	100	2	100
FSIS	1,908	21	1,474	77	15	71
ARS	158	2	148	94	2	100
CSREES ..	187	2	22	12	0	0
ERS	0	0	0	0	0	0
NASS	19	0	19	100	0	0
RBS	386	4	145	37	1	25
RHS	5,562	71	1,100	20	11	15
RUS	344	5	53	15	1	20
FS	3,533	46	497	14	5	11
NRCS	568	7	296	52	3	43
OO	44	0	44	100	0	0
OHRM ...	0	0	0	0	0	0
CR	127	2	0	0	0	0
OCFO	1,068	14	0	0	0	0
NAD	0	0	0	0	0	0
OIG (Internal) ..	66	1	66	100	1	100
Multi- Agency ...	5,773	77	50	0	0	0
Other	841	9	556	66	5	56
OCIO	67	1	0	0	0	0
TOTAL ...	\$63,128	737	\$31,438	50	310	42

Use of Audit Resources by Agency
FY 1998

(Dollars in Thousands)

	Total OIG		Audit			
	Dollars	Staff- Years	Dollars	Percentage of OIG Dollars Per Agency	Staff- Years	Percentage of OIG Staff-Years Per Agency
RMA	\$ 3,140	38	\$ 1,848	59	25	66
FSA	11,866	136	5,013	42	68	50
FAS	300	4	111	37	1	25
FNS-FSP ..	16,684	175	2,364	14	32	18
FNS-Other ..	8,433	105	5,663	67	76	72
AMS	1,113	12	377	34	5	42
APHIS	790	9	133	17	2	22
GIPSA	151	1	0	0	0	0
FSIS	1,908	21	434	23	6	28
ARS	158	2	10	0	0	0
CSREES ..	187	2	165	88	2	100
ERS	0	0	0	0	0	0
NASS	19	0	0	0	0	0
RBS	386	4	241	62	3	75
RHS	5,562	72	4,462	80	60	83
RUS	344	5	291	84	4	80
FS	3,533	47	3,036	86	41	87
NRCS	568	7	272	48	4	57
OO	44	0	0	0	0	0
OHRM	127	2	127	100	2	100
CR	0	0	0	0	0	0
OCFO	1,068	15	1,068	100	14	93
NAD	0	0	0	0	0	0
OIG (Internal) ..	66	1	0	0	0	0
Multi- Agency ...	5,773	77	5,723	99	77	100
Other	841	10	285	34	4	40
OCIO	67	1	67	100	1	100
TOTAL ...	\$63,128	737	\$31,690	50	427	58
Reimbursements						
CCC	842	—	842	100	—	—

RMA	170	--	170	100	--	--
RUS	170	--	170	100	--	--
Other	<u>431</u>	=	<u>431</u>	<u>100</u>	=	=
TOTAL ..	\$ 1,613	-	\$ 1,613	100	-	-

AARCC EVALUATION

Mr. Skeen: After identifying potential conflicts of interest with the Alternate Agriculture Research and Commercialization Center board of directors, you reviewed and approved new policies. Your office had scheduled a follow-up evaluation for the second half of fiscal year 1997. Did that evaluation occur? If so, what were the results of the evaluation?

Respondent: As part of the financial statement audit of AARCC, we reviewed the actions of the center's officials for conflict of interest. Although we found that management controls governing the center's operations were generally weak, we did not disclose any further instances of potential conflict of interest. We noted, in fact, that board members had recused themselves from decisions where a potential conflict might arise.

OIG FIELD AUDITORS AND SUPERVISORS

Mr. Skeen: Provide an update of the table that occurs on page 340 of last year's hearing record that shows the number of supervisors and field auditors at the agency to include fiscal year 1998.

(The information follows:)

<u>Fiscal Year</u>	<u>GS 0511 Field Auditors</u>	<u>Audit Supervisors Agencywide</u>
1998	296	44
1997	294	40
1996	293	42
1995	293	138
1994	322	132
1993	334	140
1992	353	145

FORFEITURE PROCEEDINGS

Mr. Skeen: Please provide for the record, amounts transferred to the Office of Inspector General through forfeiture proceedings in fiscal year 1998 and year-to-date in fiscal year 1999.

Respondent: The amounts transferred to OIG through forfeiture proceedings in FY 1998 totaled \$1,542,927. For FY 1999, the agency has received or has signed agreements for a total of \$946,537 to date.

DOJ ASSETS FORFEITURE FUND

Mr. Skeen: Please provide for the record, amounts transferred to the Office of Inspector General from the Department of Justice Assets Forfeiture fund in fiscal year 1998 and year-to-date in fiscal year 1999.

Respondent: The amounts transferred to OIG from DOJ's Assets Forfeiture Fund in FY 1998 totaled \$282,365. For FY 1999, the agency has an agreement with DOJ to provide the agency \$935,000 as a result of being a participating agency.

DEPARTMENT OF THE TREASURY FORFEITURE FUND

Mr. Skeen: Please provide for the record, amounts transferred to the Office of Inspector General from the Department of Treasury Forfeiture Fund in fiscal year 1998 and year-to-date in fiscal year 1999.

Respondent: The agency has neither received any funds from the U.S. Department of the Treasury's Forfeiture Fund in FY 1998 nor have we received any for FY 1999 as of this date.

PETITION FOR REMISSION OR MITIGATION

Mr. Skeen: Please provide for the record, amounts transferred to the Office of Inspector General through the granting of a Petition for Remission or Mitigation in fiscal year 1998 and year-to-date in fiscal year 1999.

Respondent: The amounts transferred to OIG through the granting of a Petition for Remission or Mitigation in FY 1998 totaled \$1,229,173, and the year-to-date total for FY 1999 is currently \$11,537.

LAW ENFORCEMENT INCREASE TO PROTECT THE NATION'S FOOD SUPPLY

Mr. Skeen: Your budget request proposes an increase of \$3.1 million to enhance law enforcement expertise, to better protect and safeguard the health and safety of the Nation's food supply and economic viability of the food and agriculture industry, and to provide adequate ADP equipment and software to support this effort. How much of the requested increase is to enhance law enforcement expertise and what specifically would you do with the funds?

Respondent: A total of \$2.6 million of the requested increase would be used to purchase supplies and protective clothing and surveillance equipment and travel expenses, training, vaccination and immunization shots, and expertise services. This

would allow OIG to enhance and effectively apply its criminal investigative and law enforcement expertise in responding to emergency situations threatening the Nation's food supply. Recent investigations, some still ongoing, have involved real or threatened adulteration of meat, milk products, and strawberries with everything from hepatitis to E. coli to AIDS-infected blood. Some of these products were destined for or actually ended up in the National School Lunch Program or on military bases. The remainder of these funds, \$0.5 million, would be used to enhance OIG's computer hardware and software capabilities to support this investigative endeavor. These funds would be utilized in the following manner:

<u>Funding Area</u>	<u>Funding</u> (in millions)
Specialized and Protective Equipment \$1.6 (Supplies/Protective Clothing, Surveillance Equipment)	
ADP Equipment/Software	0.5
Travel	0.5
Training	0.3
Expertise Services	0.1
Vaccination and Immunization Shots	0.1
Total	\$3.1

Mr. Skeen: How much of the requested increase would go to better protect and safeguard the health and safety of the Nation's food supply and the economic viability of the food and agriculture industry and how would you go about accomplishing this?

Respondent: All of the requested increase is to be used to better protect and safeguard the health and safety of the Nation's food supply. The increase would allow our criminal investigators to undertake a more proactive role protecting and safeguarding the Nation's food supply and to protect the food industries' economic viability and trade with other countries of agricultural products. Furthermore, the additional funding will allow OIG to carry out its plans to begin a long-term joint Special Field Enforcement Program to target organized transportation and distribution networks responsible for the smuggling of foreign animals, food products, and other carriers contaminated with unwanted and potentially disastrous pests and diseases into the United States. Under this anti-smuggling campaign, OIG plans to interdict and suppress foreign contraband that is dangerous when consumed by the American population and potentially catastrophic to the economic stability of certain U.S. agricultural products. Ongoing criminal investigations are targeting smuggled fruits, vegetables, plants, and other commodities or animals that bring high dollars in underground "black market" commerce. This initiative requires significant agent resources dedicated to intelligence collection, undercover operations, and foreign law enforcement cooperative efforts that cross international boundaries. These activities normally require extensive surveillance, utilizing high-tech investigative devices and equipment. We have also initiated audits of the new food safety procedures for inspecting meat and poultry plants, the Hazard

Analysis Critical Control Point system or the Hazard Analysis and Critical Control Point (HACCP). Since an increasing number of processing plants are becoming subject to HACCP, the safety and wholesomeness of the Nation's meat and poultry supply are dependent on HACCP being successfully implemented.

ADP EQUIPMENT AND SOFTWARE INCREASE

Mr. Skeen: How much of the requested increase is for ADP equipment and software, and what kind of ADP equipment and software is needed?

Respondent: Out of the \$3.1 million requested increase, \$500,000 is for specialized state-of-the-art Y2K-compliant ADP equipment, such as desktops and laptops, and software, which will track data; analyze intelligence-based information; and provide faster, more responsive information to support OIG's mission.

SPECIALIZED EQUIPMENT

Mr. Skeen: Are any funds requested for specialized equipment? If so, please describe the equipment and the amount of increased funds being requested.

Respondent: Out of the \$3.1 million requested increase, \$1.7 million would be used for vaccinations and immunization shots and to purchase such items as specialized protective clothing and surveillance equipment. These items are essential to ensure the health and safety of OIG personnel and to properly investigate matters affecting the health and safety of the Nation's food supply for the American public.

YEAR 2000 CONVERSION FUNDING

Mr. Skeen: Has the Office of Inspector General qualified for any emergency Year 2000 conversion funding that was made available through the fiscal year 1999 omnibus appropriations bill, of which USDA has received about \$37 million to date?

Respondent: OIG has qualified for \$1 million of the emergency Year 2000 conversion-purpose funding.

CCC REIMBURSEMENT INCREASE

Mr. Skeen: Why does the estimated transfer from the Commodity Credit Corporation increase from \$842,000 in fiscal year 1999 to \$1.1 million in fiscal year 2000?

Respondent: The estimated transfer for FY 1999 should be \$870,000 instead of the \$842,000 printed in our budget justification. The \$870,000 includes a 3.3 percent cost-of-living adjustment. For FY 1998, \$842,000 was reimbursed by CCC for financial statement audit work. Historically, the actual cost to perform audits of CCC's financial statements has exceeded the reimbursed amount. Our initial estimate of \$1,078,000 for

FY 2000 will be revised to reflect only an increase for pay costs and inflation from the FY 1999 estimate.

RMA REIMBURSEMENT INCREASE

Mr. Skeen: Why does the estimated 2000 transfer from the Risk Management Agency increase from \$170,000 in fiscal year 1999 to \$234,000 in fiscal year 2000?

Respondent: For FY 1998, \$170,000 was reimbursed by the Federal Crop Insurance Corporation (FCIC) for financial statement audit work. The estimated transfer for FY 1999 has been increased to \$210,000, or \$40,000, to more closely reflect projected audit costs to be incurred in future fiscal years. We anticipate higher contract costs due to new audit requirements, expiration of the current contract in FY 1999, and the need for new contract negotiations. Historically, the actual cost to perform an audit of FCIC's financial statements has exceeded or equaled the reimbursed amount. The FY 2000 estimate includes amounts for pay cost increases and inflation and is our best estimate at this time.

RUS REIMBURSEMENT INCREASE

Mr. Skeen: Why does the estimated transfer from the Rural Utilities Service increase from \$170,000 in fiscal year 1999 to \$258,000 in fiscal year 2000?

Respondent: For FY 1998, \$170,000 was reimbursed by the Rural Utilities Service (RTB) for financial statement audit work. The estimated transfer for FY 1999 has been increased to \$180,000. The increase reflects our estimate of actual audit costs to be incurred in FY 1999 and a 3.3 percent cost-of-living adjustment. Historically, the actual cost to perform an audit of RTB's financial statements has exceeded or equaled the reimbursed amount. The FY 2000 estimate includes amounts for pay cost increases and inflation and is our best estimate at this time.

OCFO/NFC REIMBURSEMENT INCREASE

Mr. Skeen: Why does the estimated transfer from the OCFO/NFC increase from \$688,000 in fiscal year 1999 to \$707,000 in fiscal year 2000?

Respondent: The \$19,000 increase, or 2.76 percent, is due to the amount of system work necessary to perform audit procedures for non-USDA agencies serviced by the National Finance Center.

TRAVEL COSTS INCREASE

Mr. Skeen: Why does object class 21 increase by \$500,000 in fiscal year 2000 over the fiscal year 1999 estimated level of \$4.7 million?

Respondent: The increase in object class 21 is part of the additional funds OIG has

requested to enhance its law enforcement expertise in responding to emergency situations threatening the Nation's food supply, which requires our agents and auditors to travel extensively nationwide on a daily basis.

ADVISORY AND ASSISTANCE SERVICES

Mr. Skeen: According to the Classification by Objects display, \$100,000 would be spent on "advisory and assistance services" in fiscal year 2000. How do you propose to spend these funds if they were appropriated?

Respondent: The increase in subobject class 25.1 is part of the additional funds OIG has requested to provide the agency specific law enforcement expertise needed in order to respond immediately to emergencies which threaten the Nation's food supply. This increase will provide needed expert services currently unavailable within the agency.

SPECIALIZED TRAINING AND ADP CONTRACTS INCREASE

Mr. Skeen: Why does sub-object class 25.3 increase by \$500,000 in fiscal year 2000 over the fiscal year 1999 estimated level of \$749,000?

Respondent: The increase in subobject class 25.3 is part of the additional funds OIG has requested to provide up-front specialized training for our agents and auditors to prepare them for various types of emergencies and for ADP contracts to ensure that OIG has state-of-the-art technology and systems to support its special initiative to protect the Nation's food supply.

MEDICAL CARE INCREASE

Mr. Skeen: What is the reason for the \$100,000 increase in sub-object class 25.6, medical care?

Respondent: The increase in subobject class 25.6 is part of the additional funds OIG has requested to support its special initiative to respond to emergencies to protect the Nation's food supply. Recent investigations have involved real or threatened adulteration of milk products and strawberries with everything from hepatitis to E. coli to AIDS-infected blood, which makes additional funding even more vital to ensure that all of our agents and auditors have all of the necessary vaccination and immunization shots to ensure their safety while conducting these investigations.

SUPPLIES AND MATERIALS INCREASE

Mr. Skeen: Why does object class 26 increase by \$418,000 in fiscal year 2000 for supplies and materials?

Respondent: The increase in object class 26 is part of the additional funds OIG has requested to purchase necessary supplies and protective clothing to ensure the health and

safety of our agents and auditors while conducting investigations as part of our special initiative to respond to emergencies to protect the Nation's food supply.

EQUIPMENT INCREASE

Mr. Skeen: Why does object class 31 increase \$1.5 million in fiscal year 2000?

Respondent: The increase in object class 31 is part of the additional funds OIG has requested to purchase necessary ADP and specialized and protective law enforcement equipment to enhance our law enforcement expertise to better protect and safeguard the health and safety of the Nation's food supply and the economic viability of the food and agriculture industry.

GSA LEASED VEHICLES

Mr. Skeen: Does the Office of Inspector General lease vehicles through the General Services Administration? If so, how many?

Respondent: OIG currently leases 161 vehicles through the General Services Administration (GSA).

Mr. Skeen: What was the cost for these leases in fiscal year 1998 and the estimated cost for fiscal year 1999 and 2000?

Respondent: The cost for OIG to lease these vehicles through GSA in FY 1998 was \$842,000, and the current estimate for FY's 1999 and 2000 is the same.

COMMERCIALLY LEASED VEHICLES

Mr. Skeen: Does the Office of Inspector General use commercially-leased vehicles under GSA approved contracts? If so, how many?

Respondent: OIG currently uses six commercially leased vehicles under GSA-approved contracts.

Mr. Skeen: What was the cost for these leases in fiscal year 1998 and the estimated cost for fiscal years 1999 and 2000?

Respondent: The cost to OIG for the six commercially leased vehicles in FY 1998 was \$25,158, and the current estimate for FY's 1999 and 2000 is the same.

RUS MISUSED FUNDS

Mr. Skeen: On page 27 of your testimony, you report \$3.5 million in misused funds in Rural Rental Housing. From which accounts, e.g. loans, grants, rental assistance, etc., did those funds originate?

Respondent: The misused funds were derived from Government rental assistance and interest credit subsidies, as well as tenant rental payments. The Rural Housing Service provided \$533 million in rental assistance and \$733 million in interest credit in FY 1998 to reduce rents for low-income tenants. These funds go to pay the operating and maintenance expenses of the property and reserve accounts for major capital expenditures.

MINORITY ENTERPRISE FINANCIAL ACQUISITION CORPORATION

Mr. Skeen: Did the IG's Office brief Federal authorities on its report on the activities of the Minority Enterprise Financial Acquisition Corporation (Report No. 34-001-0001-HQ)?

Respondent: Yes, OIG has provided information from the report to DOJ. OIG has also provided information to the Internal Revenue Service.

HAZARDOUS WASTE MANAGEMENT PROGRAM

Mr. Skeen: According to the explanatory notes, the compliance program of the Hazardous Waste Management Program was transferred to the Deputy Under Secretary for Natural Resources and the Environment. You indicated that you may have some concerns with this transfer including the planning, the controls, the appropriate and efficient use of funds, and requirements of the program not being met in a timely manner. I realize this is not an enormous program, but if you point out concerns about its management we want to hear about it.

Please tell us a little more about the hazardous waste management program, elaborate on these concerns that you have identified, and perhaps make a recommendation on how we can address this from the subcommittee's standpoint.

Respondent: While the Federal investment in the Department's Hazardous Waste Management Program is not enormous, OIG's effort to ensure prompt and suitable action by USDA agencies is not only justified by the potential cost to USDA from noncompliance to Federal and State environmental standards and practices but necessary to uphold the high level of importance placed on this activity by the Secretary in his memorandum of November 19, 1997. The reorganization called for in this memorandum, however, has not been fully implemented, and that is a concern to OIG. Currently, the HWMP budget and strategic performance strategy remain under the Administration mission area while the authority for the program and the HWMP group is assigned to the Natural Resources and Environment's Deputy Under Secretary for Forestry. One indication of the weakness in this arrangement is that there are no overall accounting policy or procedures among agencies for safeguarding the use of these funds. It is our intention that, in implementing the Secretary's directive, the Department will not diminish the contributions to the program made by our performance audits of the past 10 years, specifically those improvements regarding strategic planning and budgeting, technical coordination, and oversight of the compliance activities carried out by

individual agencies. We are, therefore, issuing a report simultaneously to the Assistant Secretary for Administration, who has overall responsibilities for USDA facilities, and the Under Secretary for Natural Resources and Environment, who has departmentwide responsibility for environmental matters, recommending the establishment of a crosscutting authority backed by adequate technical resources to administer a comprehensive and strategic compliance program that covers USDA's commitment to pollution prevention, control, and abatement. We will gladly provide you a copy of that report when it becomes available.

CHILD AND ADULT CARE FEEDING PROGRAM--UNSPENT FUNDS

Mr. Skeen: You testified at last year's hearing that States had received \$88 million from the Food and Nutrition Service to audit the Child and Adult Care Feeding Program, and that \$24 million in unspent funds was returned. In addition, you pointed out that other states didn't conduct any review with their funds.

What happens to that money when it is returned to USDA? Does it get reallocated to other states within the Child and Adult Care program that are using the funds to conduct reviews?

Respondent: For the record, I would like to clarify that the \$88 million that States had received to audit the Child and Adult Care program and the \$24 million in unspent funds covered the 5-year period from fiscal year 1992 through 1996. When States' unspent funds are returned to USDA, they go to the Food and Nutrition Service's general unobligated fund. The funds are reallocated to other functions but not for audit purposes.

Mr. Skeen: Why aren't the states using these funds to review the program when it seems evident from your testimony that review is what this program may need?

Respondent: The funds allocated to States are restricted to performing required audits before any remaining funds can be used for administrative reviews of the program. In California, we found that audit funds were not used because the State was restricted in its ability to hire auditors to audit the program. Since the State was unable to complete all required audits, funds remained unspent. It is my understanding that some States may also use their State Administrative Expense funds for conducting administrative reviews. According to the Food and Nutrition Service, funds for auditing the Child and Adult Care Food Program are distributed to States based on a formula which can result in some States having more funds than they can use while others may not have enough.

Mr. Skeen: Did any other funds get returned last year above the \$24 million that you reported in last year's testimony because you did report that you were trying to get more states to refund the money? If so, how much?

Respondent: In last year's testimony, I was making two points. The first point was that States have not been using all of the funds allocated to them to perform audits of the Child and Adult Food Care Program. In FY 1997, an additional \$5 million allocated to audit this program remained unspent and was returned by States. Given the widespread fraud that we have identified in this program, we believe that it is critical that funds are available to perform these audits and reviews. If States are not able to effectively use this funding, OIG could use these funds to continue with our initiative to restore integrity to this important feeding program. The second point I made was that funds allocated for this purpose were not always used as intended or were not used effectively. In California, we questioned \$1.6 million in funds that was used for administrative reviews even though required audits had not been performed. We also questioned \$3.9 million because the Child and Adult Care Food Program audit fund was being used to pay the total salaries of staff working on multiple programs. The quality of the audit work in California was also questionable. Most of the problems we found with the program sponsors should have been detected by the State. However, for the 10 sponsors we audited, the reviews and audits performed by the State found few problems in program operations.

Mr. Skeen: Has the Food and Nutrition Service allocated these program review funds in fiscal year 1999?

Respondent: Yes, the program review funds were included as part of the total allocation to the FNS regions at the beginning of the fiscal year.

Mr. Skeen: Have any funds been returned in fiscal year 1999?

Respondent: FNS will not know whether funds will be returned until the FY 1999 closeout occurs.

PAY RAISE INCREASE

Mr. Skeen: I noticed in your object class table that you did not include any adjustment in the budget year for salaries and benefits. Isn't there a pay raise included in the President's budget this year?

Respondent: Yes, there is a pay raise included in the budget for FY 2000. While the agency will incur those increased pay costs, we could only request a limited amount of additional funding. Thus, our request was to obtain additional funding for the critical efforts to support our emergency responses to protect and safeguard the health and safety of the Nation's food supply—which we believe is even more crucial for OIG.

QUESTIONS SUBMITTED BY MS. KAPTUR

FOOD SAFETY VIOLATIONS

Ms. Kaptur: The food safety violations you discuss in your testimony at slaughter facilities are very troubling. Can you tell me how you find out about these types of violations by plants and inspectors? What can we as a legislators do to strengthen your ability to combat food safety violations?

Respondent: We receive information concerning alleged food safety violations through many different means. These sources of information include, but are not limited to, the USDA hotline, USDA agencies, concerned citizens, current and former plant and FSIS employees, as well as other law enforcement entities. We coordinate continually with other agencies to guard against deliberate criminal acts that endanger public health and safety or cause economic harm to the public through misrepresentation of the quality of agricultural products. When threats to public health are identified, such as allegations of tampering with products regulated by the Department, we immediately begin work as part of a team of agencies to determine the extent of the problem, identify its cause, take corrective action, and seek criminal prosecution, if appropriate.

As legislators, you and your colleagues can greatly assist OIG in responding to threats to the health and safety of the American public by supporting our request for additional resources to respond to their activities. Our agents respond immediately when there is a concern for the health of the public, but the work is labor intensive, and we incur enormous costs during these types of investigations.

AGRICULTURE MARKETING TRANSITION ACT PAYMENTS

Ms. Kaptur: As you know, this committee provided nearly \$6 billion in emergency assistance to farmers in last year's appropriations bill. I am troubled that AMTA payments may be made to landlords who are not engaged in farming. Can you report to us on any investigations you may have underway on this issue? Do you share this concern? What can we do to insure that disaster payments go to individuals who are farming the land?

Respondent: Given that approximately \$3 billion of the total emergency assistance to farmers in last year's appropriations bill was designated as supplemental payments to owners and producers eligible for the Agricultural Marketing Transition Act (AMTA) or production flexibility contracts payments, we do understand and share your concerns that such payments be limited to individuals engaged in or sharing the risk in the farming operation. The Act and its implementing procedures did prohibit payments to landlords who had cash-leased out their farming operations. Landlords were also prohibited from displacing or excluding tenant farm operators with share-crop leases from receiving such payments. In fact, during our fieldwork evaluating the implementation of AMTA in 1996, we specifically checked for these concerns: We checked whether there had been any changes to the lease agreements; we interviewed tenant farm operators to verify the

lease agreements and, if they had agreed to the distribution of AMTA payments, we verified the lease agreements and whether they qualified as a cash versus share-crop lease agreement; we verified whether the percentage of AMTA payments as reported on the production flexibility contracts were commensurate with the risks assumed by the landlords and the tenant farm operators per the share-crop lease agreements; and we examined FSA county office outreach efforts to ensure that tenant farm operators did participate in the AMTA program. In our report to FSA, we stated that, overall, FSA had ensured compliance with the law and regulations. In our current effort to monitor the implementation of the Crop Loss Disaster Assistance Program, we will be checking to ensure that only individuals who were or are still engaged in farming or were at risk are eligible to receive such assistance payments. For example, we will be comparing the insurable interest for crop insurance purposes against the farm operating plans reported for disaster assistance payments.

However, we are concerned about potential abuses to the program. OIG recently started a preliminary investigation review of potentially fraudulent leases submitted under a production flexibility contract, based on a referral from a FSA State office.

RMA RECOMMENDATIONS

Ms. Kaptur: As you may know, I am very concerned about the level of reimbursement provided as commissions to crop insurers. Your testimony indicates that you have concerns about Quality control processes and recommendations for improved controls against potential conflicts of interest in the Risk Management Agency. The USDA Risk Management Agency did not concur with your findings on conflict of interest. Can you tell us what those recommendations were and why the Risk Management Agency did not concur?

Respondent: As you have cited, the Risk Management Agency generally concurred with our findings and recommendations pertaining to quality control processes, and disagreed with our recommendations pertaining to conflict-of-interest issues. We recommended RMA and the reinsured companies strengthen their control procedures to adequately define, detect, and prevent such conflict-of-interest situations by implementing the following: Adequately separating supervisory responsibilities for claims adjustment and insurance sales activities, establishing more effective controls over conflicts of interests between sales and loss adjustment personnel and including these controls in the reinsured companies' plan of operations, and prohibiting direct multiperil crop insurance (MPCI) policy sales by reinsured company officials and employees and developing mandatory organizational structures that will effectively protect the integrity of MPCI programs and quality control processes. In its responses, RMA maintained that the current standard reinsurance agreement (SRA) restricted RMA from requiring some of the corrective actions or that the SRA and RMA's crop insurance handbooks provided adequate guidance to the reinsured companies. RMA also stated that it will continue to work with the reinsured companies in implementing changes or was waiting for recommendations from its own re-engineering project. However, in some of RMA's responses, we believe that RMA's response did not specifically address the problems

even though it appeared to acknowledge the problem. We are continuing to work with RMA to reach management decision on these unresolved recommendations.

We also believe that our concerns in these areas of quality control and conflict of interest may be ameliorated with more fundamental changes in risk sharing and accounting by the reinsured companies. We are currently consolidating the results of our prior reviews and analyzing these results, and we are drafting an issue paper to the Secretary specifically addressing our concerns about the crop insurance programs. We will be glad to provide you a copy of this issue paper.

RUSSIAN FOOD AID AGREEMENT

Ms. Kaptur: Please provide for the record a copy of the Russian food aid agreement; the monitoring and compliance plan and your recommendations for strengthening this plan.

Respondent: For the record, we have attached copies of the three food aid agreements between the United States of America and the Russian Federation. We have also attached a copy of the Foreign Agricultural Service's (FAS) most current draft and our comments on its monitoring and compliance plan.

Based on the issues and concerns that we reported to FAS on the 1992-1993 food aid agreements with the Russian Federation, we do have concerns about the current food aid package with the Russian Federation. Consequently, starting in December 1998, we met and consulted with FAS' officials on their draft procedures to ensure that the food aid package maximally benefits the intended recipients, the Russian citizens. We are continuing our commitment to be actively involved in FAS discussions and meetings on the current status of this Russian food aid package.

OGSM: G-118-9/339-00

COUNTRY: RUSSIAN FEDERATION

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA
AND
THE GOVERNMENT OF THE RUSSIAN FEDERATION
FOR THE DONATION OF AGRICULTURAL COMMODITIES
UNDER SECTION 416(b)

PREAMBLE

The Commodity Credit Corporation (CCC), an agency and instrumentality of the United States of America, and the Ministry of Agriculture, the Ministry of Trade, the State Tax Service, and the State Customs Committee of the Government of the Russian Federation will implement this agreement on behalf of their respective Governments.

The Government of the United States and the Government of the Russian Federation agree as follows:

PART I - GENERAL PROVISIONS

A. This agreement is subject to the terms and conditions set forth in 7 C.F.R. Part 1499, except as may be specifically provided herein.

B. CCC agrees to provide the Russian Federation the agricultural commodities, and quantities thereof, specified in Part II, Item I of this Agreement (hereafter referred to as "the commodities") and, to the extent specifically included in Part II, Item II, pay ocean transportation and other costs associated with providing the commodities.

C. The Russian Federation agrees to use the agricultural commodities only in accordance with this Agreement and the approved Plan of Operation, Attachment A, attached hereto and made a part of this Agreement, and shall not sell or barter the commodities except as specified in Attachment A or otherwise specifically agreed in writing by CCC.

D. Except as may be authorized by CCC, all deliveries of the commodities provided under this Agreement shall be made within the supply period(s) specified in the Commodity Table in Part II, Item I.

E. WORLD TRADE:

The two governments shall take maximum precautions to ensure that the donation of agricultural commodities pursuant to this Agreement will not displace usual marketings of the Exporting

Country in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with other countries. In implementing this provision the Importing Country shall:

1. Take all possible measures to ensure that total commercial imports from the Exporting Country and other countries into the Russian Federation paid for with the resources of the Importing Country will equal at least the quantities of agricultural commodities specified in the Usual Marketing Table set forth in Part II, Item III below, during each import period specified in the table and during each subsequent comparable period in which commodities provided under this agreement are being delivered; and
2. Take all possible measures to prevent the resale, diversion in transit, or transshipment to other countries, or the use for other than domestic purposes, of the agricultural commodities donated pursuant to this agreement (except where such resale, diversion in transit, transshipment or use is specifically approved by CCC); and
3. Take all possible measures to prevent the export of any commodity of either domestic or foreign origin, which is defined in Part II of this Agreement, during the export limitation period specified in the Export Limitation Table in Part II (except as may be specified in Part II or where such export is otherwise specifically approved by CCC).

F. PRIVATE TRADE.

1. In carrying out the provisions of this Agreement, the two governments shall seek to assure conditions of commerce permitting private traders to function effectively.
2. The Government of the Russian Federation has selected one agent through a closed tender process to act on its behalf in receiving, distributing, storing, processing, or selling commodities imported under this Agreement. The agent selected for the wheat donated under this Agreement is Roskhleboproduct. The Government of the Russian Federation shall promptly notify CCC, if other agent(s) are selected in the future.

G. REPORTING AND COMPLIANCE:

In lieu of the reporting requirements under 7 C.F.R. Part 1499.16(c)(1) and (c)(2), the Russian Federation shall provide the following reports:

1. For each shipment of commodities donated under this Agreement, the CCC shall provide the Russian Federation with a "Shipment, Arrival, Distribution and Status of Funds" report form which shall include a control number, vessel name, date of departure from the load port, and the commodity and tonnage loaded on the vessel. The Ministry of Agriculture shall supply the following information on the form and return it to the Minister Counselor for Agricultural Affairs at the U.S. Embassy, 19/23 Novinskiy Bul'var, 121009 Moscow, Russia within 48 hours

after discharge of the commodities from the vessel: date of arrival of the vessel at the discharge port; the discharge port; date discharge completed; condition of commodity on discharge; any significant loss or damage in transit; and advice of any claim for, or recovery of, or reduction of ocean freight charges due to loss or damage in transit.

Within fourteen days after discharge of the commodities from the vessel, the Ministry of Agriculture shall supplement the report form with the following information: the estimated value of the commodity discharged to be distributed or to be sold (based upon the determination made under Paragraph 6(f) of Attachment A and approved by the Minister Counselor for Agricultural Affairs at the U.S. Embassy); the agent(s) that will receive, handle, or distribute that specific shipment of commodities, in accordance with Part I, Paragraph F(2); the geographic location of the commodity sales or distribution, purchaser or recipient of the commodity; quantity distributed or sold; date of distribution or sale; and sale price. If the distribution or sales information (quantity distributed or sold, date of distribution or sale, and sale price) is not available within fourteen days after discharge, the Ministry of Agriculture shall provide a supplemental report containing this information within fourteen days after the distribution or sale of the commodities.

2. The Ministry of Agriculture shall provide the Exporting Country with a "Financial Report" which shall include the date and amounts of payments into, and disbursements from, the special account required by the Plan of Operation, Attachment A, and a narrative description of the progress made toward fulfilling the Plan of Operation, Attachment A of this Agreement. The Ministry of Agriculture shall furnish this report to the Minister Counselor for Agricultural Affairs at the U.S. Embassy, and to the Working Group established in Part I, Paragraph I(1) of this Agreement, bi-weekly.

3. The Ministry of Agriculture shall provide a report no later than January 31, 2000, in the format set forth in Attachment C, covering the supply period(s) specified in Part II, Item I, of this Agreement and containing: statistical data on imports by country of origin to meet usual marketing requirements specified in Part II, Item III, of this Agreement; a statement of the measures taken to implement the provisions of Part I, Paragraphs E(2) and (3); statistical data on exports, by country of destination, of commodities the same as or like those imported under this Agreement, as specified in Part II, Item IV of this Agreement; a statement on utilization of commodities imported under this Agreement; and a statement of measures taken to implement the publicity provisions of Part I, Paragraph J.

4. The Russian Federation will, or assure that its agent(s) will, give the Exporting Country access to all documents regarding the receipt and deposit of sales proceeds, and allow access to all storage, transportation, and processing facilities involved in receiving, transporting, storing or processing commodities supplied under this Agreement.

5. The two governments will conduct a joint audit regarding the receipt, free distribution, and sale of commodities, and disbursement of sales proceeds during the fourth quarter of calendar year 1999.

H. DEFINITIONS.

For the purposes of this Agreement:

1. Delivery shall be deemed to have occurred as of the on-board date shown in the ocean Bill of Lading which has been signed or initialed on behalf of the carrier;
2. Import shall be deemed to have occurred when the commodity has entered the country, and passed through customs, if any, of the Russian Federation;
3. The Russian Federation will be deemed to have sold the commodities provided under this Agreement on the date a sales agreement is concluded.
4. Utilization shall be deemed to have occurred when the commodity clears customs and enters normal distribution channels within the Russian Federation, including: being transported to mills, or other facilities for further processing; transported to local, regional or central storage for subsequent distribution; or transported directly to commercial or government wholesale, retail, or ration center outlets.

I. CONSULTATION.

1. A working group will be established that consists of two U.S. officials designated by the Exporting Country (besides Minister Counselor for Agricultural Affairs), one Russian official from the Ministry of Agriculture, one official from the Ministry of Finance and one Russian official from the Ministry of Trade designated by the Importing Country, and representatives of the agents selected by the Importing Country pursuant to Part I, Paragraph F(2) of this Agreement. The group will meet weekly to discuss the Arrival, Distribution and Status of Funds reports, the bi-weekly Financial reports, and any operational or logistic issues of concern. The working group will report its findings each week to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America in Moscow.
2. The two governments shall, upon request of either of them, consult regarding any matter arising under this Agreement, including the operation of arrangements carried out pursuant to this Agreement.

J. IDENTIFICATION AND PUBLICITY.

The text of this Agreement and the list of beneficiary regions shall be considered public information. The Russian Federation shall undertake such other measures as may be mutually

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agreed prior to delivery for the identification of food commodities at points of distribution in the Russian Federation as being on a concessional basis through the friendship of the American people.

K. DISCHARGE AND DISTRIBUTION:

1. To accommodate the large number of deliveries to carry out this and similar agreements with the CCC, the Russian Federation will provide priority berthing and facilitate rapid discharge of all vessels chartered and delivering commodities under this agreement.

2. Prior to CCC issuing freight tenders for commodities donated under this Agreement, the Ministry of Agriculture will provide a "work plan" to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America indicating, among other things, the region, oblast, and city distribution projections; estimated time lines; transportation, storage, and processing plans; projected point of sale or distribution; identified purchasers at the wholesale and agribusiness level; identified beneficiaries of distribution; and projected sale credit terms, for all commodities shipped. The Russian Federation will handle, distribute, process, and sell the commodities provided under this Agreement in accordance with the work plan and any changes approved by the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America based upon requests of the working group established in Part I, Paragraph I(1) of this Agreement.

3. The Russian Federation shall not take any action that would result in the agricultural commodities donated under this Agreement being distributed within the Russian Federation on the basis of the political affiliation, geographic location, ethnic, tribal, or religious identity of potential consumers or recipients.

4. Agricultural commodities donated under this Agreement shall not be distributed; handled, utilized, or allocated by members or representatives of armed forces unless otherwise agreed by CCC.

L. AVAILABILITY:

This Agreement is subject to the availability during each fiscal year to which this Agreement applies, of the necessary agricultural commodities.

M. TAXES AND CUSTOMS DUTIES

No import duties shall be applied by the Russian Federation on the commodities donated under this agreement. The Russian Federation shall not apply any other taxes during the importation, or initial distribution or sale of these commodities.

PART II -- PARTICULAR PROVISIONS

ITEM I - COMMODITY TABLE

A. The agricultural commodities to be made available under this Agreement are as follows:

Commodity	Estimated Supply Period	Maximum Quantity (Metric Tons)
Wheat	Dec. 1998 - June 1999	1,500,000
Total		1,500,000

B. The specifications of the commodities to be provided by CCC will be in accordance with the specifications in Attachment B, attached hereto and made part of this agreement.

ITEM II - PAYMENT OF COSTS

The payment of all costs associated with the processing, packaging, transporting, handling, and other incidental charges incurred in the delivery and distribution of the agricultural commodities will be apportioned as follows:

A. The Exporting Country shall donate the commodities without charge and pay the following costs: ocean transportation to designated discharge port(s) on a full berth term basis, which is understood to mean unloading directly onto the domestic land transportation, and maritime survey costs. The Importing Country will ensure that ground transportation is available on time. Any additional costs or demurrage charges that may accrue because of problems with or lack of timely availability of land transportation will be the responsibility of the Importing Country. CCC shall arrange for an independent cargo surveyor to attend the discharge of the cargo and prepare a report of its findings, showing the quantity and condition of the commodities discharged and the probable cause of damage noted. CCC will provide the Russian Federation with the company name and address of the local representative of the firm contracted to perform any discharge survey. A representative of the Russian Federation will attend the discharge of the cargo and agrees to notify the Kansas City Commodity Office, Export Operations Division (KCCO/EOD), at (816) 926-6538 as soon as possible if the discharge survey company is not present during any portion of the cargo unloading or container destuffing.

B. The Russian Federation shall arrange the following: ocean transportation and transportation, handling, storage, and distribution in the Russian Federation. In addition, the Russian Federation shall bear full responsibility for the payment of all costs associated with transporting, handling, storing, and distributing the commodities within the Russian Federation.

ITEM III - USUAL MARKETING TABLE

Commodity	Import Period (U. S. Fiscal Year)	Usual Marketing Requirement (Metric Tons)
Wheat	1999	160,880

ITEM IV - EXPORT LIMITATIONS

A. EXPORT LIMITATION PERIOD:

The export limitation period shall be the U.S. fiscal year 1999 or any subsequent U.S. fiscal year during which the commodities donated under this Agreement are being imported.

B. COMMODITIES TO WHICH EXPORT LIMITATIONS APPLY:

For the purpose of Part I, Paragraph E(3) of this Agreement, the commodities which may not be exported are: wheat, wheat flour, rolled wheat, semolina, farina, or bulgur (or the same products under different names); except that exports to countries in the Caucasus region may continue provided that such exports are pursuant to sales contracts signed prior to the entry into force of this Agreement.

PART III - FINAL PROVISIONS

A. This Agreement shall enter into force upon the final date of written notification by the Russian Side that all necessary state procedures have been completed in keeping with the legislation of the Russian Federation.

B. This Agreement, or any part of it, may be terminated by either Party by a written notice of termination to the other Party. Such termination shall take effect on the date of the notice of termination. Such termination shall not reduce any financial obligations the Importing Country has incurred as of the date of termination.

In witness whereof, the respective representatives, duly authorized for the purpose, have signed the present Agreement. Done in Moscow in duplicate in English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA

By: John F. Tefft
Name: John F. Tefft

Title: Charge D'Affaires
United States Embassy
Moscow Russia

Date: 12/23/98

By: Christopher E. Goldthwait
Name: Christopher E. Goldthwait

Title: General Sales Manager
and Vice President
Commodity Credit Corporation

Date: Dec. 24, 1998

FOR THE GOVERNMENT OF THE
RUSSIAN FEDERATION

By: Gennady Kulik
Name: Gennady Kulik

Title: Deputy Prime Minister
Of the Russian Federation

Date: 12/23/98

ATTACHMENT A
PLAN OF OPERATION

1. NAME AND ADDRESS OF APPLICANT:

The Russian Federation

2. COUNTRY OF DONATION

The Russian Federation

3. KIND AND QUANTITY OF COMMODITIES REQUESTED

COMMODITY	PACKAGE SIZE	QUANTITY (MT)
Wheat	Bulk	1,500,000

4. DELIVERY SCHEDULE

Commodities estimated to arrive at U.S. port(s) from December 1998 through June 1999.

5. PROGRAM DESCRIPTION

(a) Activity Objectives

The Government of the Russian Federation will sell 1.1 million MT of wheat at going market prices, as determined in 6(f) below, in order to address shortages of food products in individual regions.

The Government of the Russian Federation will distribute 400,000 MT of wheat to needy segments of the population in various regions identified in attachment D.

(b) Method for Choosing Beneficiaries

The beneficiaries under this program will be chosen by the Importing Country on the basis of need. The agreed list of beneficiary regions is included in Attachment D, attached hereto and made part of this agreement.

6. USE OF FUNDS

(a) Quantity and Type of Commodities Sold

1,100,000 metric tons of wheat.

(b) Displacement or Interference with Sales

The sale of wheat resulting from this agreement will not displace or interfere with local production.

(c) Amount of Sales Proceeds

Proceeds to be deposited in the Special Account will be based upon the estimated values of shipments as determined in Paragraph 6(f) of this Attachment, and approved by the Minister Counselor for Agricultural Affairs at the U.S. Embassy.

(d) Private Sector

In accordance with Part I, Paragraph F(1), in carrying out the provisions of this Agreement, the two governments shall seek to assure conditions of commerce permitting private traders to function effectively.

(e) Use of Sales Proceeds

Upon approval of the working group, proceeds from the sale of flour will be disbursed from the Special Account to be used expeditiously for financing of the pension fund. Any deposits not meeting the estimated shipment value must be discussed with the working group to determine the cause for the shortfall and to identify remedies. If after the joint audit total actual proceeds are determined to be larger than total estimated proceeds, the Importing Country will deposit the difference in the Special Account.

(f) Receipt and Deposit of Sales Proceeds

For the purposes of determining amounts to be deposited into the Special Account, every two weeks the working group will meet to determine an estimated value in roubles in the Importing Country for shipments donated under this agreement that are to be sold. The value will be determined for each tranche based on the tenders to purchase the commodities in the Exporting Country, prior to the arrival of the shipment on the territory of the Russian Federation. Any reference to tranche based on tenders in the previous sentence only signifies the quantity for which the working group will agree upon a price in order to determine the rouble value of that tranche. Factors to consider in determining price and value will include but are not limited to world price levels, prevailing market prices in the regions where the commodities are to be sold, and commodity quality specifications. These estimates shall be considered determined only after receiving a concurrence of the Minister Counselor for Agricultural Affairs at the U.S. Embassy. Within 120 days of the arrival of the shipment at the Russian border, or 30 days from the time of arrival of the commodities at the point of intended destination in the targeted region, whichever comes first, the Importing Country will deposit an amount(s) equal to the estimate into the Special Account established for the sole purpose of receiving such funds.

7. DISTRIBUTION METHODS

(a) Transportation and Storage

Shipments will arrive during the first quarter of CY 1999 and continue until the third quarter CY 1999. Delivery will be made either to a Russian port or to the Russian border.

(b) Reprocessing and/or Repackaging

All of the donated wheat will be processed into wheat flour in the Russian Federation.

(c) Logistics Plan

In accordance with Part I, Paragraph K(2), the Ministry of Agriculture will provide a "work plan" to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America.

8. DUTY FREE ENTRY

In accordance with Part I, Paragraph M, no import duties shall be applied by the Importing Country on the commodities donated under this agreement.

9. ECONOMIC IMPACT

A substantial disincentive to domestic production will not result from the sale or distribution of the agricultural commodities provided under this agreement, nor will their sale or distribution interfere with the domestic marketing of those commodities in the Russian Federation.

ATTACHMENT B

COMMODITY SPECIFICATIONS

WHEAT

Hard Red Winter

- | | |
|------------------------|-----------------|
| 1. Class: | Hard Red Winter |
| 2. Grade: | No. 2 or Better |
| 3. Protein: | 11 - 12 % |
| 4. Moisture (Max.): | 13.5% |
| 5. Dockage: | 1% or less |
| 6. Test weight (Min.): | 58.0 |
| lbs./bu. | |

PACKAGING

Bulk shipment.

Soft Red Winter – not more than 200,000 MT

- | | |
|------------------------|------------------|
| 1. Class: | Soft Red Winter |
| 2. Grade: | No. 2 or Better |
| 3. Protein: | Ordinary Protein |
| 4. Moisture (Max.): | 13.5% |
| 5. Dockage: | 1% or less |
| 6. Test weight (Min.): | 58.0 |
| lbs./bu. | |

ATTACHMENT C

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

COUNTRY: _____ AGREEMENT DATED _____ 19 _____

AGREEMENT SUPPLY PERIOD: U.S. _____ YEAR 19 _____
(CY or FY)

FINAL REPORT / / PRELIMINARY REPORT / /

1. Usual Marketing Requirements:

(a) Imports eligible towards usual marketing requirements specified in Part II, Item III of the agreement (do not include grants, donations or concessional sales):

COMMODITY	QUANTITY	COUNTRY OF ORIGIN	MONTH IMPORTED
-----------	----------	-------------------	----------------

(b) Source of data entered in the above table (customs, purchasing agency or other official source) Specify:

(c) If total imports of any commodity listed in the above table were less than the quantity specified for that commodity in the Usual Marketing table in Part II of the agreement, what factors or conditions contributed to the shortfall?

ATTACHMENT C - Continued

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

2. Export Limitations:

(a) List below any exports during the agreement supply period of any commodities the same or like those imported under the agreement as specified in the Export Limitations provisions of Part II of the agreement (if none, indicate N/A):

COMMODITY	QUANTITY	\$VALUE	DESTINATION COUNTRY	DATE OF EXPORT
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(b) What measures were taken to control or prohibit exports of commodities the same as or like those imported under the agreement, as specified in the Export Limitations provisions of Part II of the agreement (i.e., export licensing, customs inspection, etc.):

3. Utilization of 416(b) Commodities

List below the approximate quantity of any of the commodities imported under the agreement that were not utilized (as defined in Part I, Paragraph H(4) of the agreement) during the agreement supply period (if none, indicate N/A):

COMMODITY	APPROXIMATE QUANTITY	REASON FOR NON-UTILIZATION
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ATTACHMENT C - Continued

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

4. Publicity

Indicate actions were taken to publicize the signing and/or implementation of the agreement as agreed during negotiations:

5. Additional Comments (if any):

6. Signature of Authorized Official:

Signature _____
Title _____
Organization _____
Date _____

ATTACHMENT D

LIST OF BENEFICIARIES

Distribution of food wheat in the regions of
Russian Federation in first half of 1999
as food aid from USA
(thousands tons)

Regions of Russian Federation	For Sale	For Distribution
Arkhangelsk obl.	15	5
Vologda obl.	15	5
Murmansk obl.	24	6
Korelia Rep.	11	4
Komi Rep.	24	6
St. Petersburg	160	40
Leningrad obl.	47	3
Novgorod obl.	12	3
Pskov obl.	12	3
Bryansk obl.	12	3
Vladimir obl.	12	3
Ivanovo obl.	12	3
Tver obl.	7	3
Kostroma obl.	2	3
Moscow	100	100
Moscow obl	75	25
Smolensk obl.	5	5
Tula obl.	2	3
Chuvashia Republic	2	3
Yaroslavl obl.	15	5
Nizh Novgorod obl.	5	5

ATTACHMENT D
LIST OF BENEFICIARIES

Regions of Russian Federation	For Sale	For Distribution
Mordovia Republic	2	3
Dagestan Republic	15	5
Alaniya Republic (North Osetia)	4	1
Chechnya Republic	7	3
Ingush Republic	4	1
Ulyanovsk obl.	7	3
Perm obl.	15	5
Sverdlovsk obl	23	7
Chelyabinsk obl.	2	3
Bashkortostan Republic	5	5
Udmurtia Republic	3	3
Kemerovo obl.	60	10
Irkutsk obl.	32	8
Chita obl.	57	8
Khabarovskiy Kray	55	10
Kamchatka obl.	16	4
Chukotka AO	8	2
Magadan obl.	16	4
Sakhalin obl.	24	6
Amurskaya obl.	16	4
Primorskiy Kray	72	8
Jewish AQ	9	3
Tyva Republic	12	3
Sakha Republic (Yakutia)	31	4

ATTACHMENT D
LIST OF BENEFICIARIES

Regions of Russian Federation	For Sale	For Distribution
Kalmykiya Republic	2	1
Astrakhan obl.	2	1
Kabardino-Balkarskaya Republic	2	1
Karachayevo-Cherkesskaya Republic	2	1
Total:	1,072	353
Reserve:	28	47
Total:	1,100	400

OGSM: FGR-118-9-381

COUNTRY: RUSSIAN FEDERATION

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA
AND
THE GOVERNMENT OF THE RUSSIAN FEDERATION
FOR THE SUPPLY OF AGRICULTURAL COMMODITIES
UNDER THE FOOD FOR PROGRESS ACT

PREAMBLE

This Agreement, which provides agricultural commodities under the authority of the Food for Progress Act of 1985, is intended to supplement and to be an integral part of the food assistance provided to the Russian Federation under the P.L. 480, Title I and Section 416(b) authorities.

The Government of the United States and the Government of the Russian Federation;

In an effort to use the food resources of the United States in support of commitments in the Russian Federation to introduce or expand free enterprise elements in its agricultural economy through changes in commodity prices, marketing, input availability, distribution, and private sector involvement;

Desiring to set forth the understanding that will govern the supply of agricultural commodities for distribution in the Russian Federation pursuant to the Food for Progress Act of 1985, as amended;

Have agreed as follows:

PART I - GENERAL PROVISIONS

A. The Commodity Credit Corporation (CCC), an agency and instrumentality of the United States of America, and the Ministry of Agriculture of the Russian Federation, the Ministry of Trade of the Russian Federation, the State Tax Service of the Russian Federation, and the State Customs Committee of the Government of the Russian Federation will implement this Agreement on behalf of their respective Governments. This Agreement is subject to the terms and conditions set forth in 7 C.F.R. Part 1499, except as may be specifically provided herein.

B. CCC agrees to provide the Russian Federation the agricultural commodities, and quantities thereof, specified in Part II, Item I of this Agreement (hereafter referred to as "the commodities") and, to the extent specifically included in Part II, Item II, pay ocean transportation and other costs associated with providing the commodities.

C. The Russian Federation agrees to use the agricultural commodities only in accordance with this Agreement and the approved Plan of Operation, Attachment A, attached hereto and made a part of this Agreement, and shall not sell or barter the commodities except as specified in Attachment A or otherwise specifically agreed in writing by CCC.

D. Except as may be authorized by CCC, all deliveries of the commodities provided under this Agreement shall be made within the supply period(s) specified in the Commodity Table in Part II, Item I.

E. WORLD TRADE

The two governments shall take maximum precautions to ensure that the donation of agricultural commodities pursuant to this Agreement will not displace usual marketings of the United States in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with other countries. In implementing this provision the Russian Federation shall:

1. Take all possible measures to ensure that total commercial imports from the United States and other countries into the Russian Federation paid for with the resources of the Russian Federation will equal at least the quantities of agricultural commodities specified in the Usual Marketing Table set forth in Part II, Item III below, during each import period specified in the table and during each subsequent comparable period in which commodities provided under this agreement are being delivered; and
2. Take all possible measures to prevent the resale, diversion in transit, or transshipment to other countries, or the use for other than domestic purposes, of the agricultural commodities donated pursuant to this agreement (except where such resale, diversion in transit, transshipment or use is specifically approved by CCC); and
3. Take all possible measures to prevent the export of any commodity of either domestic or foreign origin, which is defined in Part II of this Agreement, during the export limitation period specified in the Export Limitation Table in Part II (except as may be specified in Part II or where such export is otherwise specifically approved by CCC).

F. PRIVATE TRADE

1. In carrying out the provisions of this Agreement, the two governments shall seek to assure conditions of commerce permitting private traders to function effectively.
2. The Government of the Russian Federation shall select one or more agents to act on its behalf in receiving, distributing, storing, processing, or selling commodities imported under this Agreement and shall promptly notify CCC through the Minister Counselor for Agricultural Affairs in the U.S. Embassy of the agents selected.

G. REPORTING AND COMPLIANCE

In lieu of the reporting requirements under 7 C.F.R. Part 1499.16(c)(1) and (c)(2), the Russian Federation shall provide the following reports:

1. For each shipment of commodities donated under this Agreement, the CCC (through the Minister Counselor for Agricultural Affairs at the U.S. Embassy) shall provide the Russian Federation with a "Shipment, Arrival, Distribution and Status of Funds" report form which shall include a control number, vessel name, date of departure from the load port, and the commodity and tonnage loaded on the vessel. The Ministry of Agriculture shall supply the following information on the form and return it to the Minister Counselor for Agricultural Affairs at the U.S. Embassy, 19/23 Novinskiy Bul'var, 121009 Moscow, Russia within 48 hours after discharge of the commodities from the vessel: date of arrival of the vessel at the discharge port; the discharge port; date discharge completed; condition of commodity on discharge; any significant loss or damage in transit; and advice of any claim for, or recovery of, or reduction of ocean freight charges due to loss or damage in transit.

Within fourteen days after discharge of the commodities from the vessel, the Ministry of Agriculture shall supplement the report form with the following information: the estimated value of the commodity discharged to be distributed or to be sold (based upon the determination made under Paragraph 6(f) of Attachment A and approved by the Minister Counselor for Agricultural Affairs at the U.S. Embassy); the agent(s) that will receive, handle, or distribute that specific shipment of commodities, in accordance with Part I, Paragraph F(2); the geographic location of the commodity sales or distribution, purchaser or recipient of the commodity; quantity distributed or sold; date of distribution or sale; and sale price. If the distribution or sales information (quantity distributed or sold, date of distribution or sale, and sale price) is not available within fourteen days after discharge, the Ministry of Agriculture shall provide a supplemental report containing this information within fourteen days after the distribution or sale of the commodities.

2. The Ministry of Agriculture shall provide the United States with a "Financial Report" which shall include the date and amounts of payments into, and disbursements from, the Special Account required by the Plan of Operation, Attachment A, and a narrative description of the progress made toward fulfilling the Plan of Operation, Attachment A of this Agreement. The Ministry of Agriculture shall furnish this report to the Minister Counselor for Agricultural Affairs at the U.S. Embassy, and to the working group established in Part I, Paragraph I(1) of this Agreement, bi-weekly.

3. The Ministry of Agriculture shall provide a report no later than January 31, 2000, in the format set forth in Attachment C (attached hereto and made a part of this Agreement), covering the supply period(s) specified in Part II, Item I, of this Agreement and containing: statistical data on imports by country of origin to meet usual marketing requirements specified in Part II, Item III, of this Agreement; a statement of the measures taken to implement the provisions of Part I, Paragraphs E(2) and (3); statistical data on exports, by country of destination, of commodities the same as or like those imported under this Agreement, as specified in Part II, Item IV of this

Agreement; a statement on utilization of commodities imported under this Agreement; and a statement of measures taken to implement the publicity provisions of Part I, Paragraph J.

4. The Russian Federation will, or assure that its agent(s) will, give the United States access to all documents regarding the receipt and deposit of sales proceeds, and allow access to all storage, transportation, and processing facilities involved in receiving, transporting, storing or processing commodities supplied under this Agreement.

5. The two governments will conduct a joint audit regarding the receipt, free distribution, and sale of commodities, and disbursement of sales proceeds during the fourth quarter of calendar year 1999.

6. The two governments will complete an evaluation of the performance (such as germination and yield) of the seeds donated under this Agreement during the fourth quarter of calendar year 1999.

H. DEFINITIONS

For the purposes of this Agreement:

1. Import shall be deemed to have occurred when the commodity has entered the country, and passed through customs, if any, of the Russian Federation;
2. The Russian Federation will be deemed to have sold the commodities provided under this Agreement on the date a sales agreement is concluded.
3. Utilization shall be deemed to have occurred when the commodity clears customs and enters normal distribution channels within the Russian Federation, including: being transported to local, regional or central storage for subsequent distribution; or transported directly to commercial or government wholesale, retail, or ration center outlets.

I. CONSULTATION

1. A working group will be established that consists of the following: three U.S. officials designated by the United States (besides Minister Counselor for Agricultural Affairs); one Russian official from the Ministry of Agriculture of the Russian Federation; one official from the Ministry of Finance of the Russian Federation; one Russian official from the Ministry of Trade of the Russian Federation; Russian officials of other ministries approved by the Minister Counselor for Agricultural Affairs; and representatives of the agents selected by the Russian Federation pursuant to Part I, Paragraph F(2) of this Agreement. The group will meet weekly to discuss the Arrival, Distribution and Status of Funds reports, the bi-weekly Financial reports, and any operational or logistic issues of concern. The working group will report its findings each week to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America in Moscow.

2. The two governments shall, upon request of either of them, consult regarding any matter arising under this Agreement, including the operation of arrangements carried out pursuant to this Agreement.

J. IDENTIFICATION AND PUBLICITY

The text of this Agreement and the list of beneficiary regions shall be considered public information. The Russian Federation shall undertake such other measures as may be mutually agreed prior to delivery for the identification of food commodities at points of distribution in the Russian Federation as being on a concessional basis through the friendship of the American people.

K. DISCHARGE AND DISTRIBUTION

1. To accommodate the large number of deliveries to carry out this and similar agreements with the CCC, the Russian Federation will provide priority berthing and facilitate rapid discharge of all vessels chartered and delivering commodities under this agreement.

2. Prior to any shipments of commodities donated under this Agreement, the Ministry of Agriculture will provide a "work plan" to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America indicating, among other things, the region, oblast, and city distribution projections; estimated time lines; transportation, storage, and processing plans; projected point of sale or distribution; identified purchasers at the wholesale and agribusiness level; identified beneficiaries of distribution; and projected sale credit terms, for all commodities shipped. The Russian Federation will handle, distribute, process, and sell the commodities provided under this Agreement in accordance with the work plan and any changes approved by the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America based upon requests of the working group established in Part I, Paragraph I(1) of this Agreement.

3. The Russian Federation shall not take any action that would result in the agricultural commodities donated under this Agreement being distributed within the Russian Federation on the basis of the political affiliation, geographic location, ethnic, tribal, or religious identity of potential consumers or recipients.

4. Agricultural commodities donated under this Agreement shall not be distributed, handled, utilized, or allocated by members or representatives of armed forces unless otherwise agreed by CCC.

L. AVAILABILITY

This Agreement is subject to the availability during each fiscal year to which this Agreement applies, of the necessary agricultural commodities.

M. TAXES AND CUSTOMS DUTIES

No import duties shall be applied by the Russian Federation on the commodities donated under this agreement. The Russian Federation shall not apply any other taxes during the importation, or initial distribution or sale of these commodities.

PART II - PARTICULAR PROVISIONS

ITEM I - COMMODITY TABLE

A. The agricultural commodities to be made available under this Agreement are as follows:

<u>Commodity</u>	<u>Maximum Quantity Metric Tons (MT)</u>	<u>Delivery Month to U.S. Port</u>
Corn Seeds	14,000	Feb. to March 1999
Vegetable Seeds	1,000	Feb. to March 1999
Non-fat Dry Milk	30,000	March to August 1999
Total	45,000	

B. Specifications and packaging for the seeds and non fat dry milk are listed in Attachment B, attached hereto and made part of this Agreement.

ITEM II - PAYMENT OF COSTS

The payment of all costs associated with the processing, packaging, transporting, handling, and other incidental charges incurred in the delivery and distribution of the agricultural commodities will be apportioned as follows:

A. The United States shall donate the commodities without charge and pay the following costs: ocean transportation to designated discharge port(s) and maritime survey costs. Additionally, if the commodities are discharged at a non-Russian port, the United States will pay reasonable costs incurred in moving the commodities from the discharge port to the Russian border. CCC shall arrange for an independent cargo surveyor to attend the discharge of the cargo and prepare a report of its findings, showing the quantity and condition of the commodities discharged and the probable cause of damage noted. CCC will provide the Russian Federation with the company name and address of the local representative of the firm contracted to perform any discharge survey. A representative of the Russian Federation will attend the discharge of the cargo and agrees to notify the Kansas City Commodity Office, Export Operations Division (KCCO/EOD), at (816) 926-6538 as soon as possible if the discharge survey company is not present during any portion of the cargo unloading or container destuffing.

B. The Russian Federation shall arrange for the ocean transportation of the commodities except when the United States determines to provide the commodities on a c & f destination basis. The Russian Federation shall also arrange for the transportation, handling, storage, and distribution in

the Russian Federation.

C. All arrangements of ocean transportation shall be on terms which require the vessel to be responsible for the costs of discharging the vessel including stevedoring costs and the costs of discharge equipment. The Russian Federation shall arrange for customs clearance, handling and destuffing of containers after vessel discharge. Any additional costs or demurrage charges that may accrue because of problems with or lack of timely availability of land transportation will be the responsibility of the Russian Federation.

ITEM III - USUAL MARKETING TABLE

Commodity	Import Period (U. S. Fiscal Year)	Usual Marketing Requirement	
		(Metric Tons)	
Corn Seed 1999		3,800	
Vegetable Seed	1999		0
Non Fat Dry Milk	1999		12,000

ITEM IV - EXPORT LIMITATIONS

A. EXPORT LIMITATION PERIOD

The export limitation period shall be the U.S. fiscal year 1999 or any subsequent U.S. fiscal year during which the commodities donated under this Agreement are being imported.

B. COMMODITIES TO WHICH EXPORT LIMITATIONS APPLY

For the purpose of Part I, Paragraph E(3) of this Agreement, the commodities which may not be exported are: corn seeds, imported or domestic seeds of vegetables provided under this agreement, and non fat dry milk (or the same products under different names); except that exports to countries in the Caucasus region may continue provided that such exports are pursuant to sales contracts signed prior to the entry into force of this Agreement.

PART III - FINAL PROVISIONS

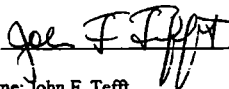
A. This Agreement, which provides agricultural commodities under the authority of the Food for Progress Act of 1985, is intended to supplement and to be an integral part of the food assistance provided to the Russian Federation under the P.L. 480, Title I and Section 416(b) authorities.

B. This Agreement shall enter into force upon the final date of written notification by the Russian Side that all necessary state procedures have been completed in keeping with the legislation of the Russian Federation.

C. This Agreement, or any part of it, may be terminated by either Party by a written notice of termination to the other Party. Such termination shall take effect on the date of the notice of termination. Such termination shall not reduce any financial obligations the Russian Federation has incurred as of the date of termination.

In witness whereof, the respective representatives, duly authorized for the purpose, have signed the present Agreement. Done in Moscow in duplicate in English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA

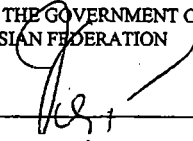
By: 

Name: John F. Tefft

Title: Charge D'Affaires
United States Embassy
Moscow Russia

Date: 2/1/99

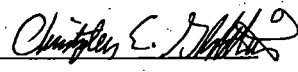
FOR THE GOVERNMENT OF THE
RUSSIAN FEDERATION

By: 

Name: Gennady Kulik

Title: Deputy Prime Minister
Of the Russian Federation

Date: 2.02.1999

By: 

Name: Christopher E. Goldtwait

Title: General Sales Manager
and Vice President
Commodity Credit Corporation

Date: 2/4/99

ATTACHMENT A
PLAN OF OPERATION

1. NAME AND ADDRESS OF APPLICANT

The Russian Federation

2. COUNTRY OF DONATION

The Russian Federation

3. KIND AND QUANTITY OF COMMODITIES REQUESTED

COMMODITY	QUANTITY (MT)
Corn Seed	14,000
Vegetable Seed	1,000
Non Fat Dry Milk	30,000
Total	45,000

4. DELIVERY SCHEDULE

Corn seeds and vegetable seeds are estimated to arrive at U.S. port(s) from February 1999 through March 1999.

Non fat dry milk is estimated to arrive at U.S. port(s) from March 1999 to August 1999.

A shipping schedule for the non fat dry milk will be based upon the work plan referred to in Part I, Item K, paragraph 2 of this Agreement.

5. PROGRAM DESCRIPTION**(a) Activity Objectives**

The Government of the Russian Federation will sell 11,000 MT of corn seeds, 1,000 MT of vegetable seeds, and 30,000 MT of non fat dry milk at going market prices, as determined in 6(f) below, in order to address shortages of agricultural products in individual regions. The seeds and milk will be sold in the regions identified in Attachment D, attached hereto and made a part of this Agreement.

The Government of the Russian Federation will also support the development of the private agricultural sector through the sale of 3,000 MT of corn seeds to private farmers through the private farmers association, AKKOR, based on the distribution plan presented by AKKOR.

(b) Method for Choosing Beneficiaries

The beneficiary regions under this program will be chosen by the Russian Federation on the basis of need. The agreed list of beneficiary regions is included in Attachment D.

6. USE OF FUNDS

(a) Quantity and Type of Commodities Sold

14,000 MT of corn seeds, 1,000 MT of vegetable seeds, and 30,000 MT of non fat dry milk.

(b) Displacement or Interference with Sales

The sale of seeds and non fat dry milk resulting from this Agreement will not displace or interfere with local production. The August 1998 devaluation and banking difficulties may reduce the ability of Russian entities to produce these products domestically. Consumers throughout Russia experienced a decline in their ability to purchase food products, especially for those products in short supply following the poor domestic harvest.

(c) Amount of Sales Proceeds

Proceeds from the sale of commodities shall be placed in a separate special account (hereafter referred to as "Special Account"). Proceeds to be deposited in the Special Account will be based upon the estimated values of shipments as determined in Paragraph 6(f) of this Attachment, and approved by the Minister Counselor for Agricultural Affairs at the U.S. Embassy.

(d) Private Sector

In accordance with Part I, Paragraph F(1), in carrying out the provisions of this Agreement, the two governments shall seek to assure conditions of commerce permitting private traders to function effectively.

(e) Use of Sales Proceeds

Upon approval of the working group, 50 percent of the proceeds from the sale of seeds will be disbursed from the Special Account to be used expeditiously for supporting the operations of seed research institutes. Of this portion of the proceeds, 80 percent will be used to support the Vavilov Institute, and 20 percent will support the operations of other seed institutes, as may be mutually agreed upon between the Ministry of Agriculture and the Minister

Counselor for Agricultural Affairs at the U.S. Embassy. The remaining 50 percent of proceeds from the sale of seeds will be disbursed from the Special Account to the Rural Credit and Cooperative Development Fund (RCCDF) for the purpose of developing a credit cooperative system previously approved under the Gore-Chernomyrdin Commission. All proceeds from the sale of non fat dry milk will be disbursed from the Special Account to the Pension Fund of the Russian Federation's Federal Budget. Any deposits not meeting the estimated shipment value must be discussed with the working group to determine the cause for the shortfall and to identify remedies. If after the joint audit total actual proceeds are determined to be larger than total estimated proceeds, the Russian Federation will deposit the difference in the Special Account.

(f) Receipt and Deposit of Sales Proceeds

For the purposes of determining amounts to be deposited into the Special Account, every two weeks the working group will meet to determine an estimated value in roubles in the Russian Federation for shipments donated under this agreement that are to be sold. The value will be determined for a specific quantity based on the tenders to purchase the commodities in the United States, prior to the arrival of the shipment on the territory of the Russian Federation. Factors to consider in determining price and value will include but are not limited to world price levels, prevailing market prices in the regions where the commodities are to be sold, and commodity quality specifications. These estimates shall be considered final only after receiving a concurrence of the Minister Counselor for Agricultural Affairs at the U.S. Embassy. For Non Fat Dry Milk, within 120 days of the arrival of the shipment at the Russian border, or 30 days from the time of arrival of the commodities at the point of intended destination in the targeted region, whichever comes first, the Russian Federation will deposit an amount(s) equal to the estimate into the Special Account (referred to in paragraph 6(c) above) established for the sole purpose of receiving such proceeds. For Corn and Vegetable seed, within 120 days of the arrival of the shipment at the Russian border, or 30 days from the time of each sale by the agent appointed by the Russian Government to handle the commodity on the territory of the Russian Federation, at the point of intended destination in the targeted region, whichever comes first, the Russian Federation will deposit an amount(s) equal to the estimate into the Special Account (referred to in paragraph 6(c) above) established for the sole purpose of receiving such proceeds.

7. DISTRIBUTION METHODS

(a) Transportation and Storage

Shipments will arrive during February - July, 1999. Delivery will be made either to a Russian port or to the Russian border.

(b) Reprocessing and/or Repackaging

No reprocessing or repackaging will occur prior to the sale of commodities by the agents appointed to handle the commodities on the territory of the Russian Federation.

(c) Logistics Plan

In accordance with Part I, Paragraph K(2), the Ministry of Agriculture will provide a "work plan" to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America.

8. DUTY FREE ENTRY

In accordance with Part I, Paragraph M, no import duties shall be applied by the Russian Federation on the commodities donated under this agreement.

9. ECONOMIC IMPACT

A substantial disincentive to domestic production will not result from the sale or distribution of the agricultural commodities provided under this agreement, nor will their sale or distribution interfere with the domestic marketing of those commodities in the Russian Federation.

ATTACHMENT B

COMMODITY SPECIFICATIONS

CORN SEEDS

COMMODITY SPECIFICATIONS

Comparative maturity chart for corn seeds follow:

Relative maturity	Relative maturity	Relative maturity
70-80 days	80-90 days	90-100 days
FAO 100-200	FAO 200-300	FAO 300-400

Quantity of each category will be based on availability. Total will be 14,000 metric tons.

Priority is to fill the earliest maturing hybrids first. All requirements unfilled due to lack of availability will be completed in the next later maturity classification.

Minimum 400/25 kg. Bags per hybrid: minimum 800/25 kg. Bags per Seller.

SEED QUALITY

Mechanical purity:	minimum 99%
Genetic purity:	minimum 95% per seller's test
Germination:	Minimum 90% warm/80% cold, per ISTA test, from private or official laboratory which performs ISTA tests

ALL U.S. TESTS FINAL

VEGETABLE SEEDS**COMMODITY SPECIFICATIONS****VEGETABLE PEAS**

Genetic purity	Minimum 99,5%
Germination	Minimum 95 %
Mechanical purity	Minimum 99%
Percent of seeds of other plants:	
Total	Maximum 0,20%
including seeds of weeds	Maximum 0,10%
Moisture	Maximum 14%

ONIONS

Genetic purity	Minimum 98%
Germination	Minimum 80%
Mechanical purity	Minimum 99%
Percent of seeds of other plants:	
Total	Maximum 0,20%
including seeds of weeds	Maximum 0,10%
Moisture	Maximum 11%

RED BEET (TABLE)

Genetic purity	Minimum 98%
Germination	Minimum 80%
Mechanical purity	Minimum 97%
Percent of seeds of other plants:	
Total	Maximum 0,50%
including seeds of weeds	Maximum 0,20%
Moisture	Maximum 14%

CARROT (TABLE)

Genetic purity	Minimum 98%
Germination	Minimum 70%
Mechanical purity	Minimum 95%
Percent of seeds of other plants:	
Total	Maximum 0,50%
including seeds of weeds	Maximum 0,20%
Moisture	Maximum 10%

NONFAT DRY MILK**COMMODITY SPECIFICATIONS**

The nonfortified nonfat dry milk (NDM) shall be U.S. Extra Grade, spray process. The NDM shall be subject to penicillin and coliform test to be performed by the Agricultural Marketing Service (AMS) at the time of grading. The penicillin test must be negative, and coliform count shall be not more than 10 per gram.

The nonfortified NDM shall be low-heat, medium heat or high heat.

The NDM shall meet the following specifications:

- | | |
|------------------------|---|
| (1) Milk fat | Not more than 1.25 %. |
| (2) Moisture | Not more than 4.0 %. |
| (3) Bacterial Estimate | Not more than 40,000 per gram standard plate count. |
| (4) Scorched Particles | Not more than 15.0 mg. |
| (5) Solubility Index | Not more than 1.2 ml, except product classified as high heat may not have more than 2.0 ml. |

PACKAGING

The NDM shall be packaged in 25 kilogram multi wall paper bags with a polyethylene inner liner.

Source: USDA:FSA:PDD:EOB, December 1997 (Contact 202-690-3565)

ATTACHMENT C

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

COUNTRY: AGREEMENT DATED 19

AGREEMENT SUPPLY PERIOD: U.S. YEAR 19
(CY or FY)

FINAL REPORT / / PRELIMINARY REPORT / /

I. Usual Marketing Requirements:

(a) Imports eligible towards usual marketing requirements specified in Part II, Item III of the agreement (do not include grants, donations or concessional sales):

COMMODITY	QUANTITY	COUNTRY OF ORIGIN	MONTH IMPORTED
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(b) Source of data entered in the above table (customs, purchasing agency or other official source) Specify:

(c) If total imports of any commodity listed in the above table were less than the quantity specified for that commodity in the Usual Marketing table in Part II of the agreement, what factors or conditions contributed to the shortfall?

ATTACHMENT C - Continued

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

2. Export Limitations:

(a) List below any exports during the agreement supply period of any commodities the same or like those imported under the agreement as specified in the Export Limitations provisions of Part II of the agreement (if none, indicate N/A):

COMMODITY	QUANTITY	\$VALUE	DESTINATION COUNTRY	DATE OF EXPORT
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(b) What measures were taken to control or prohibit exports of commodities the same as or like those imported under the agreement, as specified in the Export Limitations provisions of Part II of the agreement (i.e., export licensing, customs inspection, etc.):

3. Utilization of Food for Progress Commodities

List below the approximate quantity of any of the commodities imported under the agreement that were not utilized (as defined in Part I, Paragraph H(3) of the agreement) during the agreement supply period (if none, indicate N/A):

COMMODITY	APPROXIMATE QUANTITY	REASON FOR NON-UTILIZATION
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ATTACHMENT C – Continued

**REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS**

4. Publicity

Indicate actions were taken to publicize the signing and/or implementation of the agreement as agreed during negotiations:

5. Additional Comments (if any):

6. Signature of Authorized Official:

Signature

Title

Organization

Date

ATTACHMENT D

**Distribution of corn seed in the regions of
Russian Federation in first half of 1999
as food aid from USA
(thousands tons)**

Regions of Russian Federation	Tons (sold)
Bryansk oblast	300
Vladimir oblast	200
Kaluga oblast	200
Moscow oblast	500
Orel oblast	1 000
Ryazan oblast	2 000
Tula oblast	1 200
Republic of Mari-El	100
Republic of Mordovia	1 000
Republic of Chuvashia	100
Nizhnii Novgorod oblast	1 000
Republic of Tatarstan	4 000
Sverdlovsk oblast	200
Chiryabinsk oblast	1 600
Tyumen oblast	600
TOTAL	14 000

ATTACHMENT D – Continued

Distribution of vegetable seeds in the regions of
Russian Federation in the first half of 1999
as food aid from USA (tons)
VEGETABLE PEAS

Regions of Russian Federation	Tons Sold
Ryazan oblast	50
Yaroslavl oblast	50
Republic of Mordovia	200
Belgorod oblast	100
Krasnodarskiy Kray	560
TOTAL	960

Distribution of vegetable seeds in the regions of
Russian Federation in the first half of 1999
as food aid from USA (tons)
ONION

Regions of Russian Federation	Tons Sold
Bryansk oblast	0,4
Samara oblast	0,3
Penza oblast	0,6
Nizhnii Novgorod oblast	0,4
Republic of Mordovia	0,4
Republic of Chuvashia	2,7
Belgorod oblast	0,3
Tambov oblast	0,6
Uliyanovsk oblast	0,6
Republic of Tatarstan	0,6
Sverdlovsk oblast	0,3
Altayskiy kray	1,0
Omsk oblast	0,3
Krasnoyarskiy kray	0,5
Moscow	1,0
TOTAL	10,0

**Distribution of vegetable seeds in the regions of
Russian Federation in the first half of 1999
as food aid from USA (tons)**

RED BEETS (TABLE)

Regions of Russian Federation	Tons Sold
Leningrad oblast	0,5
Kaliningrad oblast	0,5
Nizhniy Novgorod oblast	0,5
Kursk oblast	0,5
Astrakhan oblast	0,5
Volgograd oblast	1,0
Penza oblast	1,0
Saratov oblast	0,5
Uliyanovsk oblast	0,5
Kurgan oblast	0,5
Chelyabinsk oblast	1,0
Kemerovo oblast	1,0
Novosibirsk oblast	1,0
Omsk oblast	0,5
Moscow	0,5
TOTAL	10,0

**Distribution of vegetable seeds in the regions of
Russian Federation in the first half of 1999
as food aid from USA (tons)**

CARROTS (TABLE)

Regions of Russian Federation	Tons Sold
Arkhangelsk oblast	0,2
Vologda oblast	0,3
Leningrad oblast	1,5
Novgorod oblast	0,4
Pskov oblast	0,3
Kaliningrad oblast	0,5
Bryansk oblast	0,5
Vladimir oblast	0,4
Ivanovo oblast	0,4
Kostroma oblast	0,4
Ryazan oblast	0,4
Smolensk oblast	0,4
Tula oblast	0,4
Nizhniy Novgorod oblast	0,4
Republic of Mordovia	0,4
Kursk oblast	0,4
Lipetsk oblast	0,4
Tambov oblast	0,6
Astrakhan oblast	0,2
Volgograd oblast	0,6
Penza oblast	0,4
Saratov oblast	0,5

Krasnodar Kray	0,5
Rostov oblast	0,5
Republic of Dagestan	0,3
Republic of Kabardino-Balkaria	0,4
Kurgan oblast	0,4
Orenburg oblast	0,4
Perm oblast	0,4
Sverdlovsk oblast	1,0
Kemerovo oblast	0,4
Novosibirsk oblast	0,4
Omsk oblast	0,4
Krasnoyarsk Kray	0,4
Irkutsk oblast	0,5
Republic of Buryatiya	0,2
Chita oblast	0,2
Primorskiy Kray	0,4
Khabarovsk Kray	0,4
Amur oblast	0,4
Sakhalin oblast	0,2
Republic of Sakha (Yakutia)	0,2
Moscow (city)	1,0
TOTAL	20,0

ATTACHMENT D – Continued

**Distribution of non-fat dry milk in the regions of
Russian Federation in 1999
as food aid from USA
(thousands tons)**

Regions of Russian Federation	Delivery from USA
St. Petersburg	3
Leningrad obl.	2
Moscow (city)	7
Moscow oblast	3
Kemerovo obl.	2
Sakha Republic (Yakutia)	1
Kamchatka obl.	2
Primorskiy Kray	3
Khabarovsk Kray	2
Sakhalin obl.	2
Chukotka A.O.	1
Reserve	2
Total	30

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA
AND
THE GOVERNMENT OF THE RUSSIAN FEDERATION
FOR SALES OF AGRICULTURAL COMMODITIES

The Government of the United States and the Government of the Russian Federation;

Recognizing the desirability of expanding trade in agricultural commodities between the United States of America (hereinafter referred to as the Exporting Country) and the Russian Federation (hereinafter referred to as the Importing Country) in a manner that will not displace usual marketings of the Exporting Country in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with other countries;

Recognizing the policy of the Exporting Country to use its agricultural productivity to enhance the food security of the world by combating food shortages, encouraging countries to improve their own agricultural production, and assisting them in their economic development;

Desiring to set forth the understandings that will govern the sales of agricultural commodities to the Importing Country pursuant to Title I of the Agricultural Trade Development and Assistance Act, as amended (hereinafter referred to as the Act), and the measures that the two governments will take individually and collectively in furthering the above-mentioned policies;

Have agreed as follows:

PART I - GENERAL PROVISIONS

The Commodity Credit Corporation, an agency and instrumentality of the United States of America, and the Ministry of Agriculture, the Ministry of Finance, the Ministry of Trade, the State Tax Service, and the State Customs Committee of the Government of the Russian Federation will implement this agreement on behalf of their respective Governments.

ARTICLE I

A. AGREEMENT TO FINANCE COMMODITY SALES.

The Exporting Country undertakes to finance the sale of agricultural commodities to purchasers authorized by the Importing Country in accordance with the terms and conditions set forth in this Agreement.

B. PURCHASE AUTHORIZATIONS.

The financing of the agricultural commodities listed in Part II of this Agreement will be subject to the issuance by the Exporting Country of purchase authorizations and their acceptance by the Ministry of Agriculture.

C. REQUEST FOR PURCHASE AUTHORIZATIONS.

Request for purchase authorizations will be made by the Ministry of Agriculture within 90 days after the effective date of this Agreement and, with respect to any additional commodities or amounts of commodities provided for in any amendment to this Agreement, within 90 days after the effective date of such amendment to this Agreement. Purchase authorizations shall include provisions relating to the sale and delivery of such commodities, and other relevant matters.

D. DELIVERY PERIODS.

Except as may be authorized by the Exporting Country, all deliveries of commodities sold under this Agreement shall be made within the supply periods specified in the Commodity Table in Part II.

E. MAXIMUM EXPORT VALUES.

1. The Exporting Country may vary the total quantity of each commodity to be financed under this Agreement, if ocean transportation costs to be financed, in accordance with Part I, Article I, Paragraph F differ from estimated ocean transportation costs specified in Part II, so that the total amount financed on credit terms by the Exporting Country will not exceed the total maximum export market value specified in Part II.

2. The Exporting Country may limit the total value of each commodity to be covered by purchase authorizations as price declines or other marketing factors may require, so that the quantities of such commodity sold will not substantially exceed the applicable approximate quantity specified in Part II.

F. OCEAN FREIGHT.

1. The Exporting Country shall bear the ocean freight differential for commodities the Exporting Country requires to be transported in United States flag vessels. The ocean freight differential is deemed to be the amount, as determined by the Exporting Country, by which the cost of ocean transportation is higher (than would otherwise be the case) by reason of the requirement that the commodities be transported in United States flag vessels. The Importing Country shall have no obligation to reimburse the Exporting Country or deposit local currency of the Importing Country for the ocean freight differential borne by the Exporting Country.

2. In addition to bearing the cost of the ocean freight differential, the Exporting Country will finance on credit terms one-hundred (100) percent of the balance of costs for ocean transportation

to discharge port(s) on a full berth term basis (hereinafter referred to as "ocean transportation"), which is understood to mean unloading directly onto the domestic land transportation. The Importing Country will ensure that ground transportation is available on time. Any additional costs or demurrage charges that may accrue because of problems with or lack of timely availability of land transportation will be the responsibility of the Importing Country.

3. The amount for ocean transportation costs included in any commodity table for financing on credit terms does not include the ocean freight differential to be borne by the Exporting Country and is only an estimate of the amount that will be necessary to cover the transportation costs to be financed on credit terms by the Exporting Country. Actual value of ocean freight financing will be shown in advice of vessel approval forms issued by the Exporting Country under purchase authorizations implementing this Agreement.

ARTICLE II

A. TYPE OF FINANCING.

Sales of the commodities specified in Part II shall be financed in accordance with the type of financing indicated therein. Special provisions relating to the sale are also set forth in Part II.

B. CREDIT PROVISIONS.

The following provisions apply to sales to be financed by the Exporting Country for dollars on credit terms specified in Part II.

1. With respect to commodities delivered and ocean transportation financed in each calendar year under this Agreement, the principal of the credit (hereinafter referred to as the principal) will consist of the dollar amount disbursed by the Exporting Country for the commodities and ocean transportation financed by the Exporting Country on credit terms (but not the ocean freight differential). For the purpose of determining the amount of the principal repayment obligation of the Importing Country, the dollar amount disbursed by Exporting Country shall be final and conclusive. The principal shall be paid in accordance with the payment schedule in Part II of this Agreement. The first installment payment shall be due and payable on the date specified in Part II of this Agreement. Subsequent installment payments shall be due and payable at intervals of one year thereafter. Any payment of principal may be made prior to its due date.

2. Interest on the unpaid balance of the principal due for commodities delivered and ocean transportation financed in each calendar year shall begin to accrue on the date of last delivery of these commodities in each calendar year. Interest shall be paid not later than the due date of each installment payment of principal, except that if the date of the first installment is more than a year after such date of last delivery, the first payment of interest shall be made not later than the anniversary date of such date of last delivery, and thereafter payment of interest shall be made annually and not later than the due date of each installment payment of principal.

3. For the period of time from the date the interest begins to the due date for the first installment payment, the interest shall be computed at the initial interest rate specified in Part II of this Agreement. Thereafter, the interest shall be computed at the continuing interest rate specified in Part II of this Agreement.

4. The computation of all payments of principal and interest under this Agreement shall be made in United States dollars.

C. PAYMENT PROVISIONS.

All payments for commodities and ocean transportation financed on dollar credit terms shall be made in United States dollars.

D. DEPOSIT OF PAYMENTS.

The Importing Country shall make, or cause to be made, payments to the Exporting Country in dollars to the Treasurer, Commodity Credit Corporation, United States Department of Agriculture, Mail Stop 0581, Washington, D.C. 20250-0581, unless another method of payment is agreed upon by the two governments.

ARTICLE III

A. WORLD TRADE.

The two governments shall take maximum precautions to assure that sales of agricultural commodities pursuant to this Agreement will not displace usual marketings of the Exporting Country in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with other countries. In implementing this provision the Importing Country shall:

1. Ensure that total imports from the Exporting Country and other countries into the Russian Federation paid for with the resources of the Importing Country will equal at least the quantities of agricultural commodities as may be specified in the Usual Marketing Table set forth in Part II during each import period specified in the table and during each subsequent comparable period in which commodities financed under this Agreement are being delivered. The imports of commodities to satisfy these usual marketing requirements for each import period shall be in addition to purchases financed under this Agreement;

2. Take all possible measures to prevent the resale, diversion in transit, or transshipment to other countries or the use for other than domestic purposes of the agricultural commodities purchased pursuant to this Agreement (except where such resale, diversion in transit, transshipment or use is specifically approved by the Exporting Country); and

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3. Take all possible measures to prevent the export of any commodity of either domestic or foreign origin, which is defined in Part II of this Agreement, during the export limitation period specified in the Export Limitation Table in Part II (except as may be specified in Part II or where such export is otherwise specifically approved by the Exporting Country).

B. PRIVATE TRADE.

1. In carrying out the provisions of this Agreement, the two governments shall seek to assure conditions of commerce permitting private traders to function effectively.

2. The Government of the Russian Federation has selected four agents through a closed tender process to act on its behalf in receiving, distributing, storing, processing, or selling commodities imported under this Agreement. The agents selected for the commodities financed under this Agreement are the following: Roskhlébo-product (wheat, corn, soybeans, and soybean meal); Raznoimport (rice); Rosmyasomoltorg (beef, pork, and non-fat dry milk); and Prodintorg (beef, pork, and non-fat dry milk). The Government of the Russian Federation shall promptly notify CCC, if other agent(s) are selected in the future.

C. REPORTING AND COMPLIANCE.

1. For each shipment of commodities financed under this Agreement, the Exporting Country shall provide the Importing Country with a "Shipment, Arrival, Distribution and Status of Funds" report form which shall include a control number, vessel name, date of departure from the load port, and the commodity and tonnage loaded on the vessel. The Ministry of Agriculture shall supply the following information on the form and return it to the Minister Counselor for Agricultural Affairs at the U.S. Embassy, 19/23 Novinskiy Bul'var, 121009 Moscow, Russia within 48 hours after discharge of the commodities from the vessel: date of arrival of the vessel at the discharge port; the discharge port; date discharge completed; condition of commodity on discharge; any significant loss or damage in transit; and advice of any claim for, or recovery of, or reduction of ocean freight charges due to loss or damage in transit.

Within fourteen days after discharge of the commodities from the vessel, the Ministry of Agriculture shall supplement the report form with the following information: the estimated value of the commodity discharged (based upon the determination made under Part II, Item V(A)(1), and approved by the Minister Counselor for Agricultural Affairs at the U.S. Embassy); the agent(s) that will receive, handle, or distribute that specific shipment of commodities, in accordance with Part I, Article III, Paragraph B(2); the geographic location of the commodity sales; purchaser of the commodity; quantity sold; date of sale; and sale price. If the sales information (quantity sold, date of sale, and sale price) is not available within fourteen days after discharge, the Ministry of Agriculture shall provide a supplemental report containing this information within fourteen days after the sale of the commodities.

2. The Ministry of Agriculture shall provide the Exporting Country with a "Financial Report" which shall include the date and amounts of payments into, and disbursements from, the Special Account required by Part II, Item V, and a narrative description of the progress made toward accomplishing the development plan measures and other objectives specified in Part II, Item V of this Agreement. The Ministry of Agriculture shall furnish this report to the Minister Counselor for Agricultural Affairs, and to the Working Group established in Part I, Article III, Paragraph G, of this Agreement, bi-weekly.

3. The Ministry of Agriculture shall provide a report no later than January 31, 2000, in the format set forth in Attachment B of this Agreement, covering the supply period specified in Part II, Item I, of this Agreement and containing: statistical data on imports by country of origin to meet usual marketing requirements specified in Part II, Item III, of this Agreement; a statement of the measures taken to implement the provisions of Paragraph A, Items 2 and 3 of this Article; statistical data on exports, by country of destination, of commodities the same as or like those imported under this Agreement, as specified in Part II, Item IV of this Agreement; a statement on utilization of commodities imported under this Agreement; and a statement of measures taken to implement the publicity provisions of Paragraph H of this Article.

4. The Importing Country will, or assure that its agent(s) will, give the Exporting Country access to all documents regarding the receipt and deposit of sales proceeds, and allow access to all storage, transportation, and processing facilities involved in receiving, transporting, storing or processing commodities supplied under this agreement.

5. The two governments will conduct a joint audit regarding the receipt and sales of commodities and disbursement of sales proceeds during the fourth quarter of calendar year 1999.

D. PROCEDURES FOR RECONCILIATION AND ADJUSTMENT OF ACCOUNTS.

The two governments shall each establish appropriate procedures to facilitate the reconciliation of their respective records on the amounts financed with respect to the commodities delivered during each calendar year. The two governments may make such adjustments in these accounts as they mutually decide are appropriate.

E. DEFINITIONS.

For the purposes of this Agreement:

1. Delivery shall be deemed to have occurred as of the on-board date shown in the ocean Bill of Lading which has been signed or initialed on behalf of the carrier;

2. Import shall be deemed to have occurred when the commodity has entered the country, and passed through customs, if any, of the Importing Country;

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3. The Importing Country will be deemed to have sold the commodities provided under this Agreement on the date a sales agreement is concluded.
4. Utilization shall be deemed to have occurred when the commodity clears customs and enters normal distribution channels within the Russian Federation, including: being transported to mills, bakeries, refineries or other facilities for further processing; transported to local, regional or central storage for subsequent distribution; or transported directly to commercial or government wholesale, retail, or ration center outlets.

F. APPLICABLE EXCHANGE RATE.

For the purposes of Part II, Item II, the applicable exchange rate for determining the amount of any local currency to be paid to the Exporting Country shall be a rate in effect on the date of payment by the Importing Country which is not less favorable to the Exporting Country than the highest exchange rate legally obtainable in the Russian Federation and which is not less favorable to the Exporting Country than the highest exchange rate obtainable by any other nation.

G. CONSULTATION.

1. A working group will be established that consists of two U.S. officials (besides the Minister Counselor for Agricultural Affairs) designated by the Exporting Country, one Russian official from the Ministry of Agriculture, one official from the Ministry of Finance and one Russian official from the Ministry of Trade designated by the Importing Country, and representatives of the agents selected by the Importing Country pursuant to Part I, Article III, Paragraph B(2) of this Agreement. The group will meet weekly to discuss the Arrival, Distribution and Status of Funds reports, the bi-weekly Financial reports, and any operational or logistic issues of concern. The working group will report its findings each week to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America in Moscow.

2. The two governments shall, upon request of either of them, consult regarding any matter arising under this Agreement, including the operation of arrangements carried out pursuant to this Agreement.

H. IDENTIFICATION AND PUBLICITY.

The Importing Country shall undertake such measures as may be mutually agreed prior to delivery for the identification of food commodities at points of distribution in the Russian Federation as being on a concessional basis through the friendship of the American people. The text of this Agreement and the list of beneficiary regions shall be considered public information.

I. DISCHARGE AND DISTRIBUTION.

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1. To accommodate the large number of deliveries to carry out this and similar agreements with the Exporting Country, the Importing Country will provide priority berthing and facilitate rapid discharge of all vessels delivering commodities under this agreement.

2. Prior to requesting purchase authorizations, the Ministry of Agriculture will provide a "work plan" to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America indicating, among other things, the region, oblast, and city distribution projections; estimated time lines; transportation and storage plans; projected point of sale; identified purchasers at the wholesale and agribusiness level; and projected sale credit terms, for all commodities requested. The Importing Country will handle, distribute, and sell the commodities provided under this Agreement in accordance with the work plan and any changes approved by the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America based upon requests of the working group established in Part I, Article III, Paragraph G(1) of this Agreement.

3. The Importing Country shall not take any action that would result in the agricultural commodities financed under this Agreement being distributed within the Russian Federation on the basis of the political affiliation, geographic location, ethnic, tribal, or religious identity of potential consumers or recipients.

4. Agricultural commodities financed under this Agreement shall not be distributed, handled, or allocated by members or representatives of armed forces unless otherwise agreed by Exporting Country.

J. CREDIT TERMS.

The Importing Country will take all reasonable actions to collect the proceeds due from the sale of agricultural commodities provided under this Agreement. The inability to collect on credit sales does not nullify the Importing Country's commitment to make full deposits to the Special Account within the time period specified in Part II, Item V(1).

K. AVAILABILITY.

This Agreement is subject to the availability, during each fiscal year to which this Agreement applies, of the necessary appropriations and agricultural commodities.

L. TAXES AND CUSTOMS DUTIES.

No import duties shall be applied by the Importing Country on the commodities financed under this agreement. The Importing Country shall not apply any other taxes during the importation, or initial sale or distribution of these commodities.

PART II - PARTICULAR PROVISIONS

ITEM I. COMMODITY TABLE:

A. The agricultural commodities to be made available under this agreement are as follows:

Commodity	Supply Period (U.S. Fiscal Year)	Approximate Quantity (metric tons)	Maximum Export Market Value (US \$million)
Corn	1999	500,000	55.00
Soybean Meal	1999	300,000	54.00
Soybeans	1999	200,000	45.00
Wheat	1999	200,000	30.00
Beef	1999	120,000	74.40
Rice	1999	100,000	40.00
Pork	1999	50,000	23.75
Non Fat Dry Milk	1999	30,000	69.00

Ocean Transportation, in accordance with Part I,
Article I, Paragraph F (estimated) 62.06

Total 453.21

B. The specifications of the commodities will be agreed upon prior to the issuance of purchase authorizations. The beef provided under this agreement will consist of cuts from the fore and rear quarters of cattle. Pork items provided under this agreement will consist of picnics, hams, and related parts for further processing.

ITEM II. PAYMENT TERMS: DOLLAR CREDIT (DC)

1. Number of installment payments - sixteen (16).
2. Amount of each installment payment - approximately equal annual amounts.
3. Due date of first installment payment - five (5) years after date of last delivery of commodities in each calendar year.
4. Initial interest rate - Two (2.00) percent.
5. Continuing interest rate - Two (2.00) percent.

ITEM III. USUAL MARKETING TABLE:

Commodity	Import Period (U.S. Fiscal Year)	Usual Marketing Requirement (Metric Tons)
Corn	1999	11,000
Soybean Meal	1999	32,000
Soybeans	1999	1,000
Wheat	1999	160,880
Beef	1999	120,000
Rice	1999	71,740
Pork	1999	88,800
Non Fat Dry Milk	1999	12,000

ITEM IV. EXPORT LIMITATIONS:**A. EXPORT LIMITATION PERIOD.**

The export limitation period shall be the date this Agreement enters into force through the end of U.S. Fiscal year 1999 or any subsequent U.S. Fiscal year during which commodities financed under this Agreement are being imported or utilized.

B. COMMODITIES TO WHICH EXPORT LIMITATIONS APPLY.

For the purposes of Part I, Article III, Paragraph A(3) of this Agreement, the commodities which may not be exported are: wheat, wheat flour, rolled wheat, semolina, farina, or bulgur, corn, soybeans, soybean meal, soybean oil, beef, pork, rice or non fat dry milk (or the same products under different names); except that exports to countries in the Caucasus region may continue provided that such exports are pursuant to sales contracts signed prior to the entry into force of this Agreement.

ITEM V. DEVELOPMENT PLANS:

A. The agricultural commodities provided under this Agreement or the revenues generated by the sale of such commodities (if such commodities are sold), will be integrated into the overall development plans of the Importing Country to improve food security and agricultural development, alleviate poverty, and promote broad-based, equitable, and sustainable agriculture in the following ways:

1. For the purposes of determining amounts to be deposited into the special account, every two weeks the working group will meet to determine an estimated value in roubles in the Importing Country for shipments financed under this agreement. The value will be determined for each

tranche based on the tenders to purchase the commodities in the Exporting Country, prior to the arrival of the shipment on the territory of the Russian Federation. Any reference to tranche based on tenders in the previous sentence only signifies the quantity for which the working group will agree upon a price in order to determine the rouble value of that tranche. Factors to consider in determining price and value will include but are not limited to world price levels, prevailing market prices in the regions where the commodities are to be sold, and commodity quality specifications. These estimates shall be considered determined only after receiving a concurrence of the Minister Counselor for Agricultural Affairs at the U.S. Embassy. Within 120 days of the arrival of the shipment at the Russian border, or 30 days from the time of arrival of the commodities at the point of intended destination in the targeted region, whichever comes first, the Importing Country will deposit an amount(s) equal to the estimate into the Special Account established for the sole purpose of receiving such funds.

2. Upon approval of the working group, proceeds will be disbursed from the Special Account to the Pension Fund of the Russian Federation's Federal Budget. Any deposits not meeting the estimated shipment value must be discussed with the working group to determine the cause for the shortfall and to identify remedies.

3. If after the joint audit total actual proceeds are determined to be larger than total estimated proceeds, the Importing Country will deposit the difference in the Special Account.

B. Competitive private sector participation within the Importing Country in the storage, marketing, transportation, and distribution of agricultural commodities made available under this Agreement will be encouraged by using private entities within the agribusiness and food wholesale and retail sectors.

C. The Importing Country will provide reports as requested by the Exporting Country on progress made toward accomplishing the development plans described in this Item V.

PART III - FINAL PROVISIONS

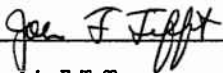
A. This Agreement shall enter into force upon the final date of written notification by the Russian Side that all necessary state procedures have been completed in keeping with the legislation of the Russian Federation.

B. This Agreement, or any part of it, may be terminated by either Party by a written notice of termination to the other Party. Such termination shall take effect on the date of the notice of termination. Such termination shall not reduce any financial obligations the Importing Country has incurred as of the date of termination.

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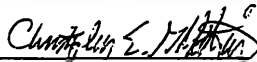
In witness whereof, the respective representatives, duly authorized for the purpose, have signed the present Agreement. Done in Moscow in duplicate in English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA

By: 
Name: John F. Tefft

Title: Charge D'Affaires
United States Embassy
Moscow Russia

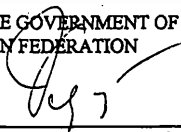
Date: 12/23/98

By: 
Name: Christopher E. Goldthwait

Title: General Sales Manager
and Vice President
Commodity Credit Corporation

Date: Dec. 29, 1998

FOR THE GOVERNMENT OF THE
RUSSIAN FEDERATION

By: 
Name: Gennady Kulik

Title: Deputy Prime Minister
Of the Russian Federation

Date: 12/23/98.

ATTACHMENT A

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

COUNTRY: _____ AGREEMENT DATED _____ 19 _____

AGREEMENT SUPPLY PERIOD: U.S. _____ YEAR 19 _____
(CY or FY)

FINAL REPORT / / PRELIMINARY REPORT / /

1. Usual Marketing Requirements:

(a) Imports eligible towards usual marketing requirements specified in Part II, Item III of the agreement (do not include grants, donations or concessional sales):

COMMODITY	QUANTITY	COUNTRY OF ORIGIN	MONTH IMPORTED
-----------	----------	-------------------	----------------

(b) Source of data entered in the above table (customs, purchasing agency or other official source) Specify:

(c) If total imports of any commodity listed in the above table were less than the quantity specified for that commodity in the Usual Marketing table in Part II of the agreement, what factors or conditions contributed to the shortfall?

ATTACHMENT A- Continued

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

2. Export Limitations:

(a) List below any exports during the agreement supply period of any commodities the same or like those imported under the agreement as specified in the Export Limitations provisions of Part II of the agreement (if none, indicate N/A):

COMMODITY	QUANTITY	\$VALUE	DESTINATION COUNTRY	DATE OF EXPORT
-----------	----------	---------	---------------------	----------------

(b) What measures were taken to control or prohibit exports of commodities the same as or like those imported under the agreement, as specified in the Export Limitations provisions of Part II of the agreement (i.e., export licensing, customs inspection, etc.):

3. Utilization of Title I Commodities

List below the approximate quantity of any of the commodities imported under the agreement that were not utilized (as defined in Part I, Article III, Section E of the agreement) during the agreement supply period (if none, indicate N/A):

COMMODITY	APPROXIMATE QUANTITY	REASON FOR NON-UTILIZATION
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ATTACHMENT A - Continued

REPORT ON USUAL MARKETING, EXPORT LIMITATIONS,
UTILIZATION AND PUBLICITY REQUIREMENTS

4. Publicity

Indicate actions were taken to publicize the signing and/or implementation of the agreement as agreed during negotiations:

5. Additional Comments (if any):

6. Signature of Authorized Official:

Signature _____
Title _____
Organization _____
Date _____

**ATTACHMENT B
LIST OF BENEFICIARIES**

**Distribution of corn and soybean meal
on credit terms from USA
in first half of 1999**

Economic regions of kray, oblast, republic	thousand tons	
	Corn	Soybean Meal
Northern Region	27	17
Karelia Republic	3	2
Komi Republic	4	2
Arkhangelsk obl.	5	2
Vologda obl.	12	9
Murmansk obl.	3	2
North-West Region	41	42
Leningrad obl.	35	38
Novgorod obl.	3	2
Pskov obl.	3	2
Central Region	93	63
Bryansk obl.	4	2
Vladimir obl.	6	3
Ivanovo obl.	4	4
Kaluga obl.	4	4
Kostroma obl.	4	3
Moscow obl.	37	29
Oryol obl.	3	1
Ryazan obl.	6	3

**ATTACHMENT B
LIST OF BENEFICIARIES**

Economic regions of kray, oblast, republic	thousand tons	
	Corn	Soybean Meal
Smolensk obl.	6	2
Tver obl.	7	5
Tula obl.	7	4
Yaroslavl obl.	5	3
Volgo-Vyatka Region	24	18
Mariy-El republic	3	1
Mordovia Republic	3	2
Chuvashia Republic	3	1
Kirov obl.	3	1
Nizh. Novgorod obl.	12	13
Central Black Earth Region	29	16
Belgorod obl.	6	4
Voronezh obl.	6	1
Kursk obl.	8	5
Lipetsk obl.	5	4
Tambov obl.	4	2
Volga Valley Region	52	31
Kalmikia Republic	1	
Tatarstan Republic	9	6
Astrakhan obl.	2	2
Volgograd obl.	10	4

ATTACHMENT B
LIST OF BENEFICIARIES

Economic regions of kray, oblast, republic	thousand tons	
	Corn	Soybean Meal
Penza obl.	5	3
Samara obl.	8	5
Saratov obl.	10	6
Ulyanovsk obl.	7	5
North Caucasus Region	19	
Adygeya Republic	2	
Dagestan Republic	2	
Krasnodar Kray	5	
Stavropol Kray	5	
Rostov obl.	5	
Ural Region	97	84
Bashkortostan Republic	15	13
Udmurtia Republic	8	6
Kurgan obl.	5	4
Orenburg obl.	7	6
Perm obl.	19	15
Sverdlovsk obl.	31	27
Chelyabinsk obl.	12	13
West Siberia Region	59	25
Altay Kray	5	3
Kemerovo obl.	7	

**ATTACHMENT B
LIST OF BENEFICIARIES**

Economic regions of kray, oblast, republic	thousand tons	
	Corn	Soybean Meal
Novosibirsk obl.	13	
Omsk obl.	13	7
Tomsk obl.	4	
Tyumen obl.	17	15
East Siberia Region	30	
Buryatiya Republic	2	
Tyva Republic	1	
Khakasia Republic	3	
Krasnoyarsk Kray	12	
Irkutsk obl.	10	
Chita obl.	2	
Far East Region	23	
Sakha Republic (Yakutia)	4	
Primorskiy Kray	5	
Khabarovskiy Kray	4	
Amurskaya obl.	2	
Kamchatskaya obl.	2	
Magadan obl.	3	
Sakhalin obl.	3	
Kaliningrad obl.	6	4
Total	500	300

**ATTACHMENT B
LIST OF BENEFICIARIES**

**Distribution of Soybeans
on Commodity Credit Terms
in first half of 1999**

Economic regions of kray, oblast, republic	thousand tons
RAO "MEZ" Rzhev, Tver obl.	15
OAo APK "Kumir" Ivanovo obl.	20
Krasnodar Kray Armavir MZHK "ASSOYA" Enterprise	50 35 (14)
Stavropol Kray	10
ZAO "Rabochiy" Rostov obl.	20
OAo "Irkutsk MZHK"	40
ZAO "Ussuriyskiy MZHK"	10
Total	200

**Distribution of food wheat in the regions of
Russian Federation in first half of 1999
as food aid from USA
(thousands tons)**

Regions of Russian Federation	Delivery from USA
Moscow	200
Total	200

**ATTACHMENT B
LIST OF BENEFICIARIES**

**Distribution of beef in the regions of
Russian Federation in first half of 1999
as food aid from USA
(thousands tons)**

Regions of Russian Federation	Delivery from USA
St. Petersburg	13
Leningrad obl.	4
Moscow	40
Kemerovo obl.	5
Sakha Republic (Yakutia)	5
Irkutsk obl.	4
Chita obl.	5
Kamchatka obl.	3
Primorskiy Kray	10
Khabarovsk Kray	8
Amurskaya obl.	2
Magadan obl.	3
Sakhalin obl.	3
Reserve	15
Total	120

**Distribution of rice in the regions of
Russian Federation in first half of 1999
as food aid from USA
(thousands tons)**

Regions of Russian Federation	Delivery from USA
Arkhangelsk obl.	2

**ATTACHMENT B
LIST OF BENEFICIARIES**

Regions of Russian Federation	Delivery from USA
Vologda obl.	1
Murmansk obl.	1
Korelia Rep.	1
Komi Rep.	2
St. Petersburg	6
Leningrad obl.	4
Bryansk obl.	1
Vladimir obl.	1
Ivanovo obl.	1
Tver obl.	1
Kaluga obl.	1
Kostroma obl.	1
Moscow and Moscow obl.	18
Oryol obl.	1
Smolensk obl.	1
Ryazan obl.	1
Tula obl.	1
Chuvashia Republic	1
Yaroslavl obl.	1
Nizh Novgorod obl.	1
Kirov obl.	1
Mordovia Republic	1
Ulyanovsk obl.	2
Tatarstan Republic	1
Belgorod obl.	1

**ATTACHMENT B
LIST OF BENEFICIARIES**

Regions of Russian Federation	Delivery from USA
Tambov obl.	1
Lipetsk obl.	1
Voronezh obl.	1
Kursk obl.	1
Samara obl.	2
Saratov obl.	0.5
Penza obl.	0.5
Sverdlovsk obl.	1
Kurgan obl.	1
Orenburg obl.	2
Altay Region	1
Kemerovo obl.	5
Novosibirsk obl.	3
Omsk obl.	2
Tomsk obl.	1
Krasnoyarsk Region	2
Tyumen obl.	2
Dagestan Republic	1
Chechnya Republic	1
Irkutsk obl.	2
Chita obl.	3
Tyva Republic	1
Buriatiya Republic	1
Jewish AO	1
Magadan obl.	1

**ATTACHMENT B
LIST OF BENEFICIARIES**

Regions of Russian Federation	Delivery from USA
Khabarovsk Region	3
Kamchatka obl.	1
Primorskiy Region	4
Total:	100

**Distribution of pork meat in the regions of
Russian Federation in first half of 1999
as food aid from USA
(thousands tons)**

Regions of Russian Federation	Delivery from USA
Kemerovo obl.	5
Sakha Republic (Yakutia)	5
Irkusk obl.	4
Chita obl.	6
Kamchatka obl.	3
Primorskiy Kray	8
Khabarovsk Kray	6
Amurskaya obl.	3
Magadan obl.	5
Sakhalin obl.	5
Total	50

**Distribution of non-fat dry milk in the regions of
Russian Federation in first half of 1999
as food aid from USA
(thousands tons)**

ATTACHMENT B
LIST OF BENEFICIARIES

Regions of Russian Federation	Delivery from USA
St. Petersburg	4
Leningrad obl.	1
Moscow	10
Kemerovo obl.	2
Sakha Republic (Yakutia)	1
Kamchatka obl.	2
Primorskiy Kray	3
Khabarovsk Kray	2
Sakhalin obl.	2
Chukotka A.O.	1
Reserve	2
Total	30

AMENDMENT

**AMENDMENT TO THE AGREEMENT BETWEEN THE GOVERNMENT OF THE
UNITED STATES AND THE GOVERNMENT OF THE RUSSIAN FEDERATION FOR
SALES OF AGRICULTURAL COMMODITIES**

It is mutually agreed that the Agreement signed in Moscow on December 23, 1998 and signed in Washington, D.C. on December 29, 1998 between the Government of the United States of America and the Government of the Russian Federation for sales of agricultural commodities is hereby amended as follows:

1. In Part I, Article III, Paragraph B – Private Trade, delete subparagraph 2 and insert the following:

"2. The Government of the Russian Federation has selected three agents through a closed tender process to act on its behalf in receiving, distributing, storing, processing, or selling commodities imported under this Agreement. The agents selected for the commodities financed under this Agreement are the following: Roskhléboproduct (wheat, corn, soybeans, rice and soybean meal); Rosmyasomoltorg (beef and pork,); and Prodintorg (beef, pork, and poultry). The Government of the Russian Federation shall promptly notify CCC, if other agent(s) are selected in the future.

2. In Part I, Article III, Paragraph C – Reporting and Compliance, delete subparagraph 3 and insert the following:

"3. The Ministry of Agriculture shall provide a report no later than January 31, 2000, in the format set forth in Attachment A of this Agreement, covering the supply period specified in Part II, Item I, of this Agreement and containing: statistical data on imports by country of origin to meet usual marketing requirements specified in Part II, Item III, of this Agreement; a statement of the measures taken to implement the provisions of Paragraph A, subparagraphs 2 and 3 of this Article; statistical data on exports, by country of destination, of commodities the same as or like those imported under this Agreement, as specified in Part II, Item IV of this Agreement; a statement on utilization of commodities imported under this Agreement; and a statement of measures taken to implement the publicity provisions of Paragraph H of this Article."

3. In Part I, Article III, delete Paragraph G – Consultation, subparagraph 1 and insert the following:

"1. A working group will be established that consists of the following: three U.S. officials designated by the United States (besides Minister Counselor for Agricultural Affairs); one Russian official from the Ministry of Agriculture of the Russian Federation; one official from the Ministry of Finance of the Russian Federation; one Russian official from the Ministry of Trade of the Russian Federation; Russian officials of other ministries of the Russian Federation approved by the Minister Counselor for Agricultural Affairs; and representatives of the agents selected by the Russian Federation pursuant to Part I, Paragraph F(2) of this Agreement. The group will meet weekly to discuss the Arrival, Distribution and Status of Funds reports, the bi-

weekly Financial reports, and any operational or logistic issues of concern. The working group will report its findings each week to the Minister Counselor for Agricultural Affairs at the Embassy of the United States of America in Moscow."

4. In Part I, Article III, delete Paragraph H - Identification and Publicity and insert the following:

"H. IDENTIFICATION AND PUBLICITY.

The Russian Federation shall undertake such measures as may be mutually agreed prior to delivery for the identification of food commodities at points of distribution in the Russian Federation as being on a concessional basis through the friendship of the American people. The text of this Agreement and the list of beneficiary regions in Attachment B, attached hereto and made part of this Agreement, shall be considered public information."

5. In Part II, Particular Provisions, Item I - Commodity Table, delete the lines beginning "Non Fat Dry Milk", "Ocean Transportation", and "Total" and insert the following under the appropriate column headings:

Commodity	Supply Period (U.S. Fiscal Year)	Approximate Quantity (metric tons)	Maximum Export Market Value (US \$million)
"Poultry	1999	50,000	30.00";
"Ocean Transportation, in accordance with Part I, Article I, Paragraph F (estimated)			64.82" ; and
"Total			416.97"

6. In Part II, Particular Provisions, Item III - Usual Marketing Requirements, delete existing table and replace with the following:

-3-

ITEM III. USUAL MARKETING TABLE:

Commodity	Import Period (U.S. Fiscal Year)	Usual Marketing Requirement (Metric Tons)
Corn	1999	11,000
Soybean Meal	1999	32,000
Soybeans	1999	1,000
Wheat	1999	160,880
Beef	1999	120,000
Rice	1999	71,740
Pork	1999	88,800
Poultry	1999	254,400 "

7. In Part II, Particular Provisions, Item IV – Export Limitations, delete Paragraph B and replace with the following:

"B. COMMODITIES TO WHICH EXPORT LIMITATIONS APPLY.

For the purposes of Part I, Article III, Paragraph A(3) of this Agreement, the commodities which may not be exported are: wheat, wheat flour, rolled wheat, semolina, farina, or bulgur, corn, soybeans, soybean meal, soybean oil, beef, pork, rice, or poultry (or the same products under different names); except that exports to countries in the Caucasus region may continue provided that such exports are pursuant to sales contracts signed prior to the entry into force of this Agreement."

8. In Attachment B – List of Beneficiaries, delete the table entitled:

"Distribution of non-fat dry milk in the regions of Russian Federation in first half of 1999 as food aid from USA".

All other terms and conditions of the above mentioned agreement remain unchanged.

This amendment will be come effective upon signature.

In witness whereof, the respective representatives, duly authorized for the purpose, have signed the present Amendment. Done in Moscow in duplicate in English and Russian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA

By: John F. Tefft

Name: John F. Tefft

Title: Charge D'Affaires
United States Embassy
Moscow Russia

Date: 2/1/99

By: Christopher E. Goldthwait

Name: Christopher E. Goldthwait

Title: General Sales Manager
and Vice President
Commodity Credit Corporation

Date: 2/4/99

FOR THE GOVERNMENT OF THE
RUSSIAN FEDERATION

By: Gennady Kulik

Name: Gennady Kulik

Title: Deputy Prime Minister
Of the Russian Federation

Date: 2.02. 1999

**MONITORING RUSSIAN COMPLIANCE
WITH COMMITMENTS MADE UNDER THE FISCAL YEAR 1999
P. L. 480, TITLE I AND SECTION 416(b) AGREEMENTS
BETWEEN THE UNITED STATES OF AMERICA
AND THE RUSSIAN FEDERATION**

PROCESS MODEL

February 19, 1999

EXECUTIVE SUMMARY

In October 1998, the government of Russia approached the U.S. Department of Agriculture (USDA) about the possibility of receiving food assistance in the form of donations and credit. USDA prepared a food aid package totaling 3.1 million MT with its authorities under the Section 416(b), P.L. 480, Title I, and Food for Progress programs. Two Agreements signed in December provide for the following: 1.5 million MT of wheat to be donated under Section 416(b), and 1.5 million MT of various commodities to be financed under P.L. 480, Title I. A further 100,000 MT of commodities will be donated under agreements with Private Voluntary Organizations (PVOs) operating in Russia.

Because of the many obstacles facing the implementation of such a massive food aid initiative, program goals have been set simply and clearly: (1) to provide contributions to the Russian pension fund so that vulnerable groups such as pensioners will receive financial resources to buy food and (2) to provide food directly to the most needy groups (those in isolated communities, hospitals and orphanages) prior to next year's harvest.

USDA monitoring of the Agreements will be constructed to minimize the potential for fraud and abuse in the distribution and sale of food aid commodities, and appropriate reporting and monitoring systems have been designed to ensure that this occurs. Accordingly, the Agreements are more precise and far reaching than standard Section 416(b) and P.L. 480, Title I agreements for other countries. A key item in the process is the establishment of a Working Group in Moscow to identify and resolve any irregularities. Moreover, USDA is dedicating additional resources, both in Washington and Moscow, to the Russian food aid initiative, and a computer database will be constructed in order to monitor progress on a frequent basis.

Under both the Section 416(b) and P.L. 480, Title I Agreement, monitoring will be necessary in two broad areas: (1) the importation, distribution and sale of the commodities and (2) the deposit of commodity proceeds into the "Special Account" by the Russian Government and subsequent transfer into the pension fund. On the logistics side, USDA will require detailed Work Plans from Russian authorities about how and where commodities will be distributed, and the Russian government will be required to report on its fulfillment of those Work Plans. On the financial side, all records of the Russian Government and its agents must be made available for inspection by USDA monitors. In addition, a bi-weekly Financial report submitted by the Russian Government will be reviewed by the Working Group.

It is clear that USDA employees will not be able to monitor all aspects of the food aid initiative. However, a "multiplier" approach will be used in bringing public attention to the size of the food aid shipments and their destinations. By drawing upon the Russian press and informing local social groups such as pensioners' or women's associations USDA will be able to create enough attention so that pilferage can be reduced. USDA also has access to a number of other personnel resources, including the American Business Centers operated by the Foreign Commercial Service, universities, and Peace Corps volunteers.

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1.0 INTRODUCTION

1.1 Background

As a result of the August 17, 1998 ruble devaluation and ensuing financial crisis, imports of food into Russia have fallen significantly, leading to serious concerns about shortages of food supplies in Russia this winter. Imports ordinarily supply 30-40 percent of Russia's overall food needs, and 60-70 percent of the food needs in some cities and the Russian Far East. The situation is particularly severe and worsening in Oblasts in the Northern and Far Eastern portions of Russia.

Russia's import problems have been compounded by a reduction in local agricultural production. USDA estimates that this year's grain harvest in Russia will total only 49 million tons—down from 89 million tons last year. At this level, Russia is expected to exhaust all grain stocks by early 1999 with no stocks to carry forward. Next year's crop is also at some risk because of likely shortages of credit, fertilizer, fuel, machinery, chemicals, and seed.

In October, the government of Russia approached USDA about the possibility of receiving food assistance in the form of donations and credit. USDA prepared a food aid package totaling 3.1 million MT with its authorities under the Section 416(b), P.L. 480 Title I, and Food for Progress programs.

Two Agreements signed in December provide for the following: 1.5 million MT of wheat to be donated under Section 416(b), and 1.5 million MT of other commodities to be financed under P.L. 480 Title I, including 200,000 MT of wheat, 500,000 MT of corn, 200,000 MT of soybeans, 300,000 MT of soybean meal, 100,000 MT of rice, 120,000 MT of beef, 50,000 MT of pork, and 30,000 MT of nonfat dry milk. A further 100,000 MT of commodities will be donated under agreements with Private Voluntary Organizations (PVOs) operating in Russia.

1.2 Objectives

The objective of this report is to provide a model for monitoring compliance by the government of Russia with commitments it made regarding the handling and distribution of these commodities, and regarding the receipt and deposit of proceeds from the sale of some of these commodities.

Agreements separately concluded with PVOs will contain standard Food for Progress reporting requirements as outlined in 7 C.F.R. Part 1499.

2.0 PARTICIPATING ENTITIES

2.1 USDA Washington

Two USDA agencies will be involved in the process of procuring and shipping commodities under the Agreements: the Foreign Agricultural Service (FAS), and the Farm Service Agency (FSA).

2.1.1 Foreign Agricultural Service

FAS is responsible for authorizing and overseeing the purchase and shipping of commodities financed under the P.L. 480, Title I Agreement.

2.1.2 Farm Service Agency

FSA is responsible for procuring and shipping the 1.5 million MT of wheat donated under the Section 416(b) Agreement.

2.2 Trade Mission of the Russian Federation, Washington

The primary Washington, D.C. liaison with USDA will be the Trade Mission of the Russian Federation. The Mission will act on behalf of the Ministry of Agriculture when requesting purchase authorizations from FAS for commodities financed under P.L. 480, Title I.

2.3 U.S. Embassy, Moscow

Ultimate USDA responsibility for these two programs in Russia lies with the Minister Counselor for Agricultural Affairs at the U. S. Embassy.

Specific responsibilities of the Minister counselor are:

- to deliver to the Ministry of Agriculture the Shipment, Arrival, Distribution, and Status of Funds (SADS) Report and some initial data, i.e. a control number for each vessel, name of the vessel, its departure date, and the type and quantity of commodities on board.
- to receive the SADS report back from the Ministry of Agriculture, and to pass it on to USDA Washington and the Working Group.
- to receive the Financial Report from the Ministry of Agriculture, and to pass it on to USDA Washington and the Working Group.
- to receive, and approve any changes to the Work Plans provided by the Ministry of Agriculture, and to pass these on to USDA Washington and the Working Group.
- to oversee the Working Group and approve all actions, including approval of reporting and estimating the value of shipments.
- to coordinate spot checks and oversee team of 4 USDA monitors detailed to Russia.

2.4 Russian Ministry of Agriculture

Ultimate responsibility for these two programs in the government of Russia lies with the Ministry of Agriculture. Specific responsibilities of the Ministry of Agriculture are:

- to prepare the Work Plans, and to provide them to USDA Washington, through the Minister Counselor.
- to request purchase authorizations from USDA Washington, through the Trade Mission of the Russian Federation, Washington, DC.
- to provide shipping instructions to FSA for the Section 416(b) wheat.
- to advise the Minister Counselor of any changes in the agent(s) selected to act on its behalf in receiving, distributing, storing and selling commodities.
- to prepare the SADS Report, and to provide it to the Minister Counselor.
- to prepare the Financial Report, and to provide it to the Minister Counselor.

2.5 Working Group

The Working Group will meet weekly to discuss the SADS reports, the bi-weekly Financial reports, and any operational or logistic issues of concern, and report its findings each week to the Minister Counselor. The group will consist of two U.S. officials (besides the Minister Counselor), one Russian official from the Ministry of Agriculture, one Russian official from the Ministry of Finance, one Russian official from the Ministry of Trade, and representatives of the agent(s) selected by the Ministry of Agriculture.

2.6 Assisting Partners

USDA also has access to a number of other personnel resources.

2.6.1 USDA Monitoring Staff Detailed to Russia

At least four additional individuals will be detailed to Russia on a full-time basis to assist the Minister Counselor. The staff will be placed in both the U.S. Embassy, Moscow and the U.S. Consulate, Vladivostok. Two of these individuals in Moscow will serve as the U.S. representatives to the Working Group. At any one time, at least two of the individuals will be traveling to the regions to meet with local officials and organizations, perform spot checks deliveries of commodities, and investigate any allegations of fraud or mishandling of the commodities. The remaining two individuals will be responsible for collecting information from the Ministry of Agriculture. Moreover, in addition to their regular required travel, Washington-based USDA program and evaluation personnel will travel to Russia at least once every quarter in FY 1999 to evaluate the Working Group's efforts on data collection and monitoring issues.

2.6.2 American Business Centers, Foreign Commercial Service (FCS)

The Foreign Commercial Service (FCS) operates its American Business Centers in six locations throughout the Russian Federation (plus the U.S. Embassy and consulates). In preliminary contacts, FCS appears willing to provide contract support when necessary so that consultants can be engaged throughout Russia to supplement USDA's monitoring efforts. FCS can hire local Russians on contract to monitor some shipments of commodities. These contracts would include three visits by the person to any location, including transportation and a final written report. USDA will also encourage FCS to relay on a voluntary basis to the Minister Counselor any reports seen in the local media pertaining to the handling of food commodities.

2.6.3 Peace Corps Volunteers

Another possible avenue for monitoring would be to engage Peace Corps volunteers. They are spread throughout Russia and should, by the nature of their work, have good grass roots connections. USDA will also encourage Peace Corps to relay on a voluntary basis to the Minister Counselor any reports seen in the local media pertaining to the handling of food commodities.

2.6.4 Private Voluntary Organizations (PVOs)

USDA will have agreements with several PVOs in Russia who could report on difficulties that they might be aware of.

3.0 PROCESS PLAN

3.1 Initial Distribution Plan

An initial Distribution Plan was provided by the government of Russia prior to signing the Agreements, and was incorporated into the Agreements as an attachment. The plan lists each of the beneficiary regions, and lists the quantity and types of commodities they are to receive. Periodic revisions will undoubtedly be made to the plan, but they must be presented to the Working Group and approved by the Minister Counselor. It is essential that local groups be made aware of this eventuality, and of where to find the latest plan information. Otherwise, USDA runs the risk of numerous reports of diversion of commodities when in fact the distribution plans have changed to reflect shifting needs.

3.2 Purchase Authorizations

FAS will not issue PAs until it has received a work plan, through the Minister Counselor, for all of the commodities included in the request for PA. Under the P.L. 480, Title I Agreement, the Ministry of Agriculture, through the Trade Mission of the Russian Federation in Washington, will be responsible for requesting purchase authorizations (PAs). Prior to doing so, it must provide a work plan to the Minister Counselor for all of the commodities requested in the PA.

FAS will not authorize FSA to tender for freight for any shipments of wheat under Section 416(b) for which FAS has not received an adequate work plan through the Minister Counselor in Moscow. Under Section 416(b), there are no PAs. In this case, the Ministry of Agriculture must provide a work plan to the Minister Counselor before FAS will authorize FSA to tender for freight.

3.3 Work Plans

The required Work Plans mentioned above are more specific than the initial distribution plan and must indicate, among other things, the region, oblast, and city distribution; projections for commodities requested in the PA, or for which FSA will tender for freight; estimated time lines; transportation, storage, and processing plans; projected point of sale; identified purchasers at the wholesale and agribusiness level; identified beneficiaries, and projected sale credit terms. The government of Russia will handle, distribute, and sell all of the commodities provided in the Agreements in accordance with the Work Plans. Any changes must be approved by the Minister Counselor. The intent of the Work Plan is to set up a step-by-step plan that can be easily monitored. Any irregularities or commodity losses can therefore be traced to a particular step and agent.

3.4 Logistical Accounting

The primary tool for accounting for logistics is the Shipment, Arrival, Distribution, and Status of Funds (SADS) Report. This report (included here as Appendix A) is related directly to the above Work Plans, and will provide a full accounting of each shipment, from the point of departure in the U.S. to the final sale or distribution of the commodities in the Russian Federation. FSA, through the Minister Counselor, will provide the Ministry of Agriculture with the report and some initial data. It is the responsibility of the Ministry of Agriculture to provide the remaining information to the Minister Counselor according to the time schedule provided in the Agreements.

Access by the U.S. side to all storage, transportation, and processing facilities involved in receiving, transporting, storing or processing commodities is assured under the Agreements.

3.4.1 Delivery and Discharge:

Advance Information: Before a vessel arrives at port in Russia, USDA will already be aware of and tracking some key data, i.e. the control number for each vessel, the name of the vessel, its departure date from the U.S., and the type, quantity, and condition of the commodities loaded on board.

Reporting Requirements: The SADS report contains data elements which must be filled in by the Ministry of Agriculture within 48 hours after discharge of the commodities relating to the arrival of the vessel, port of discharge, estimated value of the shipment, and the condition of the commodities upon arrival.

Oversight: Tracking of vessels can be easily accomplished by consulting SEADATA, the global vessel tracking system. During discharge, an independent surveyor will be present to observe all Section 416(b) shipments, while visits to ports to observe the initial discharge of cargo under P.L. 480, Title I could be carried out by USDA monitors or contracted personnel. The arrival schedules of vessels at the port will be publicized and the local media monitored for any reports of mishandling of the commodities.

3.4.2 Internal Transport:

Advance Information: The Ministry of Agriculture will provide USDA, through the Minister Counselor, with a Work Plan, in advance of shipment, which details, among other things, the region, oblast, and city distribution projections for commodities being transported, estimated time lines for arrival and distribution, the name of the agent(s) handling the distribution, transportation schedules, and storage and processing plans.

Reporting Requirements: USDA can account for internal transportation of the commodities in several ways. The SADS report contains further data elements which must be filled in by the Ministry of Agriculture within 14 days after discharge of the commodities relating to the agent(s) selected to handle shipments, the type and quantity of commodities it receives, and the region for which the commodities are destined. These elements can easily be cross-checked against the Work Plans provided by the Ministry of Agriculture.

Oversight: Proper transportation and handling of commodities can be verified by spot visits to destination sites by the USDA monitors, or Russians contracted by FCS. To be effective, these visits should probably occur on at least 10 % of all shipments. Site visits will take place in areas where a large amount of commodities is expected to be delivered, and the USDA monitors may stay in the area for several days to observe distribution. Consulate staff in the more distant locations can be pulled in to assist with this task. Again, working with the local media to publicize the arrival schedules of shipments will raise awareness in the regions and will deter misallocation of the commodities.

3.4.3 Point of Sale or Final Distribution:

Advance Information: The Ministry of Agriculture will provide further advance information in the Work Plans provided to USDA. This additional information will include the projected point of sale, identified purchasers at the wholesale and agribusiness level, and projected sale credit terms.

Reporting Requirements: USDA can account for the sale or final distribution of the commodities in several ways. The SADS report contains even further data elements which must be filled in by the Ministry of Agriculture within 14 days after discharge of the commodities relating to the purchasers or recipients of the commodities, the quantity sold or distributed, the date of sale or distribution, and the sale price. If the sales information (quantity sold, date of sale, and sale price) is not available within 14 days after discharge, the Ministry of Agriculture will provide the Minister Counselor with a supplemental report containing this information within 14 days after the sale of the commodities. As before, these elements can easily be cross-checked against the Work Plans provided by the Ministry of Agriculture.

Oversight: Proper sale or final distribution of commodities can be verified by spot visits to intended beneficiaries by USDA monitors, or Russians contracted by FCS. Consulate staff in the more distant locations can be pulled in to assist with this task. Again, publicizing the sale and final distribution of commodities will raise awareness in the regions and will deter misallocation of the commodities.

3.5 Financial Accounting

The primary tool for accounting for proceeds is the Financial Report. This report provides a full accounting of the date and amounts of payments into, and disbursements from, the Special Account. It is the responsibility of the Ministry of Agriculture to provide this information to the Minister Counselor, and also to the Working Group, according to the time schedule provided in the Agreements.

3.5.1 Estimation of Value:

The rouble amount to be deposited into the Special Account will be determined by the Working Group, which will set an estimated rouble value for each shipment, with approval by the Minister Counselor. The estimates will be based on the quantities announced in the tenders to purchase the commodities in the United States, and prices as estimated by the Working Group. When estimating prices, the Working Group will consider world price levels, prevailing market prices in the regions where the commodities are to be sold, and commodity quality specifications. Estimates will be available within 48 hours of discharge.

3.5.2 Deposit of Proceeds:

Within 120 days after the estimation of a ship's value, or 30 days from the time of arrival of the commodities at the point of intended destination in the targeted region, whichever comes first, the Ministry of Agriculture will deposit an amount(s) equal to the estimate into the Special Account established for the sole purpose of receiving such funds.

Upon approval of the Working Group, proceeds will be disbursed from the Special Account to the Pension Fund of the Federal Budget. Any deposits not meeting the estimated shipment value must be discussed with the Working Group to determine the cause for the shortfall and to identify remedies.

3.5.3 Final Audit

Access by the U.S. side to all documents regarding the receipt, deposit, and disbursement of sales proceeds will be permitted under the Agreements, and a joint audit will be performed during the fourth quarter of calendar year 1999. If after the joint audit at the end of the year total actual proceeds are determined to be larger than total estimated proceeds, the Ministry of Agriculture will deposit the difference into the Special Account.

3.6 Supplemental Reports

The Ministry of Agriculture will also provide to the Minister Counselor a report no later than January 31, 2000, covering the supply period(s) specified in the Agreements and containing:

- statistical data on imports by country of origin to meet usual marketing requirements specified in the Agreements;
- a statement of the measures taken to prevent the resale, diversion in transit, or transshipment to other countries, or the use for other than domestic purposes, of the agricultural commodities provided in the Agreements;
- statistical data on exports, by country of destination, of commodities the same as or like those imported under the Agreements, as specified in the Export Limitations Table of the Agreements;
- a statement on utilization of commodities imported under the Agreements; and
- a statement of measures taken to implement the publicity provisions of the Agreements.

3.7 Responsibilities of the USDA Monitoring Staff Detailed to Russia

At least four additional individuals will be detailed to Russia on a full-time basis to assist the Minister Counselor. At any one time, at least two of the individuals will be traveling around Russia, while the remaining two individuals will be located in Moscow. Each monitor will be expected to travel at least 50% of the time. Responsibilities will differ according to the location of the monitors.

3.7.1 Moscow Responsibilities

While in Moscow, monitors will be expected to perform all of the following tasks:

Serve on the Working Group: the two monitors in Moscow, along with the Minister Counselor, will serve as the U.S. representation on the Working Group, and they will prepare the agenda for each weekly meeting.

Enter report data: they will be responsible for receiving all reports, including the SADS and Financial reports, from the Ministry of Agriculture. The information from these reports must be entered into the tracking system, analyzed, and transmitted to FAS/Washington.

Maintain tracking system: they will be responsible for maintaining the tracking system used to monitor deliveries, as well as maintaining the Russian Food Aid portion of the FAS home page.

Respond to inquiries: they will serve as the primary source of information for all calls and questions regarding the Russian Food Aid. This will include documenting reports of misallocation of the commodities, and coordinating the response to any problems during the off-loading and delivery of commodities.

Backstop for traveling monitors: they will be responsible for responding to the needs of the two monitors who are on the road.

Attend to upcoming travel arrangements: they will prepare reports on travel just completed and will make arrangements for upcoming travel.

3.7.2 Regional Responsibilities

Visits by monitors to the regions can be of several types, and responsibilities differ according to type:

Port arrival and discharge visit: the two traveling monitors will make occasional visits to port facilities to witness the discharge of commodities. Responsibilities will include taking

photographs of any damaged commodities, visiting with port authorities/customs officials, and reporting on the efficiency of the discharge.

Intermediate stage visit: they will occasionally visit warehouse facilities and local elevators to report on security and environmental conditions.

Advance notice visit: in regions where large volumes of commodities are destined, it will be necessary to make an advance visit to the region to notify the local media, and to meet with local officials. Such regions include the Far East, and the Moscow and St. Petersburg Oblasts.

Destination visit: they will occasionally visit the intended beneficiaries of the commodities (i.e. orphanages, institutions, processors) to determine if all of the commodities arrived, and that they are being used appropriately.

Investigation visit: it will sometimes be necessary to travel to locations to investigate allegations of mishandling of the commodities or fraud. Responsibilities in these instances could include market price checks, and spot checks on intended beneficiaries.

3.8 Additional Oversight

Additional oversight by local media and other interested groups is welcomed and will to be thoroughly encouraged. It is important that all information relating to the Agreements be made public so that all parties are aware of the commitments made by the Russian government. A broad coalition of groups will be constructed across the Russian Federation and around the world, including local governors, the media, citizens associations, U.S. consulates, commercial traders, private industry, humanitarian organizations, and U.S. embassy personnel.

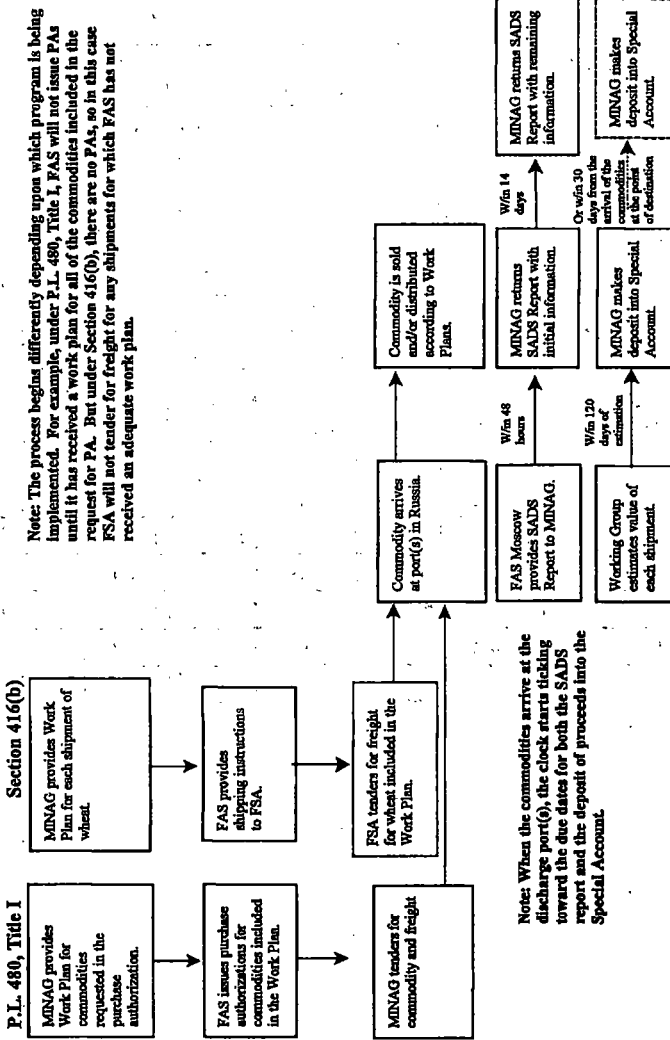
3.9 Corrective Measures

The extensive monitoring of commodities and proceeds should reduce the likelihood of any irregularities in implementing the Agreements. USDA is prepared to take necessary actions to investigate and respond to irregularities if they occur. The Minister Counselor and USDA monitors will be crucial to investigating and uncovering irregularities and recommending corrective actions. In the event that irregularities occur, USDA will have several options for its response:

- The first option, in every case, will be to consult with the Ministry of Agriculture to determine if the mishandling was the result of error or some other misunderstanding. If this is indeed the case, alternative procedures for handling that particular shipment of commodities will be negotiated.

- If it is determined that the mishandling was the result of fraud or some other deliberate action, the second option available to USDA will be to suspend all further tenders for the particular commodity in question until the matter is resolved to the satisfaction of the Minister Counselor.
- The third option is the most severe, and will only be exercised in the event that continued abuses are discovered by the monitors after options one and two have been exercised. In such a case, USDA will completely suspend any further tenders for both commodities and freight. No further tenders will take place until all of the events in question have been resolved. If no resolution can be found, USDA will terminate its agreements with the Russian government on the basis of noncompliance.

APPENDIX A - Process Model



APPENDIX B – Estimated Shipment Schedule

COMMODITY	Wheat	Corn	Soybeans/ Soymeal	Rice	Beef	Pork	NFDM
QUANTITY (MT)	1,700,000	500,000	500,000	100,000	120,000	50,000	30,000
NO. OF SHIPMENTS	34	10	10	4	5	2	2

FEBRUARY	300,000	100,000		25,000		25,000	
	6	2		1		1	
MARCH	300,000	100,000	100,000	25,000	25,000	25,000	15,000
	6	2	2	1	1	1	1
APRIL	300,000	100,000	100,000	25,000	25,000		
	6	2	2	1	1		
MAY	300,000	100,000	100,000	25,000	25,000		15,000
	6	2	2	1	1		1
JUNE	300,000	100,000	100,000		25,000		
	6	2	2		1		
JULY	200,000		100,000		20,000		
	4		2		1		

APPENDIX C

Update No.: _____

SHIPMENT, ARRIVAL, DISTRIBUTION, AND
STATUS OF FUNDS (SADS) REPORT

1. COMMODITY SHIPMENT INFORMATION IS LISTED BELOW. QUANTITIES ARE IN METRIC TONS (MT) UNLESS OTHERWISE NOTED, AND ARE APPROXIMATE, SUBJECT TO VESSEL LOADING TOLERANCES OF UP TO 5 PERCENT MORE OR LESS.

Vessel Name	Date of Departure	Commodity	Quantity	Control No.

Commodity Codes	
Wheat	01
Corn	02
Soybeans	03
Soybeans meal	04
Soybeans	05
Beef	06
Rice	07
Pork	08
Milk	09

2. LIST THE DISCHARGE INFORMATION ON EACH SHIPMENT UNDER THE APPROPRIATE COLUMN HEADINGS. IN LISTING QUANTITIES DISCHARGED, INCLUDE ESTIMATES OF QUANTITIES SPILLED OR OTHERWISE LOST OR DAMAGED DURING DISCHARGE, HANDLING, OR MOVEMENT AWAY FROM SHIPSIDE WHICH MAY BE INCLUDED IN WEIGHT OR TALLY DOCUMENTS, OR ACCOUNTING AND INVENTORY RECORDS.

Discharge Port	Date of Arrival	Commodity	Quantity Discharged	Date Completed	Estimated Value (Rb/s)	Name of Agent	Discharge No.

-2-

3. UNLESS OTHERWISE NOTED BELOW, THE COMMODITY SHIPMENTS WERE RECEIVED IN SATISFACTORY CONDITION. IN LISTING UNSATISFACTORY CONDITIONS, DO NOT INCLUDE SPILLAGE, SPOilage, OR OTHER LOSS OR DAMAGE INCURRED DURING DISCHARGE, BAGGING, HANDLING, OR TRANSPORT AWAY FROM SHIPSIDE.

4. LIST ANY SIGNIFICANT DIFFERENCES BETWEEN INVOICED OR BILL OF LADING QUANTITIES AND THE UNLOADED QUANTITIES, LISTED ABOVE THAT CAN NOT BE ATTRIBUTED TO NORMAL OR EXPECTED LOSS OR DAMAGE DURING DISCHARGE AND HANDLING OR TO DIFFERENCES IN METHODS OF WEIGHING OR TALLYING AT LOADING AND DISCHARGE PORT(S). (IF NONE, INDICATE N/A):

Control No.	Quantity Difference

6. DESTINACIÓN INFORMACIÓN:

[illegible]

-5-

8. OTHER COMMENTS, IF ANY:

9. OFFICIAL CERTIFICATION:

Signature: _____

Title: _____

Agency or Organization: _____

Date: _____



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



DATE: February 25, 1999

SUBJECT: Foreign Agricultural Service - Monitoring Russian Compliance
With Public Law 480, Title I, and Section 416(b) Agreements

TO: Christopher Goldthwait
General Sales Manager
Foreign Agricultural Service

On January 29, 1999, we met with you and members of your staff to discuss Foreign Agricultural Service's (FAS) ongoing efforts to implement monitoring and other control procedures to minimize potential misuse and improper losses of food commodities provided under the three food aid agreements between the Governments of the United States of America and the Russian Federation. These food aid agreements were authorized under Public Law 480, title I, and section 416(b). We agreed to provide our comments on your agency's monitoring plan, dated January 19, 1999. (At a subsequent meeting on February 17, you confirmed that there had been no changes to the earlier-dated monitoring plan.)

Based on our review of the monitoring plan, we have the following concerns and/or recommendations that FAS should consider to strengthen the monitoring process. Many of our concerns and/or recommendations stem from the fact that the monitoring plan includes many steps couched in conditional verbs, instead of more directive actions.

- FAS should increase the size of its monitoring staff detailed to Russia. In the monitoring plan dated January 19, FAS agreed to detail at least four individuals to assist in the monitoring. And in our discussions on January 29, you mentioned that you had made offers to five individuals who had applied for the positions. However, according to the monitoring plan, at least two of the individuals will be assigned to assist the Minister Counselor with the activities of the Working Group based in Moscow. That leaves at least three individuals to be traveling to the regions to meet with local officials, to perform spot checks, etc. (including investigating mishandling of commodities). Given the size of the Russian Federation, the quantity of commodities being distributed, and the potential problems, we feel that the number of staff currently assigned to this project is insufficient to adequately monitor the shipment and distribution of commodities.
- FAS needs to quickly sign specific agreements with or commitments from other governments and private groups (also referred to as assisting partners) committing staff to assist in the monitoring. In section 2.6 of the monitoring plan, FAS listed at least three other groups that could assist or appear willing to provide support in

its monitoring -- American Business Centers, Foreign Commercial Service; Peace Corp Volunteers; and private voluntary organizations. Since FAS has committed itself to commence shipments as soon as it receives the specific work plans (and some shipments are in transit), FAS needs to obtain firm and specific commitments from these agencies and needs to develop specific plans how it intends to utilize this assistance in its monitoring. At our discussions with FAS officials on January 29, they also mentioned the possible assistance of staff personnel from the Agency for International Development (AID) and from the Department of State's consulate offices. However, no specific working agreement or memorandums of understanding had yet been worked out between FAS and these other agencies.

- FAS needs to work with the Commodity Credit Corporation (or other funding agencies) and the assisting agencies (or partners) to develop specific budget or costs projections for the monitoring efforts in the Russian Federation. During our discussions with FAS officials on January 29, they stated that FAS had not yet worked out specific funding agreements with the possible assisting partners. Without these reimbursable cost agreements agreed to in advance by all parties, FAS' monitoring plans may collapse to its basic core of five FAS staff plus the Minister Counselor and the Working Group.
- In a number of sections throughout the monitoring plan, FAS refers to the possible use of contract support to supplement the Department's monitoring efforts. In section 2.6.2, it states that the Foreign Commercial Service can hire local Russians on contract to monitor some shipments of commodities. Section 3.4.1 refers to an independent surveyor being present at the discharge of all section 416(b) shipments, while discharge of shipments under Public Law 480, title I, could be carried out by USDA monitors or contracted personnel. Contracted Russian personnel may be used to monitor the internal transport and final destination (sections 3.4.2 and 3.4.3). Contracted local personnel will be providing key monitoring activities if FAS decides to limit its onsite staff as currently planned. However, if contracted local personnel is extensively used in the monitoring and if the monitoring is to be effective, FAS needs to ensure itself that qualified personnel will be selected, that the contracted personnel will be properly trained and supervised by FAS staff, and that the selected personnel are sufficiently independent to identify and follow up on any discrepancies.
- The initial distribution plan and the subsequent work plan (both of which must be approved by the Minister Counselor before shipments are authorized) are critical in tracking and monitoring all shipments of commodities. According to the monitoring plan, changes to the work plan may be made, but must be approved by the Minister Counselor. However, the plan does not specify which group will be responsible to ensure that any revised work plans are properly

publicized and coordinated with the FAS monitoring teams, local Russian groups, and local Russian media groups.

- In section 3.2, "Purchase Authorizations," the monitoring plan states that FAS will not issue purchase authorizations (for commodities under the Public Law 480, title I, agreement) or authorize shipping tenders (for commodities under the section 416(b) agreement) until adequate work plans have been received and approved by the Minister Counselor. With the extent of commodities being shipped and with the number of different parties involved in carrying out the food aid agreements, FAS needs to develop a system to coordinate and ensure that no purchase authorizations or shipping tenders are issued without approved work plans.

- As the primary tool in the monitoring and accounting of the commodities provided under the food aid agreements, FAS is requiring periodic submission of the Shipment, Arrival, Distribution, and Status of Funds (SADS) Report. Although we concur with this reporting requirement as a substantial improvement from its earlier food aid program, we have a number of comments or suggestions to strengthen the SADS reporting requirement.

- At each of the logistical points - delivery and discharge, internal transport, and point of sale or final distribution, the monitoring plan prescribes some reporting requirements; for example, sections of the report involving delivery and discharge should be filled in within 48 hours after discharge of the commodities at the port. However, we feel that if a monitoring official discovers any significant quantity differences (for example, possibly quantity differences reported in item 4 of the report), these differences should be immediately reported to and coordinated with the Working Group and the Minister Counselor instead of being reported at the required time interval. This would allow FAS to quickly respond to any major problem and to effectively intercede on future shipments. Furthermore, if FAS decides to go with this recommendation, FAS will need to define what it considers as significant quantity differences.

- In the reporting requirements sections, the monitoring plan does specify time periods. However, it states that the report data elements must be filled in by a certain time period by the Ministry of Agriculture. But the monitoring plan does not specifically state that these reports must be submitted to the Working Group by that timeframe. In order to analyze any differences and then take timely corrective action, FAS and the Working Group will need to have these reports in the time periods prescribed in the monitoring plan.

- The monitoring plan is not clear whether the SADS Reports are required for all shipments and that they should adequately account for the entire shipment from point of discharge at a Russian port to the final destination. Will the reports be submitted at each major logistical point or submitted at the point of final destination? If the reports are held until the final destination is reached and then submitted, FAS will not be able to identify problems sufficiently early to take corrective action, including holding off any future shipments. If the reports are to be submitted at each logistical point, who will be responsible for tracing the entire shipment and reconciling the shipment amount?

- Currently, the SADS Report includes an official certification at the end of the report. It is unclear whether the person who will be signing off as the "official certification" will also be the person monitoring and recording the specific quantities at each point; therefore, for better tracking or verification purposes, we recommend that each of the boxes or tables in the report should include the initials (or signature) of the observing monitor and the date of the visit or inspection, in addition to the official certification. Furthermore, any recipients at the final distribution or point of sale should initial and date the report as verifying that they received the reported quantities of commodities.

- Item 2 of the SADS Report states that in listing quantities discharged at the ports, the quantities should include estimates of quantities spilled or otherwise lost or damaged during discharge, handling, etc. We are confused as to the reporting of these figures on the report. Although these differences can be attributed to normal losses during shipping and discharge, we recommend that such information be specifically broken out from the quantities discharged and that the monitors clearly document on the report the reason for the differences.

- In the Oversight section for each of the logistical points, the monitoring plan describes onsite inspection or spot checks. However, at the point of "Delivery and Discharge," the plan is very tentative by stating that inspection of cargo under Public Law 480, title I, could be carried out by USDA monitors or contracted personnel. Such inspections should be required, not recommended. Furthermore, the plan does not specify how many spot checks or visits should be carried out.

Similarly, for "Internal Transport," the monitoring plan specifies that spot visits "should probably occur on at least 10 % of all shipments." However, the monitoring plan does not specify how these are to be selected or whether the 10 percent of all shipments is based on tonnage or number of shipments. Based on the identified problems in our earlier review and the current situation in

Russia, we are concerned the current sampling size is too small. Initially, FAS should anticipate a higher number of spot visits and, if appropriate, then subsequently reduce the frequency of the spot visits.

For the section on "Point of Sale or Final Distribution," the monitoring plan states that commodities at this point can be verified by spot visits. The plan does not specifically require such spot visits or prescribe the minimum number of such spot visits.

We are uncertain as to the reporting format to be used by the monitoring teams during the spot visits. The monitoring plan does not specifically describe how or what the monitoring teams are to report, or to whom the monitoring teams should be reporting. The SADS Report incorporates some of the data elements that the monitoring teams need to track and verify, but we feel that the monitoring report should also include other pertinent information: narratives based on observation, potential problems, local media coverage, etc.

- Although the monitoring plan allows any shipments to be temporarily stored, neither the plan nor the SADS Report track or account for quantities going into storage and quantities coming out storage. The monitoring plan does specify whether onsite visits should be conducted for any quantities that are in storage.

- In the "Financial Accounting" section, the monitoring plan states that "the primary tool for accounting for proceeds is the Financial Report." However, the plan does not specify the format or frequency of these Financial Reports.

The monitoring plan should specify that tracking and reconciliation of the deposit to the Special Account against the estimated rouble value for each shipment will be performed. We recommend that the Minister Counselor or FAS onsite staff be responsible for performing such functions.

- In section 3.5.2, "Deposit of Proceeds," the monitoring plan states that the Ministry of Agriculture will deposit an amount(s) equal to the estimate of the sales proceeds into the Special Account. The monitoring plan does not specify whether the Special Account will be established with the Russian Central Bank or with private banks. We feel that FAS needs to immediately determine from the Russian Government where (or with whom) the Special Account will be established. If FAS permits the Russian Government to establish the Special Account with a private Russian bank(s), FAS needs to obtain the name of the Russian bank(s) and to determine the basis for the selection (for example, whether an analysis of the financial viability and integrity of the banking institution had been performed). Furthermore, considering the financial volatility and instability in the current Russian economy and FAS' prior problems with

collapsed banking institutions on earlier food aid agreements, we are requesting the name(s) of the selected private Russian banking institution.

- Although the "Financial Accounting" section refers to transfers from the Special Account to the Pension Fund of the Federal Budget, the monitoring plan does not require the Russian Federation to report or to account for the disposition of transfers to the Pension Fund. Without any reporting of the disposition of these transfers to the Pension Fund, FAS has no assurance that the monetized proceeds from the food commodities were used for the intended program purposes.

- In order to comply with section 3.5.3, "Final Audit," a final audit should be performed after all shipments have been made or point of sales have been completed to ensure full reporting of the food aid agreements, and not necessarily in the fourth quarter of the calendar year 1999. Deposition of proceeds may extend beyond the current calendar year. Therefore, FAS may need to consider interim audit reports to provide some assurance to Congress and to the President on the disposition of the commodities and any proceeds from the sale of the commodities.

This section states that "if after the joint audit at the end of the year total actual proceeds are determined to be larger than total estimated proceeds, the Ministry of Agriculture will deposit the difference into the Special Account." We recommend that FAS ensure that all actual proceeds eventually end up in the Pension Fund, because that was the intended purpose for the sale of these commodities. If such funds are retained in the Special Account, FAS will need to verify the final disposition of such funds. Otherwise, the Working Group may deliberately underestimate the estimated rouble value of the shipments in anticipation of using net actual proceeds for other purposes than intended under these food aid agreements.

- In section 3.7.2, "Regional Responsibilities," the monitoring plan could be strengthened by requiring that, during the onsite visits, the monitors will ensure that original records or documents are being maintained at the different site visits: port arrival and discharge visit, intermediate stage visit, destination visit. In addition to performing such visits at the point of distribution, onsite visits should also be conducted shortly after receipts of the commodities to corroborate delivery and receipt of the commodities (per the SADS Report).

- In section 3.7.2, investigation visits may be necessary. However, under what authority are such investigation visits to be conducted, who will determine what to investigate, and who will perform these investigation visits?

- In our discussions with FAS officials, they stressed that an additional key oversight role in these agreements will be the local media and other interested

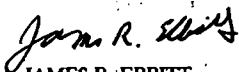
Christopher Goldthwait

7

groups. Although we agree with the concept, we are not sure that the monitoring plan assigns this to any particular group or clearly describes how this will be done.

In summary, we do commend FAS' efforts in developing the monitoring plan for the food aid agreements. However, to minimize potential abuse or misuse of the food commodities, we feel that FAS must take quick and decisive actions to strengthen the current draft of the monitoring plan. Specific agreements, work plans, budgets, etc. must be worked out with all participating entities. We feel that by addressing many of the above concerns FAS will be able to implement a more effective monitoring system; thereby, assuring Congress and the Administration that the commodities were used for its intended purposes or were received by the intended recipients.

If you would like to meet to discuss our concerns or have any questions, please contact me at 720-6945 or have a member of your staff contact Ernest M. Hayashi, Director, Farm and Foreign Agricultural Division, at 720-2887.



JAMES R. EBBITT
Assistant Inspector General
for Audit

QUESTIONS SUBMITTED BY MS. DELAURO

FRAUD AND ABUSE IN USDA PROGRAMS

Ms. DeLauro: It is essential that we combat fraud and abuse in all areas of USDA. I am pleased to see the efforts to combat food stamp fraud outlined in your testimony. Congratulations on the arrest of over 3,650 fugitive felons. I am also pleased to see the efforts to protect America's health and food safety. Furthermore, I noticed that you mentioned in your testimony that as a result of your investigations, a honey producer in Idaho paid USDA over \$3 million in restitution to the USDA after pleading guilty to submitting false statements to FSA to obtain over \$6 million in loans and subsidy payments. You stated in your testimony that this last case was a good example of the investigations that you do for the FSA. What are some other examples? What percentage of your investigations involve such white-collar crimes?

Respondent: During FY 1998, approximately 22 percent of our total investigative time was utilized conducting investigations of alleged criminal activity in FSA programs. I will provide additional examples the record.

(The information follows:)

Four Texans pled guilty in Federal court after our investigation showed they had filed more than \$2 million in false claims under the 1988-1990 Mohair Incentive Program. The Mohair Incentive Program, now eliminated, allowed mohair producers to receive Government subsidies approaching 400 percent of the amount of their mohair sales. The four individuals submitted bogus mohair sales receipts in support of their claims. In January 1998, two of the defendants, a father and son, were sentenced. The father, a former bank officer, was sentenced to serve 40 months in jail and ordered to pay \$1,585,600 in restitution. His son was sentenced to serve 24 months in jail and ordered to pay \$974,500 in restitution. Both are to serve 3 years' supervised release after finishing their prison terms. A third defendant was sentenced to 2 years' probation and 3 years' supervised release and has paid a total of more than \$368,400 in restitution while the remaining individual was fined \$4,000 and ordered to serve 22 months' imprisonment.

A prominent California agricultural producer, who was also a businessman and community leader, agreed to a civil settlement of \$300,000 after an OIG investigation. Investigators uncovered a triple-escrow scheme used by the producer in 1992 to divert \$56,000 of profit from the sale of property mortgaged to the former Farmers Home Administration (FmHA) to one of his business entities. The producer, who was on national committees pertaining to the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, defaulted on \$7.1 million in FmHA emergency loans made to his farming operation in 1978. From 1979 through 1993, the producer systematically disposed of 2,865 acres of farm land deeded to FmHA as collateral for the emergency loans through questionable real estate transactions.

You should also note that OIG conducts white collar crime investigations involving many different USDA programs besides FSA, such as the Rural Housing Service (RHS) and the Child and Adult Care Feeding Programs. I will provide examples for the record.

(The information follows:)

In Washington State, a prominent local attorney was sentenced to 21 months in prison and ordered to pay \$300,000 in restitution after he pled guilty to making false statements, receiving unlawful payments, and filing a false Federal income tax return. As a general partner of limited partnerships, which owned federally financed and subsidized low-income housing projects, the attorney built 65 apartment projects in 20 States under the Rural Rental Housing program. Our investigation disclosed that the partner submitted false and fictitious construction invoices to RHS and to the lending banks which administered RHS loans in order to divert \$176,000 in funds from four RHS loans. Our investigation also showed that he received kickbacks from the bank where loan funds were deposited. In order to conceal the kickbacks, he submitted fictitious invoices to the bank for purported legal services rendered. He also failed to disclose \$95,000 in income derived from the diverted funds and other sources on his 1995 individual income tax return.

In Ohio, 10 people, including the director of the sponsoring organization operating a local child and adult care food program, were charged with conspiracy to submit false claims for issuing and/or receiving reimbursement payments for in-home day care providers who did not exist or did not have children in the home. This investigation identified 10 people who conspired to set up more than 40 false providers, resulting in the submission of false claims for reimbursements totaling approximately \$1.1 million. The scheme had been going on since about 1988. This investigation continues, and additional prosecutions are anticipated. The investigation was worked jointly with the U.S. Postal Inspection Service.

FEDERAL FOOD INSPECTION PROCESS--STREAMLINING

Ms. DeLauro: Yesterday, NPR reported on a Listeria outbreak at a Bil Mar Foods plant in Michigan. Would streamlining the federal food inspection process -- possibly placing it under one agency -- decrease such criminal activity?

Respondent: Food safety is a major concern and priority for USDA/OIG. In everything we do, the well-being of people is paramount. The quality and wholesomeness of the Nation's food supply, from production to the consumer, are of special concern to OIG. Investigations of any criminal activity that pose a threat to the health and safety of the public remain our highest priority.

Consolidating the Federal food inspection process in itself will not deter criminal activities. Profit-motivated criminal activity that threatens the food industry can at any point cause economic disruption while victimizing innocent members of the industry.

Likewise, threats of criminal adulteration and biological contamination of food products from outside the food industry for extortion or ideological motives can victimize and disrupt the Nation's food production and distribution systems. These threats must be resolved through a vigilant, established emergency law enforcement and health and safety response.

While streamlining the Federal food inspection process may help to improve food safety, this alone is not a cure-all for foodborne illness caused by bacteria. For example, *Listeria monocytogenes* (*Listeria*) is a bacteria often found in soil and water.

The new science-based, preventive-oriented meat and poultry inspection system, the HACCP system, has helped to reduce the threat of foodborne illness. HACCP is intended to identify critical points in food processing and establish controls to prevent adulteration caused by microbes, chemicals, or physical hazards.

HACCP AUDITS

Ms. DeLauro: You mentioned in your testimony that the IG has begun audits of the new food safety procedures for meat and poultry inspections -- HACCP. When do you expect to have those audits completed?

Respondent: Recently, we took our first step to review the implementation of the HACCP system in meat and poultry establishments. In December, auditors began to assess FSIS controls to ensure that meat and poultry plants have implemented and maintained Sanitation Standard Operating Procedures (SSOP), which represent the initial phase of FSIS' pre-HACCP implementation. We are now beginning a nationwide review of HACCP to determine the effectiveness in meeting the new requirements.

Since the meat and poultry industry plays a critical role in determining the ultimate outcome for overall food safety, we plan to assess the industry's, as well as FSIS', compliance with HACCP requirements. To obtain the broadest results possible, in addition to assessing the SSOP plans and HACCP implementation, we plan to expand our review to include the FSIS Microbiological Testing Program and the controls over the sampling and test results of meat and poultry products under the HACCP system.

Because HACCP has not been fully implemented, we will continue our review and will monitor the process through January 2000 when the very small plants (fewer than 10 employees) are required to have their HACCP systems in place.

2080 Explanatory Notes

OFFICE OF THE INSPECTOR GENERAL

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OFFICE OF THE INSPECTOR GENERAL

PURPOSE STATEMENT

The Office of the Inspector General was established pursuant to the Inspector General Act of 1978 (5 U.S.C. app. 3). Its activities consist of two broad areas, audit and investigations.

1. The appropriation funds activities which are authorized by the Inspector General Act of 1978 as amended. This Act expanded and provided specific authorities for the activities of the Office of the Inspector General which had previously been carried out under the general authorities of the Secretary of Agriculture. The Office of the Inspector General:
 - a. Provides policy direction and conducts, supervises, and coordinates all audits and investigations relating to programs and operations of the Department;
 - b. reviews existing and proposed legislation and regulations and makes recommendations to the Secretary and the Congress regarding the impact such initiatives will have on the economy and efficiency of the Department's programs and operations and the prevention and detection of fraud, waste, and mismanagement in such programs;
 - c. recommends policies for and conducts, supervises, or coordinates other activities in the Department whose purposes are to promote economy and efficiency or prevent and detect fraud, waste, and mismanagement;
 - d. recommends policies for and conducts, supervises, or coordinates relationships between the Department and other Federal, State, and local Government agencies: (1) promoting economy; (2) preventing and detecting fraud, waste, and mismanagement; and (3) identifying and prosecuting individuals and groups involved in fraud, waste, and mismanagement; and
 - e. keeps the Secretary and the Congress fully and currently informed about fraud, waste, mismanagement, deficiencies, and other serious problems in Department programs and operations; recommends corrective action; and reports on the progress made in correcting problems.
2. The Office of the Inspector General is headquartered in Washington, D.C., and has regional offices in the following cities: New York, New York; Beltsville, Maryland; Atlanta, Georgia; Chicago, Illinois; Temple, Texas; Kansas City, Missouri; and San Francisco, California. As of September 30, 1998, total onboard employment was 734, including 725 full-time and 9 other employees. There were 190 employees located in the Washington, D.C., metropolitan area and 544 located in the field.

OFFICE OF THE INSPECTOR GENERAL
AVAILABLE FUNDS AND STAFF YEARS

1998 Actual and Estimated 1999 and 2000

Item	1998		1999		2000	
	Actual	Staff	Estimated	Staff	Estimated	Staff
	Amount	Years	Amount	Years	Amount	Years
Salaries and Expenses .	\$63,128,000	750	\$65,128,000	753	\$68,246,000	753
<u>Obligations under other</u>						
<u>USDA appropriations:</u>						
Commodity Credit Corporation Audit of Financial Statements	842,000	--	842,000	--	1,078,000	--
Risk Management Agency Audit of Financial Statements	170,000	--	170,000	--	234,000	--
Rural Utilities Service Audit of Financial Statements	170,000	--	170,000	--	258,000	--
OCFO/NFC, Audits of Non-USDA agencies	431,000	--	688,000	--	707,000	--
Total, Other USDA Funds	1,613,000	--	1,870,000	--	2,277,000	--
 TOTAL, OIG	 \$64,741,000	 750	 \$66,998,000	 753	 \$70,523,000	 753

OFFICE OF THE INSPECTOR GENERAL

Permanent Positions by Grade and Staff Year Summary1998 and Estimated 1999 and 2000

Grade	1998			1999			2000		
	WashDC	Field	Total	WashDC	Field	Total	WashDC	Field	Total
Executive									
Level IV	1	--	1	1	--	1	1	--	1
ES 6	1	--	1	1	--	1	1	--	1
ES 5	3	--	3	3	--	3	3	--	3
ES 4	4	--	4	4	--	4	4	--	4
ES 3	--	--	--	--	--	--	--	--	--
ES 2	--	--	--	--	--	--	--	--	--
GS-15	16	12	28	16	12	28	16	12	28
GS-14	40	50	90	40	50	90	40	50	90
GS-13	42	122	164	43	122	165	43	122	165
GS-12	25	211	236	25	213	238	25	213	238
GS-11	6	31	37	6	31	37	6	31	37
GS-10	1	--	1	1	--	1	1	--	1
GS-9	9	39	48	9	39	48	9	39	48
GS-8	5	--	5	5	--	5	5	--	5
GS-7	18	50	68	18	50	68	18	50	68
GS-6	10	29	39	10	29	39	10	29	39
GS-5	6	14	20	6	14	20	6	14	20
GS-4	3	2	5	3	2	5	3	2	5
Total Permanent Positions	190	560	750	191	562	753	191	562	753
Unfilled Positions									
End-of-year	-3	-10	-13	--	--	--	--	--	--
Total, Permanent Full-Time Employment, End-of-year	187	550	737	191	562	753	191	562	753
Staff Year Ceiling	190	560	750	191	562	753	191	562	753

OFFICE OF THE INSPECTOR GENERAL

CLASSIFICATION BY OBJECTS1998 Actual and Estimated 1999 and 2000

Personnel Compensation:		1998	1999	2000
Washington, D.C.		\$ 8,517,189	\$ 8,919,000	\$ 8,919,000
Field		<u>34,068,756</u>	<u>35,675,000</u>	<u>35,675,000</u>
11	Total pers. comp.	42,585,945	44,594,000	44,594,000
12	Personnel benefits	10,674,632	11,178,000	11,178,000
13	Benefits for former personnel	8,586	9,000	9,000
	Total pers. comp. & benefits	<u>53,269,163</u>	<u>55,781,000</u>	<u>55,781,000</u>
Other Objects:				
21	Travel	4,646,124	4,691,000	5,191,000
22	Transportation of things	415,386	419,000	419,000
23.2	Rental payments to others	397,351	401,000	401,000
23.3	Communications, utilities, and miscellaneous charges	816,722	825,000	825,000
24	Printing and reproduction	142,014	143,000	143,000
25.1	Advisory and assistance services	--	--	100,000
25.2	Other services	998,960	1,008,000	1,008,000
25.3	Purchases of goods and services from Government accounts	742,172	749,000	1,249,000
25.4	Operation and maintenance of facilities	92,798	94,000	94,000
25.6	Medical care	37,317	38,000	138,000
25.7	Operation and maintenance of equipment	302,975	306,000	306,000
25.8	Subsistence and support of persons	27,917	28,000	28,000
26	Supplies and materials ..	443,273	448,000	866,000
31	Equipment	174,559	176,000	1,676,000
42	Insurance and indemnities	7,901	8,000	8,000
43	Interest and dividends ..	<u>12,973</u>	<u>13,000</u>	<u>13,000</u>
	Total other objects	<u>9,258,442</u>	<u>9,347,000</u>	<u>12,465,000</u>
	Total Direct Obligations	<u>\$62,527,605</u>	<u>\$65,128,000</u>	<u>\$68,246,000</u>
<u>Position Data:</u>				
	Average Salary, ES positions ...	\$125,000	\$125,000	\$125,000
	Average Salary, GS positions ...	\$61,000	\$63,000	\$66,000
	Average Grade, GS positions ...	11.3	11.3	11.3

OFFICE OF THE INSPECTOR GENERAL

PASSENGER MOTOR VEHICLES

The Office of the Inspector General (OIG) owns eight passenger vehicles. This figure includes vehicles which were seized and forfeited to the Government as the result of OIG investigations in cooperation with other law enforcement agencies. These vehicles were acquired by OIG under the excess property regulations. The agency utilizes these vehicles for law enforcement activities during undercover operations to obtain evidence for prosecutions. OIG has installed specialized law enforcement equipment such as radios, cameras, and video equipment in these surveillance vehicles. These investigations typically include the controlled exchange of USDA Food Coupons for cash or contraband and observing and photographing of criminal violations of USDA laws and regulations. OIG must have such operational capabilities and equipment to fulfill the statutory criminal investigative responsibilities specified in the Inspector General Act of 1978 and other related Congressional Acts.

Age and mileage data for passenger-carrying vehicles on hand as of September 30, 1998, are listed below. No requests for additional vehicles are anticipated. These figures do not include vehicles leased from the General Services Administration (GSA) or commercially leased under GSA approved contracts.

Age Data			Mileage Data		
Age-Year of Model	Number of Vehicles	Percent of Total	Lifetime Vehicles (thousands)	Number of Vehicles	Percent of Total
1993 & before	7	88	80-100	4	50
1994	1	12	60-80	1	13
Total	8	100	40-60	2	25
			20-40	1	12
			Total	8	100

OFFICE OF THE INSPECTOR GENERAL
APPROPRIATION LANGUAGE

The estimate includes proposed changes in the language of this item, as follows (new language underscored; deleted matter enclosed in brackets):

Office of the Inspector General

For necessary expenses of the Office of the Inspector General, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. section 2225), and the Inspector General Act of 1978 as amended [~~\$65,128,000~~], \$68,246,000 including such sums as may be necessary for contracting and other arrangements with public agencies and private persons pursuant to section 6(a)(8) of the Inspector General Act of 1978, as amended, and including a sum not to exceed \$50,000 for employment under 5 U.S.C. 3109; and including a sum not to exceed [~~\$100,000~~], \$125,000 for certain confidential operational expenses including the payment of informants, to be expended under the direction of the Inspector General pursuant to Public Law 95-452 and section 1337 of Public Law 97-98. Provided, That funds transferred to the Office of the Inspector General through forfeiture proceedings or from the Department of Justice Assets Forfeiture Fund or the Department of the Treasury Forfeiture Fund, as a participating agency, as an equitable share from the forfeiture of property in investigations in which the Office of the Inspector General participates, or through the granting of a Petition for Remission or Mitigation, shall be deposited to the credit of this account for law enforcement activities authorized under the Inspector General Act of 1978, as amended, to remain available until expended.

This change proposes an increase in budget authority from \$100,000 to \$125,000 for confidential funds (no increase in appropriation). The current \$100,000 limitation is insufficient to provide funds for all of our nationwide undercover investigative operations. Carrying out undercover law enforcement operations is a highly unpredictable activity sometimes requiring large amounts of "seed" money up front. Demands on this authority increase each year. For the past couple of years, some cases have had to be delayed until funds could be moved from other regions. Also, our special law enforcement initiative, Operation Talon, will involve extensive undercover-type operations as we expand it nationwide. Thus, we anticipate the need for the \$100,000 limitation to be increased to \$125,000 so that OIG may effectively run these unique law enforcement undercover activities.

OFFICE OF THE INSPECTOR GENERAL

LEAD-OFF TABULAR STATEMENT

SALARIES AND EXPENSES

(On basis of appropriation)

Appropriations Act, 1999	\$65,128,000
Budget Estimate, 2000	68,246,000
Increase in Appropriation	<u>+3,118,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Program Changes</u>	<u>2000 Estimated</u>
Audit and Investigations	\$65,128,000	+\$3,118,000	\$68,246,000

PROJECT STATEMENT

(On basis of appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease</u>	<u>2000 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Audit and Investigations	\$62,527,605	750	\$65,128,000	753	+\$3,118,000	\$68,246,000	753
Unobligated Balance	600,395	--	--	--	--	--	--
Total, Available or Estimate	63,128,000	750	65,128,000	753	+3,118,000	68,246,000	753

OFFICE OF THE INSPECTOR GENERAL

JUSTIFICATION OF INCREASES AND DECREASES

An increase of \$3,118,000 for the Office of the Inspector General (OIG) to enhance its law enforcement expertise to better protect and safeguard the health and safety of the Nation's food supply and the economic viability of the food and agriculture industry, and to provide OIG adequate ADP equipment and software to support this effort:

The majority of these funds will allow OIG to more effectively apply its unique criminal investigation and law enforcement expertise in responding to emergency situations threatening the Nation's food supply, which have been occurring with ever-increasing frequency. Recent investigations, some still ongoing, have involved real or threatened adulteration of meat and milk products and strawberries with everything from hepatitis to E. coli to AIDS-infected blood; some of these products were destined for or actually ended up in the National School Lunch Program or on military bases. The remainder of these funds would be used to enhance OIG's computer hardware and software to provide it the capability to support this investigative endeavor.

The threat to the wholesomeness and safety of domestic and exported food requires not only vigilance but also advanced preparedness, sometimes involving preemptive undercover operations. Profit-motivated criminal activity that threatens the food industry can cause economic disruption while victimizing innocent members of the industry. Likewise, threats from outside the food industry of criminal adulteration and biological contamination of food products for extortion or ideological motives victimize and disrupt the food production/distribution systems until these threats are resolved through a law enforcement and health/safety response. This funding will allow OIG to make a significant improvement in its current capability to respond to critical incidents of food product threats.

We have initiated audits of the new food safety procedures for inspecting meat and poultry plants, such as Hazard Analysis Critical Control Point, or HACCP. An increasing number of processing plants are becoming subject to HACCP; the safety and wholesomeness of the Nation's meat and poultry supply are dependent on HACCP being successfully implemented. Meanwhile, our efforts to actively address these food safety concerns present special challenges, such as: immediate response to emergency situations which require specific law enforcement expertise to investigate these incidents and specialized equipment, protective clothing, and supplies needed to ensure the health and safety of our personnel responding to these crises.

For example, in Milwaukee, Wisconsin, a threat of biological contamination in a meat plant (the introduction of AIDS-tainted blood into meat product) resulted in the immediate deployment of 32 OIG special agents and auditors to the scene to determine the validity of the threat and to identify those responsible. OIG investigators and auditors, program personnel from the Food Safety and Inspection Service (FSIS), and agents from the Federal Bureau of Investigation worked around-the-clock to resolve this bio-terrorist food safety threat and to ensure that potential contaminants were not introduced into the food chain. In such situations in the future, a paramount concern would be that the personnel involved be adequately protected with proper safety equipment, supplies, and protective clothing.

Law enforcement in this area requires consideration of the economic impact of the closing of a major food processing plant. In the above, the Milwaukee plant had violated no laws and had implemented HACCP inspection procedures, yet its production was successfully halted by outside forces, and the facility was shut down. Not only did OIG's rapid response and deployment of

considerable staff resources help to protect the health and safety of consumers, it also allowed the plant to reopen with a minimum delay, as opposed to an indefinite length of time.

The cost of rapid responses such as this is great. In addition to the cost of its personnel and the disruption of ongoing OIG work, to date, the agency has expended approximately \$40,000 in travel costs alone, which limits travel funds for current, planned investigations. These costs will continue to rise until this matter is resolved.

In another recent case, criminal activity involved the intentional introduction of adulterated meat into the food chain. To address this and similar situations, we are entering into joint activities with other Federal and State agencies to share intelligence and other information and conduct undercover operations. Doing so will help us better target criminal enterprise in general and the threat to the food supply in packing plants and other facilities in particular.

One form of criminal enterprise that poses a significant threat to the Nation's food supply and its economic well-being is smuggling. As both a direct result and a byproduct of smuggling is the danger of pestilence—whether insects, fungi, bacteria, or viruses—not previously present in the United States. As a result, entire sections of the U.S. agricultural industry—e.g., citrus, other plants, and animal products—could be wiped out, devastating the economy of these products and local communities which produce them. OIG has begun an anti-smuggling campaign to interdict and suppress foreign contraband that is dangerous and often deadly when consumed by the American population and potentially catastrophic to the economic stability of certain U.S. agricultural products. Ongoing criminal investigations are targeting smuggled fruits, vegetables, plants, insects, animals, pesticides, animal drugs, and other commodities that bring high dollars in underground, "black market" commerce. This initiative requires significant agent resources dedicated to intelligence collection, undercover operations, and foreign law enforcement cooperative efforts for extensive surveillance, utilizing high-tech devices and equipment that could cross international boundaries.

Additional funding is requested to allow OIG to carry out its plans to begin a long-term joint Special Field Enforcement Program with USDA's Animal and Plant Health Inspection Service, the U.S. Customs Service, and State and local law enforcement agencies in Florida. This Special Field Enforcement Program would target organized transportation and distribution networks responsible for the smuggling of foreign fruit contaminated with fruit flies and other pests into the United States. With adequate funding, this Special Field Enforcement Program will eventually expand to other States with pest smuggling problems.

The smuggling of infested fruit into the United States is a serious law enforcement problem because the criminal profit is tremendous while the deterrent is minimal. For example, longans, prized Asian fruits which are, at times, contaminated with fruit flies and smuggled into the U.S., cost \$1 a pound from distributors in Taiwan and are sold illegally in U.S. markets at \$7 to \$10 per pound. OIG intelligence efforts have documented that semi-trucks, which can carry 40,000 pounds or more of smuggled longans, have transported the fruit from U.S. ports into Canada, where it is not prohibited, only for it to again be smuggled back into the U.S., thus allowing for pest infestation in this country. Intelligence efforts over the past several years have indicated that such illegal activity is a growing problem.

One example of a devastating pest that was introduced into this country illegally is the Mediterranean fruit fly, commonly called Medfly. One of the world's most destructive agricultural pests, it attacks more than 250 kinds of fruits, nuts, and vegetables, causing major economic losses. Whole States can be beset with severe crop losses and economic problems caused by this and other such pests. For example, in addition to the Medfly infestations, in the past 4 years, Florida has been faced with severe outbreaks of oriental fruit fly, citrus leaf miner, brown citrus aphid, citrus canker,

African beetle, leather leaf anthracnose, pine short beetle, and sweet potato fly. Animal pests and disease importation are also a severe problem in Florida.

The problems can be widespread. For example, the State of California produces over \$25 billion in fruits, nuts, and vegetables annually—about 55 percent of the Nation's output. About \$11.8 billion of these commodities is exported to other countries annually. The risk to the agricultural industry, including exports, is clear. Since 1980, over \$256 million in California and Federal funds have been spent to eradicate Medfly infestations in quarantined areas. In the last 10 years, Florida has spent more than \$150 million to eradicate such infestations. The additional funding will allow OIG to purchase much needed equipment and other resources to better target and counter such criminal activity, thereby preventing devastation to the agricultural sector.

In carrying out the types of investigations described above, OIG must perform extensive travel, procure and maintain the necessary specialized equipment needed to investigate these incidents, provide essential protective supplies and/or equipment to ensure the health and safety of our agents and auditors, provide up-front specialized training to our staff to prepare them to cover various types of such emergencies, and provide state-of-the-art year 2000 compliant ADP equipment and systems to track data; analyze intelligence-based information; and provide faster, more responsive information to better support this mission work. This increase is critically needed to obtain these essential items to ensure OIG's mission to protect the public safety and the economic security of the American agriculture. These funds would be utilized in the following manner:

<u>Funding Area</u>	<u>Funding</u>
Specialized and Protective Equipment	\$1.2
ADP Equipment/Software	.5
Travel	.5
Training	.3
Supplies/Protective Clothing	.4
Expertise Services	.1
Vaccination and Immunization Shots	.1
Total	2.1

OFFICE OF THE INSPECTOR GENERAL

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
California	\$7,187,257	86	\$ 7,486,000	86	\$ 7,845,000	86
D.C.	13,547,323	128	14,110,000	130	14,786,000	130
Georgia	8,561,753	106	8,918,000	107	9,345,000	107
Illinois	6,772,967	98	7,055,000	98	7,392,000	98
Maryland	6,768,307	85	7,050,000	85	7,387,000	85
Missouri	10,826,710	128	11,277,000	128	11,817,000	128
New York	2,836,861	36	2,955,000	36	3,096,000	36
Texas	6,026,427	83	6,277,000	83	6,578,000	83
Subtotal,						
Available						
or Estimate ..	62,527,605	750	65,128,000	753	68,246,000	753
Unobligated						
Balance ...	600,395	--	--	--	--	--
Total, Available						
or Estimate .	63,128,000	750	65,128,000	753	68,246,000	753

OFFICE OF THE INSPECTOR GENERAL

STATUS OF PROGRAM

The Office of the Inspector General (OIG) is operationally independent of other agencies of the Department. OIG has the responsibility to: (1) supervise, coordinate, and provide policy direction for audit and investigative activities relating to programs and operations of the Department; (2) recommend policies and conduct, supervise, or coordinate other activities of the Department for the purpose of promoting economy and efficiency and preventing and detecting fraud, waste, and mismanagement in its programs and operations; (3) keep the Secretary and the Congress informed of fraud and other serious problems, waste, and deficiencies relating to the administration of programs and operations of the Department; and (4) recommend corrective action and report on progress made in obtaining management's agreement to implement such action.

ACCOMPLISHMENTS IN FISCAL YEAR 1998

During fiscal year (FY) 1998, OIG issued 220 audit reports and 815 investigative reports. Investigations also had 777 indictments, 604 convictions (including pretrial diversions), and 63 suits filed. The period of time to get court action on an indictment varies widely; therefore, the 604 convictions are not necessarily related to the 777 indictments.

Audit Monetary Results:

During FY 1998, management decisions were made on 189 audit reports. At the time of the management decision, the monetary values agreed to by agencies were:

		(in millions)
Questioned and unsupported costs and loans		\$ 112.5
Recommended for recovery	\$ 39.5	
Not recommended for recovery	73.0	
Funds to be put to better use		\$5,427.9
Total audit monetary results		\$5,540.4

Investigative Monetary Results:

Claims established	\$ 2.8
Recoveries and collections	11.7
Cost avoidance (payments not made based on investigations)	6.6
Fines	15.9
Administrative penalties	.5
Restitutions	43.6
Total investigative monetary results	\$ 81.1

AUDIT ACCOMPLISHMENTS

Each fiscal year we use a strategic planning approach to focus our audit resources on those programs most vulnerable to fraud and mismanagement or those where the largest dollar losses are most likely to occur. Highlights of our efforts during FY 1998 include a review of farm-related programs such as emergency and crop disaster assistance, crop insurance, conservation reserve signup activities, and payment limitations. The Food Stamp Program continues to be an area of emphasis, including the ongoing implementation of electronic benefits transfer systems. The Presidential initiative on the Child and Adult Care Food Program, entitled Operation "Kiddie Care," continues to find evidence of abuses within sponsoring organizations. We also identified inadequate oversight in the Fluid Milk Promotion Program. Within the Forest Service, our efforts identified several issues involving the National Forest Foundation and serious deficiencies found in land adjustment program transactions. A joint initiative with the Rural Development mission area uncovered fraudulent and hazardous conditions in the Rural Rental Housing Program. We also completed our next phase of the review of the Department's backlog of discrimination complaints made by disadvantaged and minority farmers. As required by law, we completed seven financial statement audits, including the Department's consolidated statement.

Details of our significant audit accomplishments may be found in the Semiannual Reports to Congress covering FY 1998. Some highlights are provided below.

FARM AND FOREIGN AGRICULTURAL SERVICES

Farm Service Agency (FSA)

Review of Nomininsured Crop Disaster Assistance Program (NAP) Shows Overpayments

We reviewed 1996 crop-year program payments in California, Florida, Georgia, and Oklahoma, where \$26.9 million in benefits (out of \$45.9 million nationwide) was paid as of July 31, 1997. We found hidden or inaccurate reporting of production and the use of incorrect yields to compute payments for 23 of the 98 cases. We found that because the estimates and adjustments used to determine loss could not be verified, the process for determining the actual amount of loss allowed producers to obtain unwarranted program benefits. This was a major problem for seeded wheat forage in Oklahoma. For other crops (strawberries, cherries, and onions), production was based on information reported by the producer which also was not verifiable as actual production. We recommended that FSA collect \$411,000 in overpayments. FSA has accepted our recommendation and will review the payments and collect any overpayments to which relief provisions did not apply.

FSA Paid Duplicate Benefits for Crop Losses

Of 80 emergency loans reviewed in 6 key States, 33 borrowers received either catastrophic risk (CAT) protection or Nomininsured Crop Disaster Assistance Program (NAP) payments and emergency loan assistance for the same crop losses. This occurred because FSA Farm Loan Program State and county personnel were unaware that for the same losses, NAP and CAT regulations prohibit producers who elected to receive NAP or CAT benefits from obtaining other USDA benefits. As a result, the borrowers received CAT and NAP payments totaling \$803,000 and emergency loan assistance totaling \$3.7 million for the same losses.

FSA's internal controls did not prevent or detect false certifications or misinformation provided by emergency loan borrowers or the errors made by FSA personnel computing maximum emergency loan amounts. For 38 of the 67 loans fully reviewed (13 had a limited review), borrowers falsely

certified or misreported yields, acreage, and/or insurance compensation to FSA or could not document reported data. FSA personnel made errors computing maximum loan amounts for 32 of the 80 loans reviewed. At least 14 loans were overstated by \$245,000, and at least 8 were understated by almost \$40,000. As a result, FSA overloaned amounts totaling \$871,000 and underloaned amounts totaling almost \$116,000. In Oklahoma, we referred loans involving false certifications to the U.S. attorney, who has initiated civil lawsuits against seven borrowers and the individual who packaged the loans for five of the borrowers.

We recommended that the FSA national office instruct each State to review all emergency loans made since the inception of NAP and CAT to determine if unauthorized multiple benefits were issued and require borrowers to refund the questioned amounts. We also recommended that FSA strengthen program controls and amend agency procedures to clarify that the law prohibits borrowers from receiving duplicate emergency benefits on the same crop losses.

Overpayment of Emergency Assistance to Producers in the Upper Great Plains

In January 1997, FSA implemented two programs to provide assistance to endangered livestock caught in the blizzards and cold weather in North and South Dakota. The Emergency Feed Grain Donation Program (EFGDP) provided 100-percent cost-share assistance to livestock producers for snow removal and to feed their livestock in immediate danger of perishing. The Foundation Livestock Relief Program (FLRP) provided 30-percent cost-share assistance for area producers to enhance the diet of foundation livestock (breeding stock) weakened by the severe winter weather.

Because the two programs ran concurrently with different cost-share rates, some producers improperly received assistance for supplemental feed purchases under EFGDP instead of FLRP. This allowed the producers to receive 100 percent of the feed cost compared to the 30-percent cost-share. In addition, we found that producers were paid excessive snow removal costs during a 15-day extension period and for snow removal when they already had access to normal feed supplies. FSA improperly authorized \$2.5 million of FLRP payments to 23 counties in Iowa, Montana, Nebraska, and Wyoming adjoining the disaster area. We recommended FSA strengthen its oversight role to help ensure that future disaster assistance is limited to identified areas and require county offices to act on the cases where excessive EFGDP and FLRP payments were issued. FSA believes its existing controls are generally adequate; but, due to the complexity and difficulty of administering emergency and disaster programs, procedures to improve oversight will be incorporated into future programs. FSA agreed, subject to the finality rule, to recover the overpayments.

Controls Over Environmental Benefits Index Scores Could Be Improved

Under the Conservation Reserve Program (CRP), producers receive annual payments from FSA to take highly erodible cropland out of production and establish and maintain a vegetative cover on it. During signup, producers designate tracts of land determined to be environmentally sensitive, which are reviewed and scored according to values on the Environmental Benefits Index (EBI). One subpart of the index identifies the environmental benefits of the land (e.g., providing cover beneficial to wildlife). It also specifies what numerical scores may be given for the different kinds of conservation practices (e.g., planting mixed grasses, legumes, etc.) that the producer established to enhance each benefit. Tracts that have been awarded higher scores are regarded as more worthy of conserving and qualify for CRP consideration ahead of tracts with lower scores. Tracts that fall below a minimum score are excluded from the program.

FSA, with assistance from the Natural Resources Conservation Service (NRCS), has overall responsibility for CRP. FSA personnel determine producer and land eligibility, maintain CRP offer

data, and develop the cost score used to rank offers. NRCS personnel are primarily responsible for determining the point scores for the six environmental factors used to rank offers. Those point scores and the cost score represent EBI.

In our audit related to the fifteenth CRP signup activities, we reported that NRCS activities exhibited significant control weaknesses. For example, the agency was not aware that some States had improperly modified the point scores for various environmental ranking factors and subfactors. In addition, producers in some States received high scores for preserving cover beneficial to wildlife or for protecting threatened and endangered species even though the required covered or endangered species were not present on the tract of land. Such inconsistencies can result in greater CRP consideration for cropland in one State even though its environmental benefits are no greater than those of its neighbors. We identified approximately 2,900 offers nationwide with annual rental payments, totaling about \$13 million, that were at risk of incorrect acceptance into CRP. NRCS management issued guidance that addressed some scoring problems noted in our review. Due to the large error rate in the fifteenth CRP signup, we expanded audit coverage into the sixteenth CRP signup.

About 126,000 offers totaling about 9.5 million acres were received for the sixteenth CRP signup, with about 5.9 million acres accepted for enrollment. The sixteenth signup included improvements in the scoring critical for wildlife cover benefits and air quality benefits from reduced wind erosion. Other minor changes were made for clarity and to facilitate administration of the EBI process. In an effort to improve communication and provide clear policy direction for the sixteenth signup, FSA and NRCS program procedures were combined into one handbook.

During sixteenth signup activities, NRCS personnel continued to make various errors that affected EBI scores. Specifically, we found errors that affected EBI on 46 percent of the offers we reviewed (41 of the 90). This compared with a 47 percent error rate noted during our review of the fifteenth signup activities. We concluded that the complexity and extent of the EBI computations contributed to the error rate. FSA and NRCS agreed and required all NRCS field offices to conduct a secondary review of all offers and target the four most prevalent types of errors.

Also, in our prior audit of fifteenth signup activities, NRCS agreed to review matrices developed for the cover and endangered species subfactors. This review was performed but was not entirely effective. We again reported that NRCS personnel did not receive the technical support needed to accurately and efficiently compute the EBI scores.

We also questioned the rationale for awarding points to producers who were able to offer acreage equal to or greater than the average contract size in their respective States. Awarding points based on the number of acres offered could be perceived as a barrier to departmental programs. We recommended that FSA analyze and carefully reconsider such policies.

Risk Management Agency (RMA)

Reinsurance Companies' Quality Control Systems Lacking

RMA delivers multiple-peril crop insurance programs through standard reinsurance agreements with private insurance companies. Under the agreements, the companies are required to develop quality control plans consistent with the agency's policies and procedures that safeguard against waste, loss, unauthorized use, and misappropriation. This past year, we reviewed the quality control processes of reinsured companies operating under agreements made with RMA in 1995. We found that, although the quality control systems generally complied with the terms of the agreement, they did not

effectively improve program delivery, ensure program integrity, or measure and report on program performance. The consequences of poorly specified requirements in the reinsurance agreements were insufficient data collection, maintenance, and reporting requirements; ineffective oversight of quality control operations; and insufficient controls against conflicts of interest. As a result, program officials cannot rely on reinsured companies' quality control reviews. We recommended that RMA, in consultation with crop insurance organizations and experts, adopt appropriate professional standards for quality control and, in particular, controls to deal with conflicting sales and claims adjustment operations that affect the integrity of crop insurance programs. The agency concurred with our recommendations for improved quality control processes but not with our findings and recommendations for improved controls against potential conflicts of interest.

Nonirrigated Crop Insurance Yields Set Too High and Practices Not Viable

We audited RMA's first year (crop-year 1998) extra long staple (ELS) cotton insurance program in the Texas counties of Glasscock, Midland, Reagan, and Upton. The audit resulted from a hotline complaint. We determined that the transitional-yields (T-yields) and established yields based on historical averages for nonirrigated ELS cotton were set exceptionally high, and we questioned whether the growing season and rainfall were sufficient to produce ELS cotton in these four counties. We reported that as a result of these issues, RMA could incur excessive losses of about \$12 million for the 1998 crop-year alone. Similarly, we disclosed that high T-yields for nonirrigated popcorn in the Rio Grande Valley resulted in indemnities totaling about \$5.5 million for 1997 and that nonirrigated dent corn T-yields for 1998 were sufficiently elevated to result in losses of between \$2.2 million and \$2.8 million in Tom Green County.

Officials in the four counties stated that these were not locally accepted practices because more water is required than the counties receive in rainfall and the growing season is too short for ELS cotton to properly mature. Therefore, we concluded that nonirrigated practices were not viable in the cited counties and recommended that effective for crop-year 1999, RMA discontinue coverage for cotton in the four counties named in the complaint, popcorn in the Rio Grande Valley, and dent corn in Tom Green County. RMA agreed.

RMA Needs To Improve Its Oversight of Catastrophic Risk (CAT) Protection Plan Policy Servicing

The 1996 Farm Bill authorized RMA to shift to a single delivery system by transferring policies written by FSA local offices to private insurance companies. During the 1997 crop-year, over 108,000 CAT policies were reassigned on a random basis to 15 reinsured companies in 14 States. In May 1997, the Secretary approved the transfer for the remaining 36 States effective for the 1998 crop year. We identified three major servicing issues that occurred during the transfer of policies in the first 14 States. Producers were not receiving adequate local servicing, limited-resource producers were not being serviced, and RMA's evaluation process was not addressing the quality of CAT program servicing. We identified various instances where local insurance agents were not willing to service the policies, partly because of the lack of a financial incentive. We also found that reinsured companies were not administering the fee waiver provisions that enable qualified limited-resource producers to obtain coverage at no cost.

We recommended that RMA monitor the servicing of CAT policies to determine whether reinsured companies and agents are providing adequate servicing to producers, especially limited-resource and other socially disadvantaged producers. We also advised that RMA take a proactive role to ensure the transfer process proceeds smoothly and evaluate the effectiveness of CAT policy servicing. Although RMA officials generally agreed with the recommendations, their proposed actions did not address the findings, particularly the servicing of limited-resource producers. We are working with

RMA to achieve management decisions on our recommendations while reviewing the servicing of CAT policies which have been transferred to the remaining 36 States.

Improvement Needed In Adjusting and Reviewing Large Claims Payments

Our review of losses for selected insureds from among those receiving the largest individual or overall losses in calendar year 1995 disclosed the need for improvement in adjusting and reviewing large claims. Our review questioned a net overpayment of about \$1.2 million of the approximately \$13.2 million in indemnities paid on 103 claims. The Federal Crop Insurance Corporation required reinsured companies to review all loss adjustments for claims of \$100,000 and over. We disagreed with the determinations made by adjusters and reinsured companies for adjustments and/or calculations of 51 claims in areas related to determining income under "dollar plan crops" and "production-to-count" under actual production history plans, in determining acreage, for verifying units and ensuring that insureds met policy provisions. We noted that 41 (40 percent) of the 103 claims in our sample had questionable yields, and 32 of the questionable yields exceeded tolerances and caused overpayments.

We recommended that RMA ensure that companies perform the quality reviews of crop claims \$100,000 or over in sufficient depth to detect discrepancies and include all claims filed by insureds during the calendar year to the date pulled for review, regardless of size. We recommended recovery of about \$1.2 million in questionable costs in individual State audit reports. RMA officials agreed and will negotiate these changes with the reinsured companies.

FOOD, NUTRITION AND CONSUMER SERVICES

Food and Nutrition Service (FNS)

Monitoring of Electronic Benefits Transfer Continues

OIG remains the lead agency, under agreement with the President's Council on Integrity and Efficiency (PCIE), to review Electronic Benefits Transfer (EBT) systems that deliver State-administered programs. Currently, 35 States and the District of Columbia use EBT systems to deliver Food Stamp Program benefits. Twenty-two of the systems have been implemented Statewide, and an additional 10 States, plus the District of Columbia, are in the process of expanding Statewide. FNS estimates that over 50 percent of food stamp benefits will be issued via EBT by the end of 1998. As a member of PCIE, we have chaired a working group composed of Federal, State, and public accounting representatives to develop standard procedures for independent audits of EBT processor operations which the processors must obtain. This will provide audit coverage acceptable to the various parties obtaining EBT services and avoid these parties obtaining duplicate audits of the same processors.

Monitoring of State EBT Systems

During the past year, we audited EBT systems used to issue food stamp benefits in Alabama and Oklahoma. Due to the rapid deployment of the EBT system in Alabama, the State was forced to focus its efforts on implementation problems rather than on the development of management controls to oversee long-term operations of the system. Areas where additional controls were needed involved the reconciliation of food stamp authorizations posted by the State's EBT processor to the State's master issuance authorization file, the timely research and correction of weekly exception reports showing invalid and unauthorized transactions, the inclusion of account numbers

on receipts by a chain retailer, and inadequate controls at group homes and treatment centers to prevent unauthorized use of benefits.

Overall, the Oklahoma EBT system has sufficient controls and procedures to ensure timely availability of benefits to participants, but documentation for EBT operating procedures needs strengthening. Reconciliation procedures and controls over returned EBT cards and dormant accounts need to be properly documented. Privacy Act data was subject to compromise, EBT system access controls needed strengthening, and there was no provision for an independent audit of the system.

Appropriate recommendations were made in the individual State reports to address the weaknesses reported.

Over \$2.7 Million Questioned in Ohio Food Stamp Employment and Training (E&T) Program

The E&T program provides funds to train food stamp recipients to find work. In FY 1997, E&T expenditures approached \$225.8 million with \$362.6 million estimated for FY 1998. Last year, we reported that Wisconsin was not entitled to retain \$10.2 million, with an additional \$15.3 million in question.

This past year, our review at the Ohio State agency found that county-level officials did not obtain local matching funds, bringing into question \$2.5 million in FY's 1995 and 1996. Lack of controls allowed the State's computer system to count food stamp work registrants each time they enrolled, thereby increasing the State's work registrant count and calling into question over \$400,000 for the 1997 grant year. In addition, the State agency lacked controls over the reporting of its E&T pass-through and administrative costs, and it was unable to support over \$750,000 in county administrative costs for FY's 1995 and 1996. However, due to accounting errors and lack of coordination between State fiscal officials, we found the State agency submitted inaccurate and unsupported claims that resulted in a net underclaim of \$188,000.

This audit has led to an ongoing OIG investigation regarding suspicious behavior by county officials and subcontractors in Akron, Ohio. Investigations by other Federal agencies have uncovered illegal activities in similar cases.

We recommended that FNS recover the questioned costs from the State and require the State to discontinue the pass-through system unless it can ensure proper oversight, issue a State directive requiring that costs claimed for reimbursement be based on actual costs incurred in operating E&T, and implement additional State-level accounting procedures to ensure that all claims for reimbursement are accurate and adequately supported. FNS agreed to implement all recommendations and to bill the State for the overpayments. FNS also instructed Ohio to terminate the pass-through system that had allowed it to obtain \$2.5 million in unmatched Federal funds.

Presidential Initiative, Operation "Kiddle Care," in the Child and Adult Care Food Program (CACFP)

The objective of CACFP is to ensure that children and adults being cared for in participating day care homes and centers receive nutritious meals. To accomplish this, FNS provides reimbursement for the meals served and sets nutritional requirements for the meals. In FY 1997, actual expenditures were just over \$1.6 billion with estimated outlays in FY 1998 of \$1.5 billion.

Last year, we reported on significant problems our audits had uncovered of sponsors who administer CACFP and indicated that we would continue "sweeps" of sponsors to find those who are abusing the program to remove them from sponsorship, if warranted, prosecuted, and ineligible payments recovered. Since last year, our CACFP work has been designated as a Presidential Initiative named Operation "Kiddie Care."

Fifty-four sponsors in 23 States were being audited or investigated as of December 1998. We have identified 37 sponsors as seriously deficient, which means they could be terminated from the program unless the deficiencies are addressed. Fourteen have been terminated from the program who were receiving \$24.4 million annually.

In Ohio, nine persons, including the director of the sponsoring organization operating a local child and adult care food program, entered guilty pleas to conspiracy to submit false claims for issuing and/or receiving reimbursement payments for in-home day care providers who did not exist or did not have children in the home. This ongoing investigation has so far identified at least 9 persons who conspired to set up more than 40 false providers, resulting in the submission of false claims for reimbursements totaling about \$1.1 million. The scheme has been going on since about 1988. The investigations continue, and additional prosecutions are anticipated.

Another sponsor who was investigated, and subsequently terminated from the program in California, was charged with mail fraud in connection with CACFP and pled guilty to that charge. Sentences were handed down in a California court. One official of the sponsoring organization, who had been a State employee in the division that oversaw the program, was sentenced to 3 years in prison. Her husband, the second sponsor official, was sentenced to 2 years. The couple was also ordered to pay \$2.2 million in restitution. They had previously forfeited four residential properties they had bought with their income, including a mansion in Palos Verdes, California. Two additional sponsor officials were sentenced to 7 months each in prison and ordered to pay \$60,000 in restitution.

In yet another California case, an executive director of a sponsor retained food reimbursements to cover the salary he claimed to earn in California while he was actually working for another enterprise and living in Wisconsin. He also had a vehicle in Wisconsin for his personal use which was being paid for by the California sponsor. We questioned about \$231,000 paid to this individual.

Although Operation "Kiddie Care" requires a disproportionate amount of resources for a relatively small feeding program, the operation will continue as long as we find evidence that abuses are continuing. Retaining integrity to this very important feeding program and protecting the resources of the American taxpayer are high priorities for OIG and FNS.

MARKETING AND REGULATORY PROGRAMS

Agricultural Marketing Service (AMS)

Inadequate Oversight Provided Over the Fluid Milk Promotion Program

AMS and the National Fluid Milk Processor Promotion Board need to improve their oversight and controls over Fluid Milk Promotion Program activities to ensure that assessments on fluid milk products are used in accordance with the Fluid Milk Promotion Act. Those assessments, from approximately 370 processors, totaled about \$169 million from December 1993 through June 1997.

Neither AMS nor the Board provided adequate management or oversight of program activities. AMS left most oversight efforts to the Board. The Board delegated most administrative functions to

two contractors and was not actively involved in the day-to-day operations of the program. One contractor, the Milk Industry Foundation, was responsible for performing various management and administrative services. The other contractor, the Board's Administrator, was responsible for collecting assessments, accounting for funds, and performing compliance reviews.

The Administrator, through his public accounting firm, had contracts to provide financial, accounting, and compliance review services to the Board. Altogether, the Board's Administrator, either as an individual or through his firm, had three sole-source contracts with the Board.

Although AMS was responsible for reviewing and approving all contracts, the board paid over \$127 million for contracts, representing 75 percent of the funds collected through the program, without AMS' approval. The board entered into these sole-source contracts without any competition to ensure the most cost-effective procurement of services.

The Act requires that the Board obtain title to all assets developed using program funds. In one case, the contract to procure photographs, taken as part of a major milk marketing campaign, did not include language to secure title to the assets. Consequently, the program expended almost \$130,000 in royalties for the continued use of the photographs. The photographer still has control and possession of the photographs, which were developed using over \$2.7 million in program funds.

The Board, the contractor, and some subcontractors were not in compliance with the terms of certain contracts. For instance, the contractor included provisions in a subcontract with an advertising agency to establish and pay an incentive commission of \$350,000 if milk sales increased as a result of an advertising campaign. Although this arrangement is appropriate, neither the contractor nor the Board ever established a contingency account for such a potential liability.

Overall, neither AMS nor the Board has determined, as required, whether the program has resulted in increased milk consumption. The program's most recognized promotion has been the milk-mustache advertising campaign. While this marketing campaign has been highly visible in the marketplace, no independent studies have been performed to determine this campaign's impact on fluid milk consumption.

We recommended that AMS (1) suspend Board program activities until a plan is developed whereby the Board will take full control of its activities and ensure compliance with the Act to include establishing guidelines for awarding contracts to ensure that contracted goods and services are obtained in the most cost-effective manner, (2) require the Board to determine the effectiveness of its research and promotion activities to increase fluid milk consumption, (3) require the Board to obtain AMS approval on all contracts before any funds are obligated or expended and that the Board obtain title and possession of all assets acquired with program funds, and (4) require the Board to assure that audits of its books and records are conducted using generally accepted Government auditing standards.

AMS did not agree to suspend the Board's activities. However, it agreed to institute improvements and is working with the Fluid Milk Board to strengthen management controls.

NATURAL RESOURCES AND ENVIRONMENTForest Service (FS)Serious Deficiencies Found in Forest Land Adjustment Program in Nevada

The land adjustment program is a key responsibility of FS management. This activity allows FS to adjust public ownership through land exchanges and land purchases. Our audit identified a serious breakdown of controls in all phases of the Humboldt-Toiyabe National Forest land adjustment program. The forest administers all national forest lands in the State of Nevada and was a major beneficiary of Federal land exchanges proposed by private parties and developers wanting to acquire highly desirable Federal lands in the Las Vegas metropolitan area. We found FS management allowed private parties to exert undue influence over the direction and outcome of almost all large-value land exchanges at the forest. We questioned accomplished and proposed land exchange transactions for 7,029 acres of Federal and non-Federal lands, valued at \$27.9 million.

An FS bargaining team, formed to establish the value of property being acquired by the Government, disregarded guidelines provided by the FS Washington, D.C., office and the Office of the General Counsel (OGC) and allowed the private parties to control the bargaining process. The team excluded the participation of Federal appraisers and accepted uncorroborated valuations by an appraiser recommended by the private party, resulting in a loss of \$5.9 million to the Government. In addition, the forest entered into an improper agreement that gave a private party exclusive marketing rights to 850 acres of forest lands near Reno, Nevada, valued at \$6.5 million, for which the private party had not identified any private lands to be offered in exchange.

FS also allowed the private parties to control the selection of lands that the forest would acquire through land exchanges. Our audit questioned three proposed exchanges that were initiated by private parties and were taken under consideration by FS even though the land, 1,065 acres valued at \$10.5 million, was of little or no discernable interest to FS. In one case, lands on a developed subdivision near Reno had steep slopes and severely limited access, surrounded by a housing subdivision and an industrial park, and were, therefore, of limited value to FS. Upon our notification, FS immediately disclaimed title to the property and officially notified the private party of its decision.

Controls were noticeably absent in the appraisal process. FS lands staff let private parties override the safeguards against excessive valuations, and FS acquired private lands whose appraised values were not based on credible evidence. We questioned the FS acceptance of three land appraisals that were based on speculative assumptions that overvalued non-Federal lands by \$8.8 million. One of the transactions involved 458 acres of private lands called Deer Creek in the Mount Charleston area near Las Vegas. Although the land was in extremely steep, mountainous terrain with avalanche chutes on the slopes of the property, the private party's appraiser determined that the property's highest and best use was as a housing subdivision.

FS regional and forest lands staff compromised the independence of FS appraisers and weakened controls over the coordination of land transactions with the Bureau of Land Management (BLM), jeopardizing, in one land exchange, \$2.1 million in water rights and \$19.8 million worth of land that had not been properly cleared of encumbrances. We also identified improper conduct by one FS management employee who received gifts, gratuities, and entertainment from private parties doing business with FS.

In response to our audit, both the FS Chief and the Under Secretary for Natural Resources and Environment have taken immediate actions to implement needed controls in this area.

FS Is in Jeopardy of Losing Management Control Over Lands Recently Acquired for \$38 Million

As part of our ongoing audit of land transactions at FS' Pacific Southwest regional office, we identified a serious problem relating to the treatment of building improvements in a land exchange transaction at the Lake Tahoe Basin Management Unit in Nevada. The exchange involves a 46-acre parcel on Lake Tahoe known as Zephyr Cove. The property, appraised at \$38 million, has approximately 3,000 feet of sandy beach, a small wetland area, meadow, creek, and a 10,000-square-foot mansion and other buildings.

A private land developer conveyed Zephyr Cove lands and building improvements to FS in exchange for Federal lands of equal value managed by BLM in the Las Vegas, Nevada, area. On June 30, 1997, the developer improperly transferred the FS-owned improvements to a private party for cash and gratuities at an estimated value of \$3 million. The improvements included a 10,000-square-foot mansion, a caretaker's cottage, and a four-car covered garage.

Shortly after the sale of the improvements, the private party locked the gates of the driveway leading to the mansion, effectively precluding access to this publicly owned land. The private party also hired a caretaker to watch the grounds and to keep the public away from property belonging to the American taxpayer.

In January 1998, the private party submitted an application to FS to operate an upscale "bed and breakfast" and conference center at Zephyr Cove. The private party proposed using all 46 acres of public lands to install gazebos, swimming pools, picnic areas, and tennis courts for its private, paying guests. The application did not include any provision for general public access to the beaches nor did it provide for general public access for the entire FS acreage. The private party had also posted "private property" signs on FS lands surrounding the improvements.

Within a few months of the \$38 million acquisition, FS management control over its newly acquired lands is now seriously compromised by the development plans of a private party in control of the building improvements.

In response to an FS request, OGC issued a legal opinion concerning the ownership of the building improvements on Zephyr Cove. The OGC opinion stated that FS is the legal owner of the building improvements and that the developer had no authority or right to sell and transfer FS-owned improvements to the private party.

To preclude further deterioration of FS' control of the Zephyr Cove lands, it is imperative that FS immediately take aggressive action to assert its ownership of the property and all its improvements in coordination with OGC and the U.S. Department of Justice.

National Forest Foundation (NFF) Provided Only Limited Benefits to the Forest Service

NFF is a private foundation set up to "encourage, accept, and administer private gifts of money, and of real and personal property for the benefit of or in connection with the activities and services of FS." NFF was established to provide a method for FS to receive things of value from the private sector that FS, as a Government entity, could not solicit or accept. However, almost 7 years after passage of the NFF Act, and expenditures of over \$4.1 million in Federal funds, private financial support for the foundation has declined and reliance on funding from FS for its administrative costs

has increased. We are concerned that if NFF continues to operate in this manner, the benefits of the relationship between FS and NFF will be outweighed by the existing and potential costs of the relationship. The net fiscal benefit received by FS had averaged only slightly more than \$179,000 per year as of December 31, 1996.

We also determined that FS needs to improve its controls and oversight of NFF. FS did not manage the agreements with NFF in accordance with laws and regulations. As a result, \$1.2 million in Federal funds was not matched by NFF, and NFF has not implemented a financial management system that meets assistance agreement standards.

We recommended that FS initiate actions to reduce NFF's dependency on appropriated funds for administrative expenses and require NFF to reimburse FS for the value of in-kind services provided by FS. We also recommended that \$1.2 million in Federal funds not matched by NFF be recovered, that NFF's financial management system meet standards required in the assistance agreements, and that NFF submit revised Federal financial documents that are prepared in accordance with applicable regulations and reflect the total cost of the assistance agreements.

FS officials have issued a bill for collection to NFF for \$1.2 million and informed us they are planning to bill NFF for the in-kind services being provided. FS has also agreed to withhold future funding until NFF resolves the \$1.2 million in funding. FS generally concurred with the remainder of our recommendations and is addressing corrective action to reach management decision on those recommendations.

FS Participated In an Improper Agreement with NFF and Subaru of America

NFF and Subaru entered into a written agreement in July 1997. The stated purpose of that agreement was for NFF to benefit the Nation's forests and for Subaru to promote and showcase its product lines. Terms of the agreement required NFF to arrange for 34 donated leased vehicles to be used by FS at prominent locations agreed to by FS, NFF, and Subaru. NFF would also arrange for Smokey Bear to attend a minimum of 10 major automobile shows per year as designated by Subaru and distribute literature about fire prevention and NFF's role in restoring forests that have been adversely affected by wildfire. This literature would bear "Subaru branding." Our visit to a Philadelphia automobile show confirmed the participation of Smokey Bear and disclosed that a Subaru Forester bearing the FS shield was prominently and inappropriately on display.

FS' participation in this agreement was improper because the agreement had product promotion as a key purpose of the partnership. Departmental and agency policies and regulations prohibit the endorsement and promotion of commercial activities. In addition, Smokey Bear is the property of the Federal Government. By words or illustrations, Smokey Bear is not to endorse a commercial product or service. The Smokey Bear symbol is required always to be used in conjunction with an approved fire prevention message.

We recommended that FS (1) cancel further participation in the partnership because the partnership agreement was improper and violated established agency and departmental policies and regulations and (2) advise NFF to refrain from making commitments of U.S. Government property, to include Smokey Bear and Nature Watch.

FS agreed to cancel its Memorandum of Understanding with NFF and to initiate discussions to renegotiate the agreement with Subaru. FS officials met with officials of NFF and advising them that Smokey Bear would not appear at future automobile shows and that NFF must discontinue

making commitments for the involvement of Smokey Bear and Nature Watch. FS also required NFF to ensure that Subaru Forester vehicles appearing at automobile shows do not bear the FS shield and that NFF remove the "Official Vehicle" decal from all Forester vehicles donated to FS by NFF. Subaru subsequently canceled the entire arrangement.

FS Estimates of Its Maintenance Backlog Unsupported

In response to a request from the House Committee on Appropriations, Subcommittee on Interior and Related Agencies, we performed a review of FS' maintenance backlog, also referred to as "deferred maintenance," reported by the agency to be \$7 to \$8 billion. We found that FS had no system or systematic way to compile maintenance backlog information and FS had not prescribed a common definition as to what constituted deferred maintenance. Although we were unable to attest to reported backlog amounts, we did have enough information regarding certain segments of the backlog to conclude that the information was not reliable. The \$5 to \$6 billion for road maintenance, for example, was formulated via an unsupported mathematical extrapolation.

Management of the backlog could not be readily assessed, in part, because the budgeting, allocation, and expenditure of maintenance funds occur within the framework of program activity and cannot be specifically identified. We also found that FS had not initiated the process to capture deferred maintenance costs as required by Federal accounting standards for FY 1998 financial statements. We concluded that FS' management of maintenance could be greatly enhanced if it expanded its strategic plan per GPRA to specifically include maintenance.

We recommended FS establish a common definition for deferred maintenance and a reliable, documented method to compile deferred maintenance data. We also recommended that maintenance be classified as an expanded budget line item to enhance accountability. In addition, we recommended that FS expedite the compilation of maintenance data to fulfill the new accounting standard and expand its GPRA plan to specifically include all significant components of maintenance activity.

FS concurred with all of the recommendations in the report, but the proposed corrective actions were inadequate to achieve management decision. We are working with the agency to resolve these issues.

RURAL DEVELOPMENT

Rural Housing Service (RHS)

Joint Initiative Work To Uncover Fraud and Hazardous Conditions in Rural Rental Housing (RRH)

OIG and the Rural Development (RD) mission area combined efforts on a nationwide initiative, endorsed by the President, with the objective of identifying, investigating, and prosecuting owners and management agents that had abused or defrauded the Rural Rental Housing (RRH) program. The initiative was designed to target owners and management agents that were suspected of abusing the RRH program.

Teams consisting of OIG and RD staff performed physical inspections of 631 RRH apartment complexes and examined the financial records of apartment complexes operated by 32 owners and management agents in 16 States. The teams identified over \$3.5 million in misused funds and uncovered serious physical deterioration of some apartment complexes, including conditions that posed health and safety risks to the tenants.

The teams determined that 145 of the 631 apartment complexes visited had serious deterioration and another 210 needed minor repairs. They also concluded that 39 apartment complexes had health and safety hazards. The teams identified 19 owners and management agents that charged costs, totaling \$3.3 million, that were improper and abusive. Fifteen of these owners and management agents were referred for criminal investigation; 10 have been accepted and are currently under active investigation.

Congressional Request Spurs Evaluation of Galt Self-Help Housing Program

We performed an evaluation at the request of members of Congress who asked us to determine if RHS had complied with agency regulations when it approved funding for the Grizzly Hollow housing project in Galt, California. Some citizens of Galt had argued that their city was not a rural area and, therefore, was an inappropriate location for a 193-home self-help project.

Galt's population of 15,400 allows the city to retain a rural designation if it meets four criteria, including the requirement that its low- and moderate-income families face a serious lack of mortgage credit. We determined that the credit analysis performed by RHS did not support Galt's designation as a rural area because RHS used inaccurate information and relied on unrealistic assumptions. We found that the available housing was more affordable than RHS calculated it to be and that mortgage companies were less restrictive than RHS assumed. Specifically, we noted three incorrect assumptions.

- RHS reviewed prices for existing housing from an outdated list that showed sales prices up to \$160,000 but did not include affordable new homes being constructed in Galt for as low as \$95,000.
- RHS used the median sales price of a home (\$125,000) rather than the lower end price to calculate which borrowers would qualify for private financing. At the median price, few moderate-income and no very low or low-income borrowers would qualify for private financing.
- RHS assumed that lenders would not approve loans if the cost of housing exceeded 29 percent of the applicant's income, but we found 15 such lenders that would consider such loans.

We concluded RHS should perform another review of the city's rural status because RHS' credit study was flawed, the mortgage industry had changed, and citizens of Galt had raised concerns about the economic impact of the Grizzly Hollow project on the city. We recommended that RHS determine if Galt still meets the definition of a rural area. RD disagreed with many of our conclusions and recommendations. We are working together toward resolution.

Rural Utilities Service (RUS)

Legislative and Regulatory Changes Could Improve the Electric Program

We evaluated RUS' electric program because of its high-dollar value (approximately \$32 billion in outstanding loans as of September 30, 1996), potential for large losses (writeoffs of more than \$1.7 billion from February 1994 through June 1997 and about \$8 billion owed by financially troubled borrowers at the end of FY 1996), legislative changes made from 1992 through 1994, and changes in the industry. Our primary objectives were to determine how well the new requirements were working and the need for additional legislation to target funds and services to borrowers requiring Federal assistance.

The eligibility criteria prescribed by law and regulations for hardship loans, and prioritization of applications for municipal rate loans, did not take into consideration the applicants' financial strengths, loan amounts, or local area user rates. Also, the law (the Rural Electrification Act of 1936, as amended) and regulations did not allow RUS to ensure that insured and guaranteed (Federal Financing Bank) loan funds are benefiting only truly rural areas. This could delay funding for improvement of electrical service to the most needy borrowers and in truly rural areas. We also found that RUS personnel did not always have effective internal controls for servicing problem borrowers.

We recommended that RUS seek legislative change and amend regulations so that hardship loan funds can be targeted to areas of greatest need, taking into consideration financial condition and local area user rates and ensuring municipal rate loan funds benefit only truly rural areas. We further recommended that RUS formalize procedures and strengthen controls over the servicing of problem borrowers.

Agency officials generally agreed with the findings; however, they did not agree with all of the recommendations. In March 1998, RUS issued a new staff instruction to establish procedures for handling requests from electric program borrowers for debt settlement and other requests dealing with borrowers' financial conditions.

ADMINISTRATION

The Administration of the Hazardous Waste Fund Needs Improvement

The Hazardous Waste Management Program was established under the Assistant Secretary for Administration as a separate appropriation in order to bring USDA facilities and programs into compliance with Federal, State, and local environmental standards. Departmental policy provides for the initiation of agricultural and forestry programs that abate, control, and prevent pollution. Recently, the direction of the compliance program was transferred from Departmental Administration to the Deputy Under Secretary for Natural Resources and the Environment; the appropriation remains with Administration. OIG is concerned about the impact of reorganization on the ability to plan, control, and ensure that funds are used appropriately and efficiently and that requirements are timely met.

OIG has assisted agencies' efforts to achieve environmental compliance for the facilities they own and operate. By reviewing the adequacy of the individual policies, procedures, and actions they have undertaken in meeting these standards and requirements, we have fostered the development of a technically prepared and independent staff that can guide agency policy, coordinate compliance efforts, and affirm that the funds were distributed and used efficiently. Over the past 6 years, OIG has monitored the progress being made in USDA's management and disposal of hazardous chemical, biological, and radioactive materials and related issues involving employee health and public safety. We found the Department vulnerable to becoming a contributor to acts of biological terrorism, susceptible to the theft or misuse of radioactive materials, and sometimes the source of unnecessary risk to the health of its employees from the mismanagement of hazardous materials. In the next year, we will begin an audit to determine whether the administration of the Hazardous Waste Fund is efficient and effective.

Inadequate Land Management Ricks Environmental Liabilities

Eleven USDA agencies are involved in the purchase, exchange, assumption, or sale of facilities performing hundreds of these land transactions per year. Our immediate concern is to help these

agencies avoid the accrual of environmental liabilities. This year, auditors identified 25 underground storage tanks (USTs) on FS lands that had to be removed, replaced, or repaired prior to the December 22, 1998, deadline set by the Environmental Protection Agency (EPA). Without immediate action, FS would be subject to State fines of \$125,000 per day (\$5,000 per day for each of the 25 USTs) and costly compliance orders by EPA. Since the Hazardous Waste Fund can be used only for cleanup and prevention, any fines would have to be paid from FS program resources. Over the next year, we plan to audit agency acquisition, management, and sales procedures for vulnerability to future environmental liabilities.

Office of Civil Rights (CR)

Processing of Complaints Still Needs Improvement

The Assistant Secretary for Administration asked us to perform a followup review of the Office of Civil Rights (CR) operations. During four previous reviews of the Department's civil rights complaints system, we determined that the system was not functioning properly and that the Department had amassed a growing backlog of complaints which required immediate attention. Although CR itself could not accurately determine how large the backlog was at the time of our first review, it later identified 1,088 outstanding unresolved complaints before November 1, 1997.

Our current review disclosed that the backlog of complaints of civil rights violations, although reduced, still stood at 616 cases as of September 11, 1998. Of these, 100 still awaited a preliminary analysis. The backlog itself is not being resolved at a faster rate because CR has not attained the efficiency it needs to systematically reduce the case load. Few of the deficiencies reported in our previous reviews have been corrected. The office is still in disarray, providing no decisive leadership and making little attempt to correct past mistakes. We estimate that if CR continues to operate under its current methods and at its current rate, the backlog of complaints existing on November 1, 1997, will not be completely resolved for at least another year.

Most conspicuous among the uncorrected problems is continued disorder within CR. The data base CR uses to report the status of cases is full of errors, and the files it keeps to store needed documentation are slovenly and unmanaged. Forty complaint files could not be found, and another 130 complaints that were listed in USDA agency files were not recorded in CR's data base.

Of equal significance is the absence of written policy and procedures. CR has not revised departmental policy to ensure it complies with civil rights laws and to establish the framework of its own activities.

CR's office morale is low. The many reorganizations the complaints resolution staff has undergone, the high turnover the staff has experienced within the last several years, and the inadequate training afforded both managers and staff members have left the staff unfocused and without clear direction. In turn, low morale possibly has contributed to a lack of productivity. CR's data base shows that since January 1997, CR has closed on 19 cases through adjudication, 8 of which were not even investigated by CR. Due to such inefficiency, complainants are being denied a timely hearing of their civil rights complaints.

We concluded that in order to complete the backlog of cases expeditiously, the Secretary needs to transfer resolution of the backlog to a complaints resolution task force, composed of seasoned adjudicators and well-qualified civil rights personnel from Federal agencies outside USDA. We also recommended that the Secretary require CR to (1) issue needed operational policies and procedures within a 2-month timeframe; (2) resolve, also within 2 months, all other recommendations that we

made in our previous reports which have not been implemented; (3) keep open all cases resolved through settlement agreements so the agreements may be tracked; and (4) institute other operational improvements that will ensure the efficient operation of the civil rights functions within the Department; and (5) exercise due care in the resolution of all civil rights complaints, as well as a timely hearing for all complainants.

RESEARCH, EDUCATION, AND ECONOMICS

Cooperative State Research, Education, and Extension Service (CSREES)

CSREES Schedule A Extension Appointees' Rights Need Clarification

There are approximately 8,000 CSREES Schedule A appointees working nationwide in the State Cooperative Extension System (CES). The appointees receive Federal benefits, including participation in the Federal Health Benefits Program and Civil Service retirement plan. In 1990, the Civil Service Due Process Amendments extended coverage to these appointees. Our review of adverse action taken against two appointees by one State university CES director disclosed that the universities were not always aware that protections, such as counseling and appeals procedures, apply. In this case, the university had offered no protections and stated that its own policy allowed CES to dismiss the appointees without recourse. OGC provided CSREES with an opinion that these positions fall within the due process requirements of the Merit Protection System. USDA's Office of Human Resources confirmed that Schedule A appointees are Federal employees for purposes of civil service protections. The Merit System Protection Board is currently reviewing an appeal on the university's actions by the individuals. OIG has encouraged CSREES to work with the National Association of State Universities and Land Grant Colleges to inform all CES offices of the appointees' current status and assist them in developing suitable personnel procedures for these positions.

ACCOUNTING AND FINANCIAL MANAGEMENT

As required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act, we completed seven financial statement audits. We issued unqualified (clean) opinions on the FY 1997 financial statements of the Federal Crop Insurance Corporation, the Commodity Credit Corporation, and the Rural Telephone Bank. Audits of the RD mission area and FNS resulted in qualified opinions. RD received a qualified opinion because we were unable to assess the reasonableness of its credit program receivables and estimated losses on loan guarantees, to include the related credit reform program subsidy and appropriated capital used. FNS received a qualified opinion because we were unable to assess the reasonableness of its gross, non-Federal accounts receivable for the Food Stamp Program and the related account balances and notes to the financial statements. We issued a disclaimer of opinion on the FS and the USDA consolidated statements for FY 1997.

Disclaimer of Opinion: Forest Service

FS received a disclaimer due to significant financial system weaknesses, to include the lack of an integrated general ledger and supporting subsidiary records. Because of these conditions, we were unable to obtain assurances that various material line items on its financial statements were fairly presented. To illustrate, (1) due to the lack of documented support, the agency did not have reliable account balances for its real property; (2) significant adjustments made by the agency to accounts receivable could not be assessed for accuracy; and (3) its non-Federal trust and deposit liability account balance was overstated by an indeterminable amount.

These and other financial system weaknesses have been a continuing problem within FS. An adverse opinion was received by the agency for FY 1995 due to pervasive errors, material misstatements, and departures from applicable accounting principles that affected various financial statement accounts. For FY 1996, corrective actions were not in place to improve the financial data and, as a result, the agency was unable to produce timely, auditable financial statements for the fiscal year. FS produced financial statements for FY 1997, but many of the significant weaknesses from previous years continued.

We are working with FS officials in a coordinated effort towards correcting weaknesses addressed by our prior audit reports. Corrective action plans have been developed and significant progress has been achieved in cleaning up invalid accounting data; however, much work remains before system weaknesses are corrected. Through consulting services and monitoring reviews, we continue to help FS personnel implement applicable accounting standards and improve accountability.

Disclaimer of Opinion: Consolidated Statements

The USDA consolidated statements received a disclaimer of opinion for FY 1997 because the Department could not provide assurance that its financial systems provide information that is relevant, timely, consistently reported, and in conformance with applicable accounting principles. In addition to financial system problems, numerous internal control weaknesses exist that materially impacted the Department's ability to report accurate and reliable financial information. For example, (1) we were unable to substantiate the fund balances with Treasury due to insufficient reconciliation procedures used within the Department, (2) accounts receivable could not be substantiated due to weaknesses within FS and FNS, and (3) methodologies used to adjust financial information did not always include adequate controls to assure that the adjustments were appropriate, authorized, and sufficiently documented.

A disclaimer of opinion has been issued to the Department for each of the last 4 years. This means that the Department, as a whole, does not know whether it correctly reported how much revenue was received, the cost of its operations, or any other meaningful measure of financial performance. The Department and its agencies have recognized the weaknesses and have put considerable effort into improving their financial systems and reporting processes. While plans have been made to fix these problems and actions have been taken to address some of the weaknesses, more must be done. The Department is carrying out its Financial Information System Vision and Strategy project aimed at developing a single integrated financial management system that meets all Treasury and the Office of Management and Budget (OMB) requirements and fulfills the needs of USDA. We continue to assist departmental and agency officials in these efforts.

The Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) Needs To Further Improve Management Controls

Our FY 1997 audit of management controls at OCFO/NFC determined that the deficiencies disclosed in earlier reviews continue to exist. Due to the pervasiveness and materiality of the weaknesses noted, we issued an adverse opinion on OCFO/NFC internal controls. Extended delays in the implementation of key corrective actions have adversely affected, and will continue to adversely affect, our ability to obtain reasonable assurance regarding OCFO/NFC's internal control structure.

We found various reconciliation procedures were ineffective; control policies and procedures did not provide reasonable assurance that adjustments to user agency accounts, financial statements, and reports were authorized and processed accurately; the general ledger at OCFO/NFC did not

conform to the U.S. Standard General Ledger; accounts were not always appropriately crosswalked to financial statements and an audit trail did not always exist; and subsidiary ledger detail did not exist for certain general ledger accounts. Also, certification and recertification reviews required by OMB Circular A-130 and accompanying access control reviews were not always appropriately and timely performed, and many of OCFO/NFC's older applications did not adhere to current development and documentation processes.

We made no further recommendations since the conditions were longstanding and for which OCFO/NFC had corrective action under way.

Implementation of the Foundation Financial Information System (FFIS)-Changes are Needed

To correct the longstanding and significant NFC deficiencies, OCFO acquired a commercial off-the-shelf software product to provide an automated accounting system. The product, when implemented, will serve as the central part of USDA/FFIS. We previously reported that, unless changes were made, successful implementation of FFIS was questionable. Subsequent to our report, OCFO made substantial changes to the implementation plan, deferred some critical processes, and implemented three FS offices. Our current review revealed that substantial problems exist that prevent the full and effective implementation of FFIS. Most of these problems can be attributed to premature implementation prior to completion of system testing. We recommended that OCFO not implement any additional offices until the system is completed and tested, require an independent verification and validation of the system, and provide sufficient resources for system implementation.

INFORMATION RESOURCES MANAGEMENT

Department Progressing with "Year 2000" Conversion

Many departmental computer systems are not programmed to perform calculations based on the Year 2000. The year 2000 problem is rooted in the way dates are recorded and computed. Systems typically use two digits to represent the year, for example "98" representing 1998. With this two digit format, the Year 2000 is indistinguishable from 1900. Systems will either fail to perform calculations or provide inaccurate information. OMB established March 31, 1999, as the date for all Federal systems to be modified to handle the Year 2000.

USDA was cited in the media and congressional hearings as behind schedule in addressing problems in "Year 2000." Our review at five USDA agencies confirmed that problems exist. Some agencies had developed plans and inventoried and prioritized their systems, while others were just beginning the process. We also found that OCIO needed to address several crosscutting activities.

We recommended that OCIO monitor and coordinate efforts to ensure that sufficient funds and resources are available to correct Year 2000 problems, coordinate efforts taken by agencies to establish test facilities, and track conversion efforts using similar software and equipment. Also, we recommended that OCIO monitor the status of test plans, evaluate the adequacy of test teams, and ensure that contingency plans are in place for the agencies' critical systems.

INVESTIGATIONS ACCOMPLISHMENTS

PRESIDENTIAL INITIATIVES

Operation Talon

For the past 18 months, OIG has coordinated a nationwide law enforcement initiative dubbed "Operation Talon" which has resulted in the arrest of 3,543 fugitive felons. This initiative, which has been carried out in conjunction with other law enforcement agencies and State social service agencies across the country, was designed to identify, locate and apprehend dangerous and violent fugitive felons who may also be illegally receiving benefits through the Food Stamp Program. These enforcement actions were made possible by provisions in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, also known as Welfare Reform. This legislation allows for law enforcement agencies' felony fugitive files to be matched with social service agencies' food stamp recipient records, thus facilitating the location and apprehension of fugitives who may also be illegally receiving benefits.

Operation Talon began as a pilot project in Louisville and Lexington, Kentucky. In May 1997, in partnership with the Office of the Attorney General for the State of Kentucky and several other State and local law enforcement agencies, the first 85 felony arrests were made. From there, Operation Talon has grown into a nationwide dragnet, currently encompassing 23 States, resulting in 3,543 arrests. Included in this number were 22 fugitives who were wanted for murder or attempted murder; 14 for child molestation; 11 for rape or attempted rape; 8 for kidnapping; and 1,076 for assault, robbery, and drug offenses. A number of States are removing arrested fugitives from their food stamp rolls, resulting in savings to the Food Stamp Program.

In December 1997, Vice President Gore, along with the Secretary of Agriculture and the Inspector General, announced the success of Operation Talon during a press conference at the White House. Many of the State and local law enforcement professionals with whom OIG worked during this operation attended the White House announcement. During a reception for these officers, two deputies from a rural county in Washington State, who comprised their entire fugitive squad, told the Inspector General that Operation Talon was the "best thing that has happened" in their efforts to locate fugitives. They were very impressed that with the information now available to them through their interaction with OIG, they found their fugitives at 90 percent of the addresses provided. This kind of positive feedback exceeded even what the agency initially anticipated.

The improvement of communication and cooperation between Federal, State, and local law enforcement organizations is a central theme of Operation Talon. Following the December 1997 White House announcement, the Inspector General sent a copy of his Operation Talon report to the Governors of all 50 States, Puerto Rico, and Guam, advising them of the success of the operation and urging them to consider similar actions in their States. As a result, the Inspector General received responses from several of the Governors, extolling the success of the operation and advising of their interest in similar activities in their States. Computer matching and joint arrest operations have begun, or are planned for the future, in several of these States as a direct result of the cooperative nature of this initiative.

FOOD AND NUTRITION SERVICE (FNS)Food Stamp Program (FSP)

In FY 1998, OIG issued 557 reports of investigation relating to FNS programs, including 535 reports relating to FSP. Most of our investigative efforts in FSP involve trafficking of food stamp benefits at grocery stores which are authorized by FNS to accept and redeem them. Overall, FSP monetary results exceeded \$40.5 million, which included more than \$32.3 million in restitution, fines of nearly \$3 million, over \$2.7 million in cost avoidance, in excess of \$1.1 million in collection/recoveries, and nearly \$1.4 million in claims established and administrative penalties. The following are some examples of these cases.

Twenty-seven individuals have been arrested in the southern district of New York on an estimated \$60 million food stamp fraud and money laundering conspiracy. This investigation was conducted by OIG in cooperation with the Federal Bureau of Investigation (FBI) over the past 2 years. Information obtained from undercover operations, physical surveillance, and extensive documentary evidence revealed that tens of millions of dollars worth of food stamps were fraudulently redeemed by those involved in the conspiracy who owned or operated numerous grocery stores in Manhattan, Brooklyn, and the Bronx. This investigation is continuing with additional arrests and indictments anticipated in both the southern and eastern districts of New York.

During a 2-year investigation in Philadelphia, Pennsylvania, an elaborate scheme was uncovered involving \$15 million of food stamp trafficking and money laundering. Our investigation, conducted jointly with the U.S. Secret Service (USSS), determined that two owners of a wholesale warehouse hired individuals to open grocery stores which were authorized to participate in FSP. The bogus grocery stores carried very little inventory, and some did not even have cash registers. The stores remained in business for approximately 11 months, and then closed to avoid detection. Over the past 5 years, six bogus grocery stores were opened for the purpose of illegally redeeming trafficked food stamps. Our investigation also focused on 14 takeout restaurants in Philadelphia which sold their food stamps to the bogus grocery stores. As a result of the investigation, the two owners of the wholesale warehouse and four of the bogus grocery store owners were indicted and pled guilty to Federal money laundering charges. An arrest warrant was issued for another owner of a bogus grocery store. This individual remains a fugitive at this time. Assets of approximately \$183,900 were seized as a result of this investigation. In addition, five of the six owners/employees of six takeout restaurants either pled guilty or were found guilty of food stamp trafficking. The owners/employees of seven other takeout restaurants were arrested after being indicted by the Philadelphia district attorney's office. The investigation is continuing, and additional charges are expected.

An individual in Oregon is serving two life sentences after pleading guilty to two homicides. An investigation by OIG provided critical information that verified that the individual, a regular freight train rider and member of the Freight Train Riders of America, had obtained food stamps and other benefits under the names of various fellow transients who were subsequently determined to have been murdered. The subject confessed to numerous homicides, including murders in Oregon, California, Montana, Utah, Florida, and Kansas. He admitted that one of the reasons he killed his fellow freight train riders was to use their identities to collect food stamps and other welfare benefits. Our investigation revealed that the subject had been collecting welfare benefits under several names in 12 States beginning in 1994 through 1996. OIG provided the pertinent information to the local investigators and prosecutors, along with the original applications. Some files reflected the victims' names with the defendant's photograph on various identification documents. The information we developed was critical to the prosecution of the subject, who had been classified as a serial murderer. Using our information, a time line was developed which solidified a chain of

events. Our information directly linked the subject to some of the homicide victims through the subject's use of their identities and his photograph on a false identification card that he used to obtain welfare benefits. In addition to providing a link to the homicide victims and demonstrating his opportunity to commit the crimes, OIG provided proof of the subject's motive. The subject is also under indictment in Florida and Kansas for homicide.

In Detroit, Michigan, a grocery store owner pled guilty to conspiracy to traffic in food stamps. The store owner laundered \$13 million worth of food stamps through his store between 1990 and 1995. He and the owners of six other stores in the area purchased and routinely transferred between themselves unlawfully acquired food stamps totaling \$24 million. The store owner was sentenced to 2 years' confinement and ordered to pay \$13 million restitution to USDA. Another store owner involved in the conspiracy, who was also the primary broker of the unlawfully acquired food stamps, pled guilty to conspiracy to money launder and was sentenced to 4 years' confinement, forfeited \$209,000 cash, and ordered to pay \$1 million restitution. Three of the other conspirators have pled guilty but have not yet been sentenced. Four other conspirators have signed plea agreements. This case was worked jointly with the Internal Revenue Service-Criminal Investigations Division (IRS-CID), and USSS.

Some 16 people who owned or operated 10 New Jersey stores involved in fraudulent EBT transactions have entered guilty pleas as a result of this investigation. The EBT fraud, based on transaction analysis, is estimated at \$6.5 million. Approximately 920 food stamp benefit recipients were identified as having engaged in suspect transactions at the stores. Each of the recipients illegally redeemed at least \$1,000 in food stamp benefits. To date, 582 recipients have been suspended from the Food Stamp Program, resulting in a cost avoidance of approximately \$43,200. Forfeiture actions against the 18 store owners and operators involve an estimated \$200,000 and are pending judicial action. To date, seven of the defendants have been sentenced and received sentences ranging from 3 years' probation to 15 months in prison. A total of \$327,710 in restitution has also been ordered. Sentencing for the remaining defendants is pending.

Child and Adult Care Food Program (CACFP)

In Ohio, 10 people, including the director of the sponsoring organization operating a local child and adult care food program, were charged with conspiracy to submit false claims for issuing and/or receiving reimbursement payments for in-home day care providers who did not exist or did not have children in the home. This investigation identified 10 people who conspired to set up more than 40 false providers, resulting in the submission of false claims for reimbursements totaling approximately \$1.1 million. The scheme had been going on since about 1988. This investigation continues, and additional prosecutions are anticipated. The investigation was worked jointly with the U.S. Postal Inspection Service.

Three former employees of a California CACFP nonprofit child care sponsor were sentenced after pleading guilty to mail fraud in connection with a scheme to defraud CACFP of over \$110,000. Each received a sentence of 60 months probation and 90 days home detention, and each were ordered to make \$12,000 restitution. Our investigation disclosed that the employees devised a scheme whereby they submitted false claims, through the sponsor, for day care home providers who were no longer participating in CACFP. The two owners of the sponsoring organization were also charged with defrauding CACFP of approximately \$142,000 and the California State Preschool Program of approximately \$200,000 and are awaiting trial. The owners' scheme involved the submission of false claims for expenses associated with CACFP. The owners were also charged with committing perjury to the grand jury and obstruction of justice for threatening Government

witnesses. As a result of the investigation, the sponsoring organization was terminated from participation in CACFP and the State Preschool Program.

The former sponsoring official of 69 day care homes in Tennessee was sentenced to serve 9 years 2 months in prison and ordered to pay restitution of \$127,400 after being convicted at trial on 59 counts for mail fraud, making false statements, and money laundering. The official inflated the number of children enrolled and the number of meals claimed, paid the day care homes the correct amount, and then issued a second check in the sponsor's name for the inflated amount. Our investigation, conducted jointly with IRS and FBI, disclosed false claims totaling approximately \$127,000 for meals and snacks over a 3-year period, including payments issued in the names of 15 individuals who did not actually participate in the program.

In Pennsylvania, a former sponsor official pled guilty to embezzlement, misapplication of funds, and theft totaling \$92,000 from CACFP. She failed to reimburse 200 day care homes and misused funds to cover administrative expenses. The official used the embezzled money to cover personal expenses, such as her mortgage, and to buy equipment for a restaurant she owned. Sentencing is pending.

The sponsor for the 1992-1995 summer feeding program in Pulaski County, Arkansas, agreed to pay a \$900,000 civil settlement after our investigation disclosed approximately \$880,000 in overclaims submitted for those years. We found the private organization operating the feeding sites on behalf of the county inflated the attendance records, and the county submitted those claims. The settlement was for full restitution and the equivalent of two \$10,000 civil penalties. Criminal action is still pending against the private organization actually operating the feeding sites for the county.

The husband and wife owners/directors of a Utah sponsorship organization responsible for overseeing a network of day care home providers were indicted on 117 counts of making false statements to USDA and embezzlement and misapplication of CACFP funds. The couple was charged with falsifying Utah day care facility addresses for an ineligible provider who lived and worked in Nevada, continuing provider files once the provider had quit or had been kicked out of the program and continuing to issue monthly meal reimbursement checks in the name of the absent provider, cashing provider meal reimbursement checks without the provider's knowledge and demanding kickbacks from providers. Trial is scheduled for February 1999.

Special Supplemental Food Program for Women, Infants, and Children (WIC)

OIG, in conjunction with the Columbus Division of Police, the Ohio Department of Taxation, and the Franklin County prosecutor, conducted a 12-month undercover investigation into the trafficking of WIC infant formula and untaxed cigarettes. Investigators determined that store owners and a wholesaler got the formula through the black market, removed its "not for retail sale" marking, and sold it commercially in area stores and to businesses in other States. In two separate "buy-bust" cases, store owners and managers were arrested for having illegally purchased hundreds of cases of WIC formula and hundreds or thousands of cartons of untaxed cigarettes. Both investigations were linked to a Columbus commodity wholesaler at whose warehouses between \$500,000 and \$1 million in commodities was seized. In separate indictments, which included a charge under Ohio's racketeering statute, the store owners and managers of both stores were charged with trafficking in WIC benefits, trafficking in untaxed cigarettes, money laundering, and possession of criminal tools. In addition to racketeering, the wholesaler was charged with receiving stolen property, theft, possession of criminal tools, forgery, money laundering, trafficking in WIC benefits, and trafficking in untaxed cigarettes. The owner and the manager of the first "buy-bust" case pled guilty to racketeering and trafficking in WIC benefits and untaxed cigarettes. The owner and manager in the

second case pled guilty to trafficking in WIC benefits and untaxed cigarettes. Their corporation pled guilty to racketeering. The wholesaler is now a fugitive.

FARM SERVICE AGENCY (FSA)

During FY 1998, OIG issued 110 reports of investigation regarding FSA programs and operations. Monetary results from FSA investigations totaled over \$16.3 million, including over \$6.4 million in restitution and fines, nearly \$5.2 million in collection and recoveries, more than \$3.8 million in cost avoidance, and another \$0.9 million in claims established. A few examples of these cases are set forth below.

A honey producer in Idaho has been sentenced to serve 28 months in prison and ordered to pay USDA \$3,078,030 in restitution after he pled guilty to submitting false statements to FSA in order to obtain over \$6 million in loans and subsidy payments. The producer concocted a "kiting" scheme whereby he increased his purported honey production each year in order to obtain sufficient funds from FSA to repay previous debts. The producer created fictitious checks from a nonexistent honey company in order to convince FSA that he was actually selling honey each year, when, in fact, he produced almost no honey. By the time his scheme was discovered, he owed FSA over \$3 million and had no funds or honey with which to repay FSA. The producer's wife entered a pretrial diversion program as a result of her participation in the scheme.

Four Texans pled guilty in Federal court after our investigation showed they had filed more than \$2 million in false claims under the 1988-1990 Mohair Incentive Program. The Mohair Incentive Program, now eliminated, allowed mohair producers to receive Government subsidies approaching 400 percent of the amount of their mohair sales. The four individuals submitted bogus mohair sales receipts in support of their claims. One of the defendants was previously sentenced. In January 1998, two of the defendants, a father and son, were sentenced. The father, a former bank officer, was sentenced to serve 40 months in jail and ordered to pay \$1,585,600 restitution. His son was sentenced to serve 24 months in jail and ordered to pay \$974,500 restitution. Both are to serve 3 years' supervised release after finishing their prison terms. The final defendant was sentenced to 2 years' probation and 3 years' supervised release and has paid a total of more than \$368,400 restitution.

In North Dakota, a father, son, and nephew pled guilty to converting \$279,800 worth of mortgaged grain. The three men used the proceeds to develop an interstate truck stop which they operated near the Canadian border. Each was sentenced to 5 years' probation, and they were ordered to pay restitution totaling nearly \$218,400.

A prominent California agricultural producer—who was also a businessman, community leader, and Washington, D.C., "insider"—agreed to a civil settlement of \$300,000 after an OIG investigation. Investigators uncovered a triple-escrow scheme used by the producer in 1992 to divert \$56,000 of profit from the sale of property mortgaged to the former Farmers Home Administration (FmHA) to one of his business entities. The producer, who was on national committees pertaining to the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, defaulted on \$7.1 million in FmHA emergency loans made to his farming operation in 1978. From 1979 through 1993, the producer systematically disposed of 2,865 acres of farm land, deeded to FmHA as collateral for the emergency loans, through questionable real estate transactions.

RURAL HOUSING SERVICE (RHS)

During FY 1998, OIG issued 22 reports of investigation concerning RHS programs and operations, including four involving the Rural Rental Housing Program (RRH). Overall monetary results from RHS investigations totaled more than \$5.2 million, including nearly \$4.5 million in collection and recoveries and nearly \$650,000 in fines and restitution. A few examples of our RRH investigations include the following.

In Washington State, a prominent local attorney was sentenced to 21 months in prison and ordered to pay \$300,000 in restitution after he pled guilty to making false statements, receiving unlawful payments, and filing a false Federal income tax return. As a general partner of limited partnerships which owned federally financed and subsidized low-income housing projects, the attorney built 65 apartment projects in 20 States under the RRH program. Our investigation disclosed that the partner submitted false and fictitious construction invoices to RHS and to the lending banks which administered RHS loans in order to divert \$176,000 in funds from four RHS loans. Our investigation also showed that he received kickbacks from the bank where loan funds were deposited. In order to conceal the kickbacks, he submitted fictitious invoices to the bank for purported legal services rendered. He also failed to disclose \$95,000 in income derived from the diverted funds and other sources on his 1995 individual income tax return.

The former manager of an RRH management company in northern California was sentenced to 1 year 4 months in State prison, fined \$1,200, and ordered to pay \$33,400 in restitution after he pled guilty to embezzling funds from the RRH projects he was managing. Our investigation disclosed that the manager embezzled over \$33,000 by using the company's credit card to obtain money at casinos in Reno, Nevada, and then transferring money from the RRH reserve accounts to pay the credit card company. He also forged the owner's signature on company checks. The company subsequently replenished the projects' reserve accounts after its insurance company settled a claim for the loss.

In Champaign, Illinois, a prominent local CPA was sentenced to a 3-year term of probation, with 5 months of monitored home confinement; fined \$10,000; and ordered to pay \$25,000 in restitution after he pled guilty to making false statements to RD. Our investigation disclosed that the individual, acting as the management agent for three RRH projects, submitted the false statements in order to collect approximately \$44,000 in unreported tenant contributions and excessive rental assistance payments, while failing to subsidize tenants' rent. Civil litigation in the matter is ongoing.

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

During FY 1998, OIG issued 25 reports of investigation concerning FSIS with monetary results of about \$0.5 million, including fines of about \$0.4 million and restitution totaling over \$0.1 million. The following are some examples of these cases.

The FSIS inspector assigned to a beef slaughter operation in northern New York pled guilty in Federal court to accepting bribes from the owner of the plant to permit the slaughter of livestock, including 3-D (dying, down, or diseased) cows, without the benefit of inspection. The slaughter facility also entered a plea of guilty to bribery. The inspector was also terminated from his position with FSIS and was sentenced to 6 months' confinement, 5 years' probation, and 200 hours' community service and ordered to pay a fine of \$17,000. The plant was sentenced to 5 years' probation and ordered to pay a fine of \$10,000. Our investigation disclosed that, for about 2 years, the assigned inspector was receiving weekly cash payments from the owner of the slaughter facility, initially to conduct inspections of "downers" (physically weakened or injured cattle) without notifying

the FSIS Supervisory Veterinary Medical Officer. The inspector later permitted plant personnel to slaughter livestock and to use USDA inspection stamps without his being present on the slaughter line, frequently after he had departed the plant.

The owner of a Pennsylvania slaughterhouse pled guilty in Federal court to one count of conspiracy, while three employees pled guilty to two counts each of violating the Federal Meat Inspection Act. The owner and his employees slaughtered 3-D cattle during evening hours after the FSIS inspector had left the premises. The unwholesome meat was commingled with federally inspected meat and sold as federally inspected product such as bologna, beef sticks, and jerky. In addition, hearts and tongues of uninspected cattle were made into summer sausage, bologna, ground meat, or kielbasa. The FSIS Compliance staff assisted in this case. The employees were sentenced to 2 and 3 years' probation and a \$500 fine. The owner was sentenced to 5 years' probation and a \$1,000 fine.

A commercial freezer storage facility in Gainesville, Georgia, pled guilty in Federal court in Atlanta, Georgia, to misbranding poultry. In the plea agreement, the president of the company admitted to having boxes and containers of poultry products fall to the floor and become damaged because of overcrowded conditions at the Gainesville facility. The damaged poultry was rebixed on weekends without the knowledge or permission of the USDA inspector at the facility. The frozen damaged product was thawed to make it easier to rebix, after which it was worked back into interstate and foreign shipments. The damaged rebixed product was combined into shipments of the original processor and different poultry processors. The company was fined \$200,000 and ordered to pay \$40,000 restitution for the cost of the investigation. The fine was the largest paid by a company in the Southeast under the Poultry Products Inspection Act. The investigation was worked jointly with FSIS Compliance officers.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

During FY 1998, OIG issued 20 reports of investigation concerning APHIS programs, resulting in about \$46,000 in monetary results. The following are examples of these cases.

Six individuals in Oregon are awaiting sentencing after they pled guilty to charges of theft for their part in a conspiracy to fraudulently acquire and sell dogs to medical research facilities. The six defendants have also agreed to testify against a former USDA-licensed dog dealer, her husband, and their son, who have all been indicted for conspiracy and mail fraud related to the scheme. Our investigation disclosed that the dealer and her associates either stole dogs or obtained them under false pretenses. Over a 15-month period, they illegally obtained over 100 dogs in this manner. The dealer then falsified APHIS forms in order to conceal her activities. She also forwarded false documents to the Oregon Department of Agriculture. Because of her activities, APHIS refused to renew her dealer's license.

In San Francisco, California, two businessmen were sentenced after pleading guilty to causing the delivery of misbranded food for introduction into interstate commerce. A joint investigation conducted by OIG, the U.S. Customs Service, and the U.S. Food and Drug Administration disclosed that the businessmen smuggled birds' nests, abalone, fish maw, scallops, and dried oysters from Hong Kong by commingling these products with their legitimate imports of frozen shark fins and other food products. The two businessmen received 3 years' probation and were each ordered to pay a \$3,000 fine and restitution of \$1,500. A third individual is pending trial on similar charges.

FOREST SERVICE (FS)

During FY 1998, OIG issued 10 reports of investigation concerning FS. Listed below is an example of these investigations.

A former employee of FS and a self-employed aircraft broker were found guilty of conspiracy to defraud FS of 28 aircraft by providing false statements to officials of the Department of Defense (DoD) and the General Services Administration (GSA), mail and wire fraud, and offering and accepting gratuities. The former FS employee was sentenced to 2 years in prison and 3 years' probation and the aircraft broker to 30 months in prison and 3 years' probation. The 28 aircraft had an estimated value of between \$22 million and \$28 million. The scheme involved the creation of an illegal Historic Aircraft Exchange Program (HAEF) by FS. The former FS employee accomplished this by misrepresenting to FS officials the authority of FS to create such a program, which was then used to transfer surplus aircraft from DoD to airtanker companies with whom FS contracted to fight forest fires. The self-employed aircraft broker facilitated the transfer of FS aircraft in HAEF to the airtanker contractors. At times, the aircraft broker was employed by the same companies that received the FS aircraft and Government contracts to fight forest fires. The scheme was carried out by the airtanker companies exchanging nonflight-worthy aircraft for flight-worthy FS aircraft. The former FS employee knew to whom the aircraft were being transferred and was instrumental in the transfers of title. The self-employed aircraft broker, who was not in the business of fighting forest fires, obtained three FS aircraft and sold or traded them, netting a profit of \$1.5 million. This case was worked in conjunction with the Defense Criminal Investigative Service, GSA OIG, and the Naval Criminal Investigative Service.

EMPLOYEE INTEGRITY

During FY 1998, OIG issued 55 reports of investigation concerning serious allegations of misconduct by USDA employees. Our investigations resulted in 23 convictions of current and former employees and 80 personnel actions, including reprimands, suspensions, resignations, removals, and alternative discipline. The following are examples of these investigations.

In July 1994, a tropical storm struck southern Georgia, causing serious flooding and millions of dollars in damage. As a result, the Natural Resources Conservation Service (NRCS) negotiated and funded numerous watershed repair contracts under the Emergency Watershed Protection Program (EWPP). After we received confidential information from a private sector contractor, our 18-month investigation developed evidence showing that two NRCS employees, who were responsible for managing EWPP contracts accepted cash bribes from a contractor in exchange for special considerations in obtaining EWPP contracts. A third employee arranged for a contractor doing business with NRCS to perform construction work on personally owned land. The cost of this work was then improperly billed to USDA. Between July and September 1998, the three employees entered guilty pleas in U.S. District Court, Middle District of Georgia, to violations resulting from their acceptance of bribes and gratuities. One employee was fined and placed on probation, and resigned from NRCS. The other two employees are currently on indefinite suspension; they stated in their plea bargains that they would resign from their positions and are awaiting sentencing.

A Louisiana Rural Development county office employee pled guilty in Federal court to embezzling and misapplying over \$82,000 in rural housing loan payments she had received in her office. She was sentenced to serve 6 months' imprisonment, to be followed by 4 months' home confinement. She was also fined \$10,000 and ordered to pay nearly \$24,350 restitution. The employee resigned soon after we initiated our investigation.

United States Department of Agriculture



Report to the Secretary of Agriculture

March 1999

Evaluation of the Office of Civil Rights' Efforts to Implement Civil Rights Settlements



Evaluation Report No. 60801-2-Hq



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



March 29, 1999

Honorable Joe Skeen
U.S. House of Representatives
2302 Rayburn House Office Building
Washington, D.C. 20515-3102

Dear Congressman Skeen:

On September 4, 1998, the Secretary of Agriculture asked the Office of Inspector General (OIG) to audit the settlements of complaints of discrimination in the administration of the Department's programs concluded since January 1, 1997. The Secretary asked us specifically to determine whether these settlements have been fulfilled expeditiously and completely, and whether all forms of compensatory damages and program relief have been implemented. The enclosed report, our sixth evaluation of the Department's efforts to resolve its program complaints, provides our response to the Secretary's request.

We reviewed 101 settlement and conciliation agreements negotiated by the Office of Civil Rights (CR) and other departmental agencies since January 1, 1994. This included 17 settlement agreements and 84 conciliation agreements. Settlement agreements can contain terms for compensatory damages, while conciliation agreements typically contain terms for program relief only.

We found that even though settlement and conciliation agreements entered into by the Department were generally being implemented in a timely manner, CR remained unaware of the number and status of all agreements. CR was not tracking the implementation of the agreements, and it had offered no formal guidance on cases that had been referred for disciplinary action. No disciplinary actions had been taken in any of the 17 cases involving proven or probable discrimination. We also found that in one case, a departmental agency did not fulfill one term of an agreement that CR had entered into with a complainant. In this case, the agency maintained that it was precluded by statute from offering the program relief stipulated in the agreement term. However, the agency did not inform CR of its decision, and it did not seek advice from departmental attorneys. We are recommending that the Department seek a legal opinion about the propriety of the agreement term and implement the term, if appropriate.

Several agreements also contained terms that were inappropriately or vaguely worded, or provided monetary damages that may not be allowed by law. We are recommending that prior to the presentation of an agreement to the claimant, CR assemble and chair a

Honorable Joe Skeen

2

team to include Office of the General Counsel (OGC) attorneys and program officials to analyze the proposed terms of each agreement for legal sufficiency. The Department has fully implemented 8 of the 17 settlement agreements and has implemented most of the terms of the remaining 9. It has paid all compensatory damages settled by CR in a timely manner. It has also implemented most of the terms of the conciliation agreements calling for program relief. Most agreements that have not been implemented contain terms (e.g., calling for priority consideration on future loans) that do not expire for up to 6 years.

If you have any questions concerning this report, please contact me at (202) 720-8001 or have a member of your staff contact James R. Ebbitt, Assistant Inspector General for Audit, at (202) 720-6945.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger C. Viadero". The signature is stylized with a large, looping initial "R" and a cursive-style name.

ROGER C. VIADERO
Inspector General

Enclosure



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



March 24, 1999

REPORT TO THE SECRETARY ON CIVIL RIGHTS ISSUES - PHASE VI

FROM: 
Roger C. Viadero
Inspector General

SUBJECT: Evaluation of the Status of USDA Agreements Entered Into To Resolve Complaints
Alleging Program Discrimination

On September 4, 1998, you asked the Office of Inspector General (OIG) to audit the settlements of complaints of discrimination in the administration of the Department's programs concluded since January 1, 1997. You asked us specifically to determine whether these settlements have been fulfilled expeditiously and completely, and whether all forms of compensatory damages and program relief have been implemented. You also asked us to include recommendations to remedy any deficiencies.

This represents our sixth evaluation of the Department's efforts to resolve its program complaints. We reviewed 101 settlement and conciliation agreements negotiated by the Office of Civil Rights (CR) and other Department agencies since January 1, 1994. This included 17 settlement agreements and 84 conciliation agreements. Settlement agreements can contain terms for compensatory damages, while conciliation agreements typically contain terms for program relief only.

The Department has fully implemented 8 of the 17 settlement agreements and has implemented most of the terms of the remaining 9. It has paid all compensatory damages settled by CR in a timely manner. It has also implemented most of the terms of the conciliation agreements calling for program relief. Most agreements that have not been implemented contain terms (e.g., calling for priority consideration on future loans) that do not expire for up to 6 years.

In only one case did the Department not fulfill the terms of its agreement. The agreement required the Farm Service Agency (FSA) to give the complainant priority selection of Government inventory property, but FSA did not notify the complainant whether or not property was available. FSA did not believe that this program participant was eligible for priority consideration since the participant was not considered a Socially Disadvantaged Applicant. We are recommending the Department implement the agreement, but because the complainant is not a member of any socially disadvantaged group, we are recommending the Department first obtain a legal opinion concerning the complainant's eligibility for priority selection of property. We are also

REPORT TO THE SECRETARY ON CIVIL RIGHTS ISSUES - PHASE VI**2**

recommending that CR track all agreements and report to you twice a year the terms that have not been implemented.

Even though there was a high probability that discrimination did indeed occur in the 17 cases that led to settlement, no disciplinary action has been taken against any discriminating officials. CR has provided agencies with no formal guidance on how to proceed in these cases. We have consistently urged CR to provide guidance on all stages of the complaints resolution process, and we are reemphasizing this need.

Several agreements contained terms that were inappropriately or vaguely worded, or provided monetary damages that may not be allowed by law. We are recommending that CR assemble and chair a team of the Office of the General Counsel (OGC) attorneys and program officials that would meet prior to each agreement negotiation to analyze the proposed terms of the agreement for legal sufficiency.

Executive Summary

Purpose

We performed this evaluation to determine the status of agreements entered into by the U.S. Department of Agriculture (USDA) in its efforts to resolve complaints made by program participants who alleged civil rights violations by the Department in its administration of Federal programs. The evaluation was requested by the Secretary during our Phase V review of operations of the Office of Civil Rights (CR), the agency assigned to investigate and resolve civil rights complaints. Our Phase V review determined that CR did not track settlement agreements after they were executed and did not know how many agreements the Department had entered into. Consequently, the Secretary asked us to determine whether the agreements had been fulfilled expeditiously and whether all forms of compensatory damages and program relief had been implemented. We expanded our evaluation coverage to include conciliation agreements, because these agreements are similar to settlement agreements, and are also based on a complaint of discrimination.

For this evaluation, we reviewed 101 agreements, 17 of which were settlement agreements and 84 of which were conciliation agreements. A conciliation agreement is typically used to resolve a complaint soon after it is lodged, while a settlement agreement is used after an investigation and adjudication has arrived at a finding of discrimination. A conciliation agreement typically offers the complainant only program relief, while a settlement agreement may include compensatory damages as well as program relief.

Because a settlement agreement is reached after a high probability of discrimination has been found, the case should be referred for disciplinary action. We included in our evaluation a review of CR activities to determine if USDA agencies took disciplinary actions against the discriminating official(s).

Results in Brief

Even though settlement and conciliation agreements entered into by the Department were generally being implemented in a timely manner, CR remained unaware of the number and status of all agreements. CR was not tracking the implementation of the agreements, and it had offered no formal guidance on cases that had been referred for disciplinary action. We found that no disciplinary actions had been taken in any of the cases involving proven or probable discrimination. We also found that in one case, the Farm Service Agency (FSA) did not agree to the propriety of one term of an agreement that CR had entered into with a complainant and consequently did not fulfill that term. In this case, FSA

maintained that it was precluded by statute from offering the program relief stipulated in the agreement term. FSA had not informed CR of its decision, and it had not sought advice from the Department's attorneys. We are recommending that the Department seek a legal opinion about the propriety of the agreement term and implement the term, if appropriate.

In order to determine the total number of settlement and conciliation agreements entered into during our scope period of 1994 through October 1998, we sent letters to all USDA agencies. We requested each agency to provide us copies of the agreements entered into during our scope period, and notify us of any disciplinary actions recommended or taken against agency officials involved in discriminatory acts against USDA program applicants or participants during this same timeframe. Based on responses to our inquiry, we determined that there were 17 settlement and 84 conciliation agreements entered into during our scope period.

The 17 settlement agreements were reached either after an investigation resulted in a finding of discrimination or after the CR Director concluded there was a high probability that discrimination had occurred. However, no disciplinary action has been taken against any discriminating officials in reference to these 17 settlement agreements. CR has not provided either FSA or the Department's Office of Human Resources Management with individual names or other documentation needed to initiate disciplinary action. CR has also not issued any formal guidance on how agencies should proceed with disciplinary action, and it has not monitored any of the 17 settlement cases to determine if such actions have been carried out.

One agency official believed that his agency could not proceed with disciplinary action without absolute proof of employee wrongdoing. The Department's Office of the General Counsel (OGC) has stated that the evidence used to arrive at a finding of discrimination is sufficient grounds to proceed with disciplinary action, but in more recent communications, OGC attorneys have suggested that a finding of discrimination should itself initiate a process of identifying the sufficiency of evidence. We concluded that CR should define in its departmental regulations when such a process is warranted.

CR has made an effort to apprise itself of settlement agreements, but it relies on data received from FSA, the only agency with settlement agreements to date, to track their status. Although agencies are encouraged to resolve cases through the more efficient and less costly process of conciliation, CR has not formalized this policy.

We also found that the Department was entering into agreements that contained terms that were inappropriately worded, or provided monetary

damages that may not be allowed by law. Many agreements that offered debt forgiveness and priority consideration for future loans may have waived the law in effect at the time that forbid individuals who received prior debt forgiveness from getting future USDA loans. OGC attorneys noted that USDA may override the law only in cases in which the debt was forgiven as part of a settlement (i.e., the debt was a proven result of discrimination), not if it had been forgiven through the normal implementation of the law. According to the attorneys, stipulating such a waiver of the law in the agreement might void the entire agreement. We believe that OGC civil rights attorneys should consult with OGC program attorneys during the settlement agreement review process, in order to avoid terms that could result in further litigation.

In spite of CR's inability to account for all complaint agreements, the Department has generally implemented those agreements. It has implemented all of the terms of 8 settlement agreements, most of the terms of the remaining 9 settlement agreements, and most of the terms of the conciliation agreements. The Department has paid all compensatory damages settled by CR. The 101 agreements we reviewed, both conciliation and settlement, contained 293 terms. The status of those terms is summarized in the following table.

STATUS OF 293 TERMS OF AGREEMENT IN 101 AGREEMENTS REVIEWED			
Status of Terms	Type of Agreements and Number of Terms		
	CONCILIATION	SETTLEMENT	
	Program Relief	Compensatory Damages	Program Relief
Implemented	57	9	68
Outstanding	1		50
Failed to Implement			1
Improperly Closed			1
Not Monitored			9
Not in OIG sample	97		
Total	155¹	9	129

Although many agreement terms covering programmatic relief have not yet been fulfilled, this situation is largely a result of the scope of the agreements. These agreements contain terms (e.g., calling for priority consideration on

¹Of the 155 terms we judgmentally selected 58 for review. Our selection was based on trying to review agreements from a variety of States. The 58 terms reviewed were from 30 different conciliation agreements.

future loans or for providing technical assistance) which do not expire for up to six years from the date the agreements were signed. In some cases, these terms will not be fully implemented until after the year 2002. We found no evidence that Department agencies intentionally delayed the implementation of the agreements.

Before our audit began, we received a letter from the Congressional Black Caucus that raised several issues concerning settlement agreements and the Department of Justice's (DOJ) involvement in them. The information we provide in the General Comments section of this report responds to these issues.

Key Recommendations

We recommended that for negotiated settlements, CR assemble and chair a team of OGC civil rights attorneys and cognizant agency program officials that will meet prior to any agreement negotiation to analyze the proposed terms of the agreement for legal sufficiency prior to the presentation of the agreement to the claimant. We also recommended that CR, in coordination with OGC and the Office of Human Resources Management, provide procedural guidance on disciplinary action and formalize its policy of encouraging agencies to reach some conciliation with complainants early in the complaints process. CR and the agencies also need to track all conciliation and settlement agreements and report all outstanding agreement terms to the Secretary semiannually.

Finally, we recommended that FSA implement the one agreement term we found outstanding.

Agency Response

We discussed the contents of this report with the Director of CR, the General Counsel, and the Associate General Counsel, Civil Rights Division. We have incorporated their comments in the report. A response to the recommendations in this report is due from the Director of CR within 60 days from the date of this report, and we will work with the Director to implement the recommendations.

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Introduction

Background

A settlement agreement is one possible outcome of a program discrimination complaint made against an agency of the U.S. Department of Agriculture (USDA) under Title VI of the Civil Rights Act of 1964 and the Equal Credit Opportunity Act (ECOA) of 1974.² These Acts provide that no citizen shall be subjected to discrimination under any Government program or activity because of race, color, national origin, or other such characteristics. The Department seeks to resolve program discrimination complaints by urging the agency against which the complaint was filed to attempt conciliation with the complainant. However, a maximum of 24 days is permitted for conciliation.

The nature of a conciliation agreement is to make good on any program losses suffered by the complainant as a result of improper adverse USDA actions. Depending on the merits of the complaint, programmatic relief at this stage can amount simply to a rereview by county officials of the claimant's loan application, or it can include payment of program benefits, issuance of a loan, or provisions of loan servicing. Conciliation agreements also establish that USDA does not acknowledge any wrongdoing or liability for discrimination or for the complainant's loss.

Prior to the establishment of the Office of Civil Rights (CR), the agencies and not the Department resolved a number of the cases. The Department civil rights staff, who had responsibility for assuring that complainants received due process before the cases were closed, neither reviewed the terms of the agreements nor assured that they were implemented.

A Secretary's Memorandum, dated May 16, 1997, established CR and made the CR Director responsible for supervising the performance of all civil rights functions assigned to the Assistant Secretary for Administration. These functions include investigating, adjudicating, and resolving all complaints of program discrimination, and allowing compensatory damages to be awarded for cases involving discrimination in programs subject to the ECOA.

If conciliation at the agency level is unsuccessful, CR then becomes involved and may complete an investigation of the case. The Department must then respond to the facts gathered and acknowledge whatever blame is apportioned to it. For cases that have resulted in findings of discrimination, or where the

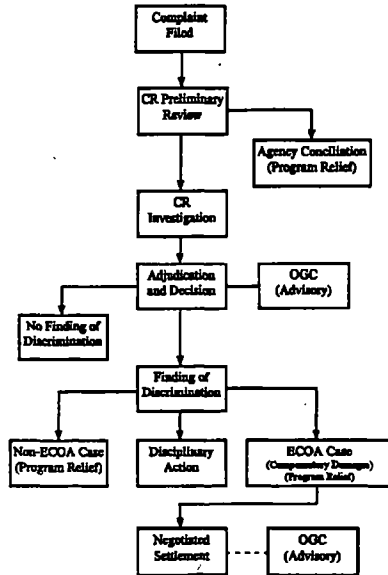
²Other laws and regulations could apply. These may include the Fair Housing Act of 1968, the Rehabilitation Act of 1973, and 7 CFR Part 15, dated June 11, 1982.

CR Director determined there was a high probability that discrimination occurred, the Department may reach an agreement with the complainant, now known as a "settlement agreement," and also recommend the agency take action to correct the cause of discrimination. Corrective actions could include requiring an employee to take civil rights training or administering disciplinary action. Currently, CR may recommend that disciplinary action be taken following a settlement, but it is the agency's responsibility to determine the type of action to be taken and to administer the action.

The ECOA also prohibits discrimination in Government programs, but it extends the scope of relief by allowing complainants in credit cases to sue for compensatory damages. Complainants whose cases do not involve loan programs or are settled prior to an investigation are typically entitled to programmatic relief. However, complainants whose cases involve loan programs may be entitled to compensatory damages. These damages are the losses that were caused by the discrimination over and above any program benefits that the complainant was denied. The complainant must submit documentary evidence of this loss. CR reviews the evidence and either issues a decision on damages or negotiates with the complainant to arrive at a settlement agreement. The agency against which the complaint was brought is responsible for implementing the agreement.

Because of pending litigation, the Department of Justice (DOJ) also reviewed some settlement agreements in which compensatory damages were awarded. If DOJ determined that the settlement agreements reached between CR and the complainants were unreasonable based on the evidence of loss or other facts surrounding the case, it voided the settlement agreement as written. DOJ is required to approve any settlement for plaintiffs involved in litigation.

Figure 1: The Process of Arriving at Settlement Agreements in Program Discrimination Cases³



³As observed by OIG and based on discussions with CR and OGC officials. As noted in the General Comments section of this report, certain settlement agreements were also reviewed by the Department of Justice after the negotiated settlement phase.

In our Phase V report, dated September 30, 1998, we concluded that CR was uninformed about all agreements and did not know whether the terms were implemented. CR did not track the agreements after they were executed, and it did not require agencies to implement corrective actions prior to closing the cases. Complainant casefiles did not include evidence to show that agreements were implemented or that required corrective actions were taken. Without a system to monitor implementation of the agreements, there was no assurance that complainants were receiving timely redress.

Objectives

This evaluation was performed in response to a request from the Secretary regarding the status of settlement agreements. The Secretary's request came during our Phase V review, which disclosed that the Department did not know how many settlement agreements had been executed and whether those agreements had been implemented. The objectives of this evaluation were to determine (a) if the settlements, including all forms of compensatory damages and program relief, had been implemented expeditiously and completely, and (b) if the Office of Civil Rights and its predecessor followed up to ensure that USDA agencies took recommended disciplinary actions against the discriminating official(s).

Before our audit work began, OIG received a letter, dated August 31, 1998, from the Congressional Black Caucus raising several other issues regarding settlement agreements. Specifically, the Caucus asked us to determine (a) if CR investigators are being coerced and intimidated by USDA's Office of the General Counsel (OGC) and the Department of Justice (DOJ) to reverse findings of discrimination and to reduce proposed settlement awards in certain black farmer discrimination cases; (b) if any investigator has been asked by anyone to reverse a finding of discrimination or modify, reduce, or eliminate a proposed award; (c) the number of proposed black farmer settlements that have been reviewed by DOJ since December 31, 1996; (d) the number of such settlements where DOJ requested USDA to reduce, modify, or eliminate proposed settlements or change any finding of discrimination; and (e) the average settlement amounts of such cases with DOJ review and the average settlement amounts of such cases without DOJ review.

Our responses to the five specific issues raised by the Congressional Black Caucus are included in the General Comments section of this report.

Scope

The Secretary requested that we review settlements of discrimination complaints in the Department's programs concluded since January 1, 1997. We expanded our scope, however, to include both settlement and conciliation agreements concluded since January 1, 1994. The expanded scope allowed us to review a larger sample of

- conducted interviews with cognizant CR officials and contacted officials of FSA, Forest Service, Rural Development, the Department's Office of the General Counsel, and the U.S. Department of Housing and Urban Development.
- reviewed the laws and Department regulations applicable to settlement and conciliation agreements reached since January 1, 1994.
- reviewed the organizational responsibilities, tracking systems, and reconciliation processes of the CR, FSA, and Rural Development.
- reviewed the status of USDA settlement and conciliation agreements by conducting interviews, making contacts with agency officials, or reviewing documentation.
- reviewed documentation pertinent to the financial system used for payments of cash settlements.
- collected data on OGC and DOJ's timeframes for reviewing civil rights cases referred by USDA.

agreements, and we concluded it was appropriate to include conciliation agreements since they are also based on discrimination complaints and are similar to settlement agreements. Also, in order to respond to the request made by the Congressional Black Caucus, we broadened our review of OGC and DOJ's involvement in the settlement process. We reviewed 101 agreements, 17 settlements and 84 conciliations.

All 17 settlement agreements resulted from complaints brought against the Farm Service Agency (FSA). For these 17 settlement agreements, USDA paid nearly \$2.7 million in compensatory damages and forgave over \$1.7 million of debt. (See exhibit A.) These 17 settlement agreements contained 138 terms. We verified the implementation of all 138 terms.

Of the 84 conciliation agreements, 64 resulted from complaints brought against Rural Development; 16 resulted from complaints brought against FSA; 3 resulted from complaints brought against the Forest Service; and 1 resulted from a complaint brought against the Natural Resources Conservation Service. These 84 conciliation agreements contained 155 terms. We judgementally selected and verified the implementation of 58 terms.

We also identified four settlement agreements that were negotiated through DOJ. These four settlement agreements resulted from four FSA customers who filed lawsuits against the Secretary, and as such, they fell under DOJ's jurisdiction. These four included \$817,000 in compensatory damages and \$789,028 in debt forgiveness. (See exhibit C.) We did not include these 4 in our total of 101 agreements since they fell under DOJ's jurisdiction. However, CR is aware of these agreements, and FSA is tracking the implementation of their terms.

Audit fieldwork was conducted between October 13, 1998, and December 18, 1998.

This evaluation was conducted in accordance with the quality standards for inspections issued by the President's Council on Integrity and Efficiency.

Methodology

To accomplish our objectives, we:

- sent a letter to all Departmental agencies, requesting them to provide us information on all of their settlement agreements and on any agreements similar to settlement agreements that were entered into during our scope period.

Chapter 1: The Status of Settlement and Conciliation Agreements

Agreements Are Generally Being Implemented in a Timely Manner
Conclusion 1

In spite of CR's inability to account for all complaint agreements and their status, the Department has generally implemented the terms of those agreements. It has fully implemented 8 of its 17 settlement agreements, most of the terms of the remaining 9 settlement agreements, and most of the terms of the 84 conciliation agreements. The Department has paid all compensatory damages settled by CR and agreed to by DOJ. Although many agreement terms covering programmatic relief have not yet been fulfilled, this situation is largely a result of the scope of the agreements. These agreements contain terms which do not expire for up to 6 years from the date the agreements were signed. We found no evidence that Department agencies intentionally delayed the implementation of the agreements. However, we did find that CR had agreed to one term in one agreement concerning FSA program relief that FSA, citing statutory requirements, did not believe it could fulfill. This case concerned a complainant who was not a Socially Disadvantaged Applicant and who therefore may not have been eligible for the program relief granted in the agreement term.

During our Phase V review, we identified differences between the number of settlement agreements provided to us by the CR Director and the number found during our review of the casefiles and other documentation. We also noted that CR's data base included nearly four times the number of cases closed by settlement that had been provided to us. To determine the total number of agreements in the Department, we sent a letter to all agency heads requesting all settlement and conciliation agreements entered into from January 1, 1994, through October 1998. From what was sent to us and from what we additionally found during the course of our review, we identified 101 agreements entered into by USDA, 17 settlement agreements and 84 conciliation agreements. All 17 settlement agreements involved complaints against FSA.

For the 17 settlement agreements, the FSA National office maintains separate casefiles for each agreement, monitors the implementation of the terms, and produces a monthly report on its progress. To determine the status of the terms, we reviewed documentation located in these casefiles. We also verified

the payment of the compensatory damages through discussions with officials in FSA's Finance office in St. Louis, Missouri and the review of various payment documents.

Compensatory Damages. The Department awarded compensatory damages in 9 of its 17 settlement agreements. We reviewed all nine of these agreements. (See exhibit A.) The amounts awarded in the agreements ranged from \$114,000 to \$495,000.⁴ All damage awards had been paid within the timeframes stipulated in the agreements. Three of the awards stipulated a 60-day timeframe, five stipulated a 30-day timeframe, and one stipulated a 15-day timeframe. For the agreement with the 15-day timeframe, \$474,725 in damages was awarded and paid within 2 days, the shortest response time. For one of the agreements with a 60-day timeframe, \$495,000 in damages was awarded and paid within 56 days, the longest response time.

Program Relief. All of the 17 settlement agreements contained some form of program relief. (See exhibit A.) Altogether, there were 129 terms of program relief in these 17 settlements, and all terms related to FSA programs. (Complaints against all other USDA agencies were resolved through conciliation and did not result in settlement agreements). Of these 129 terms, 68 have been implemented, and 50 are still outstanding because of implementation timeframes that extend for up to 6 years.

Of the remaining 11 terms, 9 called for CR to monitor implementation of the agreements, but it did not do so (see Conclusion 2). One agreement term called for CR to leave a case open which CR nevertheless closed. The last agreement term required FSA to allow the complainant to receive priority selection of inventory property when it became available. In this case, FSA did not notify the complainant about whether or not inventory property was available. A senior loan officer with FSA stated that since this individual was not a Socially Disadvantaged Applicant, priority consideration for inventory property could not be given.

In this last case, the complainant was a white male who was disabled. CR agreed with the complainant that FSA improperly based its denial of a loan solely on the individual's disability and offered to settle with the complainant by granting him priority consideration for inventory property. However, FSA did not believe it was authorized to fulfill this term of the agreement. An FSA loan officer stated that only Socially Disadvantaged Applicants were eligible for priority consideration for inventory property and that the statute governing

⁴One of the nine agreements included compensatory damages paid in part by Rural Development; however, the complaint was filed against FSA. We verified the payment of the compensatory damages with Rural Development fiscal personnel.

Socially Disadvantaged Applicants did not apply to white males. Consequently, FSA did not notify the complainant of the availability of inventory property. However, FSA also did not notify CR that it believed it could not fulfill the agreement term, and it did not seek the advice of OGC attorneys. We are recommending that the Department seek a legal opinion about the propriety of the agreement term. (See Conclusion 5.)

The 50 terms that are still outstanding include 10 terms that have expiration dates that have not expired, and 36 terms that cannot be implemented until the complainant applies for a new loan. The cases of prolonged expiration dates usually call for the complainant to receive priority consideration on future loans or for providing technical assistance over the next 4 or 5 years. The remaining four outstanding terms are for the payment of attorney fees and the notification of credit bureaus.

Of the 68 terms that have been satisfied, 50 were implemented when 5 complainants received their disaster payments. Of the remaining 18 satisfied terms, 9 called for debt forgiveness; 4 called for a property conveyance or release of liens; and 2 required the issuance of new loans. The other 3 terms were for the payment of attorney fees, the notification of credit bureaus, and the endorsement of a certified check.

Two of the agreements that contained terms for debt forgiveness were not implemented within the timeframes stipulated in the agreements. These two agreements required debt forgiveness to be completed within 15 days of the signing of the agreements. The agreements also required DOJ approval. DOJ approval did not occur until 26 and 28 days respectively after the agreements were signed. The agreements, as written, did not allow time for DOJ approval before the deadline for these terms was reached. Debt forgiveness for both of these agreements was completed, one in 62 days and the other in 158 days.

In addition to the 17 settlement agreements, we reviewed 84 conciliation agreements, 64 entered into by Rural Development, 16 entered into by FSA, and the remaining 4 entered into by the Forest Service and NRCS. These 84 agreements contained 155 terms. We verified the status of 58 terms and found only 1 to be outstanding. In this case, the term cannot be implemented until the complainant applies for a new loan, and to date he has not done so.

Lack of Guidance from the Office of Civil Rights Has Resulted in Uncertainty Over the Settlement Process and Little or No Disciplinary Action Taken in Cases of Discriminatory Behavior

No disciplinary actions have been taken in reference to the 17 settlement agreements entered into by the Department, and only 2 letters of reprimand have been given in reference to conciliation agreements that have been negotiated between claimants and the agencies.

Our review of settlement and conciliation agreements disclosed that CR has not issued any formal departmental guidance to ensure that agencies process agreements consistently. There is no guidance to provide for centralized monitoring of agreements, and there are no procedures to implement disciplinary action. In the absence of guidance, the Department has no accurate accounting of the agreements executed, and there has been no unified effort to discipline officials whom CR has identified as the source of the discrimination.

Lack of guidance has been a longstanding problem with CR. As we stated in our Phase V report, dated September 30, 1998, CR has been slow to finalize its procedures and eliminate deficiencies. We found that its draft regulations were incomplete and did not properly assign responsibilities to the USDA agencies and OGC in the complaint process. CR subsequently issued a revised draft of 7 CFR Part 15d for comments, and it is currently assessing those comments. It plans to begin working with OGC to prepare a final version of the regulation.

During this evaluation, CR also provided us with the revised draft versions of DR 4330-1 and DR 4330-2. These documents did not include all of the changes we recommended in our Phase V report. Nevertheless, CR forwarded the drafts to the Secretary and is awaiting his approval. These revised Department regulations do not contain any specific reference to disciplinary action.

The CR Director informed us that the complaints procedure manual is being revised and will include more specific instructions not incorporated into the Department regulations.

Conclusion 2
Accountability Needed in the
Review and Monitoring of
Agreements

CR has not issued procedures to establish accountability for the implementation of settlement and conciliation agreements arrived at by either CR or the USDA agencies. Agencies are not required to track their agreements (both settlement and conciliation), and CR itself neither reviews conciliation agreements when they are entered into, nor takes an interest in monitoring the implementation of the terms included in those agreements. As a result, neither CR nor the agencies are aware of the total number of agreements entered into by the Department nor the status of those agreements.

Settlement Agreements

As we reported in our September 30, 1998, Phase V report on CR operations, the total universe of settlements is not known to CR management. At the time of the Phase V review, CR provided us with 17 settlement cases. These cases were not the only settlements in existence, and some had been incorrectly coded in CR's tracking system as settlements. (CR's data base itself designated nearly four times this number of cases as settlements.) CR's Accountability Division had responsibility to track settlement agreements but did not do so because the division lacked the resources. Our Phase V report recommended that CR establish a system to monitor the implementation of these settlement agreements, and CR responded that it had developed such a system. However, during our current review, we found that this system consisted only of a few new fields in the data base and that these fields had not been used.

In August 1998, the CR Director appointed a special assistant to track the implementation of agreements and ensure compliance with their terms and conditions.

The special assistant prepared "Procedures for Monitoring the Implementation of Settlement Agreements in Program Complaints," which remains in draft form while awaiting review by the CR Director and CR's Program Investigations Division. According to the procedures, the special assistant should be issuing biweekly inquiries to the agency head or designee requesting updated information and documentation of implementation activities and keeping the CR Director informed of the agency's progress or failure to implement the terms of the settlements.

In October 1998, in response to our Phase V review, FSA established a system to track its settlement agreements. FSA provided CR data from its system. The special assistant stated that she had knowledge of only the FSA settlement

agreements provided to her by the Director of CR. The special assistant had not made inquiries to other USDA agencies about whether or not they had any civil rights agreements, either settlement or conciliation. (However, CR's own data base as of November 16, 1998, shows 65 cases coded as settlements, 35 of which were against agencies other than FSA.)

Conciliation Agreements

A former departmental civil rights official stated that prior to the establishment of CR, conciliation agreements were reached between the agency and the complainant. The agreement was later forwarded to the Department-level staff for final approval and closure, but the Department-level staff neither reviewed the terms of the agreements nor ensured they were implemented. The staff would follow up if complainants contended that the terms of their agreements had not been implemented, but this rarely happened.

The Secretary's May 16, 1997, Memorandum that established CR made it responsible "...for investigation, adjudication, and resolution of complaints of discrimination arising out of ... conducted or assisted programs...." We believe that this gave CR responsibility for ensuring that settlement and conciliation agreements, past and future, were implemented.

Although CR has exercised its responsibility to negotiate settlement agreements, it has not exerted its right to review and approve the conciliation agreements reached between the agencies and the complainants. CR also has not determined if the agencies established adequate systems for monitoring and tracking these conciliation agreements to ensure that they have been completely and expeditiously implemented.

In the absence of any required accountability for the implementation of conciliation agreements, not all agencies could readily determine the status of their agreements. During our evaluation, we found that Rural Development did not have a central tracking system and did not know the number of conciliation agreements it had entered into since January 1, 1994. Headquarters personnel relied on the State Civil Rights Coordinators to forward all such agreements. However, when we reviewed the civil rights staff's general correspondence files, we identified six additional agreements that the coordinators had not provided us.

Rural Development officials were also unable to tell us the status of the implementation of the agreements. According to a Rural Development official, each State Civil Rights Coordinator is supposed to maintain documentation that the terms of each agreement are properly implemented.

We contacted 14 State coordinators to obtain documentation on 18 conciliation agreements. In some instances, State Civil Rights Coordinators were unable to provide documentation from their files that agreement terms were implemented, and had to contact the county offices against which the complaints were filed.

Rural Development is currently developing a system to track conciliation agreements and ensure that their terms are met. The system should be on-line by February 1999.

The CR Director has emphasized that she does not plan to review conciliation agreements reached at the agency level nor does she plan to monitor the implementation of these agreements. Based on the Secretary's memorandum that constituted CR as the Department agency responsible for resolving all civil rights issues, we concluded that CR should review and monitor the implementation of both settlement and conciliation agreements. In addition, we believe the CR Director should keep the Secretary informed of the implementation of these agreements in a semiannual report.

Recommendation 1a

Require the CR Director to immediately implement procedures to review conciliation agreements reached at the agency level, and to monitor and track all settlement and conciliation agreements applicable to all USDA agencies, and ensure their complete and expeditious implementation.

Recommendation 1b

Direct CR to provide guidance to agencies regarding the establishment of appropriate systems for monitoring and tracking conciliation agreements.

Recommendation 1c

Direct CR to report to the Secretary on a semiannual basis those terms which have not yet been implemented.

Conclusion 3 Accountability Needed in Cases of Disciplinary Action

Of the cases we reviewed with findings of discrimination, CR referred only one for disciplinary action, and to date no action has been taken in that case. Disciplinary actions are rare because there are no formal procedures for carrying out such actions and no formal procedures for monitoring any disciplinary requirements of a discrimination review.

Also, the Director of FSA's Human Resources Division (HRD) stated that

disciplinary action cannot be implemented until actual guilt is proven, a process that would typically begin only after CR has issued a finding of discrimination. In the absence of implementing and monitoring procedures, the Department has no assurance that agencies are taking appropriate disciplinary action against discriminating employees.

A proposed "Policy on Accountability for Discrimination Complaint Issues" was drafted to require CR to forward to the Office of Human Resource Management a copy of any settlement and attached analysis in which discipline might be appropriate. The Office of Human Resource Management will consult with the involved agency to determine the appropriate corrective actions to be proposed. As of December 1998, this policy remains an informal one.

Beginning in August 1998, the CR Director assigned a special assistant to track settlement agreements through the implementation phase. According to the proposed policy, CR officials are to give the Office of Human Resources Management all copies of agreements having indications of significant wrongdoing by the responsible official(s) or any others that CR determines should be reviewed for disciplinary action. The agencies taking the actions should be working with the Department's Office of Human Resources Management to ensure that the proposed actions are appropriate.

We reviewed all 17 settlement agreements. In 12 of these, the Department's civil rights office issued a decision with a finding of discrimination. For 9 of these 12, CR stated it would forward the case file to the Department's Human Resources Management so it could determine whether any action against FSA personnel was warranted in light of the finding. Of the remaining three, two inexplicably made no mention of taking disciplinary action and one directed FSA to initiate disciplinary action.

For the remaining five settlement agreements (five members of the same family), the Department did not issue a decision with a finding of discrimination. However, the former CR Director wrote on July 15, 1997, that for these five a high probability of discrimination existed. CR settled with the complainants prior to issuing a finding of discrimination in order to avoid the cost of a full inquiry, repair the damage to the customer immediately, and eliminate adverse publicity. Despite the fact that no formal finding of discrimination was declared, CR did require FSA to conduct an impartial misconduct investigation into the specifics of the alleged inappropriate comments by the county official. This misconduct investigation found the county official had used racial slurs in reference to African Americans. That county official retired prior to the misconduct inquiry.

CR Requested Action in Only One Case

In 1 of the 12 cases with a finding of discrimination, CR required both the Office of Human Resource Management and FSA to inquire about the actions of FSA personnel. For this case, CR determined a finding of discrimination was warranted and asked FSA to implement the terms of a settlement agreement. In CR's transmittal letter to FSA, dated March 11, 1998, CR wrote it would forward the case file to Human Resources Management so they could determine whether any action against FSA personnel was warranted. The CR Director went on to write, "The Agricultural Credit Manager involved in this case was found to have discriminated against the [complainants] for the second time, as well as to have taken retaliatory action against them. In addition, FSA in its own preliminary inquiry on this case found that the Manager treated minorities different than other customers, and that some sort of training was required. There have been problems with the relationship between the Manager and the [complainants] for a number of years, and I am concerned that FSA has taken no action to resolve the situation. Accordingly, I strongly recommend that [the Administrator] look into this situation to determine what action is warranted." However, based on our various interviews, we noted that the case file was never forwarded to either Human Resources Management or FSA. As a result, FSA's HRD was not aware of any action taken against the Agricultural Credit Manager as requested.

CR Provided Information in Only One Case

In 1 other of the 12 cases, we found that CR forwarded FSA's HRD enough information regarding the alleged discriminating official to initiate a disciplinary review. This information had not been forwarded for other cases, despite numerous requests.

In a letter to the CR Director, dated February 13, 1998, FSA requested the final decisions on civil rights complaints from CR for 10 complainants. In that request, FSA stated it intended to take necessary remedial actions where employees had discriminated in program delivery. FSA requested a copy of the analysis/findings along with the letter of settlement. CR responded by providing FSA with the decision documents for each case. In a letter to the CR Director, dated April 1, 1998, FSA's director of civil rights requested documentation which contained the names of agency officials involved in the discrimination, since the documents previously provided did not specifically identify employees, only positions in the agency. In the April 1, 1998, letter, the requested information for complainants increased from 10 to 12. According to the director of FSA HRD, CR never sent the requested information.

On October 2, 1998, FSA's director of civil rights again requested detailed information about a complainant's case, this time for only one complainant. The FSA official stated that while CR's decision document discussed acts deemed to be discriminatory, it did not contain the level of specificity needed to defend justification for a disciplinary action, if appealed. Therefore, the FSA official requested a copy of the investigation file for this one complaint or a letter detailing the specific acts of discrimination. FSA received the details it needed.

In a letter to FSA's director of civil rights, dated October 19, 1998, CR's Director wrote, "We are pleased to see that FSA is beginning to consider disciplinary action for those persons found to be responsible for findings of discrimination." [Emphasis added.] The CR Director seemed to be unaware that FSA had been requesting information about this case from CR for over 6 months.

Agencies Adhere to No Standard Policy

We also determined that an FSA official did not believe he could rely on CR findings of discrimination to prove that USDA employees had indeed acted in an improper manner. The Director of FSA's HRD stated his agency could not take adverse actions without absolute proof of employee wrongdoing in cases alleging discrimination. Such proof would require a more indepth investigation than those undertaken by CR.

CR requested an opinion from OGC on the evidentiary standard for adjudicating program discrimination complaints. In its April 3, 1998, response, OGC stated that the preponderance of evidence used by CR to arrive at a finding of discrimination is the proper standard for the agencies to use in adverse actions and is consistent with applicable law. However, in subsequent communications, OGC attorneys have suggested that the preponderance of evidence standard may not apply to all cases and that a higher standard may be required. The attorneys concluded that CR may need to provide a mechanism by which the Department agencies can identify the evidence required to support the level of disciplinary action contemplated.

We also noted during our review of 84 conciliation agreements that 2 Rural Development employees who had been the subject of complaints in 2 of the cases were required to take sensitivity training for their actions. Although conciliation agreements do not apportion blame to USDA and therefore do not normally result in disciplinary actions, there are conciliation cases in which the agency deems some form of discipline warranted. We found that CR is unaware of these cases, has made no provisions to monitor them, and has provided no guidance to agencies on tracking and reporting them. (For a complete discussion of CR's monitoring activities, see Conclusion 2.)

We found CR had not taken the lead in recommending or assuring that discriminating officials are disciplined. From our review of the 17 cases with settlement agreements, we found 2 instances where no disciplinary actions were mentioned, 9 instances where the Department's staff was responsible for disciplinary actions, and 7 instances where the onus was put on the agency (one case mentioned that both the Department and FSA were to review the allegations). There is also some confusion as to the evidentiary standard needed to discipline employees. Although the current CR Director had assured FSA that a written explanation of the discriminatory behavior along with copies of supporting documents would be provided to them in the future, this assurance does not go far enough. We feel this policy needs to be formalized into departmental regulations that cover all agencies, not just FSA.

Recommendation 2a

Direct CR, in consultation with OGC and the Office of Human Resources Management, to include a "disciplinary action" section in the departmental regulations as a means of formalizing general requirements and procedures applicable to employees cited by complainants in program discrimination cases who have acted in an improper manner. In the interim, direct CR to immediately issue guidelines to the agencies detailing how to proceed with disciplinary action based on a finding of discrimination by CR and how to determine when further evidence is required to support the level of disciplinary action contemplated.

Recommendation 2b

Direct CR to forward to the Office of Human Resources Management all prior settlement agreement cases in which discipline might be appropriate, and direct CR to follow up on the cases to determine if any actions are taken.

Conclusion 4 Agencies Should Be Encouraged To Conciliate Agreements

In the absence of guidance from CR, two agencies, the Forest Service and FSA, either routinely had complaints settled where a conciliation may have been more efficient, or included monetary damages for non-ECOA issues in conciliation agreements. Although CR urges agencies to seek some form of conciliation with the complainant as early in the process as possible, not all agencies do this. Rather the agencies adhere to their own separate policies of when conciliation should be attempted and what it should consist of.

During 1998, the Department reached agreements with 10 FSA complainants; 8 were settlement agreements; 2 were conciliation agreements. Even though

FSA personnel are required to seek conciliation, the trend has been towards settling FSA complaints after an investigation has been completed. This is costly and time-consuming for both the Government and the complainant. All 17 settlement agreements in the Department resulted from complaints made against FSA, and the cost of compensatory damages associated with these agreements totaled nearly \$2.7 million. (See exhibit A.) Also CR invested considerable time and resources in investigating and adjudicating cases that, in some instances, may have been settled more efficiently through conciliation. The complainant may also be denied immediate programmatic relief, which if granted, may have made a difference in the success of the complainant's farming operation.⁵

By contrast, Rural Development tries to conciliate complaints before they get to the investigation stage. Rural Development uses its program authorities to satisfy the complainant, resulting in a more timely and cost-effective resolution to the complainant and the Government. For instance, if during the agency fact-finding phase the State Civil Rights Coordinator determines that the complainant's application for a loan or loan servicing was not handled properly, he or she tries to resolve the complaint by having the application reevaluated. Conciliations of this type make the aggrieved party "whole" while being more cost effective to the Government.

We also noted that while the Forest Service enters into conciliation agreements early in the complaint process, 2 of its agreements with complainants have included monetary damages. The OGC believes this to be an inappropriate term of the agreements based on a Department of Justice opinion. See Conclusion 5 for a full discussion of this issue.

We concluded that CR should formalize its conciliation policy to encourage conciliation with complainants in program discrimination cases early in the complaints process.

Recommendation 3

Direct CR to formalize its conciliation policy in the Department regulations to encourage conciliation with complainants in program discrimination cases early in the complaints process.

⁵We did not conduct a complete analysis of these complainants' farming operations; however, complainants have stated that if benefits had come sooner, it may have saved their farming operations.

Chapter 3: Agreement on Terms in the Settlement Agreement

Agreement Terms Should Be Agreed To Within USDA Prior To Negotiations With the Claimants
Conclusion 5

Although the Office of the General Counsel (OGC) has been involved in the process of finalizing settlement agreements, attorneys at the OGC, Civil Rights Division, believe that CR does not allow them sufficient time to review the source materials used by CR to formulate the terms that will be proposed during the settlement negotiations. The attorneys stated that they and the OGC program division, along with cognizant program officials, should be given sufficient time to analyze all components of the agreements to ensure their conformance with applicable statutes, Departmental regulations, and program regulations. They agreed that the review should not deter cases from being completed within the 180-day limit.

OGC is divided into several divisions which cover specific mission areas of the Department. OGC's Associate General Counsel for Rural Development has responsibility for programmatic legal matters of Rural Development and loan programs for FSA. OGC's Associate General Counsel for Civil Rights is responsible for all program-related civil rights legal matters.

OGC Civil Rights Division's role in the complaints resolution process is to determine the legal sufficiency of the decisions issued by CR and the settlements arrived at. The CR Director has emphasized that the Assistant Secretary for Administration delegated responsibility to CR for negotiating agreements and that OGC has only an advisory role. However, OGC disagrees with this opinion. Currently, OGC's Civil Rights Division reviews proposed decisions and participates in negotiation of settlements if so requested by CR.

Attorneys for OGC's Associate General Counsel for Rural Development (program attorneys) have had no participation in the settlement negotiation process. These attorneys have legal expertise in particular USDA programs; however, this staff reviews agreements only if requested by cognizant program officials. Because CR and not the agency negotiates settlement agreements, agency program officials and OGC program attorneys become aware of the agreements' terms in many cases only after CR forwards them for implementation.

We found that some agreements contained unauthorized terms or were inappropriately worded, leaving the terms open to interpretation by both the agency and the complainant. The agreements with unauthorized terms inappropriately waived provisions of a statute, or granted monetary damages when the agency was apparently limited to providing only program relief.

Agreements That Waive Provisions of a Statute

A typical term in these settlement agreements calls for the release of all USDA debt. However, the term also stipulates that "this release will not trigger the statutory provisions found at Section 648 of the Federal Agriculture Improvement and Reform Act [FAIR] of 1996 that preclude an individual who has received debt forgiveness from obtaining further farm loans from USDA or from obtaining future debt forgiveness." The Associate General Counsel for Rural Development stated, "The situation is, of course, that section 648 of FAIR is going to apply if it is applicable and it is not going to apply if it is not. Placing this clause in the agreement only causes all of these agreements to be null and void, even though substantially completed, if it is later determined that section 648 does apply."

The Department's General Counsel informed the Secretary in a September 17, 1998, memo that debt forgiveness as a result of a settlement agreement would not trigger provisions of FAIR; however, debt forgiveness granted prior to the discriminatory act would. One complainant, with these terms in his agreement, had received a debt forgiveness prior to the period of discrimination. This prior debt forgiveness would trigger section 648 of the FAIR Act making the complainant ineligible for future loans. According to OGC's Associate General Counsel for Rural Development, this material breach would make the complete settlement agreement "null and void."

We believe the terms in these agreements might be clarified if OGC program attorneys and agency program officials were consulted during the negotiation phase. These individuals would have the statutory expertise and the personal knowledge of the program history of each of these complainants, which may be necessary for full implementation of the agreements. The Associate General Counsel for Legislation, Litigation, and General Law in a June 27, 1997, memo to FSA stated, "the ASA [Assistant Secretary for Administration] and the Director [CR] must still follow the relevant statutes and regulations in determining corrective action, such as ensuring that an individual is qualified for a loan or other benefit. It is for this reason that it is crucial that the ASA and the Director give the agency a full opportunity to air its views on a given case before issuing a final determination."

Agreements May Have Inappropriately Contained Monetary Damages

Conciliatory agreements do not acknowledge blame on the part of the Department and therefore are typically limited to program relief. However, we found that the Forest Service paid \$6,200 in monetary awards for three conciliation agreements through the use of cash funds from small purchase authority. Two of the agreements were for \$2,500 each and the third was for \$1,200. A decision relating to one of the agreements, issued by the Forest Service civil rights director, stated, "We recommend the [complainant] be compensated for their hardship in the maximum amount allowable under Small Purchasing Authority, \$2,500." The third conciliation agreement, in which \$1,200 was paid, indicated it was a reimbursement of expenses but did not indicate what type of expenses were incurred by the complainant. As part of our review, we presented these agreements to OGC civil rights attorneys who also questioned the permissiveness of these awards.

The CR Director stated that it was permissible to compensate complainants based on the "nuisance value" of the complaint, and upon provisions of the Alternative Dispute Resolution Act. She also stated that DOJ has been known to pay under Title VI of the Civil Rights Act of 1964.

We question the permissiveness of the payments in the first two Forest Service conciliation agreements based on an OGC informational memorandum to the Secretary, dated October 16, 1998. In general, OGC concluded, based upon DOJ opinions, that the Department cannot make compensatory damage awards, even when using an alternative dispute resolution process, unless the complaint involves a credit case as recognized by the ECOA. Because the Forest Service does not administer any direct loan programs, none of its operations fall under the provisions of the ECOA.

In regard to the third Forest Service conciliation agreement, OGC also concluded that attorneys' fees and costs may be awarded pursuant to provisions in the Equal Access to Justice Act; however, this Act is specific on what types of costs may be reimbursed and under what circumstances reimbursement can be awarded. The third Forest Service conciliation agreement did not provide us with sufficient information to determine whether the Equal Access to Justice Act applied.

Some Agreement Terms Were Misleading

In six of the conciliation or settlement agreements we reviewed, one or more terms were unreasonable. The wording of the terms was either misleading or

too vague, allowing for broad interpretation. We concluded that some wording could leave the Department open to further litigation.

For five of the agreements, the term read, "[the complainant] will be given priority consideration for the purchase, lease, or other acquisition of any inventory property from USDA." [Emphasis added.] The term, as written, does not give specific boundaries for this inventory property and could be interpreted to mean anywhere in the United States.

The last agreement, also dealing with inventory property, did limit the selection of property to property that was in "close proximity" to the complainant, but it did not limit the priority consideration to just one loan or for a limited period of time. This term could be literally interpreted to mean priority consideration for all future inventory property.

In this case, the complainant is a white male who filed a complaint against FSA based on its denial of a loan. The complainant alleged FSA denied the loan based on his disability. CR investigated the charge and determined FSA improperly considered the complainant's disability when determining loan eligibility. In order to settle, CR offered the complainant program relief including priority consideration for inventory property (the complainant was not eligible for compensatory damages since ECOA does not include disability as a protected base).

The agreement, which was not reviewed by OGC program attorneys, was finalized on September 23, 1997. As of the date of our review, FSA had not contacted the complainant regarding the availability of inventory property. For other agreements with similar terms, FSA had notified complainants regardless of whether inventory property was or was not available. FSA had not provided this complainant with the same notification.

A senior loan officer with FSA stated that, by statute, priority consideration for inventory property can only be given to Socially Disadvantaged Applicant's (SDA) and by definition, a white male cannot be an SDA. According to agency regulations,⁶ the agency has identified socially disadvantaged groups as women, Blacks, American Indians, Alaskan Natives, Hispanics, Asians, and Pacific Islanders. Since the complainant did not fall under any SDA category, FSA did not inform him of whether or not inventory property was available. Even though disabled Americans are not included in this definition, we feel FSA should have obtained an OGC opinion as to whether this complainant could be considered for priority consideration for inventory property.

⁶ Instruction 1943-A Section 1943.4, dated November 3, 1993.

We concluded that the finalization of settlement and possibly some conciliation agreements should include greater representation by Department program and legal staffs. All interested parties within the Department should determine before negotiations begin with the complainant what terms can be agreed to and what terms may be inconsistent with laws and regulations. Every effort should be made to ensure that these procedures do not inhibit cases from moving through the process within 180 days.

Recommendation 4a

Require the CR Director to instruct FSA to obtain an OGC opinion on whether the one complainant is eligible for priority consideration for inventory property under the definition of a Socially Disadvantaged Applicant; and if so, immediately notify the one complainant of the availability or unavailability of inventory property in accordance with his settlement agreement.

Recommendation 4b

Require the CR Director to assemble and chair a team of OGC civil rights attorneys and cognizant agency program officials that will meet prior to each agreement negotiation to: (a) perform an expeditious review of the economic analyses and other information compiled as support for the terms proposed in the settlement agreement and (b) analyze all components of the agreement prior to presentation to the complainant to assure they conform with applicable statutes, Departmental regulations, and program regulations. Every effort should be made to assure that these procedures do not inhibit cases from moving through the process within 180 days.

General Comments

No Evidence That Investigators Have Been Coerced

We found no evidence that CR investigators were being coerced or intimidated to reverse findings of discrimination, or that anyone had asked them to reduce proposed settlement awards. Program complaint investigations are solely CR's responsibility, and there is no indication that OGC or DOJ interfered in the investigation process, so as to change the results of the investigations. OGC's involvement in the complaints process does not occur until after cases are investigated. OGC personnel generally have little or no contact with either CR investigators or contract investigators while an investigation is in process. DOJ's involvement occurs later still in the process and only includes reviews of settlement agreements where litigation was involved. Insofar as CR adjudicators are responsible for arriving at findings of discrimination, and not investigators, investigators would not be in a position to reverse such a finding or to modify, reduce, or eliminate any proposed award. We did not find any evidence that any investigator had been asked to do so. However, there have been cases during OGC's legal sufficiency reviews where OGC has requested CR to revise or change some of the language in a written decision, because OGC attorneys believed that it was incorrect as written or not in accordance with a law, or they had questions as to how much weight certain situations should have in the making of the decision. These situations appear to be matters of judgement or clarification, and we have no basis to believe that they were intended to be coercive or intimidating in nature.

Department of Justice Involvement in Settlements Seems Reasonable

DOJ has negotiated and signed four settlement agreements during the scope of our review. These four settlement agreements resulted from lawsuits filed against the Secretary, and as such, they fell under DOJ's jurisdiction. CR has copies of these settlement agreements, and FSA is tracking the implementation of the terms. All four had provisions for compensatory damage awards, and three included provisions for program relief. The compensatory damage awards totaled \$817,000, and the debt forgiveness portion of the program relief totaled \$789,028. (See exhibit C.)

DOJ has also reviewed six USDA negotiated settlement agreements since January 1, 1994. (See exhibit B.) (Because the scope of our audit included all settlements arrived at since January 1, 1994, we used this broader scope period to consider the issue of DOJ involvement, rather than the more limited scope period proposed by the Congressional Black Caucus in their August 31,

1998, letter.) For three of the six settlements, DOJ voided the awards. In two cases, the Statute of Limitations barred compensatory damages at the time of settlement.⁷ In one of these cases, the award was voided; in the other it was renegotiated. In the third case, the complainant had failed to file his complaint within 2 years of the discriminatory act, as specified by the ECOA. In this case, the award was also voided.

The award that DOJ voided because the complaint was filed late amounted to \$312,000. DOJ found that this complaint concerned an application for preservation loan servicing and was filed after the 2-year deadline set by regulations. This nullified USDA's agreement to pay the complainant the compensatory damages, plus reasonable attorney's fees.

The award that DOJ denied because the case fell outside the Statute of Limitations amounted to \$490,000. DOJ was required by court order to review this case because the complainant was a putative member of a class action lawsuit against the Department. Among the problems DOJ noted were: (a) The complainant's ECOA claim fell outside the Statute of Limitations at the time of the administrative settlement, and (b) the economic analysis and other materials provided little or no support for the income loss and pain and suffering portions of the total claim. DOJ determined on the strength of USDA's case and the likelihood that the Government would prevail in court that an appropriate compromise should provide the complainant with not more than \$10,000 in cash, nominal debt relief of up to \$25,000 and a nominal sum (up to \$5,000) for attorney's fees and costs.

In the other agreement that fell outside the Statute of Limitations, the settlement agreement negotiated by CR covered two complaints filed in 1993 and two complaints filed in 1994, and included \$542,395 in compensatory damages. DOJ determined that the 1993 complaints fell outside the Statute of Limitations and voided this part of the agreement. FSA renegotiated the agreement based on this limitation and subsequently awarded the complainant \$474,725.

Settlement amounts for the six cases that DOJ reviewed between January 1, 1994, and the present ranged from \$114,000 to \$490,000 and averaged \$282,954. During the period December 31, 1996, to the present, there were 13 cases with settlement agreements that DOJ did not review. The damage amounts for these 13 cases ranged from \$225,000 to \$495,000 and averaged

⁷Subsequent congressional action has waived the statute of limitations in these cases. Both cases are now considered active.

\$135,308. However, 8 of these 13 did not receive compensatory damages. The average of the five which received compensatory damages was \$351,800.

**Tax Forms Are Issued in
Conformance With Internal
Revenue Service Rules**

Complainants who entered into settlement agreements with the Department and received monetary awards (compensatory damages, debt forgiveness, etc.) have also received a Form 1099, or report of income.

Internal Revenue Service (IRS) rules stipulate that all recipients of Government funds must receive a Form 1099, including those who received settlement agreements and debt relief.

EXHIBIT A - Complaints with Settlement Agreements

Complainant	Agency	Compensatory Damage	Days Allocated for Payment	Days Used	Reviewed By DOJ/2	Amount of Program Ref'd 1/	Number of Terms of Program Ref'd 1/	Number Implemented	Number Outstanding	Other	Fully Implemented	
											Yes	No
A	FSA/DO	\$465,000	60	58	No	\$282,172	1	1	1		X	
B	FSA/DO	\$0	N/A	N/A	No	\$0	3	1	1		X	
C	FSA	\$0	N/A	N/A	No	\$121,667	10	10			X	
D	FSA	\$0	N/A	N/A	No	\$121,667	10	10			X	
E	FSA	\$0	N/A	N/A	No	\$121,667	10	10			X	
F	FSA	\$0	N/A	N/A	No	\$121,667	10	10			X	
G	FSA	\$0	N/A	N/A	No	\$121,667	10	10			X	
H	FSA	\$0	N/A	N/A	No	\$40,314	10	2	6	2		X
I	FSA	\$439,000	60	36	No	\$70,597	1	1			X	
J	FSA	\$114,000	30	22	Yes	\$207,078	9	2	6	1		X
K	FSA	\$162,000	30	27	Yes	\$34,065	12	3	6	1		X
L	FSA	\$260,000	60	49	No	\$45,383	1	1			X	
M	FSA	\$340,000	30	12	No	\$0	5		3	2		X
N	FSA	\$474,725	45	2	Yes	\$282,753	11	2	8	1		X
O	FSA	\$145,000	30	28	Yes	\$78,181	10	3	6	1		X
P	FSA	\$0	N/A	N/A	No	\$28,020	9	2	6	1		X
Q	FSA	\$225,000	30	26	No	\$0	7		6	1		X
		\$2,654,725				\$1,788,488	129	68	50	11	8	9

Average compensatory damage award for cases not reviewed by DOJ was \$351,600 (Complainants A, I, M, and Q).

1/ Program Ref'd only includes amount of debt forgiven and disaster benefits paid.

2/ DOJ reviewed a total of 6 USDA negotiated settlement agreements. DOJ voided 2 of these agreements. We did not include these 2 agreements in our total of 17 settlement agreements since USDA was not obligated to fulfill the terms of these agreements. See Exhibit B for a listing of all 6 agreements reviewed by DOJ.

EXHIBIT B - Results of Cases Sent to DOJ for Review

J	26	x	
K	28	x	
N	57 ^b		x ^c
O	7	x	
R	178 ^d		x ^e
S	26		x ^e
Average Days			

- a/ We did not include the 178 days in the average since part of the delay can be attributed to USDA's OGC. During DOJ's review, it had requested additional information from OGC. Over a month later, DOJ made a second request for the same information.
- b/ We were unable to obtain documentation showing the date the case went to DOJ for review. We estimated this date based on an average of the number of days USDA took to forward the other five cases to DOJ.
- c/ DOJ voided the inclusion of the 1993 complaints and required USDA to renegotiate the settlement based only on the 1994 complaints.
- d/ DOJ determined the case fell outside the Statute of Limitations.
- e/ DOJ determined the complainant had not filed his complaint within 2 years of the discriminatory act.

EXHIBIT C - DOJ-Negotiated Settlement Agreements

DOJ-Negotiated Settlement Agreements*		
Complainant	Compensatory Award	Program Relief
DOJ1	\$ 150,000	N/A
DOJ2	220,000	\$ 432,799
DOJ3	129,000	30,255
DOJ4	318,000	325,974
Totals	\$ 817,000	\$ 789,028

a/ We did not verify the payment of compensatory awards since they were paid from DOJ's Judgement Fund. However, we did verify with FSA program officials and a review of payment documents that the program relief (debt forgiveness) had been implemented.

WEDNESDAY, FEBRUARY 10, 1999.

SECRETARY OF AGRICULTURE

WITNESSES

HON. DAN GLICKMAN, SECRETARY OF AGRICULTURE
RICHARD ROMINGER, DEPUTY SECRETARY
KEITH COLLINS, CHIEF ECONOMIST
STEPHEN DEWHURST, BUDGET OFFICER

OPENING REMARKS

Mr. SKEEN. Well, good afternoon. I would like to welcome everyone to the first hearing on the Administration's Fiscal Year 2000 budget request for programs under the jurisdiction of the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.

Today, we have with us the distinguished Secretary of Agriculture, the Honorable Dan Glickman. He's accompanied by the very able Deputy Secretary Rich Rominger. Also at the witness table today are two of the best career civil servants in the Government to listen to, that's Keith Collins, the chief economist at USDA, and Stephen Dewhurst, the chief budget officer. We couldn't run this business without Steve. He's been here and we're going to make a monument out of you. [Laughter.]

Mr. SKEEN. That's not a threat. Our new chairman, the distinguished gentleman from Florida, Mr. Young, won't be able to join us because he's got another commitment, but he sent his regards to the Secretary and the whole entourage.

So, along with us, is the gentlelady from Missouri, Mrs. Emerson. Returning on the Republican side are: Jim Walsh, Jay Dickey, Jack Kingston, George Nethercutt, Henry Bonilla, and Tom Latham.

On the Democrat side we have three new members: Maurice Hinchey of New York; Sam Farr of California; and Allen Boyd of Florida. And I'm pleased to welcome back our good friend and the ranking Democrat on the subcommittee, Marcy Kaptur. It's a pleasure, as always. The subcommittee is also fortunate to have back the gentlelady from Connecticut, Rosa DeLauro; and, of course, the man who needs no introduction, my good friend from Wisconsin and the ranking Democrat on the full committee, Dave Obey. I don't know who he is irritating, but he'll do a good job.

One other introduction, Mr. Secretary, is Hank Moore, who has taken over as clerk of the subcommittee. Hank, we're sure glad to have you here, and you come with a lot of background and knowledge.

Mr. Secretary, as you know, this subcommittee has a long tradition of working on a bipartisan basis because the programs that you operate benefit every American every day of their lives. And

our chairman has made it clear he wants us to proceed as quickly as possible with this important legislation.

I would like to turn to Ms. Kaptur for any words that she may have, and then turn the floor over to Secretary Glickman for his opening remarks.

Ms. KAPTUR. Mr. Secretary, we want to welcome you today for a reappearance before our committee. Also, all of your associates, Mr. Rominger, Mr. Collins, and certainly Mr. Dewhurst. I saw our dear colleague, Jay Johnson, former colleague, a little bit earlier, glad to see him. And we look forward to working with you.

The only comment that I wish to place on the record at this point is to say that I think our membership is in unison in being extremely concerned about what is happening in rural America; with the level of prices; the continuing attrition of small farms in this country; what is happening in other places around the world that make it more difficult for us to expand exports. And we really look forward to your presentation because there are millions of people across this country in rural America who want to know if there is some way that we can be a full partner with them in trying to preserve the production levels and sophistication that this country has come to expect in the agricultural sector.

So, Mr. Secretary, we welcome you and look forward to your words.

Mr. SKEEN. Thank you, Ms. Kaptur. Mr. Secretary, it's all yours.

STATEMENT OF THE SECRETARY

Secretary GLICKMAN. Thank you, Mr. Chairman, Marcy, Jo Ann. It's a real pleasure for me to be here. You already introduced my colleagues, my partner, Rich Rominger and the two finest career employees in Government—

Mr. SKEEN. We're proud to have them.

Secretary GLICKMAN [continuing]. And I won't say that again, but I'm sure it's music to their ears. If I might, I've got a complete written statement, which I will include in the record. And I would like to make some oral remarks.

First of all, we are in a strange situation. We have the strongest general economy this country has had in a generation, if not two generations. You look at the aggregate figures. I don't have to tell you this. You hear it all the time, low interest rates, the lowest unemployment, highest home ownership, lowest inflation, highest job creation, and it tends to be national. The fact is that it's not just in one State versus another. I mean there are pockets of problem areas, but overall this country is enjoying extraordinary prosperity. So we acknowledge that.

Then we look at agriculture, the farm side of the picture. And it's not just agriculture. There are some sectors that are suffering: oil and gas, minerals, metals, a lot of things that come out of the ground are having problems. In your State, Mr. Chairman, like my State, the state of minerals is not good.

FARM ECONOMY

But the fact is that the farm economy is under some stress. Exports are down over \$9 billion from the '96 peak to \$50.5 billion

forecasted in this year. And that's largely due to weakness in Asia and the currency problems. Net cash farm income is down from \$59 billion in 1998 to \$55.5 billion in 1999.

And it would be lower if it were not for the general assistance this Congress provided as part of the emergency aid package in our farm program. Many producers have faced both low prices and adverse weather, a double hit. We've had some of the strangest weather ever, whether you live in the northern plains or you live in the southwest. It has either been the wettest of the wet or the driest of the dry. And so it has made it almost impossible for a lot of folks.

Today, we issued the crop report and commodity supply and demand estimates. We issue them once a month. Mr. Collins' shop heads this up. I would have to tell you I'm looking through the reports for wheat, rice, corn, soybeans, soybean related products, cotton, and quite frankly, there's large production, lower exports in many cases than projected, and so the price situation does not look the way I would like it to look. You know, the first few years I was Secretary, things were much better than they are now.

There have been changes in meat production: hog, cattle, poultry, which largely indicate that things are on course. But change has not been as rapid as we would like to see, which means that price improvement may not be as fast as what we would hope to see. The irony is that even though the general economy is doing so extraordinarily well, the farm economy has got a lot of very serious problems. We need to be honest about that and then we need to look for ways to try to work on it, to fix it.

EMERGENCY ASSISTANCE

Now, this Congress provided nearly \$6 billion in emergency assistance in 1999 as part of the budget bill. You may recall there was some discussion. The President thought we needed more than an initial \$4 billion. There was a veto of the bill, and we ended up with \$6 billion. That has been a God-send to a lot of farmers out there. Half of that money is going out in what's called the extra AMTA payments, and the other half is going out to farmers who have suffered natural disasters all over the country.

We have increased loan deficiency payments by \$2 billion. These are payments that two or three years ago we never thought would be triggered at all. These were the bottom tier payments that were based upon prices falling rather significantly. Two years ago I think we had zero LDP. Last year we made 400,000 of these payments. This year we project 1.3 million Loan Deficiency Payments. These are individual payments. An individual farmer has to go in to an office or contact an office to get the payment. And, if prices continue flat, or in some cases lower, LDP's will continue. Thank goodness we have that particular program.

We have also made direct payments to pork producers. It is a small program. It is basically all that I could do under the law in terms of making direct payments to pork producers, but we've also been buying a lot of pork for our commodity assistance programs.

The President's food and initiative will provide over five million metric tons of food assistance, and the total level of farm assistance in 1999 from the United States Government is projected at about

\$18 billion. And without that assistance, I will have to tell you a lot of farmers and ranchers would not be able to make it. The stress out there will entail a very heavy workload effort by the department to deliver the assistance because what we're doing is providing emergency assistance on top of the normal servicing in our offices, which include the LDP's. A lot of folks, including some members of this committee have called me and said, "There are lines around the offices. We've got LDP's that have to be serviced. We have disasters." And a variety of things over and above the normal workload that need to be taken care of.

I've talked about the LDP volume being high, and we're looking at our salaries and expenses to see if there are better ways to handle this workload. The bottom line on all of this is if it hadn't been the work of this committee and this Congress, an awful lot of people would have faced even more catastrophic consequences.

FARM BILL SHORTCOMINGS

But I do believe the 1996 farm bill has serious shortcomings in dealing with low prices and disaster related events. When we passed this bill, prices were high and the world economy was in pretty good shape. Exports were strong. The economies of Asia and Latin America looked promising, but the fact of the matter is that the economic cycles are unstoppable. We are in a cycle of history when it comes to agriculture which is not so good, and the farm bill is not as suitable during those counter-cyclical times when things are bad.

We're not trying to micro-manage farmers or to do the kinds of things that would make life impossible for producers or to go back to the way things were in the '30's or '40's or '50's. But we do have a role to help farmers weather tough times and adjust to adverse economics.

Some of it you can do in this committee. Some of it has to be done by the authorizing committees in terms of looking at the 1996 farm bill and filling in the safety net where it is inadequate. And, again, I want to thank this committee for what you've done on the disaster side of the picture because without that, things would be very, very difficult.

CROP INSURANCE

If I may talk about a few other things. One is crop insurance. The President said in his State of the Union address we need to find a bipartisan way to improve the farm safety net by reforming crop insurance. Last year's supplemental, \$6 billion, indicates that we need a longer term fix. Ad hoc disaster assistance is undependable and too costly. And my belief is that the weather patterns of the next several years are going to be just as unpredictable as they have been in the past and we will have just as expensive disasters year after year after year. Maybe not every year, but they're going to be out there. We have to have a crop insurance system that can better protect people so that they don't have to come to the Congress or to the administration every year for a large ad hoc program. We don't have that now in many cases.

We made a \$400 million down payment as the first step to improving risk management by taking that out of the \$6 billion ap-

proprietation. What we did is we have reduced the cost of crop insurance premiums by 30 percent for producers buying crop insurance this year. So out of the \$6 billion we took a piece of it and reduced their premiums to try to get more farmers into the crop insurance program.

We also issued a white paper on principles and proposals for crop insurance reform. It will be a very expensive undertaking. But either we do it this way or we do it with expensive emergency programs nearly every single year. We're going to hold three regional forums to discuss the issue. We want to try to achieve bipartisan agreement with Congress on crop insurance reform this year. This is a very high priority for us and hopefully working together we can try to deal with this problem.

FARM CREDIT

The second issue I would like to talk about is credit. The budget this year provides \$3 billion in credit for farm loans and guarantees. But, I would add with a subsidy cost of \$52 million less than last year due to the lowest interest rates in a generation. The low interest rates have actually allowed us to increase the amount of credit and doing it at a lower cost. However, because of a poor farm economy in many parts of the country, because of lower commodity prices, more and more USDA, as the lender of last resort, is being used as the prime lender for farmers. So our farm credit programs are facing an increased demand this year, and we will run out of money fairly soon for those programs. We are now in the process of looking at specifically what we're going to need for the purposes of a supplemental request. But the fact of the matter is we're not going to be able to continue to make loans too much longer because of the dramatically increasing demands on both direct and guarantee credit.

I would also say on the credit area that the Department and the Justice Department settled a major civil rights class action case filed against USDA, hopefully putting to an end many, many years, if not decades, of problems that have existed dealing with civil rights and the Department of Agriculture. I would be glad to talk about that more if the members would like to ask about it.

AGRICULTURAL EXPORTS

In the area of exports, we know that exports, strong export markets are a critical component of the farm safety net. Market disruptions, however, have occurred in Asia, Latin America, Russia, Eastern Europe and elsewhere. We increased the programming of export credit guarantees to Asian markets and sales registrations under our GSM-102 were up 40 percent last year over the previous year.

Strong efforts are also being taken on a trade policy front, including preparations for the new round of multi-lateral trade negotiations. The budget provides \$6.5 billion in total for our international programs this year, including \$4.5 billion for our CCC export guarantee programs. But, we will use more than that, if necessary, to move the products overseas.

Exports are a critical part of the safety net, but when times go bad in the world, they cannot be the only part of the safety net.

They, along with domestic programs, have together be considered as part of the safety net. We've learned that not always is the world the way we want it to be.

DOMESTIC MARKETING PROGRAMS

In the area of marketing, I would like to talk a little bit about our domestic marketing programs, which are also important to the economic health of U.S. agriculture. We have very serious continuing concerns about market concentration. Ms. Kaptur and I talked about that for a moment beforehand as well. We are strengthening enforcement against anti-competitive practices, particularly in livestock markets. We've asked for some increased funding for our enforcement of the Packers and Stockyards Act, our grain inspection, packers and stockyards administration. We are also conducting a lot of reviews and examinations on the hog price decline, and the Cargill-Continental merger. These issues of concentration in agriculture are ones that we tend to be confronted with when we're out in the countryside as much as any others, and I'm sure you're hit with the same ones.

PEST MANAGEMENT

We have asked for budget increases for pest detection, disease prevention and border inspections, given that fruits and vegetables are coming in from all parts of the world. We have to make sure that we have adequate resources to protect American producers. We are asking for budget increases for our organic certification program. The most comments this Department has had maybe since the Second World War on any issue was on organic agriculture. And, they all came from Sam Farr's district I think. But, we are in the process of coming up with some certification rules for standardizing and certifying organic agriculture. I'm hopeful we can get it done this year. We've moved on some meat products, but there are other areas. Also, budget increases are provided under the Pesticide Data Program in conjunction with the Food Quality Protection Act requirements. We need to have that as well.

RURAL DEVELOPMENT

In the area of rural development. The rural development budget will support about \$11 billion in loans, loan guarantees, grants, and technical assistance. Here's an interesting fact, that's \$800 million more than last year. But, due to low interest rates, the cost to taxpayers will be \$400 million lower than last year. So we're able to get \$800 million in authority for water, sewers, housing, electricity, telecommunications, and job opportunities, and the cost is \$400 million less. We think that is remarkable. This will also include funds for the President's Water 2000 Initiative and single-family housing needs in rural America, as well.

AGRICULTURAL RESEARCH

In the area of research, this budget proposes an increase of nearly 10 percent for research from the comparable 1999 level. This is the first substantial inflation adjusted increase for these programs since 1992. Our research focuses on a broad variety of areas from

preserving our natural resources, conservation research, food safety, as well as farm productivity. I think that this obviously is the seed corn for the future of American agriculture.

FOOD SAFETY INITIATIVE

I would like to talk for a moment about several other issues: one is food safety, one is nutrition, and one is conservation. In the area of food safety, we've asked for an additional \$67 million, almost two-thirds of the Government-wide increase of \$107 million for food safety activities aimed at reducing micro-biological contamination of foods. These increases are directed to the President's Food Safety Initiative and inspection modernization activities of FSIS.

This is the first year anniversary of the Hazard Analysis Critical Control Point implementation in large meat and poultry plants. We go on line now with the smaller-size plants this year and the very small plants next year. Recent studies indicate that there has been a significant reduction in the prevalence of salmonella due to the implementation of HACCP. Some studies show it has been as much as a 50 percent reduction in salmonella in poultry plants as a result of those that have complied and are participating in the HACCP program. All I'm saying is there are no miracles to food safety, but the programs do seem to be working in terms of getting all the plants on line and doing what they ought to be doing to deal with these problems.

We are also working to meet the goals of the Food Quality Protection Act in dealing with environmental and public health risks associated with pesticides.

FOOD ASSISTANCE PROGRAMS

In the area of nutrition, the budget reflects full funding for food stamps, for child nutrition and the Women, Infant and Children program. The budget restores food stamp eligibility to 15,000 elderly legal immigrants. The funds are also provided to improve program integrity, evaluate the efforts of a universal free school breakfast pilot project, which I personally believe can be instrumental in helping to improve the education of an awful lot of kids in this country. We also want to expand the WIC Farmer's Market program.

GLEANNING AND FOOD RECOVERY

The budget includes a new \$15.8 million gleaning and food recovery initiative. This is something I worked on with Bill Emerson. Through his efforts, we created the Bill Emerson Good Samaritan Act, which immunizes people from liability in most cases who donate food that would otherwise be thrown away. We throw away 99 billion pounds of food in the garbage every single year in this country. It is disgraceful. Much of that food can be eaten. Hospitals, hotels, cafeterias, you name it, throw food away. This program is to provide community-based grants to help neighborhood organizations recover edible food and use it to alleviate hunger.

CONSERVATION PROGRAMS

In the area of conservation, this mission has dramatically expanded as a result of the '96 farm bill. The budget protects and strengthens the core conservation technical assistance and watershed work that NRCS carries out. It supports implementation of the administration's Clean Water Action Plan to protect rivers and streams. It increases funding for the EQIP Program, the Environmental Quality Incentives Program, to \$300 million. The budget also funds the Lands Legacy Initiative which will help USDA address the serious problem of prime farmland loss. The Farmland Protection Program would be reauthorized for this purpose. There are also other initiatives: the CRP, the Wetlands Reserve Program, and the budget supports the administration's Global Climate Change Initiative.

CUSTOMER SERVICE AND PROGRAM DELIVERY

Let me just finally close with a point about customer service and program delivery. Improving customer service and program delivery are a high priority. And let me tell you it's tough with an agency that has 22,000 fewer employees today than we did in 1993. We also have significantly fewer offices. We have downsized to about 2,700 service center offices, and so with the increased workload, the Loan Deficiency Payments, the disaster programs, and a significant reduction in the numbers of people, I would have to tell you it is a challenge to provide that high priority service, and that particularly goes for smaller farmers, minority farmers who have been traditionally under-served by our farm and rural development activities. Streamlining and co-locating the county-based agencies in one-stop USDA service centers is a prime focus. We are also working to administratively converge the administrative support functions of county-based agencies and provide a common computing environment as well.

I would have to tell you that our workload in customer service requirements, particularly in the farm program area right now, is quite high and there have been delays. A lot of it has to do with the fact that it is difficult to provide as timely a service as I would like given the enormous workload, particularly as a result of the Loan Deficiency Payments, which are coming in by the millions now. But we will continue to do our best.

Mr. Chairman, that concludes a summary statement. And, again, I appreciate your thoughtfulness.

[The prepared statement and biographies of Dan Glickman, Richard E. Rominger, Keith J. Collins, and Stephen B. Dewhurst follow.]

[CLERK'S NOTE.—Mr. Collins' prepared statement appears on page 969 of this volume.]

**For Release Only by the
House Committee on Appropriations**

**Statement by
Dan Glickman
Secretary of Agriculture
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations, U.S. House of Representatives
February 10, 1999**

Mr. Chairman, Members of the Committee, it is a privilege to appear before you to discuss the 2000 budget for the Department of Agriculture (USDA).

Even though the Federal Budget is now in surplus for the first time in 30 years, USDA's 2000 budget is still governed by the constraints put in place by the Balanced Budget Act of 1997. Thus, we are faced with another year of very tight funding. However, we have tried to provide the necessary resources that will enable USDA to achieve the basic goals and objectives of its strategic plan as well as focus on some key Presidential initiatives on food safety, nutrition and food assistance, global change, and conservation and the environment. And, as the President indicated in his State of the Union message, we must work with lawmakers of both parties to create a farm safety net that will include crop insurance reform and farm income assistance.

The Presidential initiatives that involve participation of USDA agencies, include:

- A continuing Food Safety initiative for improving the Federal food inspection system from farm-to-table, through increased inspection, expanded research and consumer education, better surveillance of foodborne illness, and improved Federal, State, and local coordination.

- A Lands Legacy initiative to develop a national program to protect great places and to provide the tools for localities, States, Indian tribes, and non-profit corporations and cooperatives to plan Smart Growth, open space preservation, and land use management. \$268 million of the \$1 billion governmentwide program would be provided to USDA.
- A Global Change Research initiative aimed at investigating mitigation tactics to minimize the adverse effects of climate change on agricultural production, and inventory soil carbon levels, research how soils absorb carbon, and expand biomass research.
- A Climate Change Technology initiative to develop technology for predicting and adapting agricultural production to global change impacts and to demonstrate and test various greenhouse gas mitigation strategies and monitoring mechanisms.
- A Clean Water Action Plan to improve water quality on the Nation's forested lands and to address water quality issues, such as waste management and grazing practices on private lands. It also includes new research on *hypoxia*, *pleistocene*, and related problems.

The budget also focuses resources on the following priority areas:

- Providing adequate funding for Food Stamp, Child Nutrition, and WIC Programs, increased funding for program integrity initiatives, a new gleaning and food recovery initiative, a school breakfast research pilot, and restoration of food stamp benefits for elderly immigrants.
- Meeting the urgent needs for water and housing in rural communities.

- Supporting research to improve the productivity and competitiveness of our farmers, to help solve environmental problems and to provide safe, nutritious food for all Americans.
- Strengthening our risk management programs, providing small farm assistance, and modernizing farm program delivery.
- Expanding domestic and overseas markets through aggressive promotion and a reduction in impediments and restrictions to trade.
- Carrying out an aggressive civil rights policy to correct past weaknesses and fairly implement new program proposals.

The discipline imposed on the 2000 budget has forced us to make difficult decisions to restrain, reduce, and redirect resources to focus on the priority goals we established. We again propose user fees and contain and absorb certain costs. We are continuing to scrutinize our employment and business practices. As a part of the Department's continuing reorganization, we are implementing a field office streamlining plan which collocates the county-based agencies in one-stop USDA Service Centers and to consolidate administrative support functions in a new Support Services Bureau and modernize program delivery. We are implementing a common computing environment for these agencies to optimize the use of data and equipment and improve our efficiencies across the agencies. These efforts, combined with program reductions and reforms taken in prior years, have made a significant positive contribution to the current favorable Federal budget situation.

The President's budget proposes \$55.1 billion in budget authority for 2000 for USDA compared to a current estimate of \$67.5 billion for 1999. Budget authority for discretionary spending, which accounts for about 28 percent of USDA's total budget authority, declines from \$15.8 billion in 1999 to \$15.2 billion in 2000. The request before this Committee for discretionary budget authority is \$13.2 billion.

The budget again proposes legislation that could affect the appropriation for the Department, including user fees for the Food Safety and Inspection Service; the Animal and Plant Health Inspection Service; and the Grain Inspection, Packers and Stockyards Administration. This proposed legislation will be sent to the authorizing committees, and the request before this Committee is not adjusted for the passage of this legislation. Upon enactment of fee authorizations, we would forward you our revised appropriation request. However, the appropriations request will include a proposed assessment on tobacco marketings similar to the expiring marketing assessment established by the Budget Reconciliation Act of 1993.

The budget also proposes legislative changes in some mandatory programs, e.g., restoring food stamp benefits to elderly legal immigrants, reauthorizing and funding a range of conservation programs, providing mandatory funding for the Foreign Market Development Cooperator Program, providing rural development grants and direct Treasury rate electric loans.

I also want to emphasize the importance that the President and I have placed on USDA civil rights issues; this priority is reflected in the budget. The President's budget provides the necessary funding to continue to carry out the recommendations of the Civil Rights Action Team (CRAT) as well as the recommendations of the National Commission on Small Farms which support our civil rights agenda.

FARM AND FOREIGN AGRICULTURAL SERVICES

The mission of the Farm and Foreign Agricultural Services area to secure the long-term vitality and global competitiveness of American agriculture, has surely been tested by the tough times farmers and ranchers are now facing. While planting flexibility provisions of the Federal Agriculture Improvement and Reform Act of 1996 (the 1996 Act), strong export and trade policy programs, and other program initiatives already underway have helped many crop and livestock producers, it is clear, as the President indicated, that the farm safety net still needs some reinforcement.

The Administration and Congress worked together last year to support farmers in areas hit hard by declining prices and successive years of reduced yields. This year we will continue our efforts to expand and improve programs which help producers manage risk, and we look forward to working with Congress to further reform the insurance programs for crop and livestock producers. We are also working hard to expand opportunities for small farmers and others who traditionally have been under served in our farm programs. The class action settlement with African American farmers I announced last month closes a painful chapter in USDA's history but does not complete our civil rights initiative. We still have more to do to ensure all of our customers and our employees are treated with dignity and respect.

The weakening farm economy has challenged our efforts to improve customer service while improving efficiency in the Farm Service Agency (FSA) and the other county-based conservation and rural development agencies. While additional funding provided in the Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, 1999 (the 1999 Act) allowed FSA to maintain current staffing levels, the increasing demand for Commodity Credit Corporation (CCC) Marketing assistance loan programs and disaster assistance has dramatically increased workload and placed new burdens on county staff. The higher workload, particularly for the marketing assistance programs, is projected to continue at least through 2000. The need to find new ways of doing business in the service centers is underscored by findings of the independent study of county-based agencies conducted by Pricewaterhouse Coopers. The recently completed study recommends further steps to improve the efficiency of program delivery and field office operations of the county-based agencies. It also supports on-going efforts by the Department to streamline offices, establish a common computing environment, converge administrative services. We are currently evaluating the results of this study to determine how best to take it into account in our on-going efforts.

Farm Service Agency

FSA Federal and county staffing since 1993 has declined by about 6,000 staff years, from over 22,500 staff years at the end of 1993 to about 16,400 staff years at the end of 1998. Additional funds appropriated for 1999 in the 1999 Act have allowed the agency to avoid reductions-in-force this year and to hire additional temporary staff. The proposed program level in 2000 for salaries and expenses of \$1 billion is estimated to support a ceiling of 5,745 Federal staff years, and 10,048 non-Federal county staff years, assuming legislation is enacted allowing for CCC to cover a portion of FSA's computer operations and maintenance costs for the farm programs.

Farm Loan Programs

Traditionally, USDA's role in the farm credit market has been to be the "lender of last resort." Currently, the Department supplies only about 5 to 6 percent of the credit used by farmers — the rest is supplied by private lenders, including the federally-chartered Farm Credit System. However, the Department's role is important because it provides opportunities for farmers who experience financial difficulty to stay in business, and fills credit gaps, particularly for socially disadvantaged and beginning farmers.

Because the programs operate at the margin of the credit market, they are vulnerable to changes in market conditions — and sometimes it is very difficult to predict changes in demand for program assistance. Right now, there is a great deal of uncertainty as to the impact recent declines in farm prices and income may have on repayments of past debts and the willingness of private lenders to make new loans. Even small changes in these factors can have a proportionally larger impact on the number of applicants seeking program assistance and the amount of their requests. USDA is keeping a very careful eye on the situation as it develops, not only for year 2000, but also for meeting the more immediate needs in 1999.

The 2000 budget request reflects a fairly optimistic projection — one that envisions a reasonably good supply of farm credit provided by private lenders. The Administration believes that this is a good starting point. But, I will not hesitate to

request additional funding if conditions deteriorate and there is evidence that additional program assistance is needed.

Specifically, the budget request includes about \$3 billion in farm loans and guarantees — slightly more than the \$2.8 billion available for 1999. Because interest rates continue to decline, thereby reducing the subsidy costs, the higher program level for 2000 can be supported with far less budget authority than was necessary in 1999 (\$77.3 million compared to \$121.1 million).

For farm operating loans, the 2000 budget includes \$1.7 billion in unsubsidized guarantees, \$500 million in direct loans, and \$97 million in subsidized guarantees. This mix reflects a shift to more unsubsidized guarantees. Favorable interest rates should help more farmers qualify for such credit and USDA's recent publication of a final rule for streamlining the guaranteed loan program and establishing a preferred lender program should encourage private lender participation.

For farm ownership loans, the 2000 budget includes \$128 million in direct loans, compared to \$86 million available for 1999, and \$431 million for unsubsidized guarantees, which is about the same as 1999.

In addition, the 2000 budget includes \$100 million in loans for the boll weevil eradication program and \$53 million in emergency loans. The Administration plans to review gaps in the emergency loan program which deny credit to farmers and agriculture-related businesses that is otherwise available to non-farmers through the Small Business Administration (SBA). It intends to propose legislation to eliminate such gaps.

The 2000 budget also includes \$4 million in grants for the State mediation program, double the amount available in 1999. This program provides a valuable service in resolving disputes over the administration of the farm credit and other USDA programs.

Commodity Credit Corporation

Changes over the last decade in commodity, disaster, and conservation programs have dramatically changed the level, mix, and variability of CCC outlays. CCC outlays are projected to increase from \$10 billion in 1998, to \$18 billion in 1999, and then to decline again to about \$12 billion in 2000. The increase in spending between 1998 and 1999 is accounted for by higher marketing assistance loan program outlays, expenditures related to the President's International Food Aid initiative, and by emergency spending authorized for disaster assistance programs authorized by the 1999 Act. The disaster assistance provision expenditures authorized in the 1999 Act total nearly \$5.9 billion, including \$3.1 billion for market loss payments, \$2.4 billion to compensate producers for crop losses, and \$0.2 billion for livestock feed assistance. In 2000, commodity program outlays account for about three-fourths of the total CCC outlays, with production flexibility contract payments and loan deficiency payments accounting for nearly all of the commodity program outlays.

Conservation program outlays account for most of the remaining CCC expenditures in 2000. The 1996 Act authorized direct CCC funding for the Conservation Reserve Program (CRP) administered by FSA and several new conservation programs administered by the Natural Resources Conservation Service (NRCS).

CRP provides landowners annual payments and half the cost of establishing a conserving cover in exchange for retiring environmentally sensitive land from production for 10 to 15 years. The 1996 Act authorized the program through 2002 and set maximum enrollment in the program at 36.4 million acres. About 30.3 million acres were enrolled in the program at the end of 1998. The 2000 budget assumes nearly 6 million acres will be accepted in the 18th signup, conducted in October through early December 1998. In addition, the continuous, non-competitive 17th signup has been underway to enroll land in filter strips, riparian buffers, and similar special conservation practices.

Other conservation programs funded by CCC but administered by NRCS include the Wetlands Reserve Program (WRP), the Environmental Quality Incentives Program (EQIP), the Wildlife Habitat Incentives Program (WHIP), and the Farmland Protection Program (FPP). WRP offers landowners the opportunity to receive payments for restoring and protecting wetlands on their properties. For 2000, approximately 200,000 acres are proposed for enrollment resulting in a cumulative WRP acreage enrollment of 975,000 acres, the maximum enrollment level mandated by law. This program is a cornerstone supporting the Clean Water Action Plan. EQIP gives producers incentives to implement long-term comprehensive farm plans and the budget proposes to increase the annual program level from \$174 million in 1999 to \$300 million beginning in 2000. WHIP provides cost-share assistance to landowners to implement management practices improving wildlife habitat and FPP provides for the purchase of easements limiting nonagricultural uses on prime and unique farmland. Under proposed legislation, WHIP and FPP would be funded annually through CCC at \$10 million and \$27.5 million, respectively, beginning in 2000. FPP is also slated to receive \$50 million in discretionary funding from the Vice President's new Lands Legacy initiative.

Finally, provisions of the Commodity Credit Corporation Charter Act (the CCC Charter Act) limit CCC expenditures for computer equipment and cap, at the 1995 expenditure level, total allotments and transfers to State and Federal agencies under Section 11 of the Act for administrative support services. These provisions impose significant restrictions on the availability of CCC funds for transfers and reimbursable agreements used to fund conservation technical assistance and other support services for the conservation, commodity, and export programs.

By 2000 the amount available under the computer cap will be nearly exhausted preventing needed investment in our streamlining and Service Center initiatives and prohibiting the Department from investing in much-needed technology for business process reengineering efforts. USDA needs these investments to improve service to our customers and reduce program delivery costs.

The budget for 2000 includes a legislative proposal to raise the limit on CCC expenditures for computer equipment by a total of \$105 million for the period 2000 through 2002. The increase in the multi-year cap will cover a portion of FSA's computer operations and maintenance costs for the farm programs, and will be offset by an equivalent reduction in authorized spending for the Export Enhancement Program (EEP). Additional reductions in EEP will be proposed to offset increased spending for EQIP and to offset proposed CCC funding for the Foreign Market Development Cooperator Program and for a "quality samples" proposal to boost the promotion of U.S. exports.

Risk Management Agency

The need for supplemental funding in the 1999 Act for production losses and price declines in the farm economy certainly provides a chilling example of shortfalls in the program. Nonetheless, the facts are that since the 1994 reform of the crop insurance program, producers have had the opportunity to obtain protection against production losses — free of cost, except for a processing fee, for catastrophic losses and at a subsidized rate for higher levels of coverage. Over 60 percent of insurable acres has been covered. There could be a substantial increase in participation in this crop year due to an additional 30 percent subsidy of premium rates that is being provided as part of the 1999 supplemental funding.

A key element in the success of the crop insurance program is the partnership with the private insurance industry, which not only delivers the program but shares in the risk. This partnership has resulted in innovative changes such as the development of revenue insurance. There are 17 private insurance companies of various sizes participating in the program. They provide delivery, mostly through their own sales agents who work on a commission basis. Loss adjustment is usually done by independent contractors. Companies are reimbursed at a rate of 24.5 percent of premium, which is the maximum fixed by law. They also may receive underwriting gains for favorable loss experience.

Within USDA, the program is administered by the Risk Management Agency (RMA) and is carried out through the Federal Crop Insurance Corporation which has a Board of Directors composed of both Government and private sector members.

Legislation enacted last year authorized the shift of delivery expenses paid to private companies from discretionary to mandatory spending, which also includes premium subsidy and other program costs. The 2000 budget requests an appropriation of "such sums as necessary" for the program's mandatory spending. Such an appropriation is similar to previous years' appropriations, and provides the assurance of full funding for increases in sales volume and potential losses.

For discretionary spending, which includes salaries and expenses for RMA staff, the budget requests \$71 million — an increase of \$7 million over 1999. This increase would allow RMA to strengthen its efforts in research and development, to extend its risk management education program, and to enhance its civil rights activities and to provide public outreach.

The Administration intends to continue working on improving the crop insurance program. It believes that there is widespread support for the program because producers appreciate the assurance of risk protection the program provides rather than the uncertainty of *ad hoc* disaster assistance. Further, it believes that such protection offered on an actuarially sound basis, with producers sharing in the cost, is consistent with production efficiency. The Administration will do everything possible to encourage program participation, to correct any inequities in the structure of premium rates, yield guarantees, or other program provisions, to make the program user-friendly for companies and producers alike, and to facilitate new product development and other program innovations. As a strong first step in improving and energizing the program, last year's emergency supplemental has allowed us to make a \$400 million down payment this year in helping farmers meet their crop insurance needs. These funds will be used to reduce 1999 insurance premiums by 30 percent.

The Administration stands ready to work with the Congress on improving the safety net for farmers. We have already announced the Administration's principles and preliminary proposals for strengthening the farm safety net by reforming the crop insurance program and we plan to hold 3 regional forums around the country to receive input from farmers and other interested parties. A white paper on the subject can be viewed at the USDA website on the internet. Through the forums and discussions with Congress, the Administration intends to build upon our proposals to forge a bipartisan agreement on crop insurance reform.

International Trade and Export Programs

Developments in overseas markets during the past year have certainly demonstrated that the health of the American farm economy is inextricably linked to the global economy. As markets in Asia, Latin America, Russia, and elsewhere experienced financial turmoil and their imports of food and agricultural commodities were cut back, the effects of those developments were felt throughout rural America.

Strong export markets are an important component of the agricultural safety net, and we are committed to helping our farmers and ranchers broaden their access to overseas markets and maximize export sales. Faced with the challenges posed by last year's disruptions in global markets, we have responded aggressively by utilizing our export program authorities to ensure the continued flow of U.S. agricultural exports. We have expanded substantially the level of CCC export credit guarantees made available to markets in Asia, which otherwise would have been unable to obtain financing for their food and agricultural imports. As a result, sales registrations under the guarantee programs exceeded \$4 billion in 1998, an increase of 40 percent above the previous year.

In July, President Clinton announced his Food Aid Initiative under which the United States is providing as much as 5 million metric tons of wheat and wheat products to assist needy countries. Moreover, we have developed a package of food

assistance for Russia, which will provide over 3 million metric tons of commodities, once fully implemented.

We also have continued our efforts to open and expand markets through a wide range of trade policy activities. For example, last February the United States and Taiwan signed a market access agreement which provides for Taiwan to lift its import bans and allow access for U.S. pork, poultry, and variety meats. Upon Taiwan's accession to the World Trade Organization, Taiwan will cut tariffs and open tariff-rate quotas on numerous agricultural products.

We continue to prepare for the new round of multilateral trade negotiations which is set to begin later this year and presents an opportunity to further strengthen disciplines on agricultural trading practices. We are pursuing market opening agreements on a regional basis as well, including negotiations for the Free Trade Area of the Americas and within the Asia Pacific Economic Cooperation forum. And, we continue to respond to the growing challenges posed by technical barriers to trade, such as sanitary and phytosanitary barriers that are not scientifically based.

In order to ensure we are able to continue these activities and our export promotion objectives can be achieved, our budget proposals provide an overall program level of nearly \$6.5 billion for USDA's international programs in 2000. For the CCC export credit guarantee programs, the largest of our export activities, the budget includes program levels of \$4.7 billion for 1999 and \$4.5 billion for 2000. These levels continue the higher level of guarantee programming which was established last year in response to developments in Asia. However, the actual level of guarantees to be issued will not be limited by the budget estimates, but instead will be determined by market conditions and program demand.

The Department carries out a number of market promotion programs which play a crucial role in efforts to develop and expand overseas markets. The Market Access Program (MAP) has been particularly instrumental in helping small and new-to-market

companies build new markets overseas. To further those efforts, all MAP assistance for brand promotions is now reserved for small businesses and cooperatives. For 2000, the budget provides funding for MAP at the maximum authorized level of \$90 million, which is unchanged from 1999.

The Foreign Market Development Cooperator Program, a mainstay of USDA export promotion efforts since 1954, provides cost-share assistance to nonprofit commodity and agricultural trade associations to support market development activities designed to remove long-term impediments to increased U.S. trade. Beginning in 2000, the budget proposes that the Cooperator Program be funded by CCC rather than the FAS appropriation. However, funding for the program will remain at its current level of \$27.5 million per year. This proposal is consistent with the CCC Charter Act which authorizes the Corporation's funds to be used for market development activities. By providing a permanent authorization for CCC funding, the proposed change will provide greater stability for future program activities and will thereby enhance long-term planning by program participants.

The budget also includes funding to implement a new market promotion activity, the Quality Samples Program. Under this initiative, samples of U.S. agricultural products will be provided to foreign importers in order to promote a better understanding and appreciation of their high quality. The program will be carried out under existing authorities through commodity organizations and agricultural trade associations, similar to the Cooperator Program, and on a pilot basis will be funded by CCC at an annual program level of \$2.5 million.

The budget provides funding to continue both of the Department's export subsidy programs -- the Dairy Export Incentive Program (DEIP) and the Export Enhancement Program (EEP). In the case of DEIP, the budget assumes a program level which continues programming near the current level. For EEP, a program level of \$494 million is proposed for 2000, which is below the authorized level of \$579 million. Proposed legislation to limit EEP programming will be submitted in order

to provide PAYGO savings which are needed to help offset the costs of other initiatives in the budget which will increase mandatory spending for agricultural programs. Although EEP will be limited to the \$494 million level, the program will remain in place and the awarding of bonuses can be resumed whenever market conditions warrant. The Administration will also propose to permit unobligated balances of EEP funds to be transferred to other foreign food assistance programs, such as P.L. 480, toward the end of each year.

For P.L. 480 foreign food assistance activities, the budget provides an overall program level of \$987 million. This is projected to provide approximately 3.2 million metric tons of commodity assistance to recipient countries. In 2000, this tonnage level is expected to be supplemented by additional food assistance to be provided under the Food for Progress Program and section 416(b) of the Agricultural Act of 1949.

For the Foreign Agricultural Service (FAS), the budget provides appropriated funding of \$115 million. This is \$25 million below the 1999 enacted level due to the proposal to fund the Cooperator Program through CCC rather than the FAS appropriation. The budget provides funding for several new initiatives for FAS, including the opening of a new Agricultural Trade Office in the southern Africa region and implementation of a Reverse Buying Missions Program. The latter will bring buying missions of foreign importers, retailers, and trade officials to the United States to orient them on the quality and diversity of U.S. agricultural products. The program will be focused on markets in which the United States is generally competitive and has a clear potential for expanding commercial sales.

RURAL DEVELOPMENT

USDA's rural development programs provide decent, safe and sanitary housing as well as amenities such as safe drinking water, waste disposal, electrical and telephone service. They also provide jobs — both for the construction of projects and employment within those projects, and for improved employment opportunities that result from the strengthening of rural economies. Rural America remains diverse.

There are prosperous rural communities — centers of local economic activity, communities that are attractive for recreation or retirement, and some that have been remarkably successful in bringing in high technology and other modern day businesses. However, there also are numerous areas with severe poverty and economic depression — places that have lost their economic base of farming, forestry, mining or other traditional enterprises. These communities have high rates of poverty, limited opportunities, and lack even basic necessities. USDA's rural development programs help alleviate these inequities, so that the people who live in rural communities may have the same opportunity to share in the benefits of the Nation's prosperity.

The 2000 budget includes almost \$11 billion in loan, grant and other assistance for rural development. This represents an increase of almost \$800 million over the amount available for 1999. The higher program level can be supported at about the same cost to the Government — roughly \$2.2 billion in budget authority, including \$200 million in budget authority that is being forward financed into 2001 — due primarily to a reduction in subsidy costs for direct loans, which reflects the overall decline in interest rates.

USDA's rural development programs support a number of long-standing initiatives of the Administration including the President's Homeownership Initiative, Water 2000 and the Empowerment Zones and Enterprise Communities (EZ/EC) Initiative. In 2000, Rural Development would also contribute to the Smart Growth Partnership by helping to administer a \$50 million loan program which is included in the budget for the Forest Service.

Over \$3 billion in loans and grants (\$670 million in budget authority) would be budgeted under the Rural Community Advancement Program (RCAP) which allows flexibility to transfer funds among programs to meet State and local priorities. These priorities must be based on strategic plans to help guide the development process. RCAP was authorized in the 1996 Act, but recent appropriations acts have restricted

its full implementation although the 1999 Appropriations Act provided more flexibility than in prior years. The 2000 budget would allow RCAP to be fully implemented.

The Administration will propose legislation to provide \$15 million, annually, in grants to the rural communities that were selected in the second round of the EZ/EC initiative. The 2000 budget also provides for the targeting of about \$200 million in loans and grants under USDA's rural development programs to the EZ/EC initiative. In addition, a number of the EZ communities receive certain tax benefits. The EZ/EC initiative has encouraged communities to develop strategic plans to meet their goals and objectives. It has created jobs and economic growth, and has served as a model for non-EZ/EC communities to meet the challenge of planning for their future.

USDA's rural development programs are administered through State and local offices, all located within USDA Service Centers. The 2000 budget includes just under \$542 million for Rural Development salaries and expenses. This funding level is approximately \$27 million over 1999 and is expected to be sufficient to maintain staffing at current levels.

Rural Utilities Service

The programs administered by the Rural Utilities Service (RUS) provide financing for electric, telephone, and water and waste disposal services. These programs have a long history of significant contributions to rural America — literally lighting up rural households, allowing those households to communicate with the rest of the world, and bringing running water for indoor plumbing. While almost all of rural America now have these basic necessities, the challenges in recent years has been to maintain and upgrade the facilities that provide service, to ensure that rural America does not fall behind in the fast-paced world of high-tech communications, and to address the increasing risks of unsafe or poor quality water.

The 2000 budget would support over \$1.6 billion in electric and telephone loans, which is about \$75 million less than 1999. The Administration will submit

legislation to authorize direct electric loans at a Treasury rate of interest. Under the proposed legislation, \$400 million in such loans would be shifted from FFB directly to RUS.

The 2000 budget also reflects additional direct loan activity under the Distance Learning and Telemedicine program. This program was initially designed to provide only grants. However, there has been an overwhelming request for assistance due to the awareness of rural communities that the high-tech world of communications offers their best chance to receive enhanced learning and medical services and connect to the information-based economy. In order to serve more of these communities, the program was expanded in 1996 to include loan as well as grant assistance. RUS expects to see substantial progress in loan activity. In anticipation, the 2000 budget provides for an increase in the loan program — to \$200 million in loans. It also provides for an increase in grants — from \$12 million available in 1999 to \$20 million in 2000.

The 2000 budget includes \$503 million in grants and \$975 million in loans For the water and waste disposal program — together representing an increase of \$156 million over the amount available for 1999. The program will continue to be targeted, under the Water 2000 initiative, to communities with the most serious needs for assistance — which means that they lack service, are at risk of health due to unclean water or unsanitary conditions, cannot afford to pay the full cost of service due to high incidence of poverty.

Rural communities benefit not only directly in terms of the services their residents receive from the facilities financed by water and waste disposal loans and grants, but also, in terms of the jobs and overall economic growth that can result from those services being provided to commercial users. The secondary impact can, in fact, turn rural communities around — giving them the means to attract industry to diversify their economies.

Rural Housing Service

USDA rural housing programs have played a key role in providing affordable homeownership and rental opportunities in rural America since the 1960's. The programs serve very low to moderate income families who cannot obtain conventional credit and cannot otherwise afford decent, safe and sanitary housing. Interest and rental payment assistance reduces the cost of such housing to the families' ability to pay, based on income and other factors. The overall decline in interest rates has made it possible to operate the direct homeownership program at relatively modest cost — for 2000, less than 10 percent per dollar of loans. The 2000 budget would support \$1.1 billion in direct (single-family) homeownership loans — compared to \$965 million in 1999.

In addition, the 2000 budget would support \$3.2 billion in guarantees — \$200 million more than in 1999. The loan guarantee program has operated for only a few years and has proven to be helpful in filling gaps in the commercial credit market where lenders are reluctant to make loans on their own. The program offers no interest payment assistance, so borrowers must be able to pay commercial rates of interest. However, the subsidy cost of the guaranteed program is only about 1 percent per dollar of loan guaranteed. The combined total of \$4.3 billion in homeownership loans and guarantees is expected to serve over 50,000 rural families.

The 2000 budget provides for \$100 million in direct loans and \$200 million in guarantees for rental housing, \$100 million of which would be contingent on legislation to eliminate the statutory requirement that 20 percent of the units in projects with guarantees receive interest payment assistance. The guaranteed program for rental housing is relatively new and uses other sources of funds and financial incentives, such as tax credits. Experience has shown, that the program can be operated without interest payment assistance and still serve low income families due to the combination of other incentives.

In the direct rental housing program, RHS currently has a portfolio of about 18,000 projects with approximately 245,000 units receiving rental assistance payments. In year 2000, it is anticipated that about 41,800 of these units will require renewal at a cost of \$603 million. Some additional units in existing projects will be provided for servicing purposes and a small number of units are expected to be provided in new projects, including those for farm labor housing. In total, the 2000 budget includes \$640 million for rental assistance payments, of which \$440 million would be available beginning in 2000. The remaining \$200 million would be available beginning in 2001. The budgeting of 2000 program needs over 2 years will not affect the flow of funds to project sponsors or impact occupants in such projects.

RHS also administers several housing programs that serve specific needs, including farm labor housing, self-help housing for families who trade their sweat equity for a chance to own their own home, and very-low income repair loans and grants. The 2000 budget provides for the continuation of these programs at slightly higher levels than available for 1999.

In addition, RHS administers a program of direct and guaranteed loans and a limited amount of grants for essential community facilities. In recent years, the priority has been to serve children and the elderly through child care centers and health facilities; however, a wide range of projects have received this assistance, to reflect the diversity of State and local priorities. The 2000 budget would support \$250 million in direct loans -- \$80 million more than available in 1999. Guaranteed loans would remain at the same level as in 1999 -- \$210 million. In addition, the 2000 budget includes \$15 million for grants, \$5 million of which would be used for early warning systems for hazardous weather conditions.

Rural Business-Cooperative Service

Many rural communities need a more diversified economic base -- one that will provide good-paying jobs and withstand the fast-paced challenges of a high-tech global marketplace. The Administration has undertaken initiatives such as EZ/EC

which requires communities to develop strategic plans in the process of competing for designation. Implementing these plans, requires significant financial resources. The primary source of capital must be the private sector and there are many ways to encourage private lenders to be more responsive to unmet needs, such as through tax credits and other incentives. Programs that offer guarantees and, in some cases, direct loans also contribute to the supply of credit. Within USDA, these programs are administered by the Rural Business-Cooperative Service (RBS).

RBS' largest program is the business & industry loan guarantee program which has operated at a level of about \$1 billion for the last few years, and would be continued at that level in the 2000 budget. This level of funding is expected to produce almost 38,000 jobs in rural America. In recent years, the program has had very few losses and the cost to the Government has been minimal.

The 2000 budget continues the direct business & industry loan program at a \$50 million level. This program is particularly helpful in filling gaps in the credit market, particularly in areas that are underserved by private lenders. In addition, the 2000 budget provides for \$52 million for the intermediary relending program — \$19 million more than 1999. This program allows intermediaries to develop their lending capacity. Currently, each dollar loaned to an intermediary circulates about 3 times over its lifetime. Further, the experience intermediaries gain in loan making improves their prospects for gaining access to other sources of funding.

The rural business enterprise grant program would be funded at \$36 million — about the same as available for 1999. In addition, there would be \$5 million for the new partnership technical assistance grant program. This program provides communities with assistance for strategic planning and would help them better coordinate and leverage Federal, State, and private funding.

The 2000 budget also provides \$5 million for rural cooperative development grants (\$3 million more than available in 1999), \$2 million for the appropriate

technology transfer program, \$700,000 more than the 1999 level, \$2 million for cooperative research agreements (the same as in 1999), and \$10 million for the Alternative Agricultural Research and Commercialization Corporation (compared to only \$4 million available for 1999).

As noted earlier, the Administration will be proposing legislation to provide mandatory funding of \$15 million each year for the second round of rural EZ/EC's that were announced recently. In 2000, RBS will also administer a new \$50 million loan program in support of the Smart Growth under the Lands Legacy initiative. Funding for this program is included under the Forest Service budget and would be administered by RBS under the authorities used to establish the intermediary relending program.

FOOD, NUTRITION AND CONSUMER SERVICES

America has the most affordable, safest food supply in the world, thanks to its hard-working farmers and producers. However, with nearly 36 million Americans living in poverty, millions of Americans still need nutrition assistance. USDA's nutrition assistance programs are part of the national safety net. Proper nutrition and sufficient food is as essential to the successful transition from Welfare to work as child care and health insurance. The importance of nutrition support does not diminish as families leave welfare. A family working full-time throughout the year at the minimum wage can lift themselves out of poverty, but only with the assistance of food stamps. The budget requests an appropriate level of funding for this effort — for Food Stamps, Child Nutrition, and the WIC program, the Nation's primary means for carrying out food assistance policy. Over two-thirds of the \$36.5 billion requested will help low-income children, school age or under, receive the nutrition they need.

The Food Stamp Program is budgeted at \$22.5 billion in 2000, which includes a \$1.0 billion contingency fund to cover unforeseen needs, and is predicated on a participation estimate of some 20.1 million people. While this level is higher than 1999 estimated participation of 19.7 million, this is just cautious budgeting. The economy is

expected to remain strong. In fact, food stamp participation is down over 9 million from its peak of 28 million participants in March of 1994. This trend began before welfare reform was enacted and intensified as welfare reform began to work. With the strong economy, unemployment is at the lowest peacetime level since 1957. Increases in child support payments from absent parents — achieved via Administration initiatives — are also helping low-income households reduce dependency on food stamps. The Department will watch fluctuations in participation levels carefully to ensure that food stamp eligibles are not denied access to the program if they or their children still require nutrition assistance.

The budget includes several legislative proposals and initiatives for the Food Stamp Program. While Americans are committed to a society where work and responsibility are rewarded, current law does not permit many immigrants who have been legal residents of the United States since before welfare reform, to receive food stamps even after reaching age 65. The Department proposes to level the playing field with legislation that would allow such humanitarian assistance to these hard-working, long-time legal resident immigrants who fall on hard times when they are over age 65.

The budget also includes a small amount of funding for nutrition education and technical assistance. This will make sure program eligibles understand how to get nutrition assistance and what assistance is available if they want it; and it will help educate them on how to achieve a better diet. Finally, in addition to the continuing effort to modernize benefit delivery via nationwide use of Electronic Benefit Transfer, USDA is developing a plan to reduce error. A \$6 million increase is requested as part of the plan to crack down on retailer and participant abuses, as well as reduce program errors causing overpayments.

For the Child Nutrition Programs, including the National School Lunch, Breakfast, Child and Adult Care Food, Summer Food Service, and Special Milk

Programs, the current law budget request is \$9.6 billion, about \$0.4 billion more than the 1999 level. The request assumes continued full funding for all of these programs, support for Team Nutrition and \$2 million is requested for Nutrition Education and Training. The National School Lunch Program touches almost all school children during the year and can help them achieve a better diet, especially with this effort in nutrition education. USDA is also developing an integrity plan to assess and address error in the school lunch program for which another \$2 million is requested. We will increase USDA's visibility at the State and local level to ensure program integrity. Finally, the William F. Goodling Child Nutrition Reauthorization Act of 1998, P.L. 105-336, (the Goodling Act) authorized demonstration projects in 6 school districts that would allow the Department to evaluate the effect of providing breakfasts free to all elementary school children regardless of income. The budget includes \$3 million to pay for the meal costs, and \$10 million for a 3-year evaluation of the effects on participation, academic achievement, attendance, tardiness, and dietary intake.

For WIC, the budget request calls for an increase of \$181 million, bringing the total to \$4.1 billion for 2000. This level of funding will support a monthly average of 7.5 million participants over the year. The program is widely credited with reducing anemia and improving other key indicators of early childhood health. Over 46 percent of the infants born in America are WIC participants. USDA is working to implement the changes in the Goodling Act, many of which would increase program integrity. The Department is also working with the States to improve program integrity and efficiency, to make sure the program makes as much difference as it can for needy program recipients. Further, as part of our Commodity Assistance Program request, the Department seeks \$20 million for the WIC farmers' market program, a \$5 million increase. This program brings WIC recipients together with small, local farm producers and encourages the consumption of fruits and vegetables, a priority in nutrition promotion.

The budget proposes an increase of \$10 million for the Emergency Food Assistance Program (TEFAP). The Commodity Supplemental Food Program is funded

to maintain the current program levels, although it is anticipated that caseload will continue to shift toward greater elderly participation. The Nutrition Program for the Elderly is increased by \$10 million, to \$150 million to increase subsidized meals provided to persons aged 60 or older at low-income elderly centers and through "meals on wheels" programs.

Finally, the Department will also increase its efforts to promote the new Dietary Guidelines to be issued in 2000 to help all Americans achieve a better diet via the Center for Nutrition Policy and Promotion. An important principle of nutrition education is that all Americans can benefit, whether they participate in nutritious assistance programs or not. Our concern is greatest for those in need, but nutrition education helps everyone.

FOOD SAFETY

As the safety of the food supply has become more important to the success of American agriculture and the health of consumers, the Department has stepped up its efforts to provide the leadership and expertise necessary to address the complex domestic and international food safety issues facing us today.

On July 25, 1996, a milestone was reached in our strategy for making significant gains in improving the safety of America's food supply. On this date, the final rule for Pathogen Reduction and Hazard Analysis and Critical Control Point (HACCP) Systems for meat and poultry products was published. This rule modernizes a 90-year-old inspection system and lays out the Administration's commitment to improve food safety and reduce the incidence of foodborne illness by 25 percent by the year 2000 as stated in the Department's strategic plan.

Two more milestones were reached: in January 1998 when approximately 300 large plants entered the program, accounting for 75 percent of the volume of meat and poultry production in the United States; and in January 1999 when over

2,800 small plants accounting for another 15 percent of meat and poultry production implemented HACCP. Implementation in large plants has been smooth thanks to the efforts of both industry and Government. Large plants had approximately a 92 percent compliance rate during the first 9 months of implementation. Where a few problems did occur, enforcement actions were implemented and establishments responded by modifying and strengthening their HACCP plans. As of January 25, 1999, small establishments, defined as having between 10 and 500 employees, were required to meet the HACCP requirements. All other establishments must implement HACCP requirements on January 25, 2000.

Recent results demonstrate that 90 percent of large HACCP establishments, for which there were adequate data, met the Government's *Salmonella* performance standards. Those establishments that did not meet the standards were required to take immediate corrective action. Data also indicate that there was a significant reduction in the prevalence of *Salmonella* due to the implementation of HACCP. The performance standards for *Salmonella* represent the first time USDA has set microbial standards for raw products on such a broad scale and is the first step towards a greater reliance on performance standards for specific pathogens.

These data, while preliminary, indicate that the Administration's science-based inspection system has already had a significant effect on the safety of food American families eat by reducing the prevalence of *Salmonella*. *Salmonella* is a potentially deadly bacteria that in the past had sickened as many as 3.8 million Americans a year and cost billions of dollars in lost productivity and medical costs annually.

The positive results from the implementation of HACCP underscores the important role Government plays in promoting public health, but the final rule is only part of our overall strategy to improve the safety of our meat and poultry supply. On January 25, 1997, the President announced the National Food Safety initiative. The initiative includes seven components for improving the Federal food inspection system from farm-to-table. Key components include expansion of the Federal food safety

surveillance system, improved coordination between Federal, State, and local health authorities; improved risk assessment capabilities; increased inspection; expanded research, consumer education, and strategic planning. The initiative reflects a high level of coordination among agencies within USDA, the Department of Health and Human Services, and the Environmental Protection Agency (EPA). For 2000, the plan is to build on these investments, which Congress has generously supported in both 1998 and 1999.

For 2000, the budget proposes an appropriated level under current law of \$653 million, a net increase of \$36 million over the 1999 current estimate. The budget includes an increase for pay costs to meet our statutory obligation to provide inspection services and a programmatic increase to implement our farm-to-table food safety strategy. The 2000 budget includes increases to help the FSIS inspection workforce make the transition to a new HACCP environment, including conversion of 388 current inspection personnel and hiring of 250 new personnel as Consumer Safety Officers. In these new positions, these employees will be responsible for conducting scientific testing and inspections through the farm-to-table continuum. Some of these personnel will be redeployed to cover critical inspection vacancies in nearly 3,000 very small establishments. These redeployments and upgrades will increase the professional qualifications of the inspection workforce and cover a broader segment of the farm-to-table continuum. In support of the President's Food Safety initiative, the budget for FSIS includes increases to address food safety risks from farm-to-table, including: emergency response coordination with the States in investigating foodborne illness outbreaks; validation of the ability of State laboratories to meet HACCP pathogen testing requirements; and pathogen testing in Federal laboratories of State-inspected product.

The 2000 budget request includes again this year a legislative proposal which would provide authority to recover the full cost of providing Federal meat, poultry, and egg products inspection. We estimate that this proposal would generate approximately \$504 million in new revenues in 2000 and \$606 million thereafter. The

proposal would require \$149 million in appropriated funding to convert the program to user fees and to maintain State inspection programs. States administering their own inspection programs would continue to be reimbursed by the Federal Government for up to 50 percent of the cost of administering their programs and the special assistance beginning in 1999.

NATURAL RESOURCES AND ENVIRONMENT

Public awareness and concern for the Nation's natural resources has continued to grow as we gain a better understanding of soil and related resource problems and how best to address them. The importance of maintaining a healthy environment and a strong natural resource base becomes even more vital when considering the present economic state of rural America and the uncertainties that will be facing agriculture in the next century. The need to stem the decline of our important prime farmlands and address the problem of urban sprawl will require a greater Federal investment in "Smart Growth" programs. Understanding and demonstrating new methods of mitigating the adverse effects of global climate change on agriculture is another area to which the Federal Government should devote more resources. In addition, the plight of small, limited resource farmers has become more widely known as we begin to appreciate the vital role they play in American agriculture and the environmental and economic challenges that they face.

The Administration has also targeted water pollution as a serious threat to the environment and has demonstrated its commitment to addressing this problem with the publication of the President's Clean Water Action Plan in February 1998. This important document comes 25 years after passage of the Clean Water Act and outlines key Federal actions that will attempt to address the pollution problems of the next generation. USDA is called on to play a significant role in helping to implement this plan.

These initiatives have put more pressure on the Department's unique conservation partnership and has led to an increased demand for financial and

technical services that we provide to farmers and communities: The budget request for 2000 recognizes this and proposes an appropriated funding level of \$866 million for NRCS. This includes \$585 million for conservation technical assistance, the program that constitutes the backbone of the Department's partnership with conservation districts and farmers, as well as the primary tool by which the Department addresses many of the Administration's environmental priorities.

The technical assistance proposal will assist in implementation of the Administration's Clean Water Action Plan and provides \$20 million, including an \$8 million increase, for technical assistance to owners and operators of animal feeding operations (AFO) to help them develop and implement waste management plans. Financial assistance that AFO operators might need to implement the plans will come from a \$126 million increase requested for EQIP which is funded through CCC. NRCS will direct \$20 million to competitive partnership grants to enable locally-based organizations, such as conservation districts or watershed councils, to provide coordination of locally-initiated conservation efforts in problem identification and goal setting. Finally, an additional \$3 million is provided for monitoring work to help target resources and document baseline conditions and performance.

In support of the Administration's Global Climate Change initiative, the budget includes an increase of \$12 million to develop accurate baseline soil carbon data and to determine the impacts of Federal programs on soil carbon stocks at the national, regional and field levels. In addition, NRCS will devote \$3 million to fund demonstration and pilot projects to test various carbon sequestration and greenhouse gas mitigation strategies and monitoring mechanisms.

Another Administration priority is the need to protect productive farmland and preserve open space. The President's Lands Legacy initiative will seek to accomplish this through a \$50 million increase in discretionary spending for NRCS' Farmland Protection Program (FPP). Since funding authority for this program was fully expended in 1998, the NRCS budget also proposes new CCC legislative funding

authority of \$27.5 million. These two sources of funding for FPP will help meet the high demand for this program and ensure that solutions to problems of urban sprawl and loss of prime farmland are achieved.

Rural America is now facing serious economic hardships as a result of the declining farm economy. Nevertheless, farmers must still meet numerous environmental challenges and this places the greatest burden on the smaller operators. To address this, the budget includes \$5 million to more fully implement the Debt for Nature program which will provide technical and financial assistance to financially strapped USDA borrowers who also have lands that require conservation treatment. At a time when many of these small operators are facing foreclosure, this program will offer some financial relief while at the same time implementing state-of-the-art conservation stewardship practices.

Funds will again be limited in the watershed planning and construction area where allocations will be made only to those projects that demonstrate cost effectiveness and clear environmental need. We will also work closely with our partners to get a better understanding of the overall condition of the more than 10,000 project dams that have been installed with USDA funding over the past 50 years. Many of these older projects are now approaching the end of their projected life span and concerns about public safety are being raised. NRCS will devote \$1 million to providing educational assistance to communities on the need to inspect and possibly repair older dams.

Finally, the Department's 2000 budget will continue to support the 315 authorized Resource Conservation and Development areas. This ongoing program will continue to improve State and local leadership capabilities in planning, developing and carrying out resource conservation programs.

RESEARCH, EDUCATION, AND ECONOMICS

The 2000 budget represents the Administration's first comprehensive set of recommendations for investments in agricultural research and related technology since the Agricultural Research, Extension, and Education Reform Act was enacted in June 1998. The Research Reform Act called for a major infusion of funding in research and technology in areas that will enable American agriculture adapt to changing conditions in the global economy and in the domestic production environment. The 2000 budget proposes total funding for the four REE agencies of \$2.1 billion, an increase of over 10 percent from the comparable 1999 level and the first substantial increase for these programs since 1992. Advances in research and technology are the keys to many of the most challenging problems we face in agriculture today and provide the basis for solutions to tomorrow's problems. The proposals put the Department in the ranks of the Federal Government's leading science agencies.

The REE budget proposal reflects the priorities outlined in the Research Reform Act. Mandatory spending of \$120 million in 2000, and \$600 million over the next 5 years is provided for the Initiative for Future Agriculture and Food Systems under Section 401 of the Research Reform Act, for competitive research, education, and extension grants to address critical and emerging agricultural issues. Grants of up to 5 years will be awarded to address priority research topics targeting enhanced agricultural productivity, food safety and human nutrition, and natural resource management. Mandatory funding is also available under the Fund for Rural America, where approximately one-half of the \$60 million total is to be provided for a wide range of research and education activities in 2000.

The 2000 budget of \$881 million for the Agricultural Research Service (ARS) includes a \$51 million net increase for ARS research programs above the comparable 1999 enacted level. Within that total, the agency will fund increases of \$76 million in support of major Presidential Initiatives and other high priority research projects. In addition, \$10 million is provided to partially offset increased pay costs. Of the total

increase, \$35 million will be funded through savings achieved from the termination of lower priority projects at select locations.

The discretionary budget request for CSREES of \$948 million is up by \$24 million or 2.6 percent, with a shift within this total to programs where funds are distributed competitively to address the most critical needs of the agricultural community. The 2000 budget proposes an increase of \$81 million for the National Research Initiative (NRI), a 68 percent increase over the 1999 appropriated level. NRI supports both fundamental and mission-linked research through a competitive, peer-reviewed process that is open to all of the Nation's top scientists, including those at land-grant institutions. The proposed increase will target a wide range of environmental, economic, human health, and nutrition concerns through additional investments in breakthrough research that aims to address the most pressing concerns faced by the agricultural community.

The 2000 budget for the Economic Research Service (ERS) and the National Agricultural Statistics Service (NASS), in total, \$140 million, up \$6 million from comparable 1999 levels. Increases are proposed to support important departmental initiatives while reductions reflect the cyclical funding needs for the Census of Agriculture and the proposal to fund food program studies through the Food and Nutrition Service.

The budget includes \$120 million, an increase of about \$25 million, for REE research and education in support of the President's Food Safety Initiative. Of the total, about \$7.3 million is provided to ARS for pre-harvest food safety research to study animal pathogen resistance to antibiotics, reduce pathogen infestation in animal waste, and examine the risks associated with the transmission of zoonotic pathogens from animals to humans. The ARS budget includes an increase of \$4.4 million for post-harvest research to enhance detection and measurement of microbial pathogens during handling, distribution, and storage of fresh fruits and vegetables to determine the sources of contamination and risks of disease transmission. An increase of

\$3 million provided in the Cooperative State Research, Education, and Extension Service (CSREES) budget for competitive grants for integrated research and extension, food safety activities grants will complement the ARS research efforts. The extension programs carried out by CSREES will provide the necessary training to small retail establishments in helping them to implement HACCP. Additionally, about \$21 million of the total of \$200 million proposed National Research Initiative (NRI) competitive grants will go for food safety related projects. An increase of about \$0.5 million is provided to support activities carried out by ERS in collaboration with other Federal and USDA agencies to assess the costs of foodborne illness and the economic implications of different options to improve food safety. An increase of \$2.5 million is included in the NASS budget for a baseline survey of good agricultural practices of fruit and vegetable growers.

The ARS budget also contains an increase of \$8 million for research to reduce the incidence of emerging diseases and exotic pests that threaten the safety and competitiveness of the U.S. food supply at home and abroad. Of the total, about half will be used for developing diagnostic tests, vaccines, and other preventive measures to control emerging and infectious diseases afflicting animals. The remaining amount is provided for research on emerging and exotic plant diseases, insects, and weeds that negatively impact crop quality and yield.

An increase of \$3 million is provided in the ARS budget for genetic research aimed at enhancing U.S. agricultural competitiveness by improving the quality of plant and animal food products. The increase is provided to enhance crop production through research on genetic vulnerability of plants to pests and diseases and to improve the quality and safety of animal products through more accurate information on genes responsible for animal diseases and parasites.

The ARS budget also includes a \$20.3 million increase in support of the President's Human Nutrition initiative. The overall goal of the initiative is to promote

health and reduce health care costs by identifying the relationship between diet and health and to improve the scientific basis for more effective food assistance programs.

An increase of \$3.0 million will support the development and application of new technology and management practices to replace the traditional pest controls that are at risk of being restricted or prohibited due to the Food Quality Protection Act of 1996 (FQPA). Of the total, about half of the amount is provided for technical and administrative support to the Office of Pest Management and Policy which is responsible for coordinating all pest control activities in the Department and collaborating with EPA on all pesticide-related issues. Additional funding is also provided in the CSREES budget in support of FQPA, including \$10 million in new funds for long-term development and implementation of innovative pest management systems for major acreage crops, fruits, and vegetables, and \$3 million in new funds for the development of alternative pest controls for fruit and vegetable crops to replace the pesticides at risk of not meeting the new regulatory requirements. The budget includes a proposal for a new \$5 million program of integrated research and extension grants for development of practical management alternatives and technologies for commodities affected by the methyl bromide phase-out.

Additional funding is also provided for a number of programs aimed at preserving the Nation's natural resource base. An increase of \$11 million is provided in the ARS budget for research and development of viable management strategies to achieve sustainable ecosystems. Specific efforts will include reducing nutrient build-up and transport to control hypoxia and harmful algae blooms, developing an Integrated Pest Management system for invasive weeds such as melaluca, leafy spurge, and yellow star thistle, and developing integrated strategies and technologies for conservation and restoration of ecosystems.

An increase of \$15 million is provided for ARS global change research activities, with particular emphasis on utilizing management and conservation strategies to store carbon in soil, mitigating the impacts of climate change on

agriculture and food availability, and developing new technology for predicting effects of global change on management and conservation of natural resources. The ERS budget is increased by \$1 million for global climate change work, including identifying the economic implications of various alternatives for reducing greenhouse gases. Funds are also proposed to support USDA participation in the U.S. Global Change Research Program National Assessment activities in which several agencies collaborate to provide better understanding of potential climate changes for the Nation and to examine options for adaptations to these changes. An additional \$2 million is provided for ARS research to develop measures to control particulate matter in compliance with EPA's new ambient air quality standards mandated by the Clean Air Act.

An increase of \$2 million is proposed in the ARS budget so that the National Agricultural Library can enhance the availability and delivery of information to rural areas through the Internet. Additional support is provided to land-grant universities to establish "Centers of Excellence" on subjects of critical importance to the agricultural community, including food safety, pest management, water quality, and agricultural productivity.

The budget also includes \$45 million for facility construction and modernization projects at 7 ARS locations; a reduction of \$12 million from 1999. Of the total amount, \$13 million is provided to support the first phase of a new addition to the Beltsville Human Nutrition Research Center and other small projects at the Beltsville Agricultural Research Center. Additional funding is also provided for modernization projects at ARS regional research centers, including \$6 million for the Southern Regional Research Center at New Orleans, Louisiana; \$4 million for the Eastern Regional Research Center at Philadelphia, Pennsylvania; \$3 million for the Western Regional Research Center at Albany, California; and \$2 million for the National Center for Agricultural Utilization Research, at Peoria, Illinois. Additional funding totalling

\$8 million is also provided for continued modernization of the Plum Island Animal Disease Center in New York and \$9 million for construction of a relocation facility for the Western Human Nutrition Research Center in Davis, California.

Increases are also proposed in the CSREES budget for two innovative efforts to empower communities to reduce hunger and improve nutrition at the grass roots level. One of my highest priorities as Secretary is fostering partnerships between the public, private, and non-profit sectors to improve community food security, help individuals move towards self-sufficiency, and increase the amount of excess, wholesome food that is distributed to hungry Americans rather than discarded. Such coordinated efforts are particularly important at a time when nonprofit feeding organizations throughout the Nation are reporting an increased demand for food, particularly among working poor families. For these reasons, \$776,000 is proposed to increase technical assistance to local anti-hunger and nutrition activities. In addition, as part of that initiative, \$15 million is requested to increase the amount of excess food distributed by nonprofit feeding organizations by awarding grants to expand community infrastructures for food recovery and gleaning activities. The goal is to increase food recovery by 33 percent or 500 million pounds, which would provide approximately 500,000 low-income individuals with 3 pounds of nutritious food a day. An increase of \$2 million above the 1999 level is also proposed to support nutrition education programs aimed at assisting individuals below poverty levels in improving basic nutrition and resource management practices.

An increase \$4 million is proposed in the CSREES budget for competitive research, extension, and education grants to support the Small Farms initiative. The main goal of the Initiative is to enhance agricultural production on small farms by developing and facilitating networks between small farmers and trained professionals in the public and private sectors.

Stable funding is provided for CSREES' higher education programs to continue ongoing efforts to support graduate and undergraduate education aimed at improving

instructional capabilities in food and agricultural sciences. Funding is also held constant for the 1890 Capacity Building Grants Program which supports partnerships between the 1890's Historically Black Colleges and Universities and USDA agencies to improve research and instruction programs at these schools. The budget also continues to support the recommendations proposed by CRAT. Proposed increases include an additional \$4 million for 1890 facilities projects for building renovation and construction, an increase of \$3 million to support 30 additional extension agents on Indian reservations in 19 States, and an increase of \$1.4 million to expand extension capacity at the 30 Native American land-grant institutions.

In addition to the food safety and global climate change increases noted previously, the ERS budget includes increases to support economic analysis on other priority issues. The budget includes additional funds to enhance commodity market analysis, particularly through alliances with the land-grant university system, and electronic dissemination of this and other ERS analysis to producers, processors, and others that use the information. An increase is also included to assess the varying information needs of different types of farming operations, how well USDA and private information services meet the needs of small farmers, and what modification of the Department's current information programs are needed to better serve small farmers. Finally, an increase is provided to support research on electric utility deregulation in order to assess the potential impacts of deregulation on the competitiveness of rural businesses, communities, and households.

The National Agricultural Statistics Service (NASS) is also an important source of information that is relied upon by a wide range of participants in the agricultural economy. The changes brought about by the 1996 Farm Bill make reliable and timely information about production, supply and prices even more critical to participants in agricultural markets. The budget request for NASS reflects a net decrease of \$3 million, which includes a \$9 million reduction due to the cyclical funding needs of the Census of Agriculture. The budget includes increases for a number of priority NASS efforts.

An increase is included to establish a permanent office in Puerto Rico in collaboration with the Puerto Rico Department of Agriculture to enhance collection of agricultural-related data. Funding is requested to conduct the decennial Agriculture Economics Land Ownership Survey which provides comprehensive data that are used to assess changes in farm structure, farm financial health, land ownership patterns, and landlord contributions to agricultural production. An increase is included for increased data collection to assist in the setting of safe pesticide use standards and in defining good agricultural practices to promote food safety. Lastly, an increase is requested to expand coverage of the program to measure chemical usage on cropland -- information vital to understanding stresses on cropland and environmental changes.

MARKETING AND REGULATORY PROGRAMS

The Marketing and Regulatory Programs facilitate domestic and international marketing of U.S. agricultural products by: (1) reducing international trade barriers and assuring that all sanitary and phytosanitary requirements are based on sound science; (2) protecting domestic producers from animal and plant pests and diseases; (3) monitoring markets to assure fair trading practices; (4) promoting competition and efficient marketing; (5) reducing the effects of destructive wildlife; and (6) assuring the well-being of research, exhibition, and pet animals. Consumers, as well as farmers, ranchers, handlers, processors, and other marketers in the agricultural sector, benefit from these activities.

The budget includes an increase of \$13 million for the Agricultural Marketing Service (AMS) for a number of important activities. It would be used to: (1) expand market news reporting; (2) finalize the National Organic Program; (3) enhance the rapid response capability of the Pesticide Data Program (PDP) necessary to support the Department's responsibilities to meet EPA's data requirements for agricultural pesticide residues under FQPA; and (4) expand the operating program for microbiological testing of fruits and vegetables to support the President's Food Safety initiative.

For the Animal and Plant Health Inspection Service (APHIS), the budget proposes a number of significant changes in priorities, but only a \$10 million overall increase in appropriations for the salaries and expenses account. Program successes in *brucellosis* eradication will allow a redirection to higher priority activities such as improved animal and plant health monitoring to reduce the likelihood of dangerous and costly infestations. APHIS anticipates that all 50 States will reach *brucellosis* Class "Free" Status by the end of 1999. The budget proposes increased cost sharing from beneficiaries of Wildlife Services activities, particularly in States which support less than half of the program costs. Also, savings in the APHIS budget for boll weevil eradication can be achieved because FSA has established a successful loan program to assist producer-operated foundations to eradicate this menace to our agriculture. These reductions enable budget priorities to increase in the following areas: (1) detection and exclusion of pests and diseases including fruit flies, emerging plant pests, invasive alien species and Agricultural Quarantine Inspection at the borders where upwards of 85 million passengers potentially carry banned agricultural products into the United States; (2) more timely and accurate surveillance information on animal health; (3) emergency preparedness against acts of bioterrorism; and (4) important data gathering and risk analysis used in negotiations concerning sanitary and phytosanitary trade barriers and restrictions on genetically engineered products entering world markets. In addition, legislation will be proposed to increase license fees on the entities regulated under the Animal Welfare Act to recover the field level costs of administering the Act and to increase biotechnology permit fees to recover the cost of providing such services.

The budget requests no net increase for the Grain Inspection, Packers and Stockyards Administration. The one-time appropriation of \$2.5 million in 1999 to restructure the Packers and Stockyards (P&S) activities is being used to strengthen P&S programs' ability to investigate anti-competitive practices and provide greater flexibility and efficiency in enforcing the trade practice and payment protection provisions of the Act. In 2000, a similar amount of funds would be used to:

(1) hire additional staff to monitor and analyze packer competitive practices and the implications of structural changes in the meat packing industry; (2) expand poultry compliance resources; (3) install electronic filing equipment to reduce financial reporting costs for stockyard owners and packing house operators, (4) develop new cost-saving methods of grain inspection, (5) develop specific tests for grain varieties, and (6) develop automation techniques for mycotoxin testing. Legislation for new license fees from livestock marketing firms will be proposed to recover the cost of administering the Packers and Stockyards Act and to increase fees for grain inspection to recover the cost of developing grain standards.

DEPARTMENTAL MANAGEMENT ACTIVITIES

Although few support activities have high visibility, they are, nevertheless, vital to USDA's success in providing effective customer service and efficient program delivery. The 2000 budget proposes a number of increases for USDA's central offices and management functions to strengthen Departmentwide management oversight, leadership, coordination, and administrative support in keeping with the Department's Strategic Plan Management Initiatives to: ensure that all customers and employees are treated fairly and equitably, with dignity and respect; improve customer service by streamlining and restructuring the county offices; create a unified system of information technology management; and improve financial management and reporting.

The request reflects a number of priority funding increases to continue activities to improve civil rights enforcement throughout USDA. In recent years the Congress has increased funding specifically for civil rights activities within Departmental Administration. I appreciate this support and these activities will continue. The 2000 budget includes an increase of \$3.9 million to build on these improvements. I want to be sure that we have the necessary resources to meet our Strategic Goal of ensuring that all employees and customers are treated fairly and equitably with dignity and respect. The funds will support additional staffing in the Office of Outreach to strengthen and expand leadership and coordination capabilities and expand outreach

to minority and limited resource farmers; additional staffing for the Office of Civil Rights to handle increased workload in discrimination complaints and enhance complaints tracking to provide increased accountability; and additional staffing for the Office of Small and Disadvantaged Business Utilization to support an ongoing project to create new jobs in rural America.

The budget also includes an increase of \$7 million for the Department's Socially Disadvantaged Farmers Outreach Program. The program, authorized by Section 2501 of the Food, Agriculture, Conservation, and Trade Act of 1990, is designed to assist socially and disadvantaged farmers and ranchers in participating in USDA programs and be successful in their operations by providing outreach and technical assistance. The proposed increase will enable support of approximately 35 projects that will serve more than 10,000 small producers with the goal of turning them into solvent enterprises and stemming the continual reduction of the number of minority farmers and ranchers.

The challenge of providing improved customer service with improved efficiency as resource constraints are tightened remains a major focus of the Department's county-based agencies including FSA, the RD mission area, and NRCS. An initial administrative convergence plan has been developed to create the Support Services Bureau (SSB) which combines the administrative structures of these agencies into one unit to deliver better services to local customers and employees, provide a new consistency in administrative policy and operations, make better use of limited resources, and help preserve limited budget resources for program delivery. Thus, the budget includes funding for the new consolidated organization, SSB, to provide administrative services, including information technology activities, to these agencies. The salaries and expenses of the new bureau will be financed through direct appropriations and transfers from the serviced agencies.

The new SSB will support the Department's ongoing Service Center Implementation initiative. In 2000, a total program level of \$90 million is proposed to

continue Service Center Implementation activities, including further development and implementation of the common computing environment (CCE). One of the keys to success of improved customer service, while streamlining the field structure, is the replacement of the aging business and technology systems of the field service agencies. A collective re-engineering of business processes for administrative services and program delivery is underway, along with testing information technology alternatives. Common information shared by the partner agencies will reduce the redundant requests made of program participants, as well as customer office visits and paperwork burden, and ease workload for internal staff. CCE will enable the county-based agencies to: optimize the data, equipment, and staff sharing opportunities at the USDA service centers; overcome the extreme limitations of the current legacy information systems; and enhance customer service.

The Office of the Chief Information Officer (OCIO) provides policy guidance, leadership, and coordination in USDA's information management and technology investment activities. The proposed increase for 2000 includes \$2.4 million to enhance USDA's infrastructure security and OCIO's emergency response capabilities; continue oversight of the Department's Service Center Implementation initiative; and continue implementation of critical Clinger-Cohen activities including further development of the Department's Information Technology Capital Planning and Investment Control program, the USDA Information Architecture, and workforce planning activities to ensure USDA maintains a highly qualified IT workforce.

Supplemental funding of \$37.8 million was provided to OCIO in 1999 to support an aggressive program of remediation activities to address Year 2000 computer and embedded chip problems in the Department. I appreciate this support provided by the Congress and we are diligently working to ensure uninterrupted delivery of USDA programs and services in 2000.

The Office of the Chief Financial Officer provides overall direction and leadership in the development of modern financial management structures and

systems in the Department. The budget proposes an increase of \$2 million to restore the Department's financial credibility and accountability including successful implementation of legislative mandates such as the Government Performance and Results Act, debt collection and cost accounting. Increases in the Department's Working Capital Fund will enhance implementation of our new USDA-wide financial accounting system.

The Office of the General Counsel (OGC) provides critical legal support and advice to the Department and its agencies. An increase of \$3.5 million is proposed to strengthen OGC's ability to provide timely response to requests for legal assistance, especially in the areas of trade practices, natural resources, and general law. Funds are also included to provide information technology improvements to enhance the efficiency of the office.

The Department's Office of Communications (OC) plays a critical role in disseminating information about USDA's programs to the general public. The request includes an increase of \$1.2 million to enable OC to utilize new technology to reach audiences in a more timely and effective manner, and to lead Department-wide communications outreach efforts to reach underserved populations.

The request includes additional funds to continue the ongoing implementation of the USDA Strategic Space Plan for the Washington Metropolitan area. This plan has been tailored to meet the needs of USDA based on the projected staff levels at the Washington Headquarters and to provide a safe, efficient workplace for our employees. Occupancy of the Beltsville facility is scheduled to be completed during 1999. The work required in the renovation of the South Building includes fire protection systems, abatement of hazardous materials such as asbestos; replacement of old, inefficient heating, ventilation and air conditioning systems; upgrade of electrical and plumbing systems; improved accommodations for disabled persons; and accommodation of modern telecommunications systems. The construction contract for Phase 1 of the modernization was awarded in July 1998. The design for Phase 2 is

substantially complete and the 2000 request includes funds for the construction of Phase 2.

The Department's Hazardous Waste Management program provides leadership and funding for compliance with the requirements of the Comprehensive Environmental Response, Compensation, and Liability Act, the Resources Conservation and Recovery Act, the Oil Pollution Act and the Pollution Prevention Act for facilities and lands under USDA's jurisdiction. An increase of \$7 million is requested to minimally comply with necessary investigative and cleanup activities to protect human health and the environment and support increased efforts to identify and bill other responsible parties in the cleanup of hazardous waste sites.

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) conducts and supervises audits and investigations relating to programs and operations of the Department, reviews and makes recommendations on existing and proposed legislation and regulations, and recommends policies and activities to promote economy and efficiency and to prevent and detect fraud and mismanagement in USDA operations. The budget includes an increase of \$3.1 million to maintain these activities and enhance the information technology capabilities of OIG.

That concludes my statement, I am looking forward to working with the Committee on the 2000 budget so that together we can meet the needs of our clients.

USDA Biographical Sketch

Dan Glickman
Secretary of Agriculture



Dan Glickman was sworn in as the 26th U.S. Secretary of Agriculture on March 30, 1995. Prior to his confirmation, Glickman served in the United States House of Representatives for 18 years, representing Kansas' 4th Congressional District.

Widely recognized as a leading spokesman for American agriculture, Glickman brought to his Cabinet post the experience gained from nearly two decades on the House Agriculture Committee, including six years as chairman of the Subcommittee on General Farm Commodities and its predecessor, the Subcommittee on Wheat, Soybeans, and Feed Grains. In addition to his work on farm bills in 1977, 1981, 1985, and 1990, he led the way in such areas as

expanding trade in agriculture goods and food safety.

Glickman was the original author of the House legislation to reorganize the USDA, and after becoming Secretary, helped to downsize and streamline the Department as part of the Clinton Administration's Reinventing Government/National Performance Review. By 1999, under the leadership of the President and Glickman, USDA's reorganization will save \$4.1 billion, reduce staff by more than 13,000, cut the number of agencies from 43 to 30, and create convenient one-stop service centers.

As Secretary, Glickman has focused on such areas as food safety, expanding export opportunities, rural development, protecting our natural resources, and maintaining a nutritional safety net for those in need. Under Glickman's leadership:

- USDA is dramatically improving food safety for all Americans through the most sweeping overhaul of meat and poultry inspection in ninety years—the Pathogen Reduction and Hazard Analysis of Critical Control Points (HACCP) Final Rule.
- Farm income has increased and commodity prices for U.S. agricultural products rose to record levels.
- U.S. agricultural exports are expected to reach a record \$60 billion for FY 96; in addition, the number of agricultural jobs is increasing, forecast to reach nearly 200,000 by the year 2005.
- USDA launched actions to improve competition in livestock markets through new price reporting initiatives, which assure that timely information—vital to a fair and competitive marketplace—is available on a level playing field.
- USDA supports education and increased employment for farmers and other rural Americans through Clinton Administration-designated rural enterprise communities and rural empowerment zones. These areas receive special consideration for various federal programs and other assistance, including job creation, business development, and job training.
- The national school lunch and breakfast programs had the first major reform in fifty years. School meals that now meet federally established Dietary Guidelines for Americans will improve the long-term health of our children and save taxpayers between \$4.4 billion and \$26.5 billion over 20 years.

- Rural Americans are raising their standard of living through Clinton Administration initiatives to improve housing, upgrade education, assure access to running water and health care, and rebuild the infrastructure in small towns, and provide access to advanced information technology.
- USDA is helping to pioneer new uses of technology to boost the economies of rural communities.
- USDA is leading national food recovery efforts to help feed the hungry by saving and providing food that would otherwise be wasted.
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Glickman also is a strong supporter of preserving our national heritage—our natural resources—through policies that balance economic growth and environmental protection. USDA-managed national forests will generate more than \$130 billion for America's economy by the year 2000.

Glickman's career in the House also encompassed a two-year term as Chairman of the House Permanent Select Committee on Intelligence, making him the first full committee chairman from Kansas in 40 years. As chairman, he pursued policies to "de-mystify" the intelligence community by holding open hearings, pushing the intelligence community to publicly explain its functions in the post-Cold War era, and reducing the number of classified documents. In addition, Glickman launched a major committee investigation into the Aldrich Ames spy case. Glickman also worked to make reasonable reforms in general aviation product liability laws, strengthen lobbying disclosure laws, and develop effective ways to combat crime. He was also the author of legislation increasing penalties for the destruction of religious property.

Prior to being elected to Congress in 1976, Glickman served as President of the Wichita, Kansas, School Board; was a partner in the law firm of Sargent, Klenda and Glickman; and served as a trial attorney for the U.S. Securities and Exchange Commission. Glickman received his B.A. in history from the University of Michigan and his law degree from The George Washington University. He married Rhoda Yura of Detroit in 1966. They have two children, Jon, 27, and Amy, 24.

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USDA Biographical Sketch

Richard Rominger

Deputy Secretary of Agriculture

Richard E. Rominger was nominated for the post of Deputy Secretary of Agriculture by President Clinton, and sworn in on May 12, 1993.

As Deputy Secretary, Rominger assists the Secretary in supervising the activities of the U. S. Department of Agriculture, one of the largest and most diverse departments in the federal government. USDA's mission includes management of traditional farm programs, conservation programs, domestic food assistance, research and education, agricultural marketing, international trade, meat and poultry inspection, forestry and rural development. Rominger has also had responsibility for USDA's budget, reorganization and downsizing.



Rominger is a California farmer who worked with his brother, sons and nephews to raise alfalfa, beans, corn, rice, safflower, sunflowers, tomatoes, wheat and other crops near Winters, California. He headed the California Department of Food and Agriculture from 1977 to 1982. During that period, he served as president of the Western Association of State Departments of Agriculture and the Western U. S. Agricultural Trade Association. He also was on the board of directors for the National Association of State Departments of Agriculture.

Rominger served on the board of the American Farmland Trust from 1986 to 1993 and has been active in a number of professional agricultural organizations concerned with soil and water policy, education, research and development and marketing.

He was selected Agriculturist of the Year at the California State Fair in 1992, and throughout his career has received numerous other awards including the Distinguished Service Award by the California Farm Bureau Federation in 1991.

Rominger received a Bachelor of Science Degree in plant science summa cum laude from the University of California at Davis and is a member of the agricultural honorary society of Alpha Zeta. He is married to the former Evelyne Rowe. They have four children, Rick, Charlie, Ruth and Bruce.

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USDA Biographical Sketch

Keith J. Collins

Office of the Deputy Secretary: Chief Economist



Mr. Collins was recently named Chief Economist of the U.S. Department of Agriculture and is responsible for the Office of the Chief Economist, the World Agricultural Outlook Board, and the Office of Risk Assessment and Cost Benefit Analysis. Keith was formerly Acting Assistant Secretary for Economics which included responsibility for the Economic Research Service and the National Agricultural Statistics Service. As Acting Chief Economist, Mr. Collins is responsible for the Department's agricultural projections and forecasts and advises the Secretary on economic implications of alternative programs, regulations, and legislative proposals. Mr. Collins, a member of the Senior Executive Service, received the Presidential Rank Awards in 1990 and 1992.

Mr. Collins, a native of Connecticut, holds degrees from Villanova University and the University of Connecticut and a Ph.D. in economics and statistics from North Carolina State University. He has been employed by USDA for 19 years.

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BIOGRAPHICAL SKETCH**Stephen B. Dewhurst**

Stephen B. Dewhurst is currently Director of the Office of Budget and Program Analysis and Budget Officer for the U.S. Department of Agriculture.

Mr. Dewhurst:

- **Has provided over 30 years of service to the U.S. Department of Agriculture serving in a number of positions as a program and budget analyst for a variety of USDA programs;**
- **Became a charter member of the Federal Senior Executive Service in 1979 and has received presidential recognition as an outstanding senior executive on four occasions from President Carter (1980), President Reagan (1986), President Bush (1991), and President Clinton (1996);**
- **Is a national board member and past president of the American Association for Program and Budget Analysis--he received this organization's award for distinguished national service in 1991;**
- **Served in the Judge Advocate General's Corps of the U.S. Army during 1968-1970 and was awarded the Army Commendation Medal for his outstanding service.**

Mr. Dewhurst is a native of New York City. In 1964, he received a Bachelor of Arts Degree in Political Science from the George Washington University and in 1967 he received a Juris Doctor Degree from the same University.

Mr. Dewhurst is a member of the D.C. Bar and the American Bar Association.

He presently resides with his wife, Miriam and his two sons in Falls Church, Virginia.

Mr. SKEEN. Well, thank you very much, Mr. Secretary. And let me say it's not a pretty picture out there, but what we've concentrated on and your report concentrates on are the things that we can do rather than what we can't do. And it's too late to assess where the problems started. We're going to have to deal with them because it is a tremendous problem. And we would like to share the effort of trying to get ourselves over this hump. And I think you've made a great outline of what kind of help is available to us, but we've got to put the wherewithal together to make it work. We appreciate that very much.

I would like to say right now to Mr. Obey to recognize that we've not choked you down. We had ordered more room for the dais and it hasn't gotten here yet. So if you fall off the end over there, help is on the way. [Laughter.]

Ms. Kaptur.

STATEMENT OF MS. KAPTUR

Ms. KAPTUR. Thank you, Mr. Chairman. I just wanted to acknowledge now that our membership is here. I just have to say what a marvelous subcommittee this really is, and on both sides of the aisle, we have many new members joining us. And I wanted to say how thrilled we are that I think every one of our members now represents both production agriculture, as well as some metropolitan areas. This is just a marvelous, marvelous opportunity. And I want to welcome my new colleagues certainly on this side of the aisle but also on the other. And there will be no more harder working subcommittee in this Congress than this one. And, frankly, the country needs it right now in this arena.

SUPPLEMENTAL APPROPRIATIONS

Mr. Secretary, I noted in your testimony that you were a bit unclear on your intention as to whether you would send a supplemental. Could you discuss that in a little more detail? We have information from a number of our members about the lack of operating loans, the Farm Service Agency backups across the country. We have severe problems in some of our industry, such as pork, cattle, and others. Could you clarify a bit what the administration's intention on a supplemental is this Spring please?

Secretary GLICKMAN. Well, we haven't made a formal request to OMB yet for a supplemental. However, it is my judgment that there are a couple of pressing needs that will require a supplemental. So my belief is one will be sent up, but I don't have anything formal to offer you right now except to tell you that there are several areas that we are looking at. The big one is in farm loans. While the funding for farm loans increased from \$2 billion last fiscal year, or Fiscal Year '98 to \$2.8 billion in '99, to \$3 billion this year, the demand is just out-running it, largely because people are coming to us, particularly on the guarantee side because the banks want the guarantee because the farm economy is not quite as stable. On the direct side, because we are the lender of last resort, we're getting more attention than ever. My belief is we're going to need as much as about a billion dollars in additional loan authority. The budget cost for that would be about \$100 million under

standard practices. My belief is that a request at some point hopefully soon will be sent up along that line.

We also have some needs in emergency conservation, watershed, and rural development work related to disasters, in Puerto Rico and elsewhere. But most of these are natural disaster related. They kind of follow previous supplementals. We are also reviewing the salaries and expense needs of both the Farm Service Agency and NRCS. You know, we're talking about well over a million, maybe getting close to two million LDP applications, projection of zero two, three years ago; and we also have technical assistance needs under the conservation reserve programs and conservation reserve enhancement programs. There may be a need for additional salaries and expenses. But that, again, I would say no final decisions have been made. Clearly, farm loans is the one area that would be the most immediate pressing need.

EMERGENCY FEEDING PROGRAMS

Ms. KAPTUR. Thank you for that clarification. Mr. Secretary, I would also encourage you I think your present budget request includes some additional funds for TEFAP for emergency feeding programs. And I would also in order to relieve some of the over-supply in the market, urge you to look closely at all of our feeding as well as our programs that deal with the export of our food to other countries. We have an incredible surplus. And I know that you have increased some of your purchases to school lunches and so forth for the pork industry I believe. It's a small amount in view of what's out there, but I think we could do better.

I have a question I'll submit for the record if I don't have time to ask it on our Welfare to Work program and the backup at many of our domestic feeding kitchens, which is unbelievable. And so it seems to me that we can do a lot through this budget to both help our farmers and the current market situation, as well as meet social purposes.

PORK SITUATION

I wanted to concentrate for a moment, if I might, on the pork situation. I don't think I'm the only one xenophobic on this coming from Ohio. But without question people are producing below the cost of production, and they can't get their money out of this market. On the other hand, companies like IBP where many of our producers have to drive their products, drive their animals, reported that their fourth quarter earnings jumped to \$92 million, more than four times the \$22 million posted a year earlier. So at the same time hog prices were at depression levels, the retail prices remained level. And the processors, of which there are very, very few at this point, certainly in our part of the country, seem to be doing quite well.

Mr. Secretary, I wanted to ask you what is the Department doing to assure that the retail prices more accurately reflect the prices paid to farmers, the production price? What has happened to the administration's initiatives on concentration in that particular industry?

Secretary GLICKMAN. Well, first of all I would say that when pork prices got as low as 8 or 9 cents a pound in December, and

in real terms that put them below depression era prices, we did the things that we could do under the law. I bought a lot of pork for the school lunch program, for other commodity programs. We added pork to our export programs. I created a pork task force. We targeted USDA purchases to hogs slaughtered on weekends to increase the number of hogs slaughtered because the demand for pork was up. It's not as if there is lower demand either at home or on the export side. A lot of it has to do with a constriction because we did not have enough slaughter capacity. It has created a dislocation. We also accelerated the voluntary pseudo-rabies eradication program, which is a disease that hogs can get and it was going to take us several years to do it. Now, we're going to do it in six months to get rid of all of these hogs that might be infected with this disease which would also take hogs off the market and help us on our export side of the picture.

I also I announced a \$50 million program to aid hog producers by providing direct payments to hog producers targeted to small producers.

The market for hogs is now up to 25, 30 cents a pound, roughly. It's still not at a break even point, but it's up. The market has gone from about 8 cents to about 30 cents a pound. The future's market looks better than that. But, that is still a long ways away.

I continue to have great concerns about the structure of agriculture, particularly in the livestock industry, particularly poultry, hogs, and cattle. The cattle industry is little different than poultry and hogs in terms of the nature of marketing arrangements. We have asked for some additional money for us to do work under our Packers and Stockyards Act enforcement. There's a lot of interest for the Justice Department to become much more actively involved in terms of enforcing antitrust laws. But, clearly, this is an area where to date we have not, as a matter of Government policy, been able to stop the movement toward concentration and consolidation in all of agriculture, but particularly livestock agriculture. Now there are many reasons for this. It's a complicated situation. But I'm also very concerned about it because what I think happens is it increases volatility. So when markets move down, they move down much faster, and they don't tend to move up faster, but they do tend to move down faster.

With respect to the retail price spread, I have met with the retailers. We've done some jawboning in this area. There have been some efforts, some successful efforts by some retailers, but the spread is not as great as one would like to see. All I can say is that in the Department this remains a very high priority for all of us, and we're still looking at it. I may have some announcements in the next few weeks on other things that we can do in this area.

MARKET CONCENTRATION

Ms. KAPTUR. I want to give other members a chance to ask questions, but I did just want to comment, and then I'll let others ask. And I'll wait for a second round. In my part of the country, we have all the industries you've just ticked off. All the livestock, certainly the poultry. And what has tended to happen is the total disappearance of all slaughter facilities, other than the large ones, the really big ones, not even in our State any more. And then what appears

to happen is with the retail stores, the disappearance on the shelves of any locally produced products, the latest being eggs. When AgriGeneral, Kroger Company stopped purchasing Hertsfeld eggs and Zwyer eggs, some of our local producers used to have those as well as the poultry that went on the shelves.

I can understand the retail stores desire to have a uniform product, and the more they can purchase, you know if they can purchase a million eggs from a big industrial poultry company, they probably want to do that. But it seems to me that there ought to be concomitant efforts on the part of the Department to provide ways to help organize farmers institutionally.

We've talked to Under Secretary Jill Long-Thompson about this, on the cooperative side, that if they're producing hogs and you've got a group of farmers that can bring 5,000 hogs in a given period of time to market, that there ought to be a way for them to have their own slaughter facility to pledge some of the assets that they have because it seems in a way you can't fight that battle. Hopefully the Justice Department will get into it, but what I don't sense is within the Department the same kind of attention and budgetary sense to help those that do want to work together to try to provide product who are literally being excluded from market having the kind of developmental assistance, the kind of business assistance that one really needs and it is desperately needed in our part of the country.

So I just wanted to put that on the record, and I will pay particular attention to the Under Secretary's budget and to see what's there, there's greater sensitivity there. I see in the Farmer's Market here a proposal, a little bit extra attention so these people still have some place to bring product to market.

And, again, Mr. Secretary, I would just encourage you in the nutrition programs, which consume 60 percent of your budget, to even increase your efforts to see how the purchasing practices, which are generally just given to the State to do whatever they wish with Federal dollars, to be more focused on purchasing product from those that produce, not just from those that supply product. And this has been a long-term struggle.

Secretary GLICKMAN. Actually, I would like to just tell you that we are encouraging our schools and our other programs to buy locally produced product. That's actually a fairly new program that is moving into much higher gear now than we've had for some time.

Ms. KAPTUR. I thank you very much.

Mr. SKEEN. Thank you, Mr. Secretary, I would also like to have you put on your list sheep, lambs, and wool. I don't know why I would ask you to do that, but we're having a terrible time with them.

At this time, I would like to go out of the ordinary regimen that we use in recognition and recognize Mrs. Emerson, who is a new member of our panel. I have this extraordinary privilege of welcoming you here. You may ask your questions.

STATEMENT OF MRS. EMERSON

Mrs. EMERSON. Thank you, Mr. Chairman. First of all, thank you very, very much for giving me the honor of serving on this sub-

committee. I really look forward to working with you and Ms. Kaptur on issues that you have both done remarkably—have taken remarkably strong leadership roles on. And so I thank you very much for having me be here.

And, Mr. Secretary, thank you for all that you do and all that we hope you will do, and for coming today.

EMERGENCY LOANS AT FSA OFFICE

Mr. Secretary, this morning I learned that farmers in my district can no longer get EM loans at their FSA office. This loan account has been depleted. And according to my information, we've got about 222 loans in the pipeline. Only 35 of our EM loans have been funded, which I guess that means about 85 percent of the EM loans are going to go unfunded. Now, obviously, this is an emergency situation that absolutely needs to be tended to immediately. Will your supplemental request include more EM loan funding as well?

Secretary GLICKMAN. Yes.

TRADE SANCTIONS

Mrs. EMERSON. Okay. I appreciate that because it's really very important. I want to move on to the issue of trade just for a second, particularly with regard to trade sanctions. It's my understanding that we've got trade sanctions, agriculture food trade sanctions, on about 120 countries right now. In the past, I thought it was about 61, but we've been told by the Farm Bureau that it's about 120 trade sanctions, more than half of which have been implemented in the last four years. Do you know or do you have estimates as to how much these sanctions may cost our farmers in lost sales?

Secretary GLICKMAN. Well, first of all, I think the actual number is closer to about a half-dozen countries, including North Korea, Cuba, Libya. I am told by our people that it reduces our exports by about \$500 million out of a number in excess of \$50 billion.

Now that doesn't mean that we shouldn't be evaluating our sanctions policy, and we did last year with respect to Pakistan and India. But the fact of the matter is that we are not prohibited from selling agricultural commodities except in about a half-dozen countries.

Mrs. EMERSON. Okay. Well, then the Farm Bureau must have its information wrong, but they do, in fact, suggest that there are about 120. Can you then, for those—

Secretary GLICKMAN. By the way, some of that may be sanitary or phytosanitary measures. You know, there may be problems, for example, we can't get our wheat into China because of the TCK problem, which we think is wrong on their part. I don't know if they count that or not, but the sanctions affect about a half-dozen countries.

Mrs. EMERSON. Can we ask them, because it is, obviously, income—any lost income to our agricultural sector is terribly critical right now. I'd like to ask you to become an advocate on this issue to try to get these sanctions removed. Certainly, food has not proven to be a good foreign policy tool. We learned that from the Soviet grain embargo in 1980.

Secretary GLICKMAN. Generally speaking, I agree that food should not be used as a weapon. But with respect to a lot of these

countries, like Cuba, Iraq, Iran, North Korea, these are political decisions made by administrations and Congresses as to who we want to sell food to and who should be barred from getting food. Some of these decisions are made beyond my pay grade.

But, at the same time, I recognize that, as a general proposition, food is in the humanitarian category, and we ought to do what we can to see that food not be restricted.

P.L. 480, TITLE I

Mrs. EMERSON. Okay, just one other quick question about trade in general. I noticed that you all proposed to cut to some extent the EEP program, as well as P.L. 480, Title I, in the Fiscal Year 2000 budget, at least according to my review of it. Given the importance of trade, I wonder why those have been cut.

Secretary GLICKMAN. Perhaps Mr. Dewhurst may want to talk a little bit about it, and then I would mention it after he is finished.

Mr. DEWHURST. Well, you are correct; the P.L. 480 budget and the section 416(b) budget are both down a bit in the year 2000. There are two reasons for that. One is because we are running very large programs in Fiscal Year 1999. The administration has added \$850 million to the P.L. 480 program level because of our assistance for Russia. So it makes the 2000 cut look steeper.

But the program does come down a bit in 2000, notwithstanding that factor. It's largely a question of what can we fit inside the discretionary budget target.

Mrs. EMERSON. Well, considering that you all are adding \$268 million for the Land Legacy Initiative and another \$100 million for the Global Climate Change Initiative, it seems to me our priorities ought to be our priorities, and that is to help our farmers' bottom line.

Anyway, let me move on to something that is real specific to my district, and Dan and I have talked about this.

Secretary GLICKMAN. The one and a half million tons of wheat for Russia was in addition to all the P.L. 480 numbers that we talked about as well. That program is going ahead right now. It is not reflected in those numbers that you have said.

COTTON LOAN DEFICIENCY PAYMENTS

Mrs. EMERSON. Okay. Let me just ask you about a specific situation in my district, LDP's to cotton producers. At the local levels, I've mentioned to you, and at the State level, the FSA employees believe that mistakes were made and have made an official request to provide relief to our producers.

I guess it is hard for me to understand how the Department can discount the recommendations of the State and local FSA offices as to why you wouldn't fulfill the request that we made with regard to LDP's. We have probably got several thousand appeals that are going to be made to the Department because of this, and I wondered if you could tell me if you know the status of those.

Secretary GLICKMAN. I don't have anything more to tell you other than to say that this was a new program that started two years ago that we expected nobody to take advantage of. We are mailing well over a million payments. So I can't tell you that it has been done absolutely perfectly and smoothly during this time period. We

are looking at the Missouri problem, and I don't have any more to tell you about the matter.

Mrs. EMERSON. Okay.

Mr. SKEEN. I would like to call a halt right here. Let us recess. We had the second bell on the vote. Let's all go over and vote and come back as quickly as we possibly can. With your indulgence, Mr. Secretary, we would appreciate it very much.

[Recess.]

Mr. SKEEN. Mr. Secretary, we were trying to stay with the five-minute rule, but in this case we are going to let Jo Ann ask one more question; then we are moving on.

Mrs. EMERSON. I believe I was in the middle of just simply asking you to have your office let me know about that.

[The information follows:]

COTTON LOAN DEFICIENCY PAYMENTS

There seems to be a great deal of misunderstanding concerning those producers in MO who requested LDPs in advance based on the date that the cotton would be ginned. These producers signed form CCC-709 that clearly states that the LDP will be based on the date of ginning for cotton, and that producers may revise or terminate the agreement at any time before the subject cotton is ginned. Producers also have the option of designating a specific amount of cotton (or all production) to be covered by the agreement. Unlike other commodities, LDP's have been available for cotton since 1986, so LDP procedure is not new to cotton producers or to FSA county offices in cotton producing areas.

We are currently working with the state and county office staff to get a clear understanding of this situation and are reviewing a request for relief from the Missouri FSA State Committee. We will give the request thorough consideration within our legal constraints. We expect to answer this request within three weeks.

LIMITED SET ASIDE PROGRAM

Mrs. EMERSON. The last question I had was to ask if you might be willing to support a limited set aside for farm program commodities—

Secretary GLICKMAN. For grain?

Mrs. EMERSON. Yes.

Secretary GLICKMAN. I do not have that authority under the current law.

Mrs. EMERSON. No, I understand, but would you be supportive of such an idea?

Secretary GLICKMAN. I would say this: I am not going to prejudge it, but that would be a monumental change from the 1996 farm bill; there is no question about it. We need to sit down and talk about ways that we can improve the safety net.

For the United States to unilaterally reduce production, unless the rest of the world goes along with us, we may not be able to accomplish very much in that kind of scenario. I have been thinking about this. I am looking at the crop reports and the situation doesn't look very bright in terms of stocks-to-use ratios. In years past, we would have had a setaside under these circumstances, but we have, for example, in the area of corn, Argentina; China; and other countries coming into the market in a very, very big way. So if we set aside acreage and they don't, it doesn't affect the price, for all practical purposes.

So I don't want to necessarily prejudge what we would do. We have kind of done it the other way, by trying to get more humani-

tarian assistance to the Russians, which we have done in the multimillion-ton area for needy countries.

I do think there are some other things we can do. For example, I favor providing loans for on-farm storage. I don't think that farmers should be forced to market their crop just because they don't have any facilities to store their crop. I think we have encouraged farmers to dump their commodity because we no longer provide those kinds of resources.

So I am willing to talk about a lot of different things, but just unilaterally setting up setaside programs, I don't think right now is a very good idea.

Mrs. EMERSON. Thank you.

[The prepared statement of Congresswoman Emerson follows:]

STATEMENT OF REPRESENTATIVE JO ANN EMERSON**Agriculture Appropriations Subcommittee
Wednesday, February 8, 1999**

I would like to thank Chairman Skeen for holding this hearing and for his years of strong leadership on issues of importance to America's farmers and ranchers. I am very pleased to be appointed to this Subcommittee where I hope to continue my efforts to protect the interests of agriculture in Southern Missouri. I am looking forward to working with Chairman Skeen and all the members of this Subcommittee in having a direct hand in the agriculture programs so critical to producers in my District and across the country. I also would like to thank Secretary of Agriculture Dan Glickman for coming today and say that I have appreciated his efforts on behalf of agriculture. I look forward to hearing from the Secretary and working with him this year.

American farmers and ranchers are in the midst of the most difficult period in recent history. Low prices threaten to drive many good farmers out of business, and I believe that Congress must continue to aggressively look for solutions to the problems in our farm economy. Producers cannot afford the continuation of these tough market conditions.

My farmers tell me that 1998, with the combination of bad markets, bad weather, and increased input costs, may have been the worst in 25 years or longer. This situation does not lend itself to a status quo policy that does not recognize and respond to this emergency being faced by farmers from Arizona to Alabama and from Minnesota to my state of Missouri.

As we speak, farmers in my congressional district are being denied 1999 operating loans by their lenders because \$4.99 beans, \$2.15 corn, \$2.60 wheat, and \$0.58 cotton will not cover the cost of producing these crops in 1999. Thus, it would seem that we should at least be examining what needs to be done in this calendar year and beyond to stop the financial devastation facing our farmers. My questions, Mr. Secretary, and your answers today, could have both a short term and longer term positive impact on our nation's and my District's number one industry – agriculture.

The Freedom to Farm legislation, when passed, relied on several assumptions. One of those critical assumptions was that farmers would have access to overseas markets. Regrettably, this has not been the case, as the government has used trade sanctions as a weapon of foreign policy. The penalty has been

and continues to be paid by the American farmer. By imposing food sanctions on foreign nations, the government is closing off markets to domestic producers and handing this business to our competitors. The fact of the matter is that food sanctions don't work and farmers should not have to bear the burden of this failed policy. Many farmers still remember the disaster of the Soviet grain embargo of 1980. We need to actively review trade sanctions that are currently in place and get rid of many or all of them. In addition, we need to raise the bar in the future so that presidents cannot, without the approval of Congress, implement food sanctions. That is precisely the point of Congressman Ewing's Anti-Embargo legislation, H.R. 17, of which I am an original co-sponsor. I encourage the Secretary to become actively engaged on this issue which can really impact a farmer's bottom line. I am asking the Secretary today to provide a detailed assessment of what sanctions are currently in place and how these sanctions damage the farm community.

A second critical assumption was that export markets would remain stable or improve. With the collapse of the Asian and Pacific Rim economies in 1998, it would appear that this assumption was faulty at best and "pie in the sky" wishful thinking at worst. I would like to know today if the Department and the Administration would consider a limited set-aside program. I also would like to know if the Department will make more aggressive use of our export enhancement and market development programs to help move America's farm production abroad. These two proposals would help us compensate for the market losses in Asia.

I also look forward to hearing from the Secretary on the issue of crop insurance reform. Last year's price and weather disasters proved to many that the farm safety net needs to be strengthened. Crop insurance, in its current form, does not do the job for farmers. The majority of farmers in Southern Missouri don't even elect buy-up coverage because it's not worth the price. Buy-up coverage must be made more affordable, to levels higher than 65 percent of yield, and should include price as well as yield protection. This hearing is part of the process to find ways to make crop insurance really work for farmers. I'm committed to pressing forward on this issue to ensure that there is a viable safety net for the farm community.

Finally, I would like to call on the Secretary to help on a variety of issues that need to be addressed by his Department. The Secretary needs to give favorable and timely consideration to the cotton loan deficiency payment appeals filed by Southeast Missouri cotton producers. The Secretary needs to help us address the problems in livestock markets by supporting country-of-origin labeling for meat products and mandatory price reporting. The Secretary should convince his

administration that the Kyoto global warming treaty is a bad deal for farmers and ranchers and must not be implemented. The Secretary should promote the use of Biodiesel, approved by Congress last year as an official alternative fuel, and help us raise the demand for soybeans. I ask for the Secretary's help on these initiatives which are good for farmers and can help boost farm income.

Mr. SKEEN. Thank you. Mrs. DeLauro.

STATEMENT OF MS. DELAURO

Ms. DELAURO. Thank you, Mr. Chairman, and if you are responsible for the pistachios in my lunch, I say thank you very much. They are very good.

Mr. SKEEN. The tip was on me also. [Laughter.]

Ms. DELAURO. Welcome. Welcome, Mr. Secretary. It is a delight to have you, all of you, with us today.

FOOD SAFETY

This is a food safety question I am going to ask in this area today, but a little bit more topical. On an NPR report that I listened to early this morning I heard about a listeria outbreak at Bilmar Foods in Zeeland, Michigan. Listeria, as I understand it, causes meningitis, serious and sometimes fatal infections in people with weakened immune systems, such as children and the elderly, and miscarriages and still births among pregnant women.

In December, Bilmar recalled many of its hot dogs and luncheon meat sold to institutions. A month later, FSIS announced that additional Bilmar brands had been added to the list of contaminated products because it had been discovered that Bilmar had sold its products to supermarkets and retail stores as well.

A couple of questions with regard to this, and, again, in general, surrounding the whole food safety issue is, why the gap between the two recalls? What can be done to prevent such gaps in the process in the future? Why did it take so long to decide to close the Michigan plant?

Secretary GLICKMAN. I don't know the answers to the specifics. I do know that today FSIS is holding a hearing on listeria. We have had a lot of attention on E. coli and salmonella.

Ms. DELAURO. This is worse, as I understand it.

Secretary GLICKMAN. Well, certainly, we are seeing a lot more outbreaks of it, and particularly in smoked meats and in cured meats, the things that you would not have thought would be the case. So they are holding a public hearing today.

I would note that I do not have mandatory recall authority. I have to rely on the voluntary compliance of the companies. In most cases they do it fine. In some cases they, I think, need prodding. After all, the government can recall toys or it can recall electronic devices that are dangerous, and I don't have that authority. I think that would probably help. But I do not know enough to tell you about that particular case.

Ms. DELAURO. If you can, I would like to know about that because there, again, apparently, this has been ongoing for a while with this particular company, which is a subsidiary of Sara Lee. We all know that Sara Lee is a name that people do trust, et cetera. There are lots of pieces here which get at the very heart of how we are trying to protect people. I don't have to tell you; your kids are eating and you just feel safe and secure with what you are doing, and then, in fact, the company can continue on while it is being investigated, thereby putting people in jeopardy.

Secretary GLICKMAN. We will get you a report by the end of this week as to what happened with respect to those recalls, so you at least know the time sequence.

Ms. DELAURO. Thank you. Thank you, Mr. Secretary.
[The information follows:]

MULISTATE LISTERIOSIS OUTBREAK

The Food Safety and Inspection Service (FSIS) pursued an aggressive approach to controlling the Bil-Mar listeriosis outbreak in order to contain foodborne illness. Working cooperatively with the Centers for Disease Control and Prevention (CDC), FSIS began its investigation on December 15, 1998, upon receipt of information from CDC. This action led to an early recall by Bil-Mar on December 22, 1998, 2 weeks before contamination was confirmed on January 5, 1999. FSIS continued its inquiry and, as indicated by its investigation of another product unrelated to the original recall, the Under Secretary for Food Safety met to discuss these matters with industry officials on Tuesday, February 9, 1999, and the public on Wednesday, February 10, 1999.

The recent listeriosis outbreak is a case where a relatively small percentage of the population was vulnerable and product was distributed quite widely. A new technology supporting this outbreak investigation is the FoodNet active surveillance system for foodborne disease, which is a joint effort of CDC, FSIS, the Food and Drug Administration, and the States. Through the 1998 President's Food Safety Initiative, FoodNet was expanded and this system allows the agencies to detect and respond more quickly to outbreaks of foodborne illness, and better identify trends in foodborne disease. In addition to FoodNet, we now have PulseNet, a computer network linking Federal and State agencies, which captures the molecular fingerprints of pathogens in a national database. Molecular subtyping of pathogens isolated from both humans and foods is important in helping public health agencies link specific products to specific human illnesses. Throughout the listeriosis investigation, our reliance on FoodNet and PulseNet resulted in an effective response to the outbreak.

Following is a detailed chronology of events concerning the outbreak.

MULTISTATE LISTERIOSIS OUTBREAK TIMELINE

- Dec 15, 1998 CDC informs FSIS of ongoing case-control study associating franks with type-E listeriosis in a case that had eaten Bil-Mar hot dogs (Case A). Joint USDA/CDC team formed. FSIS epidemiologist leaves for Grand Rapids to begin investigation. USDA/Compliance collects samples of December 15, 1998 production from Bil-Mar.
- Dec 16, 1998 Compliance reviews HACCP and SSOP records. Plants toured, collected environmental samples.
- Dec 17, 1998 CDC informs FSIS that Bil-Mar hot dogs from opened package associated with Case A grew *L. monocytogenes*. FSIS finished collecting environmental samples in Bil-Mar plant. FSIS reviewed plant records.
- Dec 18, 1998 Learned of Michigan College Reunion case (Case B) and began investigation. CDC informs FSIS that *L. monocytogenes* from opened package of hot dogs from Case A were serotype 4b. FSIS officials met with General Counsel for Sara Lee and urged Sara Lee to speak with CDC investigators and, in that light, to consider a market withdrawal.
- Dec 19, 1998 Plant ceased operation.
- Dec 20, 1998 CDC informed FSIS at 5:00 pm that *L. monocytogenes* from opened package of hot dogs from Case A are E-strain.
- Dec 21, 1998 Reviewed in-plant environmental testing data from Bil-Mar.
- Dec 22, 1998 Bil-mar plant initiates recall. FSIS initiated investigation of the information available regarding the underlying frequency of E-strain. CDC sent plant a letter of findings and assessment.
- Dec 23, 1998 CDC releases MMWR regarding the preliminary results of the epidemiologic investigation, 11 samples collected by Compliance found negative.
- Dec 24, 1998 Bil-Mar in-plant environmental testing program further analyzed by FSIS.
- Dec 28, 1998 CDC reports to FSIS that 4 of 12 samples from intact product have grown *L. monocytogenes*. FSIS lab shows all environmental samples collected by FSIS/CDC found negative.
- Dec 29, 1998 Opened turkey lunchmeat served to Case B and resulting in illness

shown to be positive for *L. monocytogenes* in FSIS lab.

- Dec 30, 1998 CDC lab reports to FSIS that one intact package of Bil-Mar's Ballpark Franks contained *L. monocytogenes*, serotype 4b.
- Jan 5, 1999 CDC labs provide written report to FSIS of result noted on Dec 30. CDC labs report to FSIS PFGE shows E-type on intact sample of Bil-Mar's Ballpark franks (first isolated Dec 28, serotyped as 4b on Dec 30). FSIS learns of another illness linked to another plant (Plant B).
- Jan 6, 1999 Cote submits additional 34 Bil-Mar shelf-life samples of varying ages to FSIS lab.
- Jan 7, 1999 CDC's positive isolates from intact samples sent to USDA's ARS lab for heat lethality testing.
- Jan 8, 1999 FSIS laboratory reports that *L. monocytogenes* isolate from opened turkey meat associated with Case B is PFGE type E, preliminary result.
- Jan 12, 1999 Preliminary results from Jan 8 confirmed by CDC laboratory.
- Jan 13, 1999 Cooked-in-Bag product from Bil-Mar, taken as part of current hold-and-test policy, is found negative for *L. monocytogenes*.
- Jan 14, 1999 *L. monocytogenes* cultures positive from turkey lunchmeat manufactured by Plant B and eaten by individual who developed listeriosis. Negative cultures for franks from two cases that had eaten Bil-Mar product.
- Jan 15, 1999 Plant B recall begins.
- Jan 19, 1999 Preliminary results show Plant B sample not to be PFGE type E.

SMALL AND DISADVANTAGED FARMERS

Ms. DELAURO. Another area, in your testimony you talk about how the administration is, "also working hard to expand opportunities for small farmers and others who have been traditionally underserved in our farm program." If you could just briefly describe some of the programs that are available for small farmers and the benefits and assistance that they provide?

Secretary GLICKMAN. Okay. Let me, first, say that we created a National Commission on Small Farms to try to deal with a whole assortment of areas, from marketing to production. After one year, they gave us what I would say, is a passing, but mediocre grade, based upon our work to date. But the truth of the matter is that we are increasing our loans to small farms, and our technical assistance. We have created an Office of Outreach that deals with small farms. Certain areas like farmers' markets, organic agriculture, are areas where we are requesting increased funding because they are particularly useful for direct marketing, which smaller farmers deal with. Our technical assistance and our conservation programs are becoming in many respects much more small and medium-sized farm operations-oriented.

I would tell you that, with respect to the entire Department of Agriculture, we have tried to instill in all the mission area leadership that smaller and medium-sized agriculture has to be a priority to them. This Department does a million different things—from loans to grants, to everything else within our jurisdiction. So I think we are ahead of the game from where we were last year.

Let me also say this: We settled a very large case involving minority farmers.

Ms. DELAURO. Right.

Secretary GLICKMAN. That settlement was the culmination of many, many years of people who felt that the Department in some areas had engaged in insidious discrimination. We are also making, in this context, a significant effort to try to help minority farmers get back into agriculture as well.

Ms. DELAURO. What kind of marketing within the small farming community or getting the word out on those programs is going on, so that they know they can avail themselves of these kinds of new efforts?

Mr. ROMINGER. As part of following up on the recommendations of the Small Farms Commission, we have a Small Farms Council now within USDA which is composed from people from all the mission areas, and every mission area has designated a Small Farms Coordinator, so that we can coordinate the programs. Those coordinators are working with the programs that their mission area delivers to get the message out. So we are working with places like the Center for Rural Studies, which is involved in giving us our report card.

But that has all been part of the process, because when the Secretary set up the Small Farms Commission, we invited our critics to be involved and we put them on that Commission, so that they could give us their ideas. That is what we are following up on.

Ms. DELAURO. This may be good information that Members can take because everyone is dealing with getting the word out—you

know, newsletters, whatever it is that they do, to be able to be specific to people about what is available to them and help to carry that word, so that we are, in fact, getting people to avail themselves of some new efforts as well.

A final question, if I can—if I don't have time, you just tell me, Mr. Chairman.

Mr. SKEEN. A quick one?

Ms. DELAURO. Yes, it is just a quick one. Okay, thank you. You are wonderful.

HOUSING FOR MIGRANT FARM WORKERS

Migrant farm laborers often have inadequate health safety. We need to have clean housing, safe housing for folks. The statement was Rural Housing Service administers farm labor housing programs. Are we looking at really improving the housing provided to agricultural workers?

Secretary GLICKMAN. Actually, I took a trip with Secretary Herman to Florida, near Homestead, where USDA has built some migrant farm housing. It is some of the best in the country. Most of the migrant farm housing that is built is built by USDA, not by any other agency of government.

I don't know what the dollar amounts we have asked for—there is an increase, right?

Mr. DEWHURST. Right. All of our farm labor housing loans and grants programs are increased under the budget for the Rural Housing Service.

Ms. DELAURO. Okay, thank you very much. Thank you, Mr. Chairman.

Secretary GLICKMAN. And we have a coordinator of these programs within our Small Farms operation, Migrant Farm Worker Coordinator.

Ms. DELAURO. Thank you very much.

Mr. SKEEN. And from the coordinator, we go to Mr. Walsh.

STATEMENT OF MR. WALSH

Mr. WALSH. Thank you, Mr. Chairman. I look forward to serving with you for another two years on this subcommittee, and Ms. Kaptur I think is certainly one of my favorites. These are important issues that affect all Americans. It is a great committee.

We have got some nice additions to the committee. I would like to welcome Sam Farr, another returned Peace Corps volunteer. We're now up to two on the subcommittee. Sam, it is great to have you.

Mr. SKEEN. We are saved. [Laughter.]

Mr. WALSH. There we go; still doing the Lord's work, so to speak.

Welcome, Mr. Secretary, and all your capable staff. It is good to see you again. Mr. Dewhurst I am sure will be here many, many times this year. We welcome him also.

I would just like to ask a couple of questions on dairy, and depending on how quickly they go, I will try one more.

FEDERAL MILK MARKETING ORDERS

Last year, as you know, Mr. Secretary, the Congress extended the time for you to announce a reorganization of the Federal milk marketing orders. That decision is coming up pretty quick, between February and April. As you know, just to sort of frame the question, most of the Members of Congress, 41 States, were in favor of option 1, but we did get the feeling that that wasn't your favorite. The intelligence or the rumor mill, whichever you want to call it, says that we may not get either one, but it will probably be a lot closer to option 1(b) than 1(a). I would just like to get your feeling on that, knowing what you know, that most of the country would be harmed by the 1(b) sort of option.

Secretary GLICKMAN. Well, as you know, we are in the midst of this process, so I am somewhat restrained on what I can say publicly. We haven't made a decision yet. We will meet the statutory guideline, which is April 4th. We have received extensive comments on this issue, and, quite frankly, they go all the way from support for option 1(a) without change to option 1(b) without change, to a lot of things in between and things outside those options.

I worry about the fact that this decision will have an economic impact on people around the country. So we are going to try to be as fair as we possibly can, but then Congress will have a fairly extensive period of time to take a look at it after we are done. I think you will find that we have been fair.

Mr. WALSH. Well, I think that is the key. The hope is that no one loses in this deal. But the concern is that there is a lot more losers under option 1(b) than option 1(a), and so we would ask you to consider that in your calculus on this issue.

NORTHEAST DAIRY COMPACT

Secondly, as you may know, New York State recently voted to enter the Northeast Dairy Compact. New York State is sort of a key State, in that a number of other States are then free to join, once New York does. As you also are aware, the South has voiced very strong support for a compact in that part of the country. So I would just like to get your thoughts on this new trend in dairy.

Secretary GLICKMAN. Well, of course, once the milk marketing order process is finished, the Northeast Dairy Compact terminates. Congress can decide to reauthorize the compact. All things being equal, I think we are better off having national policies involving dairy and wheat and corn, and everything else, rather than regional policies.

I suppose one could also make the argument that milk marketing orders, in a sense, create a kind of minor compacts themselves, although the structure is not quite as rigid as a compact would be. I would hope that you would be satisfied, that people would be satisfied enough with what we have come up with, that you would not feel compelled to have to go to a whole series of national compacts, but that is an issue—obviously. I approved the Northeast Dairy Compact as part of the 1996 farm bill on a trial basis, but the idea was that, hopefully, you will be satisfied enough with what we do in this milk marketing order reform, that you won't feel the need to do it again. We shall see.

NATIONAL DAIRY POLICY

Mr. WALSH. Well, I have been working on agriculture issues now for 10 years—the first 4 on the Agriculture Committee and now on Appropriations. National dairy policy is elusive at best. I see a lot of heads shaking around the room. It is a tough nut to crack.

In New York, we are losing 10 percent of our farmers every year. A lot of that is economics; some of it is lifestyle, but a lot of it is the pressures on the price and on the land, the inputs. It is a difficult business at best. So they are looking for ways, and as good legislators, we are trying to respond to their needs.

One other question off dairy for a second, it is on food safety. Do I have time for another one, Mr. Chairman?

Mr. SKEEN. Go ahead.

IRRADIATED MEAT

Mr. WALSH. The FDA passed judgment on irradiation of red meat over a year ago. We just talked about E. coli and salmonella and listeria. It seems to be in the news quite a lot. FSTS has not issued a rule defining labeling and operational requirements for irradiated meat. So question No. 1 is: When will that happen? And No. 2 question is: What, other than stating of a policy of zero tolerance and doing product recalls, are we doing about these outbreaks?

Secretary GLICKMAN. Well, okay, first of all, we are supposed to be publishing the rule in The Federal Register. I can't tell you exactly when it is going to be, but I would say within 30 days maximum, hopefully, sooner.

Mr. WALSH. That is in the record now.

Secretary GLICKMAN. just as I have said.

Mr. WALSH. Okay.

Secretary GLICKMAN. I can't tell you exactly what it says, but it will be in conformity with FDA's rules. As I said before, I don't think there is any one cure-all for food safety, but irradiation is one of many things that can help. So that rule will be published fairly soon.

There is a whole bunch of things being done. One is using good science and genetic mapping to be able to track illnesses, so that we can pinpoint a food safety problem instantaneously, before it becomes a national outbreak by doing genetic fingerprinting and mapping of, let's say, E. coli or listeria or salmonella. That is now being done all over the country. It is very expensive to do.

In fact, I was at the University of Washington, which is one of the leaders in the country in doing this, and there are several universities that are part of a network, along with the Centers for Disease Control and USDA laboratories—the kind of reporting mechanism, tracking mechanism, that's a big part of the President's food safety initiative. It has kept some of these outbreaks from spreading like wildfire, and allows us to be able to identify the problems very early on.

Our research budget is growing in the food safety area. One of the things that our scientists discovered was a spray that was used on young baby chicks within three days of their birth that could provide a 98 percent protection against salmonella at later stages of their life, maybe even higher, 99 percent. I think it is going to

work. I think it could be a monumental effort to deal with this problem.

I mean, our whole HACCP proposal, while it has been controversial—we have talked about this many times in the past—we are doing our best to work with these plants, and it is beginning to work. We are seeing some quantifiable evidence that there is a reduction in pathogens occurring.

HACCP PROGRAM

Mr. WALSH. The irony is that there has been so much news about listeria, especially recently, at the same time that all the major plants are up online on HACCP now.

Secretary GLICKMAN. I have asked that question also: Why the increase in listeria? What is there with listeria that has created the increase? Because in listeria we are dealing with a lot of cooked products or precooked products, smoked products. As I said, FSIS today is having a public meeting on this subject.

So, all I can tell you is that this is a broad governmentwide inquiry, but cooperative with industry. We are not fighting with industry as much as perhaps we did early on. I met recently with some of the major restaurant chains, and discussed how they are participating in the HACCP program. So I think it is a new day in terms of food safety.

Mr. WALSH. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. SKEEN. Thank you. Mr. Obey.

STATEMENT OF MR. OBEY

Mr. OBEY. Thank you, Mr. Chairman.

Mr. Secretary, I don't so much have a question as just a number of brief comments. Then if you want to respond when I am over, I would be happy to hear what you have to say.

REGIONAL COMPACTS

Let me simply say, with respect to regional compacts, I was pleased to hear your comments. I find it ironic that some of the same forces in this country who tell us every day that we ought to be singing hosannas to the idea of open international markets are some of the same folks who are saying that within our country we ought to be erecting what, in essence, are trade barriers. I find that logic interesting and quaint, but not persuasive. I was happy to hear your comments on that.

COST-OF-PRODUCTION DATA

I would also note, I would like to thank you for how rapidly you implemented the publishing of cost-of-production data. My farmers have been frustrated for years that everybody knows what farmers get every month, but they don't have any idea what it costs them to produce that same product. And I appreciate the fact that you were quick in getting that out, once we included that in the appropriations bill.

MILK MARKETING ORDERS

Thirdly, I would simply say, with respect to milk marketing orders, I have a great deal of respect for my friend from New York; he's a fine Member of Congress, but occasionally he is wrong on an issue. [Laughter.]

I think he is on this one.

Let me simply say, April 4, you mentioned that is the deadline for reporting the milk marketing orders. That happens to be the anniversary of my 30th year in Congress. So I hope you don't give me a lousy birthday present. [Laughter.]

Secretary GLICKMAN. Unfair. [Laughter.]

We could do it the 3rd. [Laughter.]

Mr. OBEY. I guess what I would simply say is this: And I don't want you to comment on this because I know that you are in the middle of having to make these decisions, and it is not proper for you to comment. But we can, nonetheless, sound-off in public, I guess.

I would simply say that in Wisconsin we could lose up to 40 percent of our farmers within the next decade, if we have to compete against a rigged market price. In the Freedom to Farm bill, the idea was we would all move to free markets. God bless them, I hope that works, but I have great fear of moving into an era with no safety net.

But if we are going to move into a free market, I think dairy farmers feel that is one thing. But if my farmers move to what is called a free market, but is really a rigged market, that, to my mind, is not rational. I would simply note that, when you did issue your initial regs for comment, I would note that this committee first tried to dictate a legislative outcome—by “this committee,” I mean the Appropriations Committee—and then when that failed, they did pass the six-month provision, which, in essence, delayed your ability to act for six months. I believe that was a political act. The supporters of the status quo tried to send you a political message that, if you moved very much, they would shoot your tail feathers off and reverse you.

I would simply say that I hope that the result of the rulemaking process will not demonstrate that they have totally won that ballgame. That is all I will say about it, given your situation.

SAFETY NET FOR FARMERS

I would like to talk just a moment about two other things. I see a lot of headlines and I see a lot of people talking about the need to restore some kind of safety net for farmers. I hope that, if that comes to pass, that dairy farmers will be included in that proposition.

The reason I say that is because, as you know, dairy farmers have been for a few moments getting record price for their milk, but that is changing very fast. The cheese market has fallen substantially, and people are talking about seeing prices in my area, for instance, that could drop by as much as \$5 or \$6 a hundred-weight over a two-to-three-month period. That would be about a \$750 million pay cut for America's dairy farmers. I think that we need to remember that they have already, in real dollar terms,

since 1980, lost about half of their income, between 40 and 50 percent, depending upon whose numbers you use.

I would simply note that and ask that dairy be included in any repair job, if we come to our senses and recognize that there needs to be some effort to take volatility out of all of the farm markets.

EMERGENCY FUNDING FOR DAIRY FARMERS

Then I would simply say, with respect to the \$200 million that I was able to get in the budget last year for dairy farmers, I would hope that that money can be gotten out as quickly as possible, and that it will be targeted as much as possible to small- and middle-sized operators. I think the National Milk Producers made a good-faith effort to compromise with their suggestions, but, in my view, I would still prefer to see that targeting be somewhat more focused on low- and middle-income farmers and small farmers.

That is about all I wanted to say. Feel free to comment on anything that you want to. I recognize you don't want to comment on the milk marketing order situation.

Secretary GLICKMAN. I would just make one quick comment on the \$200 million program which you put in the appropriation. We are in the process of coming up with some solutions, and it needs to be done fairly soon, because prices are dropping.

Mr. OBEY. Right.

Secretary GLICKMAN. I think folks need to know those monies are going to be out there as quickly as possible. I would say that when we made the \$50 million hog payment program, we did target that payment based upon size of operations. In fact, I was criticized because there were a lot of farmers outside of it, but we made the decision that we had a limited amount of money and it needed to go to small- and medium-sized operations. My belief is there is going to be some targeting in this program.

Mr. OBEY. I would hope so.

I thank you, Mr. Secretary. I appreciate it. Thank you, Mr. Chairman.

Mr. SKEEN. Thank you, sir. Mr. Nethercutt.

STATEMENT OF MR. NETHERCUTT

Mr. NETHERCUTT. Thank you, Mr. Chairman.

Welcome, Mr. Secretary and gentlemen.

EXPORT SANCTIONS AND FREE TRADE

I want to follow up a little bit on your comments in your opening statement, Mr. Secretary, and also, Representative Emerson's comments about sanctions and free trade, and so on. I have a bill that I have introduced, H.R. 212, that lists sanctions for agriculture and medicine, subject to the imposition of a waiver or the imposition of the sanctions as designated by waiver by the President, if lifting those sanctions on agricultural products and medicine is a threat to national security. Whether it is 12 or 160, at least in my State, which exports 90 percent of our agricultural products. This bill would be a great assistance in attempting to get back the markets that we historically had an opportunity to access. Cuba, for example, we used to sell a lot of peas to Cuba, and Canada now does

that. Iran is another country that we would sell wheat to in a minute.

Again, I would hope that your Department would look carefully at that policy and be a champion for it, because I think, if you look at Freedom to Farm as I look at it, part of the structure of the Freedom to Farm approach to free market agriculture was that farmers would have markets to sell their products. I think this is a way to assist in that regard.

The same with the TCK smut issue that you mentioned, I have been here for four years and I think I have asked you questions about this issue every single year. We don't seem to get any relief from China, either through our Trade Representative or because of their intransigence, probably a little of both, but I think your Department should take a lead to the extent that it can further push the opening of the China market at least on that issue.

WHEAT DEFICIENCY PAYMENTS

The third thing I want to mention is certainly club wheat issue that Jo Ann mentioned for her commodities in her State. Our State kind of got the short end of the stick on the club wheat, loan Deficiency Payment issue. The policy changed in August of last year, and our farmers had already sold and they are entitled to get some relief. I have received a letter back from your legal department basically saying, legally, we can't do it. So I am putting in a bill to see if we can't give affected producers some relief, along with Jo Ann's farmers as well.

AGRICULTURAL RESEARCH

But I primarily want to mention to you, and get your response to, the issue of agricultural research, which is another killer of the success of the Freedom to Farm Act. I notice in the budget—and I haven't studied it extensively yet, but I have been studying it some—have seen that there seems to me a movement of agricultural research dollars to the nonproductive agriculture research as opposed to the production agriculture research sector. Some of the special grants that are criticized by some in my own party, who don't like that designation—I can justify it on the basis that Washington State is different than Iowa and they have different crop problems and disease problems. Therefore, special research grants, I think, are fully justified to meet the needs of the particular geographic areas of our country.

Unless I am mistaken, \$35 million has gone over to the national programs of significance, the global warming/carbon cycle studies, and that sort of thing. I would like your reaction to my argument, at least my premise under which I raised the question.

Certainty of agricultural research for farmers and researchers is extremely important. I know it is a year-to-year budget that we go through, but there has got to be some certainty for the researchers to know that they are going to be in a location dealing with a five-year solution to an agricultural research problem.

We fought the battle with you on the Prosser Research Station. The budget—and I don't blame necessarily all of you—but the Office of Management and Budget knocked it out, and the same with Mandan, North Dakota, that affects Congressman Pomeroy. We

put them back in. That allows some sustainability of research and attracts researchers in a day that we need experienced scientists to continue their research efforts to combat disease and improve yield.

I don't know if it is your doing or if it is directed by the White House or the Vice President, or who ever it is, but \$35 million of research for global warming, although it is important and there are other agencies of government that do that, takes away \$35 million, as I see it, from the production agriculture side of research that really is felt by our farmers.

So I would appreciate your comments.

Secretary GLICKMAN. Well, I think it is a good question. First of all, let's say we have an increase of about 8 to 10 percent this year. We have a real increase overall in agricultural research dollars for the first time in—I don't know how many years but we have a real increase. It has been nearly 10 years. Most of those monies do go in the basic research programs.

I would say that I do agree with you; we have moved some money from the Formula programs into competitive grant type of programs. That is always a bit of controversy. I am sure you will fight that battle here. It is not just this administration; others have done it.

I would also say this: There are priorities that every administration focuses on when they get a little extra money. This administration has some priorities in the area. You may have differences of opinion on some of those priorities. I know that there is a lot of discussion about global warming, for example, and what should be the role, of our soil conservation experts to try to do the kinds of things to prevent carbon emissions in the atmosphere, those kinds of things.

The best I can tell you is that we were able to get a fairly healthy increase overall, and most of the funding is going to be in areas that you are going to support. I think that research has been underfunded for many years, as a general proposition. I mean, we have a lot of advocates. The Deputy has been pushing a lot of these programs. A lot of the research programs do have specialty natures: methyl bromide alternatives. There is Mr. Farr's panel. How to comply with the FQPA—some of this is regulatory; some of this is research. Human nutrition is somewhat controversial, but, by and large, it is something the public is very interested in us providing monies for research on how to make foods more nutritious, get more vitamin absorption in order to help hungry people.

You are going to have different priorities from different people on what you should do, but, by and large, I am hopeful that our program is general enough to allow us to do the basic type of research that we have been doing over the years that makes us so productive.

Mr. NETHERCUTT. Well, I hope so, too, because it sends a bad signal if the Department of Agriculture indicates that agricultural research is expendable. I don't think it is expendable in today's world of trying to have the farmer be more independent.

FOOD GLEANING

It gets to the food gleanings issue that you mentioned. I remember asking you the question a year ago on that subject, as to whether the development of this new program would be administration-heavy, and I remember your testimony was that "it is grants. It is all grants", I think was what you said; at least the record indicates that.

Now I understand that you have had communication with our chairman that there will be some special administrative costs totaling \$890,000. I am wondering if that—again, then, that sends a signal back out that we want to use this food, and not waste it, but, yet, that we are creating a new bureaucracy that some of us feared a year ago, when we were sitting here. I know \$890,000 is not \$16 million, which is the roughly program cost. Yet, we don't want to see the administrative coats get bigger and bigger and bigger. My sense was we were going to administrative costs within existing resources. Is that the case or has this changed?

Secretary GLICKMAN. The goal of that program is to create community food security, so that towns like Spokane or Wichita or others can have the kind of resources to use their hunger infrastructure more effectively, either through gleaning or dehydration of food or other kinds of things.

I cannot speak specifically about the \$890,000, what it is. Steve, can you talk about that?

Mr. DEWHURST. Well, the funding for that organization is now in the Research and Extension part of the budget. In fact, there was a piece of it that was in the Food and Nutrition Service. It shifts from one part of the Department to another; it is not really an increase over what we had in the past.

Secretary GLICKMAN. Part of it, to be honest with you, is that we consider this an Extension function as much as we consider it a Food and Nutrition function. We have the finest Extension network in the world. What they do is to get information out to people, and that is one of the reasons why we put the funding there.

Mr. NETHERCUTT. All right, my time, I am sure, has expired. I thank you for your testimony and for your work. Thank you very much.

Mr. SKEEN. Thank you.

DAIRY ASSISTANCE

Mr. Secretary, on that \$200 million you have in dairy assistance, I hope that it should be nondiscriminatory as far as size of operation. Is that pretty much the litany that we have been going by or not?

Secretary GLICKMAN. Well, that is part of the discussion, as to whether the \$200 million applies to every animal produced everywhere in every part of the country on an absolutely equal basis, or whether we try to target those funds. The only thing I can tell you, Mr. Chairman, is when it came to the hog situation, we had about \$50 million that, if we made it applicable to every hog in America, we would probably end up at 10 cents a hog. I mean, it wouldn't have made sense—I don't remember what the exact amounts would be.

But, anyway, the amount of money probably means that we have got to at least try to do what we can for those farmers who seem to be the most vulnerable.

Mr. SKEEN. You have gotten to the point where you use good discretion in your judgment, and that is what you have to do. I understand that.

Of course, also, we had a word with you on the dairy order reform, on the dairy program which is option 1(a). I think we sent that message to you.

Secretary GLICKMAN. Yes.

Mr. SKEEN. Yes, sir? Received?

Secretary GLICKMAN. Received.

Mr. SKEEN. Fine.

Mr. Hinchey.

STATEMENT OF MR. HINCHEY

Mr. HINCHEY. Thank you very much, Mr. Chairman.

Secretary Glickman, it is a pleasure to see you. I want to join others who have congratulated you on the work that you have done during your tenure as Secretary. I think most of us admire it very greatly.

Secretary GLICKMAN. Thank you.

GLOBAL PROBLEMS

Mr. HINCHEY. Your tenure has also coincided with two serious global problems: one, economic, and the other climatic or environmental. I think that these two circumstances impact directly on the future of American agriculture and make the agricultural industry, which is always fragile, even more so.

Are there any long-term programs that the Department has engaged in, or any long-term recommendations that you are making to the Congress and this committee, with regard to the anticipated impacts of the continuing economic crisis, which has now touched this hemisphere? Similarly, how are you planning to address the environmental crisis, which is causing the disruption in weather patterns which you spoke about in your opening statement?

Is there anything that we can do, anticipating these quirky global weather changes brought on by global warming, over the course of the next several years?

GLOBAL CHANGE RESEARCH

Secretary GLICKMAN. Well, there is an increase of about \$35 million for global change research. I recognize that this is controversial in some sectors in agriculture, and there are some people who do not believe that this is a real problem. I disagree with them. I think it is a real problem. I think it is worth doing the research necessary to do the prediction and interpretation, to understand what changes in climate, if they are, in fact real, will cause with respect to drought, pest infestation, productivity of crop.

Today there was a report which says that we may be seeing a situation fairly soon where yields will be moving up in the northern part of the United States and moving down in the southern part of the United States, because of just very, very minor temperature

changes. Whether it is part of a big pattern of a thousand years or something shorter, whether it is something we caused because of too many cars, or whether it is just part of the natural order of things, we need to know about it. Agriculture is more affected by the changes in the climate than any other part of the American economy. This is like, frankly, a fairly small amount, when you consider the potential impact on the world.

BIOTECHNOLOGY

Let me just mention another thing, and that has to do with biotechnology. A lot of our research is in the area of using biotechnology. By and large, I believe that biotechnology gives us a way to feed a hungry world using less pesticide, less insecticide, less water. It also involves technology that must be used very carefully; otherwise, we could get into a situation where, through patent rights, one person owns it all. We have to ensure that there is some equity of ownership in the process.

But biotechnology offers another way for agriculture to cope in a world where there are major climate or ecological or environmental changes. We should not be shy to continue to do that kind of research as well.

ECONOMIC DISLOCATIONS

The third thing is the economic dislocations. You know, all I can tell you is that you have got to have farm programs that shield people during times of major economic dislocations. I think we thought the 1996 farm bill was written when we were going to be dealing with a world that would be growing forever, and it is growing, but there are some problems associated with it.

Mr. HINCHEY. I would agree with you. I think that these are probably the two largest problems faced by agriculture today, and both were unanticipated by the 1996 Farm Act, certainly. They are impacting our agricultural production system very heavily, and give every indication that they will continue to do so for the foreseeable future.

CROP INSURANCE

Secretary GLICKMAN. That is another reason why crop insurance is so critical. The Deputy just mentioned to me—and he is right—that agriculture is the most uninsured part of the American economy. Interestingly, livestock is the most uninsured part of agriculture. You really can't buy insurance for this area, for all practical purposes.

How do you cope with changing weather problems on a year-to-year basis? Really, that is something that we have got to work together on to try to address, and it is going to be expensive. It cannot be done on the cheap, but I think it can be done cheaper than a \$6-billion-a-year disaster program.

Mr. HINCHEY. Well, it certainly can be done cheaper if we move now to anticipate it and take actions to be ready for these things than if we just let events take their course and be caught unaware and off guard. I think that is the real danger, and therein lies the real expense as well. It is going to cost us a whole lot more in the

long term if we don't take some prospective action now, anticipating these problems, because they are right in front of us.

Ms. KAPTUR. Will the gentleman yield?

Mr. HINCHEY. Yes, I will.

Ms. KAPTUR. I just want to apologize to my colleague, but I just wanted to add a little addendum here on the crop insurance issue or risk insurance. Probably one of the more interesting people I have talked to in my life on that question is the Chairman of the Federal Reserve, Mr. Greenspan, whom you would think would not have thought in his life at all about crop insurance, but began his career in the Chicago futures market.

So I would just say to the Secretary, if you are looking for an interesting lunch sometime—[laughter]—why don't you call him up? Believe me, it will be worth your time.

AGRICULTURAL RESEARCH

Mr. HINCHEY. The issue of research is one that I think is very important. I noted in your testimony, and in response to a number of questions, you said that you are asking for an 8 and 10 percent above last year's budget, but that, for some period of time in the past, there has been no increase in research. That area of the budget has been in suspended animation.

First of all, I wonder if 8 to 10 percent is enough and if we ought to be doing more in that particular area. I can't think of any area that is more important, perhaps except for the ones we just mentioned, with regard to the future of agriculture.

Secretary GLICKMAN. I have to live by the budget we presented, and my own personal view is that we underfund research generally in this country, not simply agricultural research.

Mr. HINCHEY. But is it 8 or 10 percent that we are anticipating?

Mr. DEWHURST. We have used both numbers. [Laughter.]

It is 8 percent increase from Fiscal Year 1999. We got a one-time appropriation in Fiscal Year 1999 for some anti-drug work in the Agriculture Research, about \$27 million. If you take that out of the equation, because it was a one-time appropriation, it increases about 10 percent in everything else. So in the real world it is a 10 percent increase in our ongoing research program.

Mr. HINCHEY. I hope that we can at least provide that amount in the budget for you.

If I may, Mr. Chairman, just one other thing—the issue of food safety has been addressed. I am wondering to what extent the issue of food safety boils down to the question of visual and manual inspection on the line in these agricultural production facilities. I am thinking particularly of meat production facilities.

FOOD SAFETY

My recollection is that we have been moving from a system where FDA inspectors were out there on the line to assist the processors, to one, where inspectors employed by the entity and conducting the operation are doing more and more of the inspection.

My first question is: Is that true? And if it is, is that something we ought to be encouraging?

Secretary GLICKMAN. Okay, no, it is not actually true. First of all, the inspectors are part of FSIS, Food Safety Inspection Service. The FDA does not inspect meat and poultry; we do.

Second, since the Federal Meat Act was enacted, we have done what is called carcass-by-carcass inspections. The product goes across the line and inspectors look at the product, make a visual inspection, and use their senses to make sure that the product looks okay.

Mr. HINCHEY. Are they government employees?

Secretary GLICKMAN. They are government employees. What we have found is that in some countries they do not use government employees. We do use government employees. We are not talking about using industry's, own employees do the inspection on the site.

However, with the HACCP program, we are going to more of a science-based system, where they will do more testing. Some of that testing may be done by the companies with FSIS review of the test results, but we will still have our inspectors there doing the inspections, and much of that will still be carcass-by-carcass inspection. But some of these pathogens can't be seen by the naked eye. Some of them can be.

Quite frankly, we have had some labor-management problems within the organization because of this, but I have tried to make it clear that this is not an effort to reduce the number of inspectors at all. We need everybody we have got in order to be there. They may be, in some cases, doing different things than they did before.

Mr. HINCHEY. Thank you, Mr. Chairman.

Mr. SKEEN. Thank you, sir. Mr. Bonilla.

STATEMENT OF MR. BONILLA

Mr. BONILLA. Secretary, once again, welcome. It is as always been a pleasure to work with you over the years. We wonder sometimes, as I asked you earlier, if you miss us sometimes, but I doubt you do. [Laughter.]

Secretary GLICKMAN. The last three months I haven't missed it at all. [Laughter.]

Mr. BONILLA. We have a lot of tough issues to deal with, and I just want to mention—I don't want to really get into crop insurance right now, but you alluded to it a minute ago. That is going to be a big problem we all have to deal with, and we will talk more about that later.

LIVESTOCK ASSISTANCE PROGRAM

I wanted to start out asking about the Livestock Assistance Program. Last year, as you know, as we were getting an emergency bill together there wasn't a lot of money in that bill at first for livestock assistance. I worked very closely at the time with not only Joe Skeen, but Chairman Smith at the time, to get that number up to \$200 million.

We appreciate how the Department has streamlined and simplified this program to get people signed up. Of course, the problem is that the deadline for signup keeps getting extended over and over again, and those who signed up earlier are still waiting and

wondering when the deadline is going to be a true deadline, and they can start getting some of the money, because these folks have been hurting for a long time now.

So my question is: When will the deadline be a true deadline to sign up, so they can start seeing some of the money?

Secretary GLICKMAN. The signup started in November. I am not sure we have any plans to extend the signup. We have not cut it off, however. It is still going on.

As you know, there is \$200 million in funding for emergency feed assistance. The end of the signup has not been announced because the regulations are still in clearance. We think that we should have close to the amount needed to meet claims at traditional payment rates of between 25 and 50 percent. This is what we have done in this program before, but we have not announced the payment rate yet because we haven't seen what the total signup is.

Mr. BONILLA. That is what I am referring to—

Secretary GLICKMAN. Yes.

Mr. BONILLA [continuing]. Because that cutoff deadline, apparently, you are waiting for that to be implemented.

Secretary GLICKMAN. I understand the Farm Service Agency reports that claims at the end of January totaled \$437 million, with additional claims expected. The program covers 1998 calendar year losses, mostly for drought losses from the South. Texas accounts for \$160 million so far of the gross claims.

The best I can do is to try to get back to you and tell you when we think this will close.

Mr. BONILLA. Can you get me the final dollar figure?

Secretary GLICKMAN. The final dollar figure. It may be that, if we have more in claims, then those allocations are going to have to come down some, in which case this is something you may want to consider in terms of—

Mr. BONILLA. A supplemental?

Secretary GLICKMAN [continuing]. A supplemental or something.

Mr. BONILLA. We will be happy to do that, but at some point some of these folks—

Secretary GLICKMAN. You need to have more information.

Mr. BONILLA. We need money out there.

Secretary GLICKMAN. You need to know where you are.

[The information follows:]

LIVESTOCK ASSISTANCE PROGRAM

Sign up for the Livestock Assistance Program opened November 23, 1998. The end of the signup period has been extended pending publication of regulations for the program. USDA expects to publish final rules early in March and close signup by the end of the month. The current estimate of loss claims totals about \$800 million. Current funding of \$200 million would be sufficient to reimburse producers with a 25 percent payment rate, less than the payment rate of 50 percent used in the Livestock Feed Program until 1996, or the 30 percent factor generally used in livestock assistance programs since 1996. Based on the current estimate of loss claims, additional funding of \$40 million would be needed to provide payments at the 30 percent factor.

WOOL AND MOHAIR PRODUCERS

Mr. BONILLA. Also, related to that, my wool and mohair people, I am glad Joe Skeen mentioned them earlier, because, along with the pork people, they are in bad shape. They haven't sold any prod-

uct in three years now. We had the recourse loans that were extended to them last year in the Omnibus Bill. We have been checking with your office regularly to find out when the folks can sign up for the loan. We understand that the pork prices took a lot of manpower out of USDA, but we feel that, if we could just give them a tenth of the attention that the pork producers have received, we could get these loans in their hands as well.

To compound their problem out there—and I know this is a different area—the oil crisis in many of these areas in west Texas has pretty much broken a lot of the communities. So they could really use the help.

Secretary GLICKMAN. Actually, I am scheduled to meet with the American Sheep Industry Association this afternoon. I am sure this will be part of the discussion.

Mr. BONILLA. Well, we don't want to hold you up, then. [Laughter.]

Mr. SKEEN. No, he can go now. [Laughter.]

Secretary GLICKMAN. My paper says our best guess is the rules are in simultaneous clearance, and they have been virtually cleared. OMB will have a month to clear the rules, but they have been provided with an advanced copy and will likely clear the package quickly. My best guess is that in the next two or three weeks these will go to The Federal Register.

AGRICULTURAL EDUCATION

Mr. BONILLA. Okay, and I am glad you are having that meeting today because they will probably be asking you some of the same things I am asking you right now.

I want to move now to the area of education. The disaster package was passed to keep farmers farming and our ranchers ranching, it was an investment in the future of agriculture. I am interested in what kind of efforts and commitment USDA has put into the long-term future of agriculture, specifically education. We have about 800,000 students sitting down in classrooms across the country every day trying to get involved in this profession. Someday they may want to be working for USDA and pushing some of these initiatives.

With all of the information and technology that you have, I want to know what you are doing to get this information in the hands of instructors out there. What contributions has USDA made to school-based agriculture education? I believe a report on this matter was requested in our last bill, and the Department of Education is waiting for some of this information to move into their hands.

Secretary GLICKMAN. Of course, it starts all the way from the bottom. We have an Ag in the Classroom Program, and the States have been involved in helping fund that particular effort. But, largely, this is done through the land grant schools and our Extension system. In addition, we have put some money in our rural development budget into distance learning, telecommunications, in order to allow rural areas to be served by the information superhighway and to be able to allow teleconferencing, distance learning, and telemedicine techniques to be done in rural areas, small towns, just as much as urban areas.

Now I may not be quite answering your question. What other kinds of things are you talking about?

Mr. BONILLA. We are talking more about at the high school level versus the college level. That is what the report language asked for, a little summary about any initiatives in this area.

Mr. DEWHURST. What has happened is that the Department has been working with the Department of Education to create guidelines for high-school-level agricultural education grants. The work is about done. There is a request for proposals, which will invite proposals from schools and from teachers who engage in these activities. We expect to publish that request for proposals in the early spring; that is, in the next month or two, for implementation next year.

So the activities that the report had in mind are happening, but I think what we need to do is provide you with a much more complete report on where all this stands.

Mr. BONILLA. So can you do that fairly soon, do you think?

Mr. DEWHURST. Yes, sir.

[The information follows:]

**UNITED STATES DEPARTMENT OF AGRICULTURE
ACTIVITIES AND EFFORTS
TO COOPERATE WITH THE DEPARTMENT OF EDUCATION**

The Department of Agriculture (USDA) is currently preparing a report to be completed by April 16, 1999, that provides information on several cooperative initiatives with the Department of Education (DoED) concerning agricultural education. Recent and ongoing efforts include:

- Strategic planning sessions between USDA Under Secretary for Research, Education, and Economics (REE) and DoED Assistant Secretary for Vocational and Adult Education.
- Planning with DoED staff on several aspects of USDA's new secondary agricultural education competitive grants programs.
- Involvement of DoED and FFA (formerly known as Future Farmers of America) staff as presenters at USDA's annual National Agriculture in Classroom Conference in May, 1998.
- Ongoing USDA participation in DoED's Federal Resources for Educational Excellence Program.
- Ongoing Collaboration with DoED on the Americans Communicating Electronically Committee.
- Representation to the national W.K. Kellogg-funded project on Reinventing Agricultural Education for 2020, including staff involvement and presentations by the Under Secretary for REE.
- USDA participation in the FFA 1998 National Convention held in November 1998 and planning for the 1999 convention scheduled for October 1999. USDA agencies attended the 1998 convention and will again be represented in 1999; agency personnel also serve as judges for proficiency awards, such as environmental science, livestock judging, and STAR farmer of the year.
- Ongoing efforts by various USDA agencies to develop innovative instructional materials for agriculture education classes.
- Participation in dedication ceremonies for the new FFA Center in Indianapolis in July 1998. The Under Secretary for REE spoke at the ceremony.

FSA PAPERWORK PROBLEMS

Mr. BONILLA. Okay, another question I have, Secretary, deals with FSA. Some of the ranchers have been calling, when they are applying for loans, and so forth, and talking about the paperwork and the requirements sometimes. They are asking for, for example, the birth weight, weaning weight, and selling weight of calves. I know they have to answer a lot of these questions, but, as you know, when a calf is born, they are not waiting there with a scale to see what it weighs, and sometimes, if they don't have this information, this can tie up the business they have with FSA. Have you heard about this?

Secretary GLICKMAN. I haven't heard about this particular issue. I have heard about other paperwork problems. Over the years, the Farm Service Agency and its predecessor, ASCS, has been a very top-down, paperwork-oriented type of agency, you know, proven yields, historical acreage requirements, etc. We are trying to get away from that the best way we can and give our county offices and our State offices a lot more flexibility in some of this. But I have not heard about that particular case.

Mr. BONILLA. I would appreciate it if maybe we can communicate with you about that, to eliminate some of these silly things that might hold up some of the loans.

Do I have remaining time, Chairman? Can I just make a closing statement?

Mr. SKEEN. Go ahead.

AMERICAN HERITAGE RIVER INITIATIVE

Mr. BONILLA. I am going to, I guess, put into writing some questions I have about the American Heritage River Initiative. We talked about that last time. I know it is not your idea, but I know that USDA has started to get involved in that. My questions will center on how much money is budgeted exactly, how much in last Fiscal Year, how much in the upcoming Fiscal Year, and things along that line, because I am really trying to track this.

A lot of my farmers and ranchers are very concerned about whether or not this initiative might infringe on property rights, as you know. So we just want to keep an eye on that.

Thank you, Secretary.

Secretary GLICKMAN. Thank you.

Mr. SKEEN. Mr. Farr.

STATEMENT OF MR. FARR

Mr. FARR. Thank you, Mr. Chairman. I am really excited to be on this committee, and I want to thank you and Marcy Kaptur for your leadership. I moved over from the Agriculture Committee, and I learned there that agriculture is people, and that all agricultural politics is local politics, because everybody represents something different in agriculture around this great country.

This budget, as I have been reading it—and I love having these explanations; we don't get that in the policy committees—I find it very exciting, it gives us an opportunity to really do a lot more with existing money. As I read it, I see from my experiences at the State

and local level that there is a lot more coordination/collaboration that we could do, and I look forward to working.

I have three questions really with the time that is allotted me: one on disaster, one on research, and one on rural housing.

The disaster question—and I think we have got a really talented group here. It's rare that you have a former Member of Congress and a former Director of Agriculture of the biggest, most diverse agricultural State in the Union, as Rich Rominger. I think it is exciting to have them interact with us as we go through this exciting opportunity.

DISASTER ASSISTANCE

The disaster assistance is really—what is the status of the implementation of last year's disaster bill, and is there really enough money there to get to the farmers? Do you think it has responded to the needs which came about in this last disaster that we had?

And while I am on that, there has been a question that, the disaster law relates to the day and moment of the disaster. That disaster happened in 1998, but the fruit that was on the tree, particularly for citrus, Valencia oranges, summer lemons, grapefruit, and so on, those trees will be harvested in 1999.

Is there ability to provide assistance to those crops if we find that they are going to have a disaster at time of market?

Secretary GLICKMAN. Okay, well, first of all, I want to make the following comments: One is the appropriations bill had about \$6 billion in budget authority for disaster. Out of that, the market loss payments, basically, what I call the supplemental payments, of \$2.8 billion were distributed within three weeks after passage of the bill. So there were several hundred thousand payments that went out almost instantaneously. These were the people who were already getting payments, and they got about a 50 percent increase in their payments. That was done before Thanksgiving.

The rest of it is about \$2.4 billion, and the signup began on February 1 for the disaster program, and then, out of that \$2.4 billion, \$400 million is being reserved to reduce crop insurance premiums.

So would that mean we would have about \$2 billion for disaster payments? The assistance you mentioned would be handled within that figure.

CROP INSURANCE

Mr. FARR. What is your experience of the percentage of the industry that is in the crop insurance program? A lot of these specialty crops don't get into it.

Secretary GLICKMAN. More and more are getting into it. Perhaps the Deputy might know—one of the goals of our proposals is to try to get an additional group of people into crop insurance who were not otherwise there.

Mr. FARR. And then the NAP Program, which allows for those who aren't in the program, there are caps on that that virtually exclude growers in California from being able to participate.

Secretary GLICKMAN. That is correct. Let me just say that in connection with the California crop, much of the California crop under the freeze is covered under that 1998 bill. Some of it is not; most

is. The Deputy has been out there and is more familiar with that than I am.

But we are operating within the guidelines that Congress provided when they passed the bill.

Mr. FARR. Perhaps what, I guess, it gets down to—and my staff can work with you—we need to tell the citrus industry of 1999 what might be available, left over from 1998, that still applies to them, because these are usually measured, you know, like crop losses, what is your income from last year versus your income from this year, and market variation, and all that.

METHYL BROMIDE RESEARCH

The second question is a research one, and it goes to methyl bromide. An always controversial issue. We have been appropriating about \$14-plus million a year for methyl bromide research. The farmers are more and more frustrated that they see that money or hear about the money, but never have it trickle down. I am going to really be watching closely how much the Department has been really working to get that into the field for pre-harvest and post-harvest, rather than, as I understand, a lot of it went to structural alternatives for fumigation of houses and things like that. That is not the direction Congress intended this move to be used.

ORGANIC RESEARCH

My third question is in regards to organic agriculture. You mentioned the number, the 285,000 comments that you received, but what I understand, you have got \$131,000 in this budget for one staff year to continue to implement the proposed rule. It seems to me that that is a one-day job. You have the comments; you had all the rules; you knew which parts of the rules were controversial. Why don't you just eliminate the ones that were controversial, bring the whole package back, and get it done? Why is it going to take so much time to do it? And in the process of getting it done, then you have got to go through OMB again.

Is there an ability to squeeze this? I mean, we have been there. We don't have to reinvent the wheel on this rule.

Secretary GLICKMAN. Well, the problem is that there were controversial parts of this rule: whether genetically-engineered organisms should be included, whether sludge should be in there—and other issues. There are dozens and dozens and dozens of conflicts that still remain on certification, who does it; who pays for it; what is the role of the States; what is the role of the Federal Government? I wish we could get this thing solved overnight. I think we are going to get it done.

Mr. FARR. Well, if those rules had been adopted and the comments weren't there, those are the same issues you would have had to implement them.

Secretary GLICKMAN. We would have had them anyway, but they were, frankly, pushed in the background by some of these high-profile issues. Quite honestly, if I had it to do all over again, I wouldn't have put them in the rule; we asked for comments on them. The fact that we asked for comment on them led people to believe that they were going to be in the rule.

But my belief is that we will have an organic rule out—I have told our folks—this year. At least we will have a rule proposed this year that will go to OMB, and hopefully, we will have something done this year. I can't guarantee you that, but that is my goal.

Mr. FARR. Can you get OMB involved in this dialog ahead of time? They were part of the problem last time.

Secretary GLICKMAN. Yes.

Mr. FARR. And it seems to me we just go back and reinvent the problem. You take another year; you edit it; then you go back to OMB, and then they come back to you, like they did last time—I mean, the law was adopted in 1990 and we are still waiting for implementation.

Secretary GLICKMAN. I voted for that act.

Mr. FARR [continuing]. And we don't even have a rule yet.

Secretary GLICKMAN. I had hair when I voted for that. [Laughter.]

Mr. FARR. This industry is growing. It is a \$4 billion industry, and it is growing at 20 percent a year. I mean, this is just taking off, and we don't have any way of having a rule. It is ridiculous.

Secretary GLICKMAN. Hey, I just recorded your comments, and we are going to take them back to our people. I mean, the truth of the matter is that we ought to be able to get this rule out. I can't tell you it is going to be tomorrow, but we ought to be able to get this rule out this year. It can be done.

Mr. FARR. Well, I am going to make sure that that \$131,000 is really going to get that rule out, because that is a lot of money for something we have not been able to accomplish in the last nine years.

RURAL HOUSING

The last question, rural housing: Would you please examine, have your staff examine, the law that puts the caps on this rural housing? It seems to me that there are caps saying that it can only go to what rural cities are. Rural cities are small cities, and right now what is happening, particularly in States like California, where you are trying to protect agricultural land, you are trying to encourage people to live in cities, and therefore, those cities are growing bigger, and some of them exceed the caps of, I think, 20,000 population for a rural city. We now have farming communities that are a hundred thousand people.

FARM WORKER HOUSING

Also, examine—I think the regulations limit it to farm workers per se, and most of the specialty crops cannot get to market without going through canneries or processors. What you will find is that the same people who are harvesting the fields, there are thousands that are working in the canneries. They are still farm workers, but they are not called that in Federal law. Therefore, they are precluded from living in housing which is much needed.

So I would ask your Department to look into the caps that are on this and see what kind of coordination you can also have with HUD. I think it is ridiculous that USDA goes out there and builds standalone housing. I don't think there is any other agency that does that anymore, except the military.

All housing is being built with collaboratives, and you have HUD out there trying to do housing, except they don't do rural housing and they don't do agricultural housing. Yet, housing is housing is housing, and the people that live in it have to depend on all the other services that we provide. It seems to me, I think we can get a better bang for the buck if we could team up with HUD. They're putting these economic—you know, the same communities that would qualify for farm worker housing often qualify for Rural Economic Enterprise Zones. So there are other Federal dollars in there doing a lot of other things.

This is an area, you heard Rosa DeLauro talk about it. I am very interested in it. I think most of the members of this committee have people who are in agriculture who need places to live, and the cost of living in these communities is too high for them to afford housing. So they are on the streets, sleeping in their cars.

Secretary GLICKMAN. Can I just ask you a question? Are you referring to farm worker housing? Or are you referring more generally to rural housing programs?

MIGRANT FARM WORKER HOUSING

Mr. FARR. Well, I think, frankly, it is very difficult to just put people in a category, and we have done that, saying, your housing—as I understand it, for migrant—part of it is a migratory policy, and you only live in the housing so many months of the year and then you have got to leave, which is ridiculous. You shut down much-needed housing during the wintertime. So these people have to find someplace else to live.

I just met a man who has triplets born in a labor camp in California, raised in a labor camp. They are all American citizens. They all got scholarships. He is a farm worker. He doesn't speak English. He had to go back to Mexico during the time that the labor camp was closed, and he had to leave his daughters, with relatives, so that they didn't have to go back. These are incredible, remarkable kids that have grown up their entire life in labor camps, beautiful people.

But some of these policies we have developed just don't make sense for humanitarian and for economic reasons. So I am suggesting that, if we could look at farm labor housing, the housing that you are authorized to build, and look at some of the caps and restrictions on there, and see if we might be able to have this committee remove some of those, or give you more flexibility, so we can get a better bang for the limited buck—

Secretary GLICKMAN. I think that is very appropriate. We will look at the issue of the caps, as well as on the farm worker housing issue. I did make a trip down to Homestead, Florida to visit a pretty good piece of housing that we built for migrants, but it is, frankly, disgraceful that so few have been built around the United States. And the regulatory requirement may be one of the reasons.

Mr. FARR. Well, I think you could get more collaborative building, and you wouldn't have to just do it yourself.

Thank you very much, Mr. Chairman.

Mr. SKEEN. Thank you. Mr. Kingston.

STATEMENT OF MR. KINGSTON

Mr. KINGSTON. Thank you, Mr. Chairman.

Mr. Secretary, you gave a speech to a group, January 12. I can't remember who it was, but I have read the speech three times and I think it was a good speech. So I commend you on that.

Secretary GLICKMAN. Do you know who it was to, Mr. Kingston?
[Laughter.]

Mr. KINGSTON. I think it was the Farm Bureau. In good congressional fashion, I cited you in the first speech; the second speech said "someone," and the third speech I prefaced the remark with "I've always said" the following. [Laughter.]

But it was a good speech. You touched base on a lot of topics.

LONG-TERM FINANCING

I want to move to long-term financing. Monday I was with a mom and dad and a 30-year-old son who was hoping to inherit the farm, and they missed their E&M. I don't know why they did, but they missed it, the deadline, and if they don't get some long-term money, they are gone. They have been farming since 1959. Ironically, I got in my car after meeting with them and got on the phone to a large farmer who had called me, and he had the same story.

What are we going to do about long-term financing for farmers? I realize it is nothing that you haven't done; it is something that we collectively haven't been able to figure out where we need to go.

Secretary GLICKMAN. Well, you're talking about farm ownership loans, farm operating loans?

Mr. KINGSTON. Yes.

Secretary GLICKMAN. To be perfectly honest with you, Congress has been pretty responsive in providing us the dollars that we have requested over the years. The problem we have had is the agricultural economy has been shaky, and so the use of the traditional lending mechanisms have not been as effective, and so they have come to us to either guarantee these loans or to provide direct loans. It has exhausted our funds.

One of the reasons probably that this particular family was late was because they just probably assumed that we would have the money, and we didn't. We ran out of money, and the deadline took place.

So, in terms of financing in agriculture, it has got to be based on profitability. That is one of the reasons why we talked today about the farm safety net. For a lot of the people who have survived, it is important for them to have a lot more predictability of income than they have had before. The government can't guarantee that, but we can provide some options.

Just for example—it is a little bit off your question—but farmers' markets, have grown exponentially in the last 25 years. We have found that farmers' markets can provide a powerful source of income for people who live reasonably close to suburban or urban areas, and are able to market their products directly. But they have to be encouraged. A lot of them need to know how to do it, and our Extension office has been involved in this kind of thing. We have had a lot of cases of people who have been on the verge

of going out of business, who have been able to stay in business by direct marketing.

You talked about use of cooperatives. We do have increased funding for that.

Somehow we have to provide a higher base income level for producers in order, then, to justify the lending for long-term financing.

Mr. KINGSTON. Well, you know, you already here have pointed out, when the price of a tractor has gone up from \$20,000 to \$90,000, and the corn has fallen, and soybeans have fallen, and, of course, hogs are at the lowest in three decades—you feel sorry for these guys, but you don't know where to turn, because it is not necessarily profitable. But I sure hate losing all the mom-and-dad farmers.

PALMER DROUGHT INDEX

One thing that came up in Georgia during the drought was the Palmer drought index. It seems to be inconsistent and not adequate for the needs of our farmers. We had written a letter to Kenneth Ackerman at Risk Management about it. We need somebody to help us get some answers on that. Can I work with somebody in your office?

Secretary GLICKMAN. Yes. Did you not get a response yet?

Mr. KINGSTON. We have not. December 17, and we are still waiting. There is a big problem—

Secretary GLICKMAN. We will get you a response. I don't know enough about the details.

[The information follows:]



FEB 4 1999

United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

Honorable Jack Kingston
U.S. House of Representatives
1507 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

Thank you for your letter of December 17, 1998, concerning the Palmer Drought Index. You wrote that many constituents complained this Index did not produce fair results.

The Risk Management Agency's (RMA) revision of the Basic Provisions of the Common Crop Policy for the 1998 spring crop year contained a new requirement specifying that drought would be an insurable cause of loss for prevented planting purposes only if on the final planting date for the non-irrigated acreage, the area that was prevented from being planted was classified by the Index as being in a severe or extreme drought. This change was intended to provide a reliable source for consistency when verifying drought as an insured cause of loss in an area.

I am pleased to inform you that in response to producer complaints, RMA will no longer use the Index as a means of establishing the severity of drought, beginning with the 1999 crop year. Section 17(d) of the Common Crop Insurance Policy Basic Provisions now reads as follows:

(1) "Prolonged precipitation deficiencies must be verifiable using information collected by sources whose business it is to record and study the weather, including, but not limited to, local weather reporting stations of the National Weather Service.

I trust this information will be useful to you in responding to your constituent. Please contact me if I can be of further assistance.

Sincerely,

A handwritten signature in dark ink, appearing to read "K. A. Ackerman", written over a horizontal line.

Kenneth D. Ackerman
Administrator



1400 Independence Ave., SW • Stop 0801 • Washington, DC 20250-0801

The Risk Management Agency Administers and Oversees
All Programs Authorized Under the Federal Crop Insurance Corporation

An Equal Opportunity Employer

Mr. KINGSTON. Yes, and we had areas that did not get any rain, but, according to the Palmer drought index, they did not have a problem. So it seemed to just be universal amongst our Georgia farmers that it is a huge problem; yet, in other States it wasn't.

CROP INSURANCE

Also, crop insurance, I know you touched on that. We are all united, I think, on some sort of crop insurance reform.

In the past, the USDA, I believe, has had some tax credits for irrigation equipment. I think in the disaster bill we tried to put something in there. I don't know if anybody remembers that.

Maybe we could look at that, plus, surface water assistance, so we could help with the construction of ponds. What is happening on that bill? Or what can we do, again, together, to make something happen?

Secretary GLICKMAN. Well, I don't know; the Deputy reminds me that the Energy Department had a program—

Mr. KINGSTON. To help with more efficient equipment?

Secretary GLICKMAN. More efficient irrigation equipment.

The NRCS is involved in a variety of activities involving both capital construction and technical assistance on some of these areas. Perhaps we could send somebody over to your office to talk specifically about what we intend to do.

Mr. KINGSTON. That would be great, because we would like to look at irrigation equipment, but we would also like to look at surface water retention, pond construction, and also farming equipment, because we think that that would help a lot.

You also mentioned hogs. I appreciate the \$50 million. It wasn't enough. We need, I guess, to all be aware of that.

SURPLUS FOOD RECOVERY

We passed the Emerson bill in 1996, which you supported, in terms of surplus food going to food shelters. Now I understand that we may need to go back to the Emerson bill and expand it, increase participation more. Have you heard from many of homeless shelters or food banks about that?

Secretary GLICKMAN. Well, I do know that the demands on food shelters are the highest they have ever been. Second Harvest, which is the largest, tells me that a lot of these places are running out of food.

The Emerson bill has helped. There are other options. Some people have said that the tax laws don't encourage the donation of surplus food. We are trying to maybe examine other things that we can do to help people contribute surplus food. But it has done a remarkable amount of good, getting food banks food they wouldn't otherwise get.

Mr. KINGSTON. Well, I think you guys have been proactive in it also.

I have some other questions, but they may have already been asked. So I would like to submit them for the record. Thanks a lot.

Secretary GLICKMAN. I thought you would ask me about sugar. I didn't hear anything.

Mr. KINGSTON. You know, I have been kicked and torn and ripped on sugar, and I am going to let it pass for right now. [Laughter.]

Mr. SKEEN. Safe on first. [Laughter.]

Mr. Boyd.

STATEMENT OF MR. BOYD

Mr. BOYD. Thank you very much, Mr. Chairman. I want to tell you how deeply honored I am to serve on your committee and with Ms. Kaptur and the other members. I guess one of the reasons I am honored is because I have spent all of my life, in agriculture.

Mr. Secretary, I don't envy your job. I am very pleased that you all are here today.

Mr. Rominger and I have had an opportunity to visit on my farm, and I am grateful for him coming out and listening to my constituents and their problems.

Mr. Secretary, I know it is a very difficult time for you to preside over an agency that has jurisdiction over a sector of our economy which is in the tank, at a time when the rest of the economy is doing very well. That is why I don't envy your job and I know it is a difficult one. Having sat through my first meeting of this subcommittee, I recognize now even more how difficult your job must be.

I feel kind of like a kid in a candy store right now, having this opportunity to ask you questions. So, Mr. Chairman, I have got four questions I want to ask. They will be very short questions that can be answered relatively quickly.

CITRUS CANCER

The first one, Mr. Secretary, has to do with the fact that you may know that we have an outbreak of citrus canker in Florida. I have a copy of a letter that I want to deliver to you. The majority and minority staff also have a copy of this letter. So I would like to make it part of the record.

[The information follows:]

ALLEN BOYD
SECOND DISTRICT, FLORIDA
CONSTITUENTS
NATIONAL SECURITY
SMALL BUSINESS

Congress of the United States
House of Representatives
Washington, DC 20515

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PANAMA CITY, FL 32401
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February 10, 1999

The Honorable Dan Glickman
Secretary, Department of Agriculture
14th Street & Independence Avenue, SW
Washington, DC 20250

Dear Secretary Glickman,

As you know, the State of Florida has declared those counties with canker to be in a state of emergency. At the end of last week, we received yet more bad news. Canker has been found in Hendry County. Your Agency, in cooperation with the Florida Department of Agriculture, has evaluated the citrus canker eradication program in Florida and determined that in order for Florida's citrus industry to succeed in eradicating this devastating disease, resources must be immediately provided. I commend your Agency for recognizing the seriousness of this situation and amending the citrus canker regulations on January 26, 1999 to expand the boundaries of the quarantined areas. As printed in the February 1 Federal Register, your Agency states "This action is necessary on an emergency basis to prevent the spread of citrus canker into noninfested areas of the United States." This latest outbreak further illustrates that emergency action must be taken.

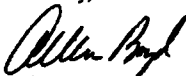
By the end of Florida's fiscal year on June 30, the State of Florida will have spent approximately \$20 million to fight this epidemic. Unfortunately, this is not adequate to address the rapid spreading of this disease throughout Dade and Broward counties where it has been found in residential yards. This latest outbreak in Hendry County shows how easily this bacteria can travel. If this disease is not stopped sooner rather than later, the survival of the entire citrus industry in Florida is in question. To be successful in stopping the spread of this disease, I am requesting, along with my colleagues in the Florida delegation, that an immediate \$20 million in emergency supplemental funds be allocated to double survey teams and tree removal efforts. These funds are necessary now to enhance identification and removal of the diseased trees prior to this summer's growing and hurricane season when the bacteria is known to spread more rapidly.

Page 2

I know you understand the devastation that foreign pests and diseases can bring to an industry. We have a narrow window of opportunity in which we can stop this disease if we act swiftly and decisively. The citrus industry is critical to the well being of Florida's economy. As a farmer who recognizes the severity of this situation, I strongly urge you to include in the Department of Agriculture's emergency supplemental request, the \$20 million necessary to properly eliminate this threat. Furthermore, it has been brought to my attention that you have authority to directly request funding for emergencies from the Commodity Credit Corporation (CCC) with OMB's approval. If this is a viable option, I would ask that you formally make this request to OMB.

Please know that as a member of the House Appropriations Subcommittee on Agriculture, I am looking forward to the opportunity to work with you and your staff to improve the health and viability of our Agriculture Industry.

Sincerely,

A handwritten signature in dark ink, appearing to read "Allen Boyd", written in a cursive style.

Allen Boyd
Member of Congress

Mr. BOYD. It basically outlines our problem with canker and how it has spread significantly over the last few months.

My question simply to you today is: Do we have the capacity within our supplemental appropriations bill to assist the State of Florida in stopping the spread of this canker before it totally destroys the citrus industry in Florida?

Secretary GLICKMAN. Well, let me just say that, obviously, if you put the money in here, we are going to work with you and cooperatively with States to deal with this infestation, which is potentially a catastrophic problem.

We provided some money and technical assistance, and then the State had a lawsuit with the Department on a past cooperative program. But if you put the money in here, we are going to work with you cooperatively.

By the way, I would also suggest that we get some participation from the private sector as well. I think they have an obligation to participate, too.

Mr. BOYD. Those are good points. The State of Florida, as you know, has spent—we have spent \$20 million in this Fiscal Year trying to prevent the spread of this disease. As you know, this evidence indicates canker was carried through a plant which was brought in from Central America. Of course, that came through our Customs inspectors or through our APHIS inspectors, and APHIS is the jurisdiction of your agency. So I think that is why it is appropriate that we would ask for the assistance of the Federal Government.

TOBACCO ISSUE

The second question has to do with an issue that President Clinton addressed in his State of the Union, and that is the tobacco issue. He stated that the Justice Department would be going after the tobacco manufacturers, but the second part of his statement said he would assist the tobacco farmers. I have not read anywhere how he plans to assist farmers. I wonder if you might expand on what the Administrations plan for that is.

Secretary GLICKMAN. I don't have anything more, other than the President has always said that one of the foundations of any settlement with the tobacco industry would have to be a monetary settlement with tobacco farmers; that there would be no settlement of the either actual or potential litigation without providing a fund there.

I also see that some of the States, of course, are working on a settlement situation right now with some of the tobacco farmers, but, yes, the President has repeatedly said that you have to get the farmers into the settlement or else it won't fly. So that is all I can tell you now.

Mr. BOYD. Thank you very much. I know that Mr. Schumacher brought that message to us over a year ago in Florida, and the President has stated that again in his State of the Union, and we want to make sure that we know that you all will honor that.

FOOD SAFETY

The third question—and there has been a lot of discussion here today about food safety. So I won't rehash all that, but there is one

thing that I would like to get your thoughts on, and that is the inspection service now is mostly done at the retail level, the way I understand it, for some of these—

Secretary GLICKMAN. Not USDA. Our inspection is done primarily at the packer level and the plants.

Mr. BOYD. Okay. Well, the listeria that was discovered, wasn't it found at the retail level?

Secretary GLICKMAN. The listeria may have been picked up at the retail level. We do do some sampling at the retail level, yes.

Mr. BOYD. Well, maybe that is the specific area of your inspection service that we ought to talk about, because of its detection at the retail level.

Secretary GLICKMAN. But then we traced it back to the plant, and the plant was ultimately closed because we found it.

Mr. BOYD. The issue that I believe we need to discuss—you are more of an expert on this than I am—is the issue of whether it better to conduct inspections at the wholesale level or retail level. Because once you inspect and find it at the retail level, it usually has been purchased by other consumers and often consumed. By then its too late.

Secretary GLICKMAN. It really takes what we call a farm-to-table approach. In fact, everybody has to be cooperative, from the producers all the way through the system. But what you often find is that when the animal comes into the actual packing facility, it comes in dirty and carries with it organic material; it has to be cleaned. That is where most of the disease comes from, is organic material. That is where you spend most of your resources, but it doesn't mean that you can't have problems all the way into somebody's house, where they don't wash their hands. After all, we estimate that about 50 percent of all food-borne illnesses can be solved by just people doing the necessary, effective, appropriate hygiene techniques. So it is an across-the-board problem.

Mr. BOYD. Okay. Well, I will set up an appointment with some of your folks to talk more specifically about this, if that would be okay with you.

Secretary GLICKMAN. Sure.

Mr. BOYD. Mr. Chairman, do I have time for one more?

Mr. SKEEN. Certainly.

CROP INSURANCE

Mr. BOYD. This has to do with a subject near and dear to my heart, and that is the 1996 farm bill. Prior to my coming to Congress, I traveled to Washington and talked to my delegation (Florida) about his legislation. I expressed to my delegation that I believed the 1996 farm bill was the wrong thing to do. Now many of the fears, many of the things that I feared would happen have happened.

I notice that you stated in your opening remarks—and I will try to paraphrase—that when we passed the 1996 farm bill, the economy was good; world markets were good. You also said ad hoc disaster assistance is unworkable long term; and that we must develop an insurance program that addresses long-term stability. Again, that is a paraphrase, but I believe that is basically your statement.

Exports cannot serve as the only safety net. Domestic Federal programs also have to be in place to serve as a safety net.

I believed we had a Federal domestic ag policy which served this country well for many, many, years and was, within the big budget picture affordable. As a matter of fact, the new program cost more in the first two years than the old program would have cost under the existing scenario.

We all recognize that we are going to have weather problems; we are going to have pest problems; we are going to have yield problems, and we have the technology skills and know we can survive and compete in the long term dealing with these factors. Where we can't compete is with a Federal policy, or a lack of a Federal policy, that puts us at a disadvantage in competing in the world market.

I want to continue to have a dialog with you as we develop a crop insurance program, and encourage the solution not to be centered around insuring revenue or we insure yield. I mean, all of those things, our farmers can come up with innovative ways to deal with those factors. The financing, you know, that Mr. Kingston referred to is easy if we are making a profit. At that point, there will be lots of people that will want to lend us money.

What we can't deal with is a world market that drops the price of a bushel of wheat to such a level that a Kansas wheat farmer makes a record crop and still loses \$100 an acre. Those are the things that we can't insure against.

Maybe if you would like to comment briefly, and then I would like to have a discuss with you at some future time.

Secretary GLICKMAN. Well, let me just say that the old farm bill also cost a lot of money in some years. When prices were down, it cost money, because it protected farmers for a drop in the price of wheat. I guess in the late 1980's, we spent \$26 billion one year on the farm program. That is a lot of money, which is more than the \$18 billion we expect to spend in 1999.

But I do agree with you that the current scenario doesn't work very well when you do not have the kind of basic floor that protects the more vulnerable. The well-capitalized can survive a lot better than the more vulnerable, especially farmers who are heavily leveraged up. It is a problem that particularly affects small and medium-sized farmers who are going out of business at a far faster rate.

Now the trick is to find something that is reasonably affordable. Americans have the best bargain in the world on food. We spend a pittance compared to what the rest of the world does. Also, how do you find something that doesn't unnecessarily interfere in the marketplace, because the natural forces of the markets are still going to determine prices; but what you want to do is to help people deal with the peaks and valleys. I just don't think that in the current situation, the farm bill works as well as it should.

Maybe some sort of revenue insurance should be considered, I wouldn't discount that. If you can get somebody to go out and buy an insurance policy that protects their revenue based on what they made over the last five years. We are doing some pilots now out in Iowa and Illinois and Nebraska that may work pretty well. I don't think there is a remedy that is totally inexpensive, but I

think there are some options out there; they can do a better job than what we are currently doing.

Mr. BOYD. Mr. Chairman, that really is my last question, but, as a follow-up comment, you know, in the Southeast we are probably going to do all right, because we have got some specialty crops which are doing o.k. It's your Midwest farmers that are in trouble.

I would submit to you that if you see corn stay at \$1.75 for four or five years and wheat at \$2.00 or \$2.50, whatever it is, I don't care how well-capitalized you are; you are not going to be farming. I just think that over long term that our ag economy, is in deep trouble, if we continue to have a national ag policy that doesn't deal with this.

Secretary GLICKMAN. Let me just say that based on our latest crop report for this crop year we are projecting the 1998-1999 crop for corn at between \$1.80 and \$2.10 a bushel. That is the range. So the point estimate is \$1.95. That is not very good.

We are projecting wheat at about \$2.70 a bushel, and rice at about \$8.50 a hundredweight, and soybeans about \$5.20 a bushel. These are tough prices. You are right; I don't want to preside over a Department in which farmers are being hit with prices like this.

Then you look at the livestock side of the picture; it is going to get better, but, still, the livestock side is also not as strong as I would like it to be.

That is why historically, since the 1930's, we have said to people in this country, you need a farm policy that helps when times are bad and prices are low, and then triggers out when times are good. That is what we really don't have right now, and I think that is what we have to really seriously talk about.

Mr. SKEEN. Thank you.

Mr. Latham.

STATEMENT OF MR. LATHAM

Mr. LATHAM. Thank you, Mr. Chairman, and I look forward another two glorious years on your committee, under your leadership. Welcome, Mr. Secretary. It is good to see you.

Secretary GLICKMAN. Thank you.

Mr. SKEEN. You have about two years' worth here already. [Laughter.]

Mr. LATHAM. Apparently, we are not going to get a second round here. [Laughter.]

Mr. SKEEN. Well, we will try.

EMBARGOES

Mr. LATHAM. Okay. Well, I am not going to get into a debate on the farm bill, but there was a commitment made to give support for exports to be against embargoes, and Ms. Emerson brought up that, to give tax relief, to give regulatory relief, and we applaud the administration on every area through this. It would be as if you set down a policy to try and fail, and if you go through support for exports; what we have done in our markets overseas, it is unbelievable.

The Commission, the Glickman Commission, I just see this press release here. "The Agriculture Department hasn't made enough

progress in its efforts to help small farmers, say several members of the USDA-appointed Commission . . . agency rated a 'D' for its efforts to ensure fair market access for those farmers." I think that is maybe somewhat indicative of some of the problems we have. I don't want to get into all that right now.

LIVESTOCK ASSISTANCE

But, as you know, Mr. Secretary, we have a real disaster going on in the livestock arena. I just find it absolutely incredible that the administration would go out, take \$50 million out of the School Lunch Program, food for children; give it to farmers, and then come back with a budget that has \$504 million of new taxes that is going to come right out of the hides of the livestock producers in the form of user fees. I mean, do you have any credibility when you come with a budget like that? It is simply beyond any kind of decency, as far as respect for the livestock producer out there today. I mean, these people are dying, and you are going to take another half billion dollars out of their hides out there.

Secretary GLICKMAN. Do you want me to respond?

Mr. LATHAM. Yes.

Secretary GLICKMAN. Well, first of all, look, the problems of agriculture are worldwide, Tom. It is not just in the United States. Hog producers in Canada, beef producers in Argentina, grain and soybean producers in Australia—I mean, we have a worldwide problem in agriculture. So I think we need to be fair. I am sure that we in the administration have some responsibility for the problems in the world, and I accept it. But I don't think it is fair to characterize the world economic conditions as caused by me or President Clinton, or anybody else. These are tough problems. The world changed pretty quickly. I think that is important.

Now on the pork program, these people are having tough times. Prices went from \$60 a hundredweight to \$10 a hundredweight in four months. I had to do something. I increased pork purchases significantly. I have a \$100 million section 32 reserve fund. The section 32 statute also gives me authority to make direct payments to farmers for almost any reason. I don't think we have done it anytime in the last 30 or 40 years. I decided to take \$50 million out of that \$100 million to use it for this, when it was going to be in a reserve account anyway. I wish it could have been \$500 million, but it is all the money that I had. I did it the best way that I possibly could. It may help a few people. It may not help a lot, but it is better than nothing.

USER FEES

On the user fees, that money has been in the budget since Ronald Reagan was President. It has been presented—Reagan, Bush; I don't know if Carter put it in there or not. Then in this year's budget Congress has—it does amount to about 1 cent a pound. We think you see those kinds of user fees with the FAA, the Securities and Exchange Commission, other kinds of industries. But I am not naive. I am probably going to probably believe that you all have different ideas than we do on that. [Laughter.]

Mr. LATHAM. Did you even send up a bill last year?

Secretary GLICKMAN. Pardon?

Mr. LATHAM. Did you even send up a bill for user fees last year?

Secretary GLICKMAN. Yes.

Mr. DEWHURST. Yes, sir, we did, in July.

Mr. LATHAM. Who? Who had it?

Secretary GLICKMAN. I don't know. It probably was the Agriculture Committee, I would guess, the authorizing committee.

Mr. LATHAM. Okay.

Secretary GLICKMAN. I am going to guess.

Mr. LATHAM. And you are going to send it up again this year?

Mr. DEWHURST. Yes. We have been told that the administration will submit a single budget bill that has all these proposals in it, and the target date for that is by mid-March.

SUPPLEMENTAL LIVESTOCK ASSISTANCE

Mr. LATHAM. You know, back in the worst of the hog crisis—what?—\$130 million, \$150 million a week that producers were losing? In the supplemental you are talking about—do you have any kind of a cost estimate? I guess, in a followup, do you have a position as far as direct payments to livestock producers?

Secretary GLICKMAN. Well, of course, we open the door by providing \$50 million in direct payments. I think this would ultimately be a congressional decision, whether you all would want to.

Mr. LATHAM. Do you have a position?

Secretary GLICKMAN. I don't have a position on it.

Mr. LATHAM. Okay.

Secretary GLICKMAN. The fact is that if Congress passed a program of providing direct payments, I am sure that we would probably support it. But we would like to have a role in structuring it with you. I don't know how much it would cost. I don't know how the livestock industry would respond to it, because, in fact, a lot of the pork producers were not happy when we set up the program in the first place.

Mr. LATHAM. That is because most of them couldn't qualify for it.

You have got the accelerated pseudo-rabies eradication program. In light of the problems we have with the packer facilities running the full capacity and the rendering houses packed, how do you propose that you do all this in—what?—six months, you are talking about? How are you going to kill them and where are you going to put them?

Secretary GLICKMAN. I think they are going to rendering facilities, not to packing facilities.

PACKER/RENDERING CAPACITY

Mr. LATHAM. Well, they have a backlog also. I don't know if you are going to build new ones or if you are going to put a bunch of new staff out there to kill hogs or what. I don't know how you are going to do that.

Secretary GLICKMAN. The best I can do is try to get back to you on that. We believe that there is capacity at some rendering facilities around the country, and that's one of the reasons why we decided to do it in this way, where there wasn't capacity at slaughter facilities. There may be some that goes to local community food banks as well for rendering.

[The information follows:]

PSEUDORABIES

For each State, APHIS worked with the official State Pseudorabies epidemiologist, the State Veterinarian, and the State Pseudorabies Advisory committee to develop plans to euthanize and remove animals from premises. Pseudorabies infected herds are concentrated in some areas, with multiple farms and many hogs infected. In other locations, the herds are dispersed over a wide area. Due to this dichotomy, separate plans for euthanasia and disposal were considered because of the different needs and resources available.

In areas with less than 100 infected small herds, the young and adult hogs are euthanized on the farm using cost effective, humane methods such as a penetrating captive bolt gun followed by pithing. Carbon dioxide is used for very small pigs and chemical euthanasia for piglets. The euthanized hogs are then loaded into rendering trucks on the farm in most cases. Burial in some circumstances is considered.

In areas where a large number of pigs from a large area are infected, a centrally located facility is organized for the humane euthanasia. In general, the site allows for easy access for several loading options, has limited access for safety and biosecurity reasons, is secluded because of the sensitivity of the activity, and has an office area with customary equipment. The site is near a rendering plant and the pseudorabies infected premises. In some areas, packing facilities are being used to humanely euthanize the pigs. After the animals are humanely euthanized, they are transported to a rendering facility.

Some rendering firms have changed their position on payment for rendering the carcasses. As they have processed the carcasses, the prices of their products have declined and they now wish to charge USDA for the service. APHIS has considered incinerating or burying the carcasses in some cases rather than pay for this. Some packing facilities used for euthanasia and certain rendering firms are operating at full capacity. Services connected with the accelerated program at these firms are being performed during off-hours, at additional cost. Despite these obstacles, the accelerated program continues to reduce the number of known pseudorabies infected herds.

Mr. LATHAM. But how are you going to—who is going to slaughter them?

Secretary GLICKMAN. The renderer would do the slaughtering, if it went to rendering facilities. That would be in most cases what would happen.

Mr. LATHAM. You are going to send the hogs to the rendering service to have them slaughtered to go to the food—

Secretary GLICKMAN. No, I am sorry; those are two separate things. In some cases they might go to a packing plant for slaughtering for food banks, but in most cases they would go to rendering facilities.

Mr. LATHAM. But you understand the whole problem pricewise was that the packers have extra hogs out there right now.

Secretary GLICKMAN. I understand that, and that is why they are going to the rendering facilities. There are some packers who indicated there is a small amount of space available for local food bank type of operations.

Mr. Collins wants to comment.

Mr. COLLINS. One comment about the capacity of packing plants. In December we were slaughtering nearly 400,000 hogs a day and 200,000 on Saturdays. The most recent data showed that we are down to about 375,000 or so per day. We are down to about 375,000 per day during the week, and last Saturday we did about 80,000, which is well below what we were doing in December. So I think there is some capacity starting to emerge now.

WETLANDS CONSERVATION

Mr. LATHAM. As you are well aware, that is maybe one of the reasons why we are back up to \$28 now, and if you dump a bunch of hogs in that system, you are probably going to take it back to \$8 again. It could very well happen.

One thing, we have a tremendous problem in Iowa, and it has come to my attention that the NRCS has doubled the required wetlands mitigation acreage for prior converted acres. As you are maybe aware, we have a tremendous problem with agricultural drainage wells in the center of my district. These are holes punched through the bedrock to go directly into the aquifer, back 90, 100 years ago. We are trying to cap them because this is in the center of a lot of these concentrated livestock facilities, so that we don't destroy the aquifer down there.

The drainage districts say that, since they have made application, you have doubled the number of acres required for mitigation. I am just wondering how you can go——

Secretary GLICKMAN. As far as you know, is this an Iowa-based requirement only?

Mr. LATHAM. No, it is for NRCS.

Secretary GLICKMAN. But done by the State conservationists in Iowa? I wonder, is it a national rule? Because I am unfamiliar with it.

Mr. LATHAM. I don't know. They are having to deal with this from the NRCS.

Secretary GLICKMAN. Okay, I will get to the bottom of this and give you an answer by the end of the week.

[The information follows:]



United States
Department of
Agriculture

Natural Resources
Conservation
Service

P.O. Box 2890
Washington, D.C.
20013

APR 07 1990

Honorable Tom Latham
U.S. House of Representatives
516 Cannon House Office Building
Washington, D.C. 20515-1505

Dear Congressman Latham:

Thank you for your questions concerning wetland mitigation issues regarding the drainage well closures by Drainage District 176 in Iowa. We have attempted to setup a meeting to fully explain and discuss the issues, but have been unable to secure a time to visit with you or your staff. Our Natural Resources Conservation Service (NRCS) staff in Iowa has discussed the project with your staff in your Iowa office.

In case we are unsuccessful in securing an appointment with you to fully discuss the situation, we offer the following answers to your questions:

- *Q. Has NRCS changed mitigation requirements?* NRCS has not changed mitigation requirements. The Corps of Engineers (COE) has determined this project required a Section 404 permit per the Clean Water Act (CWA). Therefore, the COE has jurisdiction over the mitigation requirements. NRCS is responsible for implementing the wetland conservation provisions of the 1985 Food Security Act (FSA). NRCS in Iowa, while assisting the Trustees of Drainage District 176, used an approved functional assessment procedure to determine the amount of mitigation needed to meet statutory requirements of both Section 404 of CWA and FSA.
- *Q. Has NRCS doubled the required wetland mitigation acres for prior converted acres?* The Agency has not doubled the wetland mitigation acre requirements for prior converted cropland. Based on the wetland conservation provisions of FSA, prior converted croplands are exempt and do not require mitigation for drainage activity. However, the COE may require a 404 permit if they determine these areas are jurisdictional wetlands.
- *Q. Has NRCS doubled the number of acres required for mitigation?* NRCS has not doubled the number of acres required for mitigation. COE has determined this project required a Section 404 permit per the Clean Water Act. Therefore, the COE has jurisdiction over the mitigation requirements. At the request of the Trustees of Drainage District 176, COE, not NRCS, determined the amount of mitigation required as part of the 404 permit. Based on the FSA statute, NRCS has accepted the COE's mitigation decision as adequate for the wetland conservation provisions.

The Natural Resources Conservation Service (NRCS),
formerly the Soil Conservation Service, is an agency of the
Department of Agriculture

An Equal Opportunity Employer

-2-

NRCS has made a good faith effort to assist the Trustees of Drainage District 176 with identification of wetlands and statutory requirements. Based on application by the drainage district, COE has issued a 404 permit to the district on March 4, 1999. See attached copy. NRCS in Iowa will continue to assist the district with planning and implementing the mitigation required by COE.

Again, thank you for your interest and questions concerning wetland conservation in Iowa. We look forward to discussing these issues with you.

Sincerely,

A handwritten signature in cursive script, reading "Thomas A. Weber".

THOMAS A. WEBER
Deputy Chief for Programs

Attachment

DEPARTMENT OF THE ARMY PERMIT

Permit Number: CEMVR-RD-361460

Section 404

Permittee: Pocahontas County Board of Supervisors
 Pocahontas County Courthouse
 99 Court Square
 Pocahontas, Iowa 50574

POC: Mr. Paul Beneke

TEL: 712/335-3351

Effective Date: 4 March, 1999

Expiration Date: December 31, 2005

Issuing Office: U.S. Army Corps of Engineers, Rock Island District
 Clock Tower Building - P.O. Box 2004
 Rock Island, Illinois 61204-2004

You are authorized to perform work in accordance with the terms and conditions specified below.

NOTE: The term "you" and its derivatives, as used in this permit, means the Permittee or any future transferee. The term "this office" refers to the appropriate district or division office of the Corps of Engineers having jurisdiction over the permitted activity or the appropriate official of that office acting under the authority of the commanding officer.

Project Description: The Permittee is authorized to perform activities within Drainage District No. 176 associated with the closure of 36 agricultural drainage wells, replacement of drainage that is currently provided by the 36 wells, improvements of existing drainage, and mitigation for wetlands that will be impacted with the improved drainage.

a. Closure of Agricultural Drainage Wells. All 36 agricultural drainage wells within Drainage District No. 176 will be plugged and their cisterns removed and filled. Also, all drainage tile within 10 feet of the wells will be removed. The drainage tiles will then be rerouted to a new drainage ditch (see next paragraph).

b. Replacement Drainage. When completed, the project will include approximately 3.75 miles of open drainage ditch and 8.25 miles of subsurface drainage tile lines constructed as alternate drainage. The ditch will have a 4-foot-bottom width, from 1.5:1 to 2:1 (H:V) side slopes, and depths of from 9.5 to 18 feet. The ditch will drain to the west into North Branch Lizard Creek. Subsurface drainage tiles will include a main tile extending off the end of the ditch and tile laterals. The tile laterals will provide alternate drainage outlets for drainage tile that currently outlet into agricultural drainage wells. Many of the shorter, smaller tile laterals and those affecting only one or two landowners may be constructed privately.

c. Drainage Improvements. Currently, there are 31 wetlands amounting to 105.8 acres within Drainage District No. 176. All but 7 of the 31 wetlands are intensively cropped. All 31 have drainage tiles in place. The Permittee will completely convert all but one of the cropped wetlands and 5 of the 7 non-cropped wetlands with the improved outlets created by the new open drainage ditch end tiles. If wetland hydrology persists after the drainage ditch and tile laterals are completed, additional drainage works may be constructed by the landowners. Drainage of three wetlands (49.2 acres) within a Fish and Wildlife Service easement area will be avoided by this project.

d. **Wetland Mitigation.** This project will adversely affect 56.6 acres of farmed wetland through filling and drainage. The Permittee will mitigate these adverse effects by restoring prairie pothole wetlands in Dickinson County and in western Pocahontas County. The Permittee will restore a total of approximately 30.8 acres of prairie pothole wetlands in 16 small basins and establish a 50-foot-wide native grass buffer around each basin. The grass buffers will total approximately 21.4 acres. The restorations will take place on a 136-acre parcel of land currently being acquired by the Iowa Department of Natural Resources in Dickinson County and on a 160-acre property currently owned by the Iowa Natural Heritage Foundation in Pocahontas County.

1. The restoration work in Dickinson County will include the restoration of approximately 21 acres of prairie pothole wetland within 16 small basins and the establishment of a 50-foot-native grass buffer around each wetland basin. All drainage tile that currently affects the 16 basins will be located and plugged or otherwise made non-functioning. Berms and/or other water control structures will be constructed as required to insure that acreage is restored in each basin according to drawing sheet 6 of 12.

2. The restoration work in Pocahontas County will include the restoration of approximately 9.8 acres of prairie pothole wetland in a single basin and the establishment of a 50-foot-native grass buffer on three sides of the basin. All drainage tile that currently affects the basin will be located and plugged or otherwise made non-functioning. Berms and/or other water control structures will be constructed as required to insure that at least 9.8 acres are restored in the basin.

Project Locations and Plans.

a. **Main Project Location.** Wetlands in Sections 19, 20, 21, 22, 23, 26, 27, 28, 29, 30, 31, 32, 33, and 34, Township 92 North, Range 31 West, Pocahontas County, Iowa.

b. **Mitigation Area Locations.** Prior-converted cropland in Section 13, Township 100 North, Range 37 West, Dickinson County, and in Section 20, Township 91 North, Range 34 West, Pocahontas County, Iowa.

c. In accordance with the plans and drawings attached hereto which are incorporated in and made a part of this permit. Drawings No. 351460:

Sheet 1 of 12,	Location Maps and Typical Plan to Reroute Tile
Sheet 2 of 12,	DD 176 Boundaries, Ditch Location, and Tile Laterals
Sheet 3 of 12,	Locations of Existing Wetlands
Sheet 4 of 12,	Drainage Well and Wetland Data
Sheet 5 of 12,	Wetland Mitigation Locations
Sheet 6 of 12,	Wetland Mitigation Plan for Dickinson County Site
Sheet 7 of 12,	Wetland Restoration Information for Dickinson County Site
Sheet 8 of 12,	Vicinity Map for Pocahontas County Mitigation Site
Sheet 9 of 12,	Wetland Mitigation Plan for Pocahontas County Site
Sheet 10 of 12,	Restoration Plan for Pocahontas County Site
Sheet 11 of 12,	Water Control Structure for Pocahontas County Site
Sheet 12 of 12,	Water Control Structure for Pocahontas County Site

Permit Conditions:**General Conditions:**

1. The time limit for completing the work authorized ends on the date specified on page 1. If you find that you need more time to complete the authorized activity, submit your request for a time extension to this office for consideration at least one month before that date is reached.
2. You must maintain the activity authorized by this permit in good condition and in conformance with the terms and conditions of this permit. You are not relieved of this requirement if you abandon the permitted activity, although you may make a good faith transfer to a third party, in compliance with General Condition 4 below. Should you wish to cease to maintain the authorized activity or should you desire to abandon it without a good faith transfer, you must obtain a modification of this permit from this office, which may require restoration of the area.
3. If you discover any previously unknown historic or archaeological remains while accomplishing the activity authorized by this permit, you must immediately notify this office of what you have found. We will initiate the Federal and state coordination required to determine if the remains warrant a recovery effort or if the site is eligible for listing in the National Register of Historic Places.
4. If you sell the property associated with this permit, you must obtain the signature of the new owner in the space provided and forward a copy of the permit to this office to validate the transfer of this authorization.
5. If a conditioned water quality certification has been issued for your project, you must comply with the conditions specified in the certification as special conditions to this permit. For your convenience, a copy of the certification is attached if it contains such conditions. (Condition is not applicable for Section 10 Permits.)
6. You must allow representatives from this office to inspect the authorized activity at any time deemed necessary to ensure that it is being or has been accomplished in accordance with the terms and conditions of your permit.

Special Conditions:

1. That if construction work uncovers an item or items that may be of historic or archaeological interest or if important new historical data comes to light in the project area, the work must be delayed sufficient time to notify the U.S. Army Corps of Engineers, Rock Island District, Clock Tower Building - Post Office Box 2004, Rock Island, Illinois 61204-2004 (telephone 309/794-5384), and the State Historical Society of Iowa, Bureau of Historic Preservation, Historical Building/Capitol Complex, Des Moines, Iowa 50319 (telephone 515/281-5111), and to allow the significance of the discovery to be determined. The Permittee will be held responsible for all costs associated with actions due to the above requirements.
2. That all terms and (General, Mitigation, and Special) conditions contained in the attached letters and Section 401 Water Quality Certifications from the Iowa Department of Natural Resources, dated February 23 and March 1, 1999, are considered to be part of this permit.
3. That the Permittee shall complete construction of all wetland mitigation contained within this permit by the end of the year 2000 growing season.

4. That the Permittee will perform all work described herein to the satisfaction of the District Engineer. The Permittee will perform any corrective measures deemed necessary and directed by the District Engineer to correct deficiencies and/or insure the success of the wetland mitigation.

5. As-constructed drawings of the mitigation sites will be submitted to the Corps of Engineers, Rock Island District Office within 30 days of completion of the wetland mitigation. The drawings must include details of any structures constructed at the wetland mitigation sites, a list of species planted, the location of all plantings, cross sectional drawings of all fill and excavations, the locations of photo points, the location of any water monitoring-sites, and the actual boundary of the new wetlands within the mitigation sites.

6. That all disturbed areas at the mitigation sites will be seeded with native prairie species and that for the length of this permit, any of the seeded areas without at least 50% vegetative cover will be re-seeded with appropriate species at the beginning of each growing season.

7. That within 2 years after completion of the wetland mitigation, over 50% of the dominant plant species will be hydrophytes. If over 50% of the dominant plant species are not hydrophytes, additional steps will be taken to meet this condition. The Permittee will assume all liability for accomplishing this corrective work.

8. The Permittee will submit wetland mitigation monitoring reports on an annual basis for a minimum of five years.

- Monitoring must begin the first full growing season after the construction and planting of the wetland mitigation site and must occur during the growing season.
- The reports must include photos taken at consistent photo points, a list of dominant vegetative species, a map showing vegetative cover types, the average percent cover for each dominant vegetative species, the success rate of plantings, an assessment of wetness indicating the presence or absence of wetland hydrology (wetland hydrology is defined as inundation of 2 feet or less and/or saturation within 12 inches of the ground surface for at least 5% of the average growing season), an assessment of any structures, a detailed map showing what parts of the mitigation sites are wetland according to the 1987 Corps of Engineers Wetlands Delineation Manual, and details of any corrective actions taken or needed.
- The reports must be submitted to the Corps of Engineers, Rock Island District Office by August 31 of each year.

9. That the banks of the drainage ditch and the area within the banks of North Branch Lizard Creek at and near the mouth of the drainage ditch will be maintained in a stable condition.

10. The wetland mitigation sites will be turned over to others for stewardship and management. The site in Dickinson County will be turned over to the Iowa Department of Natural Resources and the wetland mitigation site in Pocahontas County will be turned over to the Pocahontas County Conservation Board. The Permittee is responsible for and will assure that all necessary agreements or other necessary legal instruments with the future stewards/owners of the mitigation sites are fully executed and will be in accordance with the terms and conditions of this Department of the Army authorization.

Further information:

1. Congressional Authorities: You have been authorized to undertake the activity described above pursuant to:

() Section 10 of the Rivers and Harbors Act of 1899 (33 U.S.C. 403).

(X) Section 404 of the Clean Water Act (33 U.S.C. 1344).

() Section 103 of the Marine Protection, Research and Sanctuaries Act of 1972 (33 U.S.C. 1413).

2. Limits of this authorization.

a. This permit does not obviate the need to obtain other Federal, state, or local authorizations required by law.

b. This permit does not grant any property rights or exclusive privileges.

c. This permit does not authorize any injury to the property or rights of others.

d. This permit does not authorize interference with any existing or proposed Federal project.

3. Limits of Federal Liability. In issuing this permit, the Federal Government does not assume any liability for the following:

a. Damages to the permitted project or uses thereof as a result of other permitted or unpermitted activities or from natural causes.

b. Damages to the permitted project or uses thereof as a result of current or future activities undertaken by or on behalf of the United States in the public interest.

c. Damages to persons, property, or to other permitted or unpermitted activities or structures caused by the activity authorized by this permit.

d. Design or construction deficiencies associated with the permitted work.

e. Damage claims associated with any future modification, suspension, or revocation of this permit.

4. Reliance on Applicant's Data: The determination of this office that issuance of this permit is not contrary to the public interest was made in reliance on the information you provided.

5. Reevaluation of Permit Decision. This office may reevaluate its decision on this permit at any time the circumstances warrant. Circumstances that could require a reevaluation include, but are not limited to, the following:

a. You fail to comply with the terms and conditions of this permit.

b. The information provided by you in support of your permit application proves to have been false, incomplete, or inaccurate (See 4 above).

c. Significant new information surfaces which this office did not consider in reaching the original public interest decision.

Such a reevaluation may result in a determination that it is appropriate to use the suspension, modification, and revocation procedures contained in 33 CFR 325.7 or enforcement procedures such as those contained in 33 CFR 326.4 and 326.5. The referenced enforcement procedures provide for the issuance of an administrative order requiring you to comply with the terms and conditions of your permit and for the initiation of legal action where appropriate. You will be required to pay for any corrective measures ordered by this office, and if you fail to comply with such directive, this office may in certain situations (such as those specified in 33 CFR 209.170) accomplish the corrective measures by contract or otherwise and bill you for the cost.

6. Extensions. General condition 1 establishes a time limit for the completion of the activity authorized by this permit. Unless there are circumstances requiring either a prompt completion of the unauthorized activity or a reevaluation of the public interest decision, the Corps will normally give favorable consideration to a request for an extension of this time limit.

Your signature below, as Permittee, indicates that you accept and agree to comply with the terms and conditions of this permit.

Trustees D.D. 176 Pocahontas County
Board of Supervisors

Paul R. Bessie
Permittee Chairman

3-2-99
Date

The Issuing officer for this permit is James V. Mudd, Colonel, U.S. Army, District Engineer, Rock Island District.

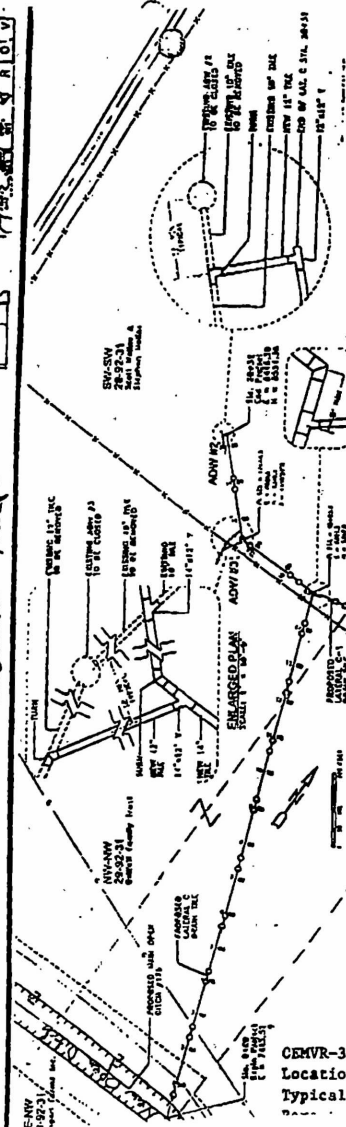
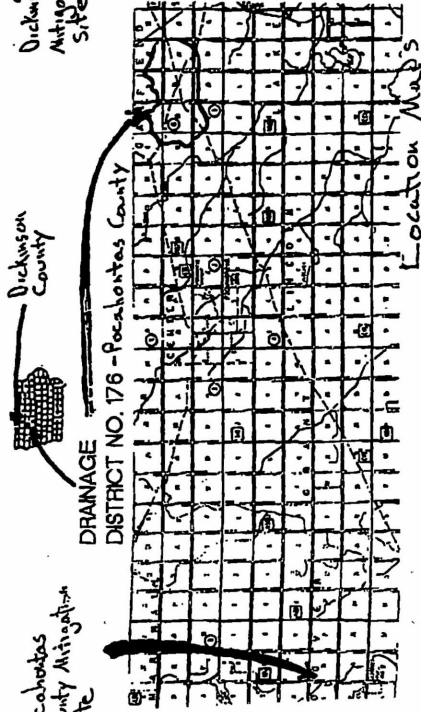
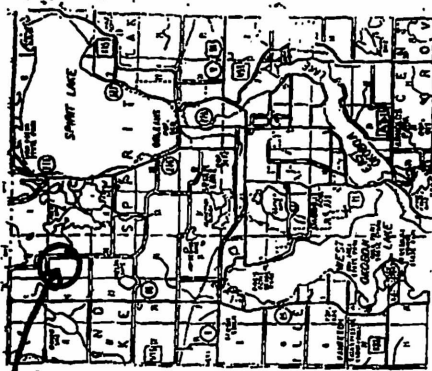
James V. Mudd
Colonel, U.S. Army
District Engineer

3/4/99
Date

When the structures or work authorized by this permit are still in existence at the time the property is transferred, the terms and conditions of this permit will continue to be binding on the new owner(s) of the property. To validate the transfer of this permit and the associated liabilities associated with compliance with its terms and conditions, have the transferee sign and date below.

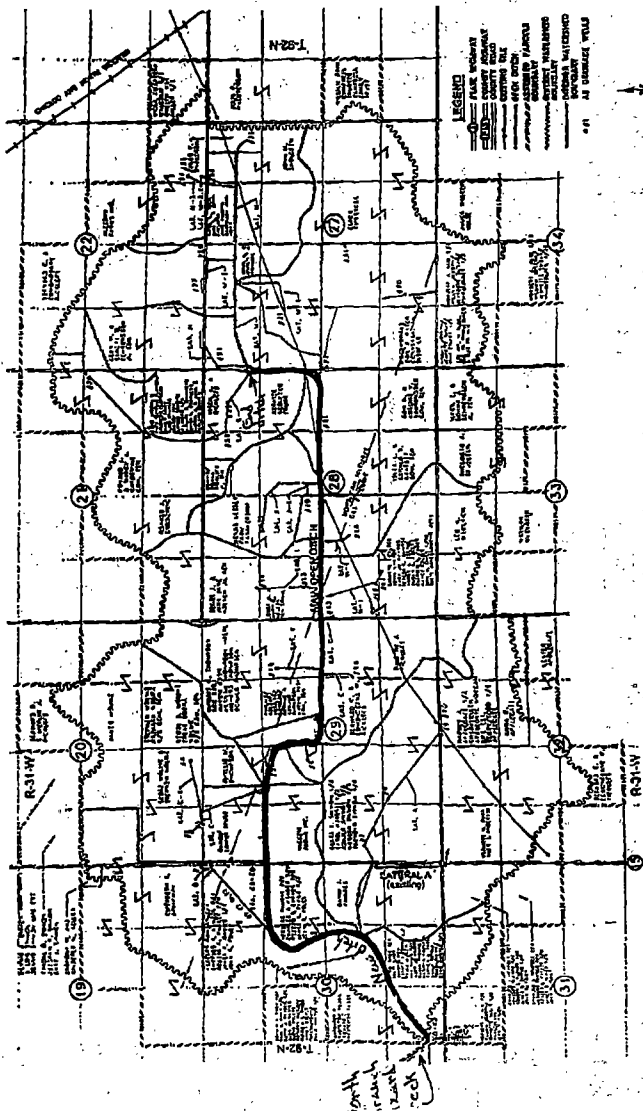
Transferee

Date



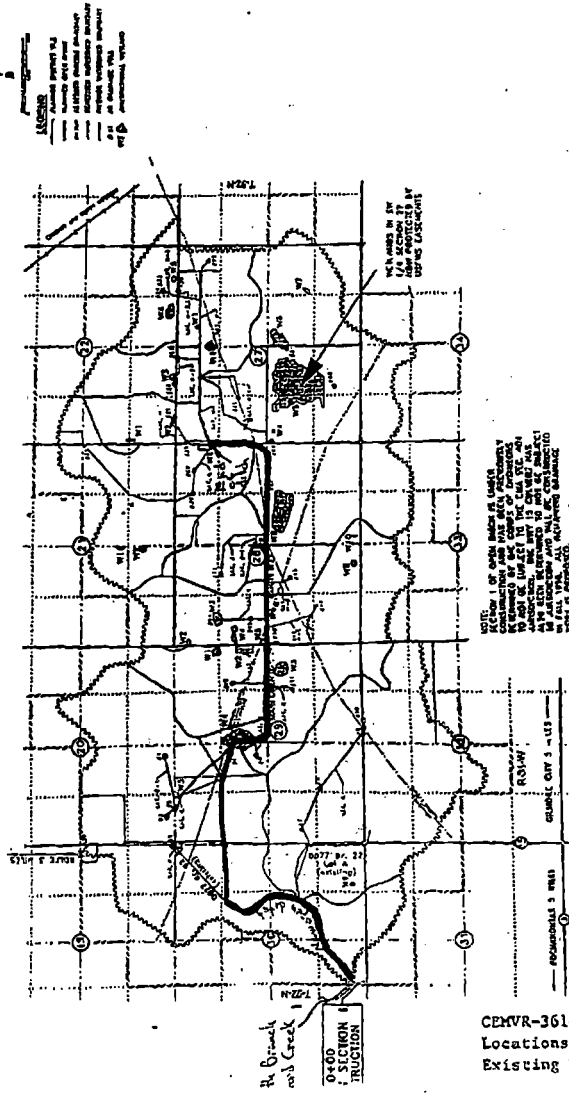
Typical Plan to Re-route
Tiles around Ag. Drainage wells.

CEMVR-361460
Location Maps and
Typical Plan to

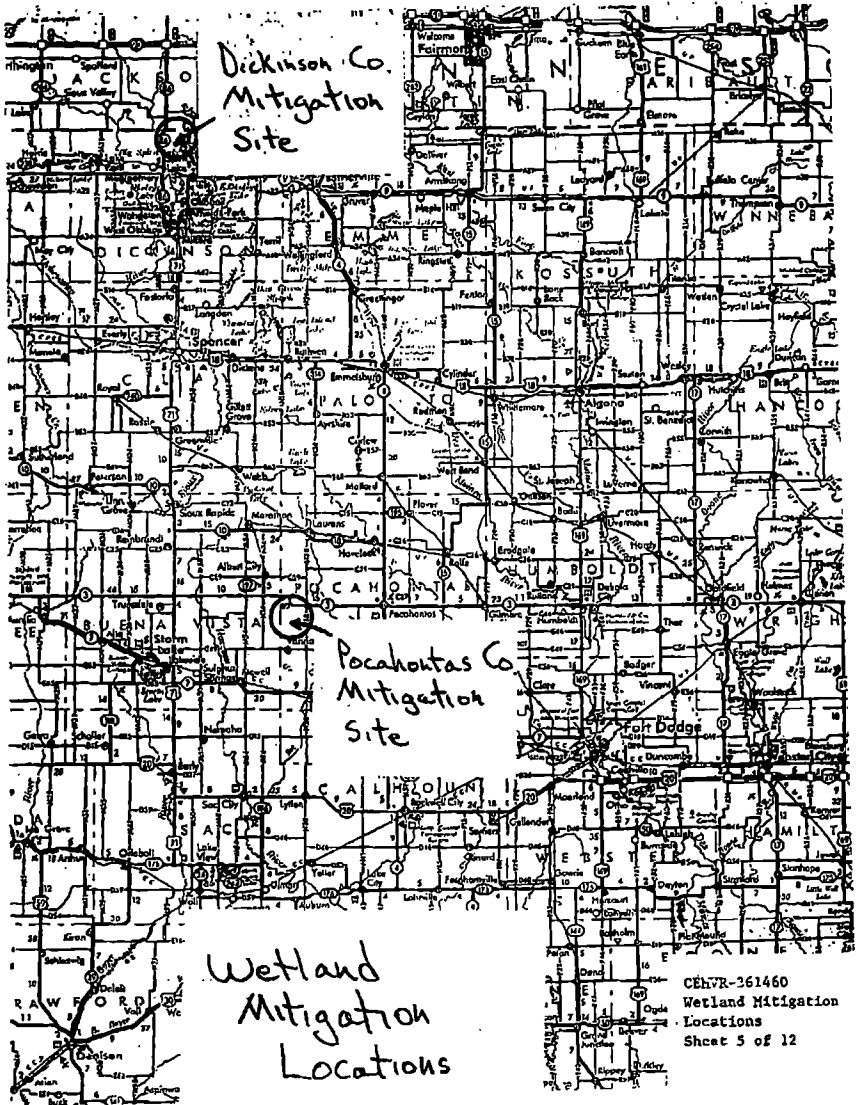


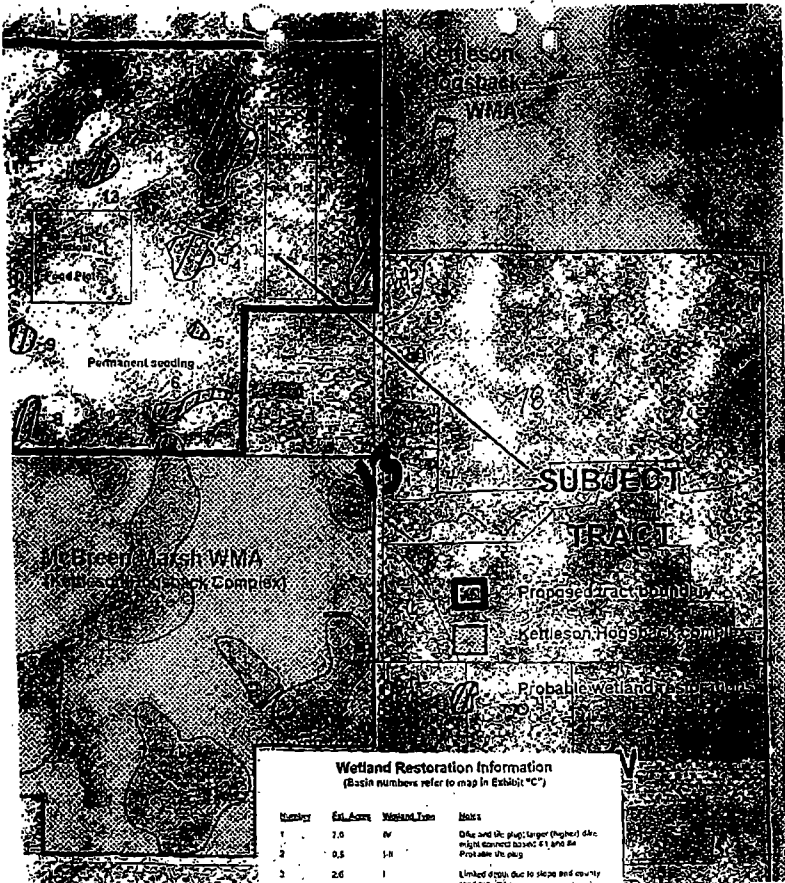
CEMYR-361460
DD 176 Boundaries,
Ditch Locations, and
Tile Laterals
Sheet 2 of 12

ORIGINAL IMPROVEMENTS AND DRAINAGE WELLS CLOSURE
DRAINAGE DISTRICT NO. 176
POCAHONTAS COUNTY, IOWA
1998



CEMVR-361460
Locations of
Existing Wetlands





Wetland Restoration Information (Basin numbers refer to map in Exhibit "C")

Number	Est. Acres	Wetland Type	Notes
1	7.0	W	Dike and the plug (higher) dikes might connect to wet 11 and 12. Probable the plug.
2	0.5	W	
3	2.0	I	Linked ditches due to slope and country. Not primarily.
4	2.3	W	Dike and the plug (dike #1, same).
5	0.4	I	Probable the plug.
6	1.3	W	Dike and the plug (higher) dikes might connect to wet 11 and 12. Probable the plug.
7	0.6	W	Upper end of restored wetland at McBreen Marsh. Increase over higher. Probable the plug.
8	1.1	W	
9	0.3	W	Dike and the plug.
10	0.4	W	Dike and the plug.
11	0.3	W	Probable the plug.
12	1.2	W	Probable the plug.
13	1.1	W	Probable the plug.

CEMVR-361460
Wetland Mitigation Plan
for Dickinson County
Site
Sheet 6 of 12

Exhibit "D"

Wetland Restoration Information

(Basin numbers refer to map in Exhibit "C")

<u>Number</u>	<u>Est. Acres</u>	<u>Wetland Type</u>	<u>Notes</u>
1	7.0	IV	Dike and tile plug; larger (higher) dike might connect basins #1 and #4
2	0.5	I-II	Probable tile plug
3	2.6	I	Limited depth due to slope and county road proximity
4	2.2	III	Dike and tile plug (see #1, above)
5	0.4	I	Probable tile plug
6	1.3	III	Dike and tile plug; narrow, limited to width of existing waterway
7	0.6	III	Upper end of restored wetland at McBreen Marsh; increase weir height
8	1.1	I-II	Probable tile plug
9	0.7	I-II	Dike and tile plug
10	0.4	I-II	Dike and tile plug
11	0.3	I-II	Probable tile plug
12	1.2	III	Probable tile plug
13	1.1	III	Probable tile plug
14	0.8	I-II	Probable tile plug
15	1.0	III	Probable tile plug
TOTAL	21.0 acres		

CEMVR-361460
Wetland Restoration
Information for
Dickinson Co. Site

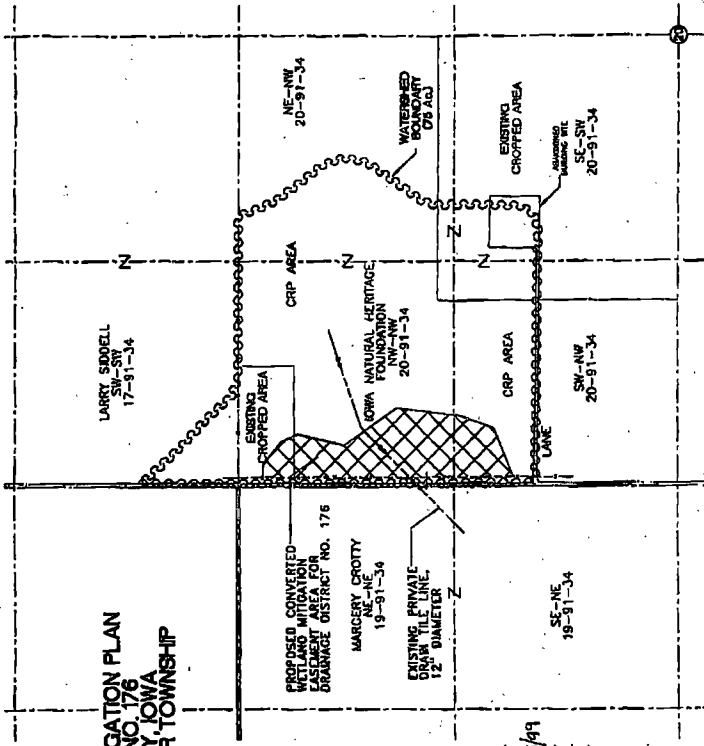


NOT TO SCALE (1990 FLIGHT) POCAHONTAS COUNTY- CROP YEAR _____

Sec 20, T-91N, R-34W
 Pocahontas Co. W. Va.

CEMVR-361460
 Vicinity Map for
 Pocahontas County
 Mitigation Site
 Sheet 8 of 12

LOCATOR PLAT
CONVERTED WETLAND MITIGATION PLAN
DRAINAGE DISTRICT NO. 176



**CONVERTED WETLAND MITIGATION PLAN
DRAINAGE DISTRICT NO. 176
POCAHONTAS COUNTY, IOWA
NW 1/4 SECTION 20, DOVER TOWNSHIP**

NOTE: THE NW 1/4 SECTION 20 HAS BEEN MAPPED PRIOR CONVERTED WETLAND OR NON-WETLAND BY THE USDA/ARCS.

INDEX OF DRAWINGS	
1.	LOCATION PLAT
2.	RESTORED WETLAND AREA
3.	CONVERTED WETLAND
4.	OVERFLOW ORBIT

CASCADENT AREA



By *[Signature]* 4/16/99
Project Engineer
Iowa Department of Natural Resources
401 E. 14th St., Des Moines, IA 50319
Tel. 515/281-2000

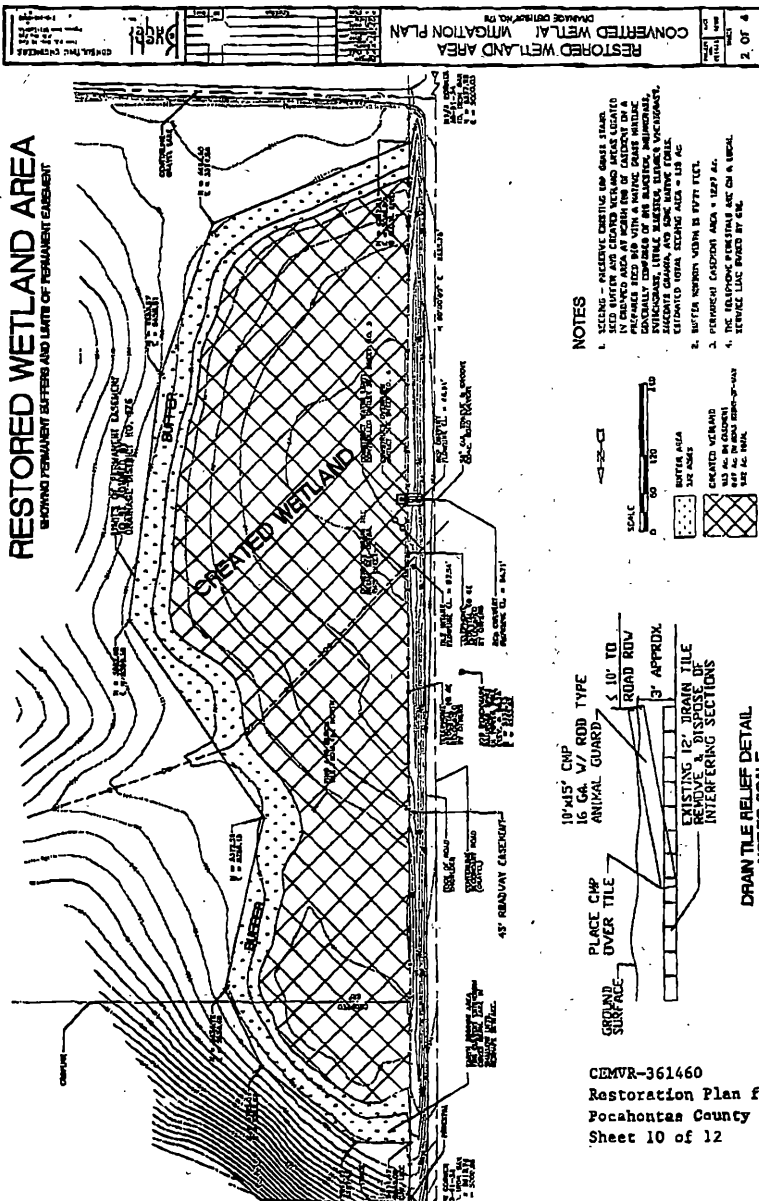
My commission expires 4/6/2005

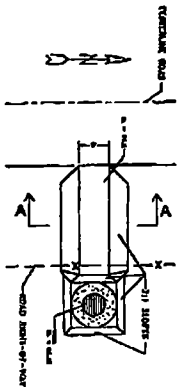
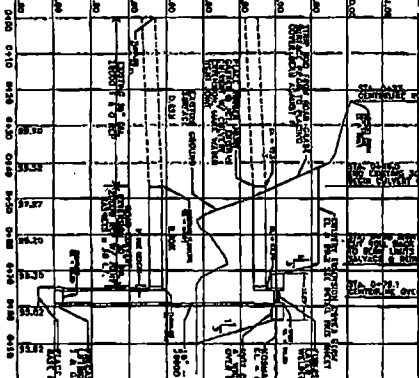


CEMVR-361460
Wetland Mitigation Plan for
Pocahontas County Site
Sheet 9 of 12

RESTORED WETLAND AREA

SHOWING PERMANENT BUFFERS AND LIMITS OF PERMANENT EASEMENT





CULVERT EXTENSION COVER BEAM DETAIL NOT TO SCALE

VIEW A-A

QUANTITIES	
30" BL. RUBER MAT W/ 40MT CLAYST	30 U
TERMA 50" X 70" JOINT CLAYST	1 U.
PMACST CONTNTR BLAST	1 U.
30"-12" RTG. 20000 BOB 61-21	1 U.
GRAT	1 U.
CLAYING ROCK	6.5 TON
CLAY & LIGNITE STRAT	2.5 TON
QUANTITIES / P&S:	144 SF
FINISH MATERIAL	AS REQUIRED
DEVELOPED EARTH TILL	AS REQUIRED

REPORT: 11/15/87
ON: 11/15/87
FROM: COLONY REPORT





THOMAS J. VILSACK
GOVERNOR
SALLY J. PEDERSON,
LT. GOVERNOR

DEPARTMENT OF NATURAL RESOURCES
PAUL W. JOHNSON, DIRECTOR

February 23, 1999

Mr. Paul R. Beneke, Chairman
Pocahontas County Board of Supervisors
Pocahontas County Courthouse
99 Court Square
Pocahontas, IA 50574

Dear Mr. Beneke:

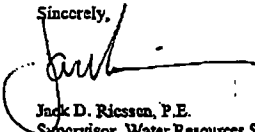
Your request for State Section 401 Water Quality Certification has been approved and the Section 401 Certification is enclosed. The certification was issued subject to various conditions, including the requirement to mitigate the loss of farmed wetlands. Please read the attached conditions carefully before beginning work on the project. If you disagree with the action taken, including the conditions of the Certification, please contact our office immediately.

A copy of this Certification has been forwarded to the office of the Army Corps of Engineers as indicated below. You are advised to contact that office upon receipt of this certification.

Please note that the mitigation required as a condition of 401 certification allows less than acre-for-acre mitigation. The NRCS' functional assessment model was used to determine mitigation requirements and while the Department has not fully endorsed this model, the Department did feel the use of the model was appropriate to assess mitigation requirements for the loss of this project's farmed wetlands.

If you have any questions or comments about the certification or any conditions contained therein, please contact me at the address shown below, or call (515) 281-5029.

Sincerely,


Jack D. Ricssen, P.E.
Supervisor, Water Resources Section

cc: ✓ Mr. Neal Johnson, Department of the Army Corps of Engineers, Rock Island District, Clock Tower Building, P.O. Box 2004, Rock Island, IL 61204-2004

IOWA DEPARTMENT OF NATURAL RESOURCES

SECTION 401 WATER QUALITY CERTIFICATION

Certification issued to:

Effective: February 23, 1999

Pocahontas County Board of Supervisors
Pocahontas County Courthouse
99 Court Square
Pocahontas, IA 50574

Project certified: US Army Corps of Engineers, Joint Public Notice No. CEMVR-RD-361460
State 401 Water Quality Certification, Application Log No.: 98-D-151-10-01-S

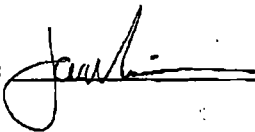
Close 36 agriculture drainage wells, replace the drainage that is currently provided by the 36 wells, improve existing drainage and mitigate for wetlands which will be lost with the improved drainage. The project is located in Sections 19-23 and 26-34, T92N, R31W, Pocahontas County, Iowa. The mitigation sites are located in Section 13, T100N, R37W, Dickinson County, Iowa and Section 20, T91N, R34W, Pocahontas County.

Water quality use designation:

This reach of the North Branch Lizard Creek and the impacted wetlands are designated as General Use Water and are protected at all places at all times for livestock and wildlife water, aquatic life, non-contact recreation, crop irrigation, and industrial, domestic, agricultural, and other incidental water withdrawal uses.

This State 401 Water Quality Certification has been issued by the department pursuant to Section 401 of the Clean Water Act. State Certification is required by the Army Corps of Engineers before a Section 404 permit can be issued. Section 401 Certification represents the department's concurrence that the project certified is consistent with the Water Quality Standards of the state of Iowa as set forth in Chapter 61, Iowa Administrative Code.

Subject to the attached conditions, incorporated by reference herein, the department has determined that there is reasonable assurance the proposed activities will be conducted in a manner that will not violate water quality standards of the state of Iowa.

By: 

Date Executed: February 23, 1999

GENERAL CONDITIONS

1. Pocahontas County is responsible for securing and for compliance with such other permits or approvals as may be required by this department, federal, or local governmental agencies for the project activities described.
2. Clearing of vegetation, including trees located in or immediately adjacent to waters of the state, shall be limited to that which is absolutely necessary for construction of the project. All vegetative clearing material shall be removed to an upland, non-wetland disposal site.
3. All construction debris shall be disposed of on land in such a manner that it cannot enter a waterway or wetland.
4. Equipment for handling and conveying materials during construction shall be operated to prevent dumping or spilling the material into waterbodies, streams or wetlands except as approved herein.
5. Care shall be taken to prevent any petroleum products, chemicals, or other deleterious materials from entering waterbodies, streams or wetlands.
6. Construction activities shall be conducted during low to normal flows and the applicant shall employ controls to reduce the erosiveness of land adjacent to surface waters and wetlands, including establishment and maintenance of the erosion controls during and after construction and revegetation of all disturbed areas upon project completion.
7. All excavated or disturbed stream banks, new or excavated road embankments, and other critical erosion areas not covered by riprap, shall be seeded with native grasses consistent with those included in the NRCS Critical Areas Seeding Mixture, excluding Reed Canary grass, during an optimal seeding period. If excavation and construction are completed outside an optimal seeding period, temporary erosion control protection shall be implemented immediately upon completion of excavation and construction and shall be maintained until such time as seeding can be completed during an optimal period. Pocahontas County shall monitor revegetated areas continuously to assure success of revegetation.

MITIGATION CONDITIONS

1. The loss of 56.6 acres of farmed wetlands shall be mitigated by the restoration of 21 acres of prior-converted prairie potholes located on a mitigation site in the NW ¼ of Section 13, T100N, R27W, (Diamond Lake Township), Dickinson County, Iowa in accordance with the mitigation plan submitted with the request for certification. An additional 9.82 acres of prior-converted prairie potholes will be restored on a mitigation site located in Section 20, T91N, R34W, (Dover Township), Pocahontas County, Iowa in accordance with the "Supplemental Converted Wetland Mitigation Plan" submitted to the department on February 22, 1999. Approximately thirty acres of prairie pothole wetlands shall be restored, with fifty-foot native grass buffers being placed around each wetland basin (approximately twenty-one acres of grass buffers). The grass buffer strips shall be preserved as part of the mitigation.
2. The above-described mitigation shall commence as soon as possible and shall be completed by the end of the first full growing season after the Corps of Engineers issues the Section 404 permit. As-built plans shall be submitted to the Department upon completion. The replacement wetland areas shall be monitored annually for a period of 5 years to confirm whether they have successfully replaced the functions and values of the impacted wetlands. If the expected habitat is not achieved by the end of the fifth year; more than 50 percent of the emergent vegetation are weedy, non-native species; or if evidence exists that the replacement wetlands are becoming less effective, additional monitoring and/or corrective actions shall be taken to achieve the compensation as originally approved. It is the responsibility of Pocahontas County to ensure the annual monitoring reports are submitted to the Department and to the Corps of Engineers' office by August 31 of each year for five years following planting.
3. Future development or land-use conversion of the wetland mitigation areas or any part thereof, for any purpose which may interfere with or be detrimental to wetland functions, is prohibited without prior written approval from this Department and the Corps of Engineers. Prior to commencement of construction, a copy of this certification in its entirety shall be filed with both the Dickinson and Pocahontas County Recorders for entry into the property records, thereby notifying all future landowners of this restriction. Pocahontas County shall provide the Department with a "Filed" stamped copy of this certification. Should Pocahontas County fail to provide said copy to the Department, this project certification shall be considered null and void.
4. All possible precautions shall be taken to avoid impacts to the existing wetlands within the USFWS easement area in the SW ¼ of Section 27, T92N, R31W, Pocahontas County. If these wetland areas are disturbed or temporarily impacted, they shall be appropriately graded and revegetated to conditions similar to those existing prior to construction and shall be monitored and managed for at least two years following construction to ensure all areas have successfully revegetated.

SPECIAL CONDITION

The "Supplemental Converted Wetland Mitigation Plan" states "Of the 9.82 acres wetland approximately 0.67 acres will be created in the east ditch of the adjacent secondary road. Pocahontas County has consented to the creation of wetland in the road ditch subject to its need to utilize the road right-of-way for road purposes at which time DD#176 agrees to participate in satisfying any mitigation requirements." The Department does not usually accept wetlands created in road ditches for project mitigation. The Department will allow for it in this instance provided DD#176 agrees to notify the Department and the Corps of any proposed changes to the roadway or ditch (e.g., widening roadway shoulders) within the mitigation area and agrees to mitigate any adverse impacts caused by such projects.

Mr. LATHAM. We have a pending environmental disaster here with the Ogalala Aquifer if we don't do something—

Secretary GLICKMAN. Do you have something to give me, or your staff can give me, so that I can take it back?

Mr. LATHAM. Yes, sir, absolutely. If you could handle that, we will have Pocohontas here, Pocohontas County folks come and pay homage at your feet. They have been fighting this for three years with four different Federal agencies to try to get it accomplished. Now the rules have changed right at the moment of trying to do something about it.

CROP INSURANCE

I am very encouraged, I am, to see in the budget you talk about crop insurance, and this is going to be a big subject. I think we can let the market operate if we do have a viable crop insurance program available, and we need to work together with it. I mean, your statement here, if I can quote you, "It can't be done on the cheap" is very, very true. It is troubling there is no money in your budget for it.

Secretary GLICKMAN. Well, except the \$400 million that we have for the buydown of this year's program.

Mr. LATHAM. But there is no new money for a new program.

Secretary GLICKMAN. That is correct, and the fact is that to do it right will cost anywhere between a half billion dollars and maybe \$3 or \$4 billion. We were criticized for not putting a specific dollar amount in, and I just basically said I didn't know until we could work on a legislative package what it would cost. But, you know working together, we came up with several billion dollars in a disaster program last year, and I have to believe that, working together, we can find the money, if we are able to get a legislative package together.

Mr. LATHAM. Well, we want to work very, very closely. I know we have the same goal on that, and I think that's the No. 1 thing we need to do this year, is to have that available and have it available to anyone, different crops throughout the country, and live-stock. It certainly would be a great help. I think revenue insurance is the way to go because, then, at least you guarantee banker a level of income at least, and it has to be affordable and a consistent number of dollars available.

I don't know; how are we doing on time, Mr. Chairman?

Mr. SKEEN. You are just about right.

Mr. LATHAM. Thank you, sir. I appreciate it. I have been told that.

BASIC RESEARCH PROGRAMS

If I could just have—there is in your budget proposal to cut basic research programs by about \$27 million to the land grant universities under the formula basically. This certainly would be a huge blow to them and really hurts them as far as maintaining, and I think George and several other people mentioned about this problem. There is \$100 million going into new grants to nontraditional colleges.

My question is: Is this additional new money, the \$100 million, is that going to go to the priorities of the administration in the

budget as far as climate change and sustainable ecosystems? I mean, the money, basically, you are taking out of the traditional research going into the new global warming initiative.

Secretary GLICKMAN. Perhaps Steve may add to that. Steve will answer the question better than I.

Mr. DEWHURST. You're right, the money for formula funds is down and the money for competitive funds is up. Frankly, that is not totally unusual in the Executive Branch budget. When you look at the allocation of that money, it is for a variety of topics. There is money for the Small Farms Initiative. There is money for water quality, for food safety, for some work on food quality protection and pesticide impact assessments, which is part of our work with farmers. I have not quite totaled all the money up by these categories, but the money goes for a variety of purposes. It is competitive money. We would assume that the land grants would win the competition for a lot of that money. They traditionally get about two-thirds of our competitive money.

Mr. LATHAM. But there are also major cuts as far as research stations, directly at those, and I am very, very concerned about it.

Thank you, Mr. Chairman.

Mr. SKEEN. Thank you. Mr. Dickey, to wind up the first go-round, and then we will talk about the second.

STATEMENT OF MR. DICKEY

Mr. DICKEY. Mr. Secretary, glad to see you.

I have had a visit with about seven farmers Monday. If I didn't see them grow up, they saw me grow up. These are people who I have lived with in my home town of Pine Bluff all my life and all their lives, basically, except for the ones who are older. We had a very frank conversation. It was devoid of any politics. It was devoid of any of the typical farmers' type of comments about, oh, woe is me, and everything else. They were very much open and honest with me. When we didn't know what was going on, we said that. We went through the whole process.

What I want to do—and I know you have answered some of these questions, but I wasn't here, and I just want to ask some of these questions, and then I want to take the answers back to them, if I could. Before I do it, though, I want you to know that I feel very good about your being where you are. But I think it is going to be the most critical period in the time since I have observed farming. I just wish for you the clearest of minds and the most cooperation from everybody, because it is going to take that. I think it is that serious.

IMPROVING EXPORT MARKETS

Some of these questions are going to seem frivolous, but I want to just pass them on. What can we do to improve our markets abroad specifically?

Secretary GLICKMAN. Well, Congress has given us a lot of authority to use. The main thing we need to do is to have markets in which people can be commercial customers. So we need to be energetic in engaging our current and future customers, whether that is Egypt or Indonesia—I just mention those two as a possibility—and to use all the credit programs that we have at our disposal in

order to supply them the food products they need. They have also got to be economically sound enough to buy things from us, and that is why we have worked so hard for IMF assistance and other mechanisms to try to strengthen them.

In addition to that, as you know, the President has dramatically increased food aid this year. We were going to provide to the Russians—Ms. Kaptur and I have talked a lot about this—a significant amount of food aid, over and above traditional food aid we have provided under other authorities.

So we have a lot of product out there, and we need to sell as much as we can and we need to provide humanitarian assistance for those who need it. We have a foreign agriculture staff around the world; their job is to move product, help move product.

Mr. DICKEY. We have mentioned some of the nations that we don't sell to for political reasons—

Secretary GLICKMAN. Right.

Mr. DICKEY [continuing]. Like North Korea and Iran and Iraq.

Secretary GLICKMAN. Well, actually, we have been shipping a little—we have been participating with the World Food Program in donations to North Korea and also we have been, I guess, in Iraq as well, right? Commercial sales under the U.N. program to Iraq. I mean, Iran, Libya, Cuba, Sudan, North Korea, basically—there are about a half-dozen countries that are affected.

Mr. DICKEY. But you testified that wouldn't help us that much.

Secretary GLICKMAN. Well, it would provide, we have said, about 1 percent—it will affect about 1 percent of our export sales. So it is helpful, but the big problems in export barriers are more in sanitary and phytosanitary battles we face with the Chinese, let's say, or the Japanese on occasion or Europeans certainly, with the beef hormone issue, which is a very, very big problem, and one that could result in a monumental blowup, if it is not resolved.

Mr. DICKEY. That would be through the WTO—it is just attacking the integrity of the WTO?

Secretary GLICKMAN. That is correct. I mean, we believe that the WTO processes have ruled in our favor, and we expect them to honor that.

Mr. DICKEY. Well, here is one of the things they said: They said, "Are you in Congress doing anything to stop our markets from being developed?" And embargo would be one, I guess, the embargoes; we would be participating in that. Are we doing anything else as a body to prevent markets from being available to agricultural products?

Secretary GLICKMAN. You know, Jay, I have to tell you, I really don't think so. I know there is a lot of rhetoric out there, but last year we approved 8 million tons in food aid. Our credit guarantee use was over \$4 billion on sales of agricultural commodities in 1998. I have been to Japan and Korea and all over Europe, and the Deputy has been in Latin America and other parts of the world, trying to get these markets open. They are competitive. Other countries are producing a lot of food. We are in there working as much as possible to build these markets.

We also have a market access program. We have foreign market development programs.

Mr. DICKEY. Are they all working?

Secretary GLICKMAN. I think so.

Mr. DICKEY. Are any of these things not working that we could improve?

Secretary GLICKMAN. Chris Goldthwait, who is generally responsible for export sales, just said our market share has maintained itself; it is just the value of the commodities has come way down—

Mr. DICKEY. I see, I see.

Secretary GLICKMAN [continuing]. Because they are just not worth as much as they used to be.

FAST TRACK AUTHORITY

Mr. DICKEY. Okay, now tell me—I know you have probably done it, but Fast Track—I just went with Larry Combest to South America, and Fast Track is very important. Are we going to pass Fast Track this year?

Secretary GLICKMAN. All I can tell you is, based upon what I have heard the President say, he is going to push for Fast Track, but I don't have any current information on that.

Mr. DICKEY. But do you think it is important?

Secretary GLICKMAN. I do.

FREEZE PRICES

Mr. DICKEY. Okay, I thought so. Now is there any way to freeze prices? You mentioned revenue assurances. Is there any way to freeze prices? I am not saying I would even vote for it, but I just wanted to know, can you say to the cotton farmer and to the grain farmer and soybeans, and so forth, and rice, "This is how much you are going to make this year."?

Secretary GLICKMAN. Well, I suppose you can, but I am not sure how practical it would be. I suppose you could have some emergency type of program to guarantee somebody a price for their product, but I think, unless you had massive supply management programs with it, what you would do is you would encourage massive production. I mean, we could raise the loan rates significantly for various products, which would guarantee a price. But I can't do that, I'm sorry.

Mr. COLLINS. You could use CCC funds to buy commodities in surplus, but then you wouldn't be able to dispose of it.

Mr. DICKEY. I see; they would just be in storage?

Mr. COLLINS. Right.

Secretary GLICKMAN. There is no magic answer to deal with this. That is why the insurance subject gets a lot of interest. If you could insure your revenue based on a prior year history and buy a policy, the government would probably be involved in sharing the premium costs; that might be a way to protect people against the vagaries of the marketplace.

We do have a floor, LDP provides a floor for people right now.

Mr. DICKEY. And you are getting more demands now than we have money; is that right?

Secretary GLICKMAN. We will have the money to do it. Whatever the LDP Program needs, we will have the money.

Mr. DICKEY. Okay. Is there any way—and I know I would vote against this thing, but is there any way that you could freeze the

prices of the equipment and the supplies and the fertilizers and the chemicals, and everything else? What they are seeing is that they are limited and their costs are going up. Now is there any way to do that? Has it ever been done, do you know?

Secretary GLICKMAN. Well, I think back in the 1970's President Nixon tried with wage and price controls; it gave lawyers a lot of work to do, but it didn't seem to work very well. People always found a way around it.

Mr. DICKEY. They want to know—

Secretary GLICKMAN. I am getting lots of ideas behind me. [Laughter.]

Mr. DICKEY. And I am glad of that, that you are getting advice.

Secretary GLICKMAN. The advice back here is that you are getting fairly close to what they have had in Eastern Europe for a long time. [Laughter.]

Mr. DICKEY. Oh, all right. We don't want that.

Mr. KINGSTON. Keep in mind, these are the kinds of people that Jay said he grew up with. [Laughter.]

Mr. DICKEY. I used to be a Democrat. [Laughter.]

IMPROVED MARKETS

Dan, they are saying, all we are going to do is wait for a bailout at the end of this year, and if it doesn't come, we are going under. They have taken their money now, and they have gone back and paid back what they have owed—and I mean people who I thought were substantial farmers, and are tremendous farmers, and do everything right and work hard, and are not lazy.

What criteria is going to—what is the scenario this coming fall if the markets don't come up? What is going to happen?

Secretary GLICKMAN. I would say one option is for you and I, together, to make some decisions on farm policy that will provide additional resources. I don't call it another "bailout." I just say we provide additional resources through some form of emergency-type program. That is always a possibility.

In the interim—and we also are working through our credit programs. During the hog crisis, for example, we changed the way we collateralized hogs, so we collateralized them on futures prices, rather than on current cash prices. We encouraged banks to do the same thing, and most of them began to do that. So that was also helpful.

There are a lot of things that we can do like that. We are going to continue to explore our international programs aggressively, both the sales programs and the humanitarian programs, and if those need to be augmented, we are going to increase them, because there still is an awful lot of hungry people in the world as well.

I wonder if our Chief Economist has any other ideas?

Mr. COLLINS. One thing I would say, we do have the built-in stabilizer of the loan deficiency payments. Right now, we think that for the 1999 crops, the ones that are harvested next fall, we are talking about payments approaching \$4 billion. So that is extraordinary.

Mr. DICKEY. In all the commodities?

Mr. COLLINS. For the 1999 crops alone.

Mr. DICKEY. Have we got that budgeted?

Mr. COLLINS. That will be CCC outlays.

Secretary GLICKMAN. It is mandatory spending.

Mr. COLLINS. Yes.

Mr. DICKEY. And it is going directly to the farmers?

Mr. COLLINS. It goes directly to the farmers.

Mr. DICKEY. Now this is an aside: One or two of them were talking, and the others were nodding along; they say it is awfully demoralizing to have to get your profit from the green checks, whatever they are talking about. I guess that means that they have worked this hard; they go to the market; they fail, and then someone comes in and pays it out. That is going to happen this next year; is that right?

Secretary GLICKMAN. There certainly are going to be additional checks coming from the government. The AMTA checks are going to come, and some disaster checks are going to be there, and some LDP checks. Listen, these things also turn around. We have more and more people; the population is going up; people are hungry. The economics of the world will change—I am beginning to see some turn in Asia. Nobody hopes for bad weather, particularly in somebody else's back yard, but it happens on occasion, and weather can change the economics of world agriculture overnight.

Mr. DICKEY. Thank you for your answers.

SUBSIDIZING FOREIGN ECONOMIES

Now IMF funding, other than that, do we have any programs that go and subsidize the economies of buying countries or buying markets?

Secretary GLICKMAN. When we send food aid over to other countries, they will use that food and they will sell it and monetize it, then, to buy other things. That is fairly common.

Mr. DICKEY. Is that our money being used?

Secretary GLICKMAN. Well, it is funded through P.L. 480.

Mr. DICKEY. In addition to our product?

Secretary GLICKMAN. Basically, our product has been sold.

Mr. DICKEY. It is on consignment of some sort?

Secretary GLICKMAN. Well, it is monetized. Why don't you explain it? This is Chris Goldthwait.

Mr. GOLDTHWAIT. Congressman, we donate the commodity to the foreign country. Oftentimes, it has been sold within that country, and either to the government or in some cases the private sector entities. They, then, have the use of that money.

Mr. DICKEY. That country does?

Mr. GOLDTHWAIT [continuing]. For other needs, developmental purposes, buying additional food—

Mr. DICKEY. So that subsidizing of that market doesn't help us directly. Is there any time that we guarantee the payments from other countries?

Mr. GOLDTHWAIT. Yes, through our Credit Guarantee Program. That is our prime program.

Mr. DICKEY. Is that fully funded? And is that in place?

Secretary GLICKMAN. It is. It is a CCC program. It is a mandatory program. Last year we used about \$4.5 billion—\$4.2 billion worth of credit guarantees.

CONGRESSIONAL HELP

Mr. DICKEY. Dan, what can we do to help? If you just had a magic wand and you could say, okay, I want Congress to do this to help the farmers—all right, and then I have another question after that.

Secretary GLICKMAN. Well, I would want to work with you to develop a risk management program that provides protection against natural disasters and also to provide some protection against wild, volatile price fluctuations. I think we can do that. I think it is going to cost a lot of money. Of course, we are going to have to come up with the money, but I think we can do that. That would certainly be the No. 1 thing I would do.

There are some changes I would make in the 1996 farm bill that are perhaps less fundamental, but changes that I think we can come up with.

The third thing I would do is to make sure that we have the resources, we and the Justice Department, to enforce our antitrust and anti-concentration laws, to make sure that people are being treated fairly out there in the marketplace.

And the fourth is to give us the resources we need to move our products overseas.

Make sure that we have the dollars available in all of our credit programs and everything else, and you have done that. But I am just saying those are the kinds of things that we are going to need to do.

Anybody here have any other ideas?

Mr. COLLINS. Risk management education is needed, so that producers will take advantage of the risk management program that you design.

Secretary GLICKMAN. There are a lot of techniques out there that really benefit our farmers, through our Extension service—there are conservation techniques; there are risk management techniques that can reduce costs and provide help to people. We can also do a better job of getting that information out.

FAMILY FARM

Mr. DICKEY. Okay, this will be my last subject. This was awfully difficult to talk to them about, and they brought it up in a way. If the family farm doesn't make it, what is going to happen to the agricultural industry? Are we still going to produce the product? If so, who is going to do it? Do we have any plans for that eventuality?

Secretary GLICKMAN. First of all, we have seen the number of farms decline fairly steadily since 1900. Half of Americans lived on farms in 1900; today there are 1.9 million farms according to the census.

I think we are still going to have family farms; they are just going to get larger and larger; and there will be fewer and fewer of them. I don't think there is one overwhelming, catastrophic result. I think the big impact is going to be on rural communities around this country. You will see an out-migration of people and you will see a decline in basic services. I don't think that is, obviously, healthy for rural America.

I think what we need to be doing is finding all sorts of alternatives and options to help people stay in business in nontraditional ways—

Mr. DICKEY. Okay.

Secretary GLICKMAN [continuing]. As well as doing our regular farm programs.

Mr. DICKEY. I think that would be drastic, particularly from my area. But, now, what I am saying, will we still have the same prices? Will we still be able to get the same prices at the grocery store? When we finally get where very few people are competing for the market share, let's say, 15 corporate farmers in America, what is the perception?

Secretary GLICKMAN. All I can tell you is fewer competitors generally mean less price competition.

Mr. DICKEY. Will we still be able to get the same prices at the grocery store? When we finally get where very few people are competing for the market share—let's say 15 corporate farmers in America—what is the perception?

Secretary GLICKMAN. All I can tell you is fewer competitors generally mean less price competition.

Mr. DICKEY. And higher prices.

Secretary GLICKMAN. It may mean higher prices. It certainly means more controlled prices.

Now I don't know if in production agriculture we will ever get to a point where that will be a problem. Where it may become a problem is in the processing and marketing and transportation side of agriculture. It also depends on the structure of agriculture. The poultry industry has become a lot more integrated—the relationship has become a lot more employer-employee, so to speak. That is not yet true in the cattle industry per se. It is perhaps becoming more true in the hog industry. That may affect the price situation as well.

Mr. DICKEY. I know the answer to this, but is there a predisposition that you have against the family farmer—no, that USDA has against the family farmer?

Secretary GLICKMAN. Absolutely not.

Mr. DICKEY. Is it the other way around?

Secretary GLICKMAN. Absolutely.

Mr. DICKEY. Okay. And that is to preserve the rural way of life as an alternative?

Secretary GLICKMAN. It is for a rural way of life, for social structure, as well as I think it is healthy for the entire fabric of the country to have a healthy rural structure.

SUPPLEMENTAL APPROPRIATIONS

Mr. DICKEY. Do you have any estimate—and this is my last question—have any estimate of how much the supplemental would be or the emergency supplemental would be this year?

Secretary GLICKMAN. You mean from the agricultural side.

Mr. DICKEY. That is correct.

Secretary GLICKMAN. Well, the farm loan issue, if we asked for a billion dollars' worth of authority, would be about \$100 million in costs. Then we have at least tentatively talked about some emergency program dealing with disasters. A lot of this has been water-

shed, conservation, rural development. A lot of this relates to Puerto Rico. That could be somewhere in the neighborhood of another \$100 million or so.

Mr. DICKEY. So how much is the total?

Secretary GLICKMAN. It is somewhere in the neighborhood of a couple hundred million.

Mr. DICKEY. That is all?

Secretary GLICKMAN. Well, that is if we limit it to those things. Now if we decided to add a farm program component to it, then you are talking about much bigger money. Or if we added any salaries and expenses to it, it would add more money.

Mr. DEWHURST. One thing to understand is, the way we do the budget, \$100 million appropriated for farm credit programs generates a billion dollars in new loans. So the actual results of a \$100 million appropriation would be a lot larger than it looks.

Mr. DICKEY. That is confusing to me.

Mr. DEWHURST. Yes, it is the way that government does it.

Mr. DICKEY. Yes. Thank you.

Mr. SKEEN. There has been some question about a second round, and I say this with all sincerity: We have sat here now for about four hours, and at your pay grade that is a lot of time that you may not be getting paid for.

Secretary GLICKMAN. It is up to you, Mr. Chairman.

Mr. SKEEN. What we will do is initiate a second round that is very quick, and we will start with Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman, and, Mr. Secretary, for your forbearance.

CIVIL RIGHTS CLASS ACTION SUIT

I just wanted to say on the record commendations to the Department for your leadership in trying to reach a resolution on the recent civil rights class action suit before the Department. Do you anticipate that we will be talking about this issue again next year.

Secretary GLICKMAN. Well, I hope not. The suit is over—we have reached a settlement. The judge actually has to finally rule on it, I think in March. There is what is called a fairness hearing there.

But there are still pending claims against the Department, and we are working our best to resolve those. I will have to tell you that we have a first-class capable civil rights director at the Department, somebody with a tremendous amount of experience. We are in much better shape than we have ever been before in terms of handling the problems.

FARMERS' MARKETS

Ms. KAPTUR. I also want to thank you for the initiatives that you have taken on the farmers' markets. I referenced that a little bit earlier. I think it is making a difference. One has to keep persevering in that area, but that, along with your gleaning program, has been welcome from this particular Member, and I just want to urge you to continue.

On the movement that is going to happen under WIC program, the administration of those dollars moving to another part of the agency, could someone perhaps explain to me how that is going to work? I think it is moving from \$15 million to \$20 million.

Mr. DEWHURST. I think we are confusing two subjects. The WIC farmers' market program is being increased from \$15 to \$20 million, and it stays within the Food and Nutrition Service.

Ms. KAPTUR. It does? All right.

Mr. DEWHURST. There is a separate gleaning program which happens also to be \$15 million. It has been moved from the Food and Nutrition Service to the Extension Service, because the Secretary believes it is much more an Extension program. It involves outreach to these community groups, the kinds of things that Extension does very well.

Ms. KAPTUR. So what are you calling that program now?

Mr. DEWHURST. Food recovery and gleanings.

Secretary GLICKMAN. Community food security basic program.

Ms. KAPTUR. Bear with me one second.

Now what I have in my notes is that, under the WIC program, you have proposed to transfer the farmers' market program to the commodity assistance program. Is that correct?

Mr. DEWHURST. Yes. I am sorry. I misunderstood your question. The Farmers' Market program is still within the Food and Nutrition Service, but it is reflected in a different appropriations account. We believe that the farmers' market program should be funded on a permanent basis within the commodity assistance program. In the past it was funded within the WIC program, and it was dependent on having leftover money in the WIC program. The administration doesn't think that is what should happen. We think we should have a specifically-budgeted farmers' market program, part of our overall commodity assistance program with the Food and Nutrition Service.

I am sorry, I did not understand your question.

Ms. KAPTUR. All right. Maybe I didn't understand it either, but I just want to get these numbers straight, because this is a very important program to this Member.

The gleanings program that you referenced, that is something else?

Mr. DEWHURST. Yes. It is a food recovery and gleanings program. It involves grants to local sponsors to help encourage and develop gleanings programs throughout the country, not necessarily farmers' markets, but gleanings—

Ms. KAPTUR. All right. So that has no relation directly to the farmers' market. Okay. All right, thank you for that clarification. I will have to study exactly what that means with the commodity assistance program, but so long as it strengthens the farmers' market program, but doesn't weaken it, it would be a welcome change to this Member.

RISK MANAGEMENT ISSUE

I just wanted to say, Mr. Secretary, on the risk management issue, it was sort of a joke before about talking to Alan Greenspan, but I don't think it is a joke. I think it is worth a lunch, because we talked at length about the issue of risk management and who assumes the risk. Generally, as you talk on this committee or the authorizing committee, it comes down to, well, the producer assumes the risk. Mr. Greenspan had a broader construct of how one assigns risk in any type of risk management system and which ac-

tors, apart from the Government of the United States, should be involved in the assumption of that risk. I would merely encourage that conversation. Perhaps it has happened on the authorizing committee. Not being on that committee, I am unaware of it. But it was probably one of the most constructive conversations I ever had on the risk assessment and risk management issue. I think he has something to say with a lot of experience in the agricultural futures markets. So I merely commend that to you, and you are welcome to use my name, if you want. I still remember that discussion. It was so impressive.

RURAL AMERICA

The other thing I wanted to ask you, because you didn't say it—Jay Dickey was worried about what is going to happen to the small farmer, what is happening in rural America. One of the issues you didn't mention, if you look at what is happening to world markets, we have overcapacity of production in some places, with an inability for other places to purchase. When the overcapacity happens, we end up, because of the nature of our markets, being the place where product comes in. It has been happening fairly consistently, and it has had a detrimental effect on our own producers.

MARKET DISLOCATIONS

Within the structure of the World Trade Organization or other entities that might be out there, as you thought about this problem, it seems to me that we can take certain complaints to international forums. In agriculture or other trade areas, we seem to not have the ability to get beyond the duty tariff issue and to deal with the larger question of capacity and what is happening with dislocations in the market.

If you had to place such an instrument somewhere in the world trading system, have you thought about where that might be located, so you could at least engage in the discussion?

Secretary GLICKMAN. Actually, we do it with some commodities. Sugar is perhaps one of the examples where we do actually have an international program that is, in a sense, regulated in terms of imports. But let me mention a couple of things.

Ms. KAPTUR. Are you saying that is because of legislation?

Secretary GLICKMAN. It is because it was agreed to in our last trade agreement. The largest problem we have in agriculture is the inequitable treatment on pest management, and scientific issues involving fruits and vegetables from the South or other products coming in. We need to get some international rules where everybody plays by a similar set of rules. It doesn't address your question directly, but the sanitary and phytosanitary differences that we have to deal with are perhaps the most difficult problem that we have to deal with.

The other thing I would have to tell you is that we do have a lot of countries in the world that still have extensive export subsidies. It is difficult to compete in a world where some countries are maybe subsidizing half the value of their commodities and other countries are not. We tend not to subsidize our exports. We will provide credit guarantees, but these are commercial transactions. We tend not to subsidize exports.

From the standpoint of agriculture, a most serious problem for the long term is what to do when we face, significant oversupplies, or undersupplies. Right now the Europeans are sitting on very significant carryover stocks. They are beginning to look at this export subsidy issue much more aggressively. It troubles us. If they engage in export subsidies, we will respond in kind, but you would like to have a world where that didn't happen.

Now where do you handle these disputes usually? Well, that is what the WTO was set up to deal with. We won a couple cases. We won one on bananas. We won one on beef hormones. Now we are having trouble getting them implemented. We have lost some, too. We have lost on Canadian dairy and poultry, and I am not sure what else, but we just maybe won an initial decision on the Canadian dairy as well.

I think the WTO can work pretty well, provided that the standards are clear, science-based, and people honor the rules. Still, not everybody is playing by the same set of rules.

AGRICULTURAL TRADE

Ms. KAPTUR. As I look at the trade figures over the last 25 years, if you look at the exports going out from this country elsewhere, we averaged about \$23 billion out—and taking out the highs and lows—during the decade of the 1980's.

On imports coming in, we were at about \$6.6 billion overall during that decade. If you come up to the current decade, our level of exports out has somewhat diminished. There were high years and low years, but we are at about \$21 billion out. But the level of imports continues to come—it is about \$8 billion—

Secretary GLICKMAN. Is this agriculture you are talking about?

Ms. KAPTUR. Yes. Agricultural products; the livestock is separately. I am going to deal with the livestock separately.

What I am saying, on average, if you look at what has been happening, though some years we exported more in terms of agricultural products, overall in the last 25 years there has been a diminishment in the actual—I am talking about dollars. Now I think Chris may be talking about volume.

Secretary GLICKMAN. You are talking net. Twenty-one billion is a net. It is a net when you subtract exports and imports. Surplus is what you are talking about. It must be. It is down.

And you are correct, but what I am saying, our exports are in the \$50 billion range and our imports are in the \$30 billion range. So you are talking about a net figure there.

Ms. KAPTUR. Yes. If you look at the difference, the balance. So I guess what I am saying, not dealing with livestock yet, what you see happening, though, is that the imports into our marketplace are becoming more significant overall, if you look at the actual balance compared to our exports out, and that is reflected in dislocations inside this market.

For example, Sam mentioned to me the other day, Congressman Farr, that the tomato industry in his region was relocating to Mexico. If we look at livestock—and I have got those numbers—it is absolutely painful, what has been happening over the last 20 years in this country. It hasn't been in one year, but successively we have moved from a position in the 1970's where, okay, we weren't nec-

essarily in the black, every year we were in the red, but it has now gotten to a hemorrhage stage, where you almost have twice—you do have more than twice as many imports coming in here than exports going out—net.

So at the same time as we have a problem here at home, and in global markets with overcapacity, you are getting more imports into this marketplace. So my question really is: It seems to me that we don't have the capability as a sovereign nation to help our own people as these dislocations occur.

I would just ask you, for example, in hogs, in cattle, in dairy, it just seems to me that the Department of Agriculture has to work harder to have groups, working groups, inside this country that help inform the debate here and help us to respond more effectively to the sectors that are being hurt. We can't control the international market, but, by golly, we ought to be able to figure out some way to at least not have this kind of slow deaths occurring around our country.

AGRICULTURAL TRADE

We seem to have a lot of rhetoric here in Washington, but it is extremely troubling to look at these numbers and realize the thousands and thousands and thousands of families that they represent. I wanted to put that on the record. I have plenty of charts, and so forth, I can share with you, at least from the data that I have. But I don't see us as—some sectors, some people in some sectors may be doing well, but overall there has been an enormous amount of hurt, that we are almost in a sense of denial about as a country, unless you are directly involved in that given industry, in that given farm or wherever.

Mr. DICKEY. Would you yield a minute?

Ms. KAPTUR. Yes.

Mr. DICKEY. This denial business, Mr. Secretary, I am talking to you.

Secretary GLICKMAN. I am sorry. Yes, sir?

Mr. DICKEY. Go ahead.

Secretary GLICKMAN. No, no, no.

Mr. DICKEY. I was just kidding you.

Secretary GLICKMAN. Okay, we are fine. I was just trying to figure out your numbers.

Ms. KAPTUR. It was from the U.S. Bureau of Census.

Secretary GLICKMAN. Okay. We need to make sure we are talking from a comparable set of numbers.

Mr. SKEEN. Mr. Secretary, would you entertain a motion for about a 10-minute recess?

Secretary GLICKMAN. I would be glad to, Mr. Chairman.

Mr. SKEEN. Then it is so done. We are going to recess.

Secretary GLICKMAN. Okay.

Mr. SKEEN. We are going to recess, I think, for about 10 minutes.

Secretary GLICKMAN. Okay.

Mr. SKEEN. Look at the numbers while we are gone.

[Recess.]

Mr. SKEEN. I offer my apologies for cutting you off, Marcy, but I think maybe we were getting to a stretch point. [Laughter.]

I understand the Secretary has a commitment at 5:00 and we need to get him out of here before that time.

Go ahead.

Ms. KAPTUR. Thank you, Mr. Chairman.

I just wanted to raise this trade issue with you, Mr. Secretary. We can share our numbers. We can discuss them. We can take a look at outflows and inflows, but I can tell you that there is plenty of information about where there have been dislocations inside this economy. USDA shouldn't always be following the curve; it should at least be at the curve, working with our producers when these dislocations are imminent. We would like to continue that conversation.

CONSERVATION PROGRAM

I wanted to tell you, on the conservation program that you mentioned in your budget, for new environmental initiatives, including farmland protection, this Member has a very strong and positive interest.

Secretary GLICKMAN. Yes.

Ms. KAPTUR. And you will have my support in your efforts to try to move those initiatives forward.

WELFARE REFORM

Also, I was very happy to hear what you said about the impact of welfare reform, your knowledge of what is happening with our feeding kitchens across the country, and the relationship to our food donations.

On the record, I did want to say something about the commodity sales to Russia. I want to thank the Secretary and members of your staff for working with us diligently on that. My concern continues to be the possibilities for graft, of which there have been other instances in past years. But, equally important, the issue of how our food aid is used to develop partners in other places that can ultimately be trading partners with us in the agricultural sector. To the extent that these aid programs can contribute to the development of a reformed, privatized agriculture, then that is absolutely the direction that we should be moving, not merely food donations.

I continue to express my deepest concern about our own State Department not being able to spell the word "agriculture." Even AID, having less than 100 personnel on its staff who know anything about rural development, when half of the people of the world live in rural communities on very small holder plots, and we have a lack of focus at the highest levels of our government on the situation that most people who are poor in this world live in.

So I just wanted to thank you, Mr. Secretary. This is not a battle you can win alone, but, rather, we can help be voices on this committee for agricultural development where we form full partners, which will ultimately benefit the people of this country, our producers, our processing firms, et cetera. But, right now, we are not able to meet anyone halfway in most of these other places.

So I just wanted to stress the importance of these shipments. We are going to be watching them very closely. I will be a voice in this committee this year for additional inspection, both here and abroad, particularly with regard to the Russian shipments. If the

situation weren't so critical there now, I probably wouldn't favor the amount of aid that is going to be forthcoming from our country, because I continue to have the deepest concerns about how it is going to be distributed and in whose hands it is ultimately going to get into, and what they are going to do with it.

I am pleased to see the fact that you have put your shipments in a schedule, so that if there is graft that is significant, the rest will not flow. So I think some of the checks that have been placed in this current proposal are most welcome, and we appreciate your cooperation on that.

Secretary GLICKMAN. The record should reflect that Congresswoman Kaptur has had a great deal to do with significant increased oversight on food aid to Russia. I was over there; her name is well-known. In some circles she is thought of with great fear. [Laughter.]

Ms. KAPTUR. Good, good. I hope it is the right one. [Laughter.]

Secretary GLICKMAN. But it has made a very big difference that there is congressional interest in this oversight.

Ms. KAPTUR. Thank you, Mr. Secretary.

CONTRACT GROWING

The final point is that, when Assistant Secretary Baker from GIPSA came out to Ohio almost a year ago, one of the issues he came out on had to do with contract growing. My only comment to you is that at that time we discussed with him the possibility of USDA having a website on which would be placed a uniform contract or contracting standards—whether it is poultry, whether it is hogs—so that our producers who are getting locked into these legal agreements, sometimes without the proper kind of advice prior to signing those agreements across this country, would have a source of information that local attorneys could use and others that are working with them. I don't know whether that has been set up by Mr. Baker. I am not saying you have to put the real contract on there, but attorneys could extract from that at the Department and provide very useful information to growers out there in a most complicated and concentrated industry now. I don't think that has been done yet, to my knowledge, and it was a very simple request and one that could at least provide information to farmers. So I just wanted to put that on the record.

Secretary GLICKMAN. We will follow up on that immediately. I am not aware of the specific request, but it is the kind of thing we can do.

[The information follows:]

The Grain Inspection, Packers and Stockyards Administration established a website on January 7, 1999 at the following address: <http://www.usda.gov/gipsa/progser/p&s/pltcontract.html>.

Ms. KAPTUR. Right. It would be like uniform contracting standards—what to look for, what to ask. These are some of the experiences. Some of the farmers that are out there in the country may even be willing to put their contract up there on the website, but this kind of information could be very, very important, certainly in places like Ohio, but I have a hunch many other places in the country.

Again, we will submit other questions for the record, and we thank you for your excellent testimony this afternoon. We look forward to working with you.

Ms. KAPTUR. Thank you, Mr. Chairman.

Mr. SKEEN. I thank the gentlelady. Mr. Boyd.

Mr. BOYD. Thank you, Mr. Chairman.

I want to thank my friend, Jay Dickey, for giving me his time. I heard him say earlier that he used to be a Democrat. I'm glad he found a group that he is comfortable with: [Laughter.]

CROP INSURANCE PROGRAM

Mr. Secretary, there has been a lot of talk, as we look for new ways to solve some of the difficulties that we are in, about reforming crop insurance. My question is very simple and straightforward. I farmed for 30 years, and I can't remember a year where we weren't at least allowed to go the ASCS office to sign up for some sort of ad hoc disaster program. I can tell you, from my experience, that the money wasn't very well spent in many cases. We had some fraud problems and other kinds of problems.

If we return to that kind of scenario with the crop insurance program, what kind of rules or safeguards do we put in place to make sure that the money is properly spent? Because you know that this Congress, nor the American people, will stand for a program that wastes money.

Secretary GLICKMAN. You are talking about if we go to a pooled crop insurance system.

Mr. BOYD. Yes, a crop insurance system.

Secretary GLICKMAN. Yes. Well, as you know, the GAO and our own Inspector General have looked very closely at the operation of the crop insurance program. In fact, there was quite an expose about how much administrative costs crop insurance companies were taking and what they were using their administrative costs for.

One of the concerns is to make sure that our USDA and our Farm Service Agency still has a major role in the sale of those crop insurance policies, so it is not run totally by the companies.

I guarantee you that, if we go to a vastly expanded crop insurance scenario, it will require a great deal of oversight from us and the General Accounting Office and our Inspector General, because you have a third party involved there; you have got the company.

Mr. BOYD. Right. The issue I want to address, though, and I will try to illustrate with an example. If we go to a full crop insurance program, where part of the formula that we are insuring is yield, how do we keep fraud out of the system in terms of insuring that yield? How do we keep people from farming the system, if you will? How do we keep people from just planting seed and then do nothing to make the crop productive and then coming along and saying, oh, you know, I have a disaster. And they do have a disaster, but much of it was their own creation. That is the kind of situation I am talking about.

Secretary GLICKMAN. Mr. Collins.

Mr. COLLINS. I might say that people in the insurance business have a nice phrase for that kind of behavior. They call it "moral hazard." People who design insurance policies, including USDA,

spend a lot of time trying to figure out the right rate that we are going to set, so we don't encourage people in areas that maybe shouldn't be producing a certain kind of crop to get into that crop. Secondly, we have requirements that require people to perform in, what is called, a "workman-like" way. As you say, they can't go out and spread seed by airplane into the soil somewhere when there is zero prospect of it growing.

So I think those are things that the people who are in the risk management agency try to focus on, and we talk a lot about things that might create moral hazards. So it is a good point. You can't necessarily insure 100 percent zero moral hazard, but you can certainly, in the design of the insurance policies, make it less likely that that kind of fraud will occur.

Secretary GLICKMAN. But this is also a reason why you have to have, I think, some government role, the Farm Service Agency, in management or oversight of this. If you leave this strictly between the policyholder and a company, then I think you do create an environment of greater potential fraud.

Mr. BOYD. Thank you, Mr. Chairman.

Mr. SKEEN. Mr. Dickey.

Mr. DICKEY. I was going to mention something to you, Dan, about denial, and I think there is quite a bit of denial on the part of the farmers as far as the fact that things are going to get better and that they are not as bad as they appear.

TRADE SURPLUS

But there is also a denial, I think, nationally in this way, and I don't know if it is a correct use of the word "denial," but our farmers do not think that there is enough appreciation for the trade surplus that agriculture presents, or gives us year after year after year. And they felt a little frustrated in that that story isn't getting out. One person said, well, I guess the only way for it to get out is for the agricultural industry just to fail and for us to not have agricultural products in any one given year or lesser ones.

Is there anything being done to explain that surplus? Is there any marketing of the value of agriculture to America that is being done?

Secretary GLICKMAN. Well, you have the Ag Council of America, and you have other private organizations that do this all the time. Of course, private companies like ADM that advertise "super-market to the world" do it as well. But the fact of the matter is that agriculture is, if not the largest, almost the largest single contributor to our balance-of-payment surplus year after year after year. Most people in economic circles know that. I am sure Mr. Greenspan knows that for sure. A big part of our budget, concerns our effort to try to keep that going.

Maybe we ought to be talking more about it. We have cooperator programs with, look, the wheat growers, rice growers, corn growers. And they are all out there—a lot of them, we helped finance their programs overseas to make sure that they continue to do the work that they are doing. So most of the farm organizations understand this.

But it is just a constant battle. You know, if you don't repeat something over and over and over again, they will forget it.

Mr. DICKEY. Well, they were concerned about the urban Members of Congress who might hear it and it didn't register with them that we do have an effect.

FARM BILL CONTRIBUTION TO BALANCING BUDGET

Do we have any way of quantitating the part that Freedom to Farm has played in balancing the budget? Or has?

Mr. COLLINS. Well, it has a role, in that our export programs are authorized under that Act. And to the extent that our export programs have been successful in promoting exports, then—pardon me; maybe I misunderstood you. You said balancing the budget or balancing the trade deficit?

Mr. DICKEY. Balancing the budget.

Mr. COLLINS. Oh, balancing the budget. Well, to the extent that they generate economic activity in agriculture, people pay taxes. There was a time 10 years ago when the net taxes paid by agriculture as a whole was negative, but it is not the case anymore. Today farmers are positive contributors to taxes to the Federal treasury.

To the extent that things like AMTA payments or loan deficiency payments keep production up and generate incomes for producers, and they pay taxes on that, then that contributes to balancing the Federal budget deficit.

Mr. DICKEY. You see, they were striving to find other ways that they were helping. I don't know whether that is a true picture of how the individual farmer thinks across America, but I know I got an honest picture, and it wasn't very funny.

Secretary GLICKMAN. Jay, if I may just say one other thing—I'm sorry for eating a pistachio.

Mr. DICKEY. I am doing the same thing. [Laughter.]

Secretary GLICKMAN. It is one of the reasons why it is so important that this committee has both urban and rural members on it. A lot of people make fun of some of these things, like farmland protection or even global climate change, but the truth of the matter is that 98 percent of the people don't live on farm country, and they do need to see a relationship between what we do and their lives.

For example, 70 percent of the land in this country is in private hands; 30 percent is in public hands. Most people would think it would be the reverse. They think of all the signs of the Forest Service and the Park Service and other agencies. In truth, the quality of their lives in matters ranging from water quality to recreation is more influenced by what happens in that vast private lands area than it is in the public lands area. A lot of our programs are in things that some people may say sound a little fringe, but these programs may, in fact, protect the quality of life of people who live in urban areas.

An example is the water supply of New York City. We went and did a conservation program up in New York to basically protect the streambeds of some of the feeder streams that feed the water supply up in the Catskills. That water supply in New York is the most pure of any major water supply serving any major city in the entire world, and it is virtually unfiltered except for natural phenomenon.

Okay, how does that happen? That happens because we have conservation programs. Farmers do a good job of protecting their

land base, and everything else, and it is just a remarkable type of phenomena. Here you have the city of New York that depends on basically unfiltered water from upstate New York?

And one of the things that has always struck me is that sometimes we get into little arguments between urban and rural Congressmen and other people about, well, that is global climate change; that stuff is crazy. Well, you know what? A lot of folks who live in urban areas care about this. They want to make sure that their air is clean and their water is clean, and farmers do, too, you know.

One of the things that strikes me is that it would help production agriculture to understand their role in making the whole country a better place.

Mr. DICKEY. I think they know. They don't believe other people know.

Secretary GLICKMAN. Yes. Well, when we were up in New York and we did that water system, they knew. We made a big deal. The people of New York—I mean, I don't know how much they think about it—that they got clean water because the farmers in upstate New York were doing their work—

Mr. DICKEY. You mean, we don't need to try to trade Serrano off this—he is still on this—so we did it? [Laughter.]

You know, I got to asking him how many crops were growing in his district. But he has cleaner water because of that. That is a crop because it lasts forever.

Thank you. Thank you, Mr. Chairman.

Mr. SKEEN. Thank you. If you have any more questions, we will take them for the record.

ADJOURNMENT

Mr. SKEEN. Mr. Secretary, it is right up there about two minutes to 5:00 and you need to get running.

Secretary GLICKMAN. Thank you.

Mr. SKEEN. We thank you so very much.

Let me give you the whole answer to this agricultural problem. That is, any kind of business you are in, where everything you buy, you buy retail, and everything you sell, you sell wholesale, you are in very deep trouble, and that is agriculture.

Secretary GLICKMAN. Yes, I know.

Mr. SKEEN. And I have been in there all my life. I just worry about the future, who is going to take over one of these days, because a lot of these folks kind of figured out from the start, you can't make a living very easily in agriculture. It is very shaky. You hear that all the time.

But thank you for your help and thank you for that great staff you have and the time that you have given us.

We are adjourned.

QUESTIONS SUBMITTED BY MR. SKEEN

PUBLIC AFFAIRS ACTIVITIES

Mr. Skeen: Please update the table that begins on page 139 of last year's hearing record, showing the number of professional and clerical staff from each agency assigned to public affairs activities and the cost by agency, to include projections for fiscal year 2000.

Response: We will provide updated table for the record.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
PUBLIC AFFAIRS ACTIVITIES
(Dollars in Thousands)

AGENCY	1998		1999		2000	
	Employment	Staff Years	Employment	Staff Years	Employment	Staff Years
Off. of Communications:						
Professional	80	79	82	82	82	82
Clerical	13	13	13	13	13	13
Budget Auth.	\$8,060		\$8,138		\$9,300	
Location of Staff:						
Washington	93	92	95	95	95	95
Field	0	0	0	0	0	0
Off. of Chief Economist:						
Professional	1	1	1	1	1	1
Clerical	0	0	0	0	0	0
Budget Auth.	\$78		\$82		\$85	
Location of Staff:						
Washington	1	1	1	1	1	1
Field	0	0	0	0	0	0
ARS:						
Professional	44	44	44	44	44	44
Clerical	5	5	5	5	5	5
Budget Auth.	\$3,212		\$3,660		\$3,660	
Location of Staff:						
Washington	49	49	49	49	49	49
Field	0	0	0	0	0	0
CSREES:						
Professional	3	3	3	3	3	3
Clerical	1	0.5	1	0.5	1	0.5
Budget Auth.	\$261		\$274		\$284	
Location of Staff:						
Washington	4	3.5	4	3.5	4	3.5
Field	0	0	0	0	0	0
FAS:						
Professional	15	15	15	15	17	17
Clerical	2	2	2	2	1	1
Budget Auth.	\$1,105		\$1,138		\$1,350	
Location of Staff:						
Washington	17	17	17	17	18	18
Field	0	0	0	0	0	0
FSA:						
Professional	12	12	9	9	9	9
Clerical	2	2	1	1	1	1
Budget Auth.	\$1,078		\$839		\$893	
Location of Staff:						
Washington	14	14	10	10	10	10
Field	0	0	0	0	0	0
RNA:						
Professional	5	4.125	7	5.25	6	6
Clerical	1	0.25	1	0.25	1	0.25
Budget Auth.	\$282		\$354		\$434	
Location of Staff:						
Washington	6	4.375	8	5.5	7	6.25
Field	0	0	0	0	0	0
RUS:						
Professional	1	1	1	1	1	1
Clerical	0	0	0	0	0	0
Budget Auth.	\$112		\$115		\$119	
Location of Staff:						
Washington	1	1	1	1	1	1
Field	0	0	0	0	0	0

UNITED STATES DEPARTMENT OF AGRICULTURE
PUBLIC AFFAIRS ACTIVITIES
(Dollars in Thousands)

AGENCY	1998		1999		2000	
	Employment	Staff Years	Employment	Staff Years	Employment	Staff Years
RHS:						
Professional	4	4	4	4	4	4
Clerical	1	1	1	1	1	1
Budget Auth.	\$335		\$345		\$356	
Location of Staff:						
Washington	5	5	5	5	5	5
Field	0	0	0	0	0	0
RBS:						
Professional	1	1	1	1	1	1
Clerical	1	0.5	1	0.5	1	0.5
Budget Auth.	\$112		\$115		\$119	
Location of Staff:						
Washington	2	1.5	2	1.5	2	1.5
Field	0	0	0	0	0	0
NRCS:						
Professional	83	83	84	84	85	85
Clerical	18	18	16	16	16	16
Budget Auth.	\$7,480		\$7,630		\$7,940	
Location of Staff:						
Washington	17	14	16	15	14	14
Field	84	87	84	85	87	87
APHIS:						
Professional	12	12	13	13	13	13
Clerical	2	2	2	2	2	2
Budget Auth.	\$654		\$710		\$717	
Location of Staff:						
Washington	12	12	12	12	12	12
Field	2	2	3	3	3	3
GIPSA:						
Professional	2	0.5	2	0.5	1	0.5
Clerical	0	0	0	0	0	0
Budget Auth.	\$41		\$42		\$43	
Location of Staff:						
Washington	2	0.5	2	0.5	1	0.5
Field	0	0	0	0	0	0
AMS:						
Professional	7	7	7	7	7	7
Clerical	1	1	2	2	2	2
Budget Auth.	\$443		\$557		\$572	
Location of Staff:						
Washington	8	8	9	9	9	9
Field	0	0	0	0	0	0
FSIS:						
Professional	27	30.8	9	9	9	9
Clerical	5	5	1	0.5	1	0.5
Budget Auth.	\$2,351		\$530		\$533	
Location of Staff:						
Washington	32	35.8	10	9.5	10	9.5
Field	0	0	0	0	0	0

UNITED STATES DEPARTMENT OF AGRICULTURE
PUBLIC AFFAIRS ACTIVITIES
(Dollars in Thousands)

AGENCY	1998		1999		2000	
	Employment	Staff Years	Employment	Staff Years	Employment	Staff Years
FNS:						
Professional	34	32.65	34	32.65	34	32.65
Clerical	9	8.27	9	8.27	9	8.27
Budget Auth.	\$2,534		\$2,627		\$2,742	
Location of Staff:						
Washington	19	18.17	19	18.17	19	18.17
Field	24	22.75	24	22.75	24	22.75
TOTAL, Agriculture Bill:						
Professional	331	330.075	316	311.40	317	315.15
Clerical	61	58.52	55	52.02	54	51.02
Budget Auth.	\$28,138		\$26,803		\$28,714	
Location of Staff:						
Washington	276	272.47	252	247.17	250	247.17
Field	116	116.13	119	116.25	121	119.00

CONGRESSIONAL RELATIONS ACTIVITIES

Mr. Skeen: Please update the table that begins on page 143 of last year's hearing record showing a breakout of congressional relations activities to include projections for fiscal year 2000.

Response: Yes, we will provided that information for the record.

[The information follows:]

AGENCY	Employment	1999			2000		
		Staff Years	Total Staff Years	% of Total Staff Years	Staff Years	Total Staff Years	% of Total Staff Years
OSCE:							
Professional.....	5	5	7		7	7	
Clerical.....	4	4	5		5	5	
Total.....	9	9	12	16.63%	12	12	16.63%
Schedule C Positions	3		7				
Average Cost:							
Professional.....	\$71	\$73	\$73		\$73	\$73	
Clerical.....	\$32	\$33	\$33		\$33	\$33	
Budget Authority....		\$957	\$957			\$992	
ARS:							
Professional.....	2	1.3	2		2	1.3	
Clerical.....	1	0.2	1		1	0.3	
Total.....	3	1.5	3	0.02%	3	1.6	0.02%
Schedule C Positions	1	0.4	1		1	0.4	
Average Cost:							
Professional.....	\$99	\$90	\$90		\$93	\$93	
Clerical.....	\$36	\$25	\$25		\$28	\$28	
Budget Authority....		\$129	\$129			\$133	
CSREES:							
Professional.....	2	1.2	2		2	1.4	
Clerical.....	1	0.2	1		1	0.3	
Total.....	3	1.4	3	0.35%	3	1.7	0.35%
Schedule C Positions	1	0.4	1		1	0.4	
Average Cost:							
Professional.....	\$98	\$89	\$89		\$92	\$92	
Clerical.....	\$36	\$25	\$25		\$27	\$27	
Budget Authority....		\$120	\$120			\$125	
FAS:							
Professional.....	2	2	2		2	2	
Clerical.....	1	1	1		1	1	
Total.....	3	3	3	0.33%	3	3	0.33%
Schedule C Positions	2		2				
Average Cost:							
Professional.....	\$73	\$75	\$75		\$78	\$78	
Clerical.....	\$37	\$38	\$38		\$40	\$40	
Budget Authority....		\$183	\$183			\$191	

U.S. DEPARTMENT OF AGRICULTURE
CONGRESSIONAL LIAISON ACTIVITIES
(Dollars in thousands)

AGENCY	1998				1999				2000			
	Employment	Staff Years	Total Staff Years	% of Total Staff Years	Employment	Staff Years	Total Staff Years	% of Total Staff Years	Employment	Staff Years	Total Staff Years	% of Total Staff Years
RMA:												
Professional.....	1	1	1		1	1	1		1	1	1	
Clerical.....	0	0	0		0	0	0		0	0	0	
Total.....	1	1	1		1	1	1		1	1	1	
Schedule C Positions	1	1	530	0.19%	1	1	545	0.18%	1	1	550	0.18%
Average Cost:												
Professional.....	\$73				\$59				\$60			
Clerical.....	\$0				\$0				\$0			
Budget Authority....		\$109				\$109				\$112		
FSA:												
Professional.....	4	2.57	4		4	2.57	4		4	2.57	4	
Clerical.....	1	1	1		1	1	1		1	1	1	
Total.....	5	3.57	5,666	0.06%	5	3.57	5,845	0.06%	5	3.57	5,745	0.06%
Schedule C Positions	1	1			1	1			1	1		
Average Cost:												
Professional.....	\$70				\$73				\$76			
Clerical.....	\$31				\$32				\$34			
Budget Authority....		\$294				\$311				\$332		
RUS:												
Professional.....	2	2	2		2	2	2		2	2	2	
Clerical.....	0	0	0		0	0	0		0	0	0	
Total.....	2	2	696	0.20%	2	2	715	0.28%	2	2	715	0.28%
Schedule C Positions	0	0			0	0			0	0		
Average Cost:												
Professional.....	\$69				\$71				\$73			
Clerical.....	\$0				\$0				\$0			
Budget Authority....		\$142				\$142				\$146		
RBS:												
Professional.....	1	0.5	1		1	0.5	1		1	0.5	1	
Clerical.....	0	0	0		0	0	0		0	0	0	
Total.....	1	0.5	297	0.17%	1	0.5	304	0.16%	1	0.5	304	0.16%
Schedule C Positions	0	0			0	0			0	0		
Average Cost:												
Professional.....	\$69				\$71				\$73			
Clerical.....	\$0				\$0				\$0			
Budget Authority....		\$52				\$52				\$54		

U.S. DEPARTMENT OF AGRICULTURE
CONGRESSIONAL LIAISON ACTIVITIES
(Dollars in Thousands)

AGENCY	1998				1999				2000			
	Employment	Staff Years	Total Staff Years	% of Total Staff Years	Employment	Staff Years	Total Staff Years	% of Total Staff Years	Employment	Staff Years	Total Staff Years	% of Total Staff Years
RUS:												
Professional.....	4	1.5	2	0.03%	2	1.5	2	0.03%	2	1.5	2	0.03%
Clerical.....	1	0.5	1	0.01%	1	0.5	1	0.01%	1	0.5	1	0.01%
Total.....	5	2	6,029	0.03%	3	2	6,109	0.03%	3	2	6,081	0.03%
Schedule C Positions												
Average Cost:	1				1				1			
Professional.....	469				471				473			
Clerical.....	33				34				35			
Budget Authority....		\$147				\$147				\$169		
NRCS:												
Professional.....	4	1	2	0.02%	4	1	2	0.02%	4	1	2	0.02%
Clerical.....	2	0.98	2	0.01%	2	1.5	1	0.01%	1	1	1	0.01%
Total.....	6	1.98	11,916	0.02%	6	2.5	12,249	0.02%	5	2	11,194	0.02%
Schedule C Positions												
Average Cost:	1				1				1			
Professional.....	992				992				995			
Clerical.....	331				331				332			
Budget Authority....		\$148				\$148				\$153		
APHIS:												
Professional.....	3	1.25	3	0.01%	3	1.25	3	0.01%	3	1.25	3	0.01%
Clerical.....	1	0.1	1	0.01%	1	0.1	1	0.01%	1	0.1	1	0.01%
Total.....	4	1.35	6,342	0.02%	4	1.35	6,461	0.02%	4	1.35	6,461	0.02%
Schedule C Positions												
Average Cost:	0				0				0			
Professional.....	460				463				466			
Clerical.....	330				333				334			
Budget Authority....		\$101				\$101				\$105		
AMS:												
Professional.....	3	2	3	0.06%	3	2	3	0.06%	3	2	3	0.06%
Clerical.....	0	0	0	0.00%	0	0	0	0.00%	0	0	0	0.00%
Total.....	3	2	3,517	0.06%	3	2	3,524	0.06%	3	2	3,524	0.06%
Schedule C Positions												
Average Cost:	0				0				0			
Professional.....	971				974				977			
Clerical.....	30				30				30			
Budget Authority....		\$176				\$176				\$183		

U.S. DEPARTMENT OF AGRICULTURE
CONGRESSIONAL LIAISON ACTIVITIES
(Dollars in thousands)

	1998					2000				
	Agency	Employment	Staff Years	Total Staff Years	% of Total Staff Years	Employment	Staff Years	Total Staff Years	% of Total Staff Years	
FSIS:										
Professional.....	4	4	4	4	0.06%	4	4	4	0.06%	
Clerical.....	1	1	1	1	0.01%	1	1	1	0.01%	
Total.....	5	5	5	5	0.06%	5	5	5	0.06%	
Schedule C Positions										
Average Cost:	0					0				
Professional.....	\$51					\$63				
Clerical.....	\$28					\$33				
Budget Authority....	\$309					\$321				
FNS:										
Professional.....	4	3.21	4	3.1	0.18%	4	3.1	3.1	0.17%	
Clerical.....	0	0	0	0	0.00%	0	0	0	0.00%	
Total.....	4	3.21	4	3.1	0.18%	4	3.1	3.1	0.17%	
Schedule C Positions										
Average Cost:	1					1				
Professional.....	\$84					\$90				
Clerical.....	\$0					\$0				
Budget Authority....	\$270					\$281				
TOTAL, Agriculture Bill:										
Professional.....	41	28.53	41	30.62	0.17%	41	30.62	30.62	0.17%	
Clerical.....	13	8.98	14	11.2	0.06%	13	10.7	10.7	0.06%	
Total.....	54	37.51	55	41.82	0.23%	54	41.32	41.32	0.23%	
Schedule C Positions										
Budget Authority....	12	\$3,137	16	\$3,154	0.15%	15.67	\$3,277	\$3,277	0.15%	

DELINQUENT MILLION DOLLAR LOANS

Mr. Skeen: Please update that information on delinquent million dollar loans provided on pages 148 and 149 of last year's hearing record.

Response: See attached report from KCMO FOCUS Report "RC540" Data Base. Please note that the 51-S flag denotes completed servicing action which the Finance Office is unable to process. All other definitions on last year's report are correct.

[The information follows:].

FSA - FARM LOAN PROGRAMS - NATIONAL SUMMARY
STATUS OF MILLION DOLLAR BORROWERS FLAGGED BY STATE
FLAGS BASED ON RC540 AS OF: 12/31/98

STATE	ACL	BAP	CAP	FAP	NONE	SAA	51-S	TOTAL
Arizona	6	3	7	1	4	2	0	23
Arkansas	3	0	0	0	1	0	0	4
California	3	7	7	13	8	8	0	46
Colorado	1	0	0	1	1	0	0	3
Florida	0	2	1	0	0	1	0	4
Georgia	5	2	2	0	2	1	0	12
Hawaii	0	0	0	1	1	0	0	2
Idaho	0	0	0	1	1	0	0	2
Illinois	0	0	0	2	0	0	0	2
Indiana	0	0	0	1	0	0	0	1
Iowa	1	0	0	0	0	0	0	1
Kentucky	0	0	1	1	0	0	0	2
Louisiana	0	2	0	6	1	0	0	9
Massachusetts	0	1	0	0	0	0	0	1
Michigan	0	0	1	1	0	0	0	2
Minnesota	4	2	0	2	0	0	0	8
Mississippi	13	3	4	3	18	3	0	44
Montana	1	1	0	2	3	2	0	9
Nebraska	0	1	0	2	0	0	0	3
Nevada	0	0	1	1	0	0	0	2
New Jersey	2	0	0	0	0	0	0	2
New Mexico	0	0	0	1	0	0	0	1
New York	3	1	0	11	0	2	0	17
North Carolina	1	0	0	0	1	1	0	3
North Dakota	4	0	0	0	1	2	0	7
Ohio	0	1	1	0	0	1	0	3
Oklahoma	0	1	0	8	4	1	0	14
Oregon	0	1	0	1	1	0	0	3
Pennsylvania	0	0	0	1	1	0	0	2
Puerto Rico	0	0	0	2	0	0	0	2
South Carolina	1	0	0	5	1	0	0	7
South Dakota	1	0	0	2	1	1	0	5
Tennessee	0	1	0	0	0	0	0	1
Texas	17	13	1	5	19	3	0	58
Virginia	1	3	0	1	1	0	0	6
Washington	0	1	0	0	0	0	0	1
West Virginia	0	0	0	0	0	1	0	1
TOTAL	67	46	26	75	70	29	0	313

SOURCE: FSA - KCMO Focus Report *RC540* Data Base. Date: 01/08/99

FARM LOANS

Mr. Skeen: Please update the tables that appear on page 150 of last year's hearing record, showing the amount of direct farm loans, direct housing loans, and rural development insurance fund loans that have been written off the books since fiscal year 1986, to include fiscal year 1998.

Response: The amounts of loans written off have been updated here.

[The information follows:]

Direct Farm Loans Written Off - - Fiscal Years 1987-98
(Dollars in thousands)

Fiscal Year	Principal Outstanding	Losses (Principal and Interest)	Losses as Percent of Principal
1987	\$25,755,286	933,585	3.50
1988	25,054,182	1,760,123	7.00
1989	23,271,716	3,084,670	13.30
1990	19,535,045	2,906,832	14.90
1991	17,457,646	1,935,285	11.10
1992	15,530,621	1,803,630	11.60
1993	13,770,762	1,651,208	12.00
1994	12,618,171	1,282,399	10.20
1995	11,808,083	983,439	8.30
1996	10,851,540	1,286,221	11.90
1997	10,010,141	742,824	7.40
1998	9,300,137	666,231	7.20

Direct Housing Loans Written Off - - Fiscal Years 1987-98
(Dollars in thousands)

Fiscal Year	Principal Outstanding	Losses (Principal and Interest)	Losses as Percent of Principal
1987	\$26,510,084	37,114	0.14
1988	27,097,524	61,127	0.23
1989	27,866,507	72,428	0.26
1990	28,560,266	106,258	0.37
1991	29,244,452	139,484	0.48
1992	29,702,405	196,794	0.66
1993	29,775,695	185,152	0.62
1994	30,144,158	158,934	0.53
1995	30,472,328	138,676	0.46
1996	29,560,025	116,730	0.39
1997	29,514,624	48,203	0.16
1998	28,954,759	15,978	0.06

Rural Development Insurance Fund Loans Written Off - - Fiscal Years 1987-98
(Dollars in thousands)

Fiscal Year	Principal Outstanding	Losses (Principal and Interest)	Losses as Percent of Principal
1987	\$8,349,054	63,180	0.76
1988	6,829,113	50,431	0.74
1989	5,237,686	152,256	2.91
1990	5,380,735	123,502	2.30
1991	5,581,410	76,855	1.38
1992	5,847,952	62,121	1.06
1993	6,037,834	41,261	0.68
1994	6,311,732	70,763	1.12
1995	6,585,900	16,530	0.25
1996	7,381,274	27,985	0.38
1997	8,652,188	28,030	0.32
1998	9,681,995	29,867	0.31

PROCESSING LOAN SERVICING APPLICATIONS

Mr. Skeen: What is the current rate in processing loan servicing applications?

Response: The Farm Service Agency's national internal control reviews for servicing of direct farm loans for FY 1998 found:

- 91.57 percent compliance with statutory requirements,
- 88.82 percent compliance with regulatory requirements, and
- 86.89 percent compliance with service quality requirements.

The Agency has determined that a minimum satisfactory score is 90 percent compliance.

Mr. Skeen: What are the principal reasons for this error rate?

Response: The principal reason for the error rate is lack of trained personnel in the Farm Loan Programs area. When farm loan programs were merged into the Farm Service Agency in FY 1996, insufficient numbers of trained personnel were transferred with the programs from Rural Development. Since the merger, because of pressure to reduce personnel numbers in the Farm Service Agency, farm loan program personnel lost to attrition nationwide have not been replaced.

Mr. Skeen: Please provide a copy of the most recent updated tobacco table that shows the related administrative expenses for carrying out the tobacco program.

Response: I will provide a copy of the most recent updated table on the administrative expenses associated with carrying out the tobacco program.

[The information Follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
PRESIDENT'S BUDGET
PROGRAM - BY - PROGRAM SUMMARY
ESTIMATED COSTS RELATED TO TOBACCO ACTIVITIES
(Dollars in Thousands)

DIRECT OUTLAYS a/	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimate	FY 2000 Budget
<u>Agency/Activity:</u>				
<u>Cooperative State Research, Education, and Extension Service:</u>				
Extension Service:				
Extension Education on Tobacco	\$660	\$0	\$0	\$0
Pest Management Projects	20	0	0	0
Subtotal, Extension Service ..	680	0	0	0
TOTAL, Cooperative State Research, Education, and Extension Service	680	0	0	0
<u>Economic Research Service:</u>				
Forecasting and Projection	98	98	98	98
<u>National Agricultural Statistical Service:</u>				
Agricultural Statistics	250	248	244	241
<u>Foreign Agricultural Service:</u>				
World Market Analysis	133	138	142	148
<u>Agricultural Marketing Service:</u>				
Market News	945	903	965	965
Standardization b/	188	180	202	202
TOTAL, Agricultural Marketing Service ..	1,133	1,083	1,167	1,167
<u>Farm Service Agency:</u>				
Administrative Expenses of Price Supports c/	14,808	16,076	14,656	14,445
<u>Risk Management Agency/FCIC:</u>				
Crop Insurance: d/ e/				
Indemnities	77,122	76,361	80,422	50,711
Producer-paid Premiums (Applied to Indemnity Payments)	-25,773	-26,498	-26,862	-28,175
Net Indemnities f/	51,349	49,863	53,560	22,536
Administrative Expenses for Delivery of Insurance:				
Delivered by Private Insurance Companies	12,616	12,044	11,037	11,453
Delivered by USDA County Offices (Associated With Loss Activity)	227	0	0	0
Total, Administrative Expenses for Delivery of Insurance	12,843	12,044	11,037	11,453
TOTAL, Crop Insurance	64,192	61,907	64,597	33,989
TOTAL, DIRECT OUTLAYS (EXCLUDING THE COMMODITY CREDIT CORPORATION) g/	81,294	79,550	80,904	50,088

UNITED STATES DEPARTMENT OF AGRICULTURE PRESIDENT'S BUDGET PROGRAM - BY - PROGRAM SUMMARY ESTIMATED COSTS RELATED TO TOBACCO ACTIVITIES (Dollars in Thousands)				
DIRECT OUTLAYS <u>a/</u>	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimate	FY 2000 Budget
<u>COMMODITY CREDIT CORPORATION</u>				
1. Price Support Program: <u>h/</u>				
Loans Made	\$162,143	\$618,641	\$176,270	\$44,832
Sales Proceeds	0	0	0	0
Repayments	-286,807	-212,463	-408,743	-187,451
Marketing Assessments <u>i/</u> ..	-31,526	-29,684	-21,749	0
Other Receipts and Outlays ..	0	0	0	0
TOTAL, CCC NET OUTLAYS AND RECEIPTS (-) <u>j/</u>	-156,190	376,494	-254,222	-142,619
2. REALIZED LOSSES OR GAINS (-) <u>k/</u>	-31,526	-29,684	-21,749	0

Footnotes:

a/ Direct outlays include spending for all USDA tobacco-related activities except lending and realized losses. Direct outlays are not likely to be recovered in future years. Loans, however, will normally be repaid in future years.

b/ For standardization costs, appropriated funds are reimbursed to the Treasury from user fees.

c/ These are costs that are related to administering the CCC tobacco price support programs at the Farm Service Agency (FSA) county office level. These administrative costs include activities related to:

- Determining and maintaining tobacco farm allotments, quotas, history records and issuing marketing cards;
- Preparing and conducting producer referenda by mail; and,
- Measurement services and farm visits.

The collection of no-net-cost assessments and marketing assessments are required by the Agricultural Act of 1949, as amended, P.L. 81-439, to carry out the CCC tobacco price support programs. The collection of these assessments coupled with other tobacco program receipts assures that the CCC tobacco price support activities are carried out at no cost to the taxpayer. FSA Federal administrative expenses are not readily available.

d/ Numbers with a minus (-) sign denote receipts.

e/ Increased indemnities in FY 1999 were due primarily to severe drought and other weather related damages which occurred in tobacco producing areas in crop year 1998, resulting in a major portion of the loss being carried into 1999.

f/ Reflects primarily Government paid premium subsidies; and, any excess gain or loss.

g/ These direct outlays represent costs related to all activities involved in carrying out legislatively authorized and mandated tobacco programs, including those costs related to administration of the CCC price support activities (See footnote c/), as well as, activities concerning data collection on and providing government services related to the production and marketing of tobacco. While the collection of required assessments

UNITED STATES DEPARTMENT OF AGRICULTURE
 PRESIDENT'S BUDGET
 PROGRAM - BY - PROGRAM SUMMARY
 ESTIMATED COSTS RELATED TO TOBACCO ACTIVITIES
 (Dollars in Thousands)

Footnotes, Continued:

generally assure that the CCC price support activities are operated at no cost to the taxpayer, they may not necessarily be sufficient to defray all other costs for tobacco related programs.

- h/ CCC estimates in the President's FY 2000 Budget Request, dated February 1, 1999. Net price support outlays include miscellaneous expenditures and receipts.
- i/ The Agricultural Act of 1949, as amended, P.L. 83-439, requires a marketing assessment for deficit reduction purpose be collected from producers, purchasers and importers in an amount equal to 1.0 percent of the national price support for tobacco through the 1998 crop. Domestic producers or purchasers remit to CCC an amount equal to 0.5 percent of the national price support level; and, importers remit 1.0 percent of the national price support level for the same kind of tobacco. The 2000 budget includes a new increased tobacco marketing assessment which replaces the current assessment.

The authority for the current marketing assessment program expired on December 31, 1998. Included in the President's Budget for FY 2000 is proposed language for a new increased tobacco marketing assessment to become effective in FY 2000. The proposed assessment will be twice the magnitude of the current one. However, the portion of the assessment paid by domestic producers will be held to a level comparable to the current assessment. Purchasers and importers will pay increased levels.

- j/ Numbers with a minus (-) sign denote net receipts.

- k/ Numbers with a minus (-) sign denote net gains.

Research is supported by USDA which uses tobacco as a model plant system for studies in plant physiology, molecular biology, and biochemistry. Funding estimates are not available.

Source: Factbook/Tobacco1.wk3
 Date: 2-26-99

AMERICORPS

Mr. Skeen. Is any funding for Americorps activities requested by USDA for FY 2000?

Response. FY 1996 was the last year USDA participated in the AmeriCorps program. USDA has not asked for funding since then and is not requesting funding for AmeriCorp for FY 2000.

OSEC STAFFING

Mr. Skeen: Provide tables similar to the ones provided on pages 156 through 163 of last year's hearing record that list current staff in each of the OSEC offices, the position title, the grade level, the pay costs associated with each position, the identity of the appointment, and how they are funded for the fiscal years 1998 and 1999. Also, please list by name each staff and those that are used by OSEC and costs that are paid by agencies.

Response: The following table lists current staff on board in each of the OSEC offices, the position title, the grade level, and the pay costs associated with each position. The table also identifies Presidential Appointments with Senate Confirmation-PAS, Schedule C, Non-career, Career positions, and how they are funded. The table reflects staff on board as of September 30, 1998, for fiscal year 1998 and as of February 12, 1999 for fiscal year 1999.

[The information follows:]

**OFFICE OF THE SECRETARY - IMMEDIATE OFFICE
FISCAL YEAR 1998**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Secretary of Agriculture	EX-1	\$151,800	\$37,950 OSEC	PAS
Deputy Secretary of Agriculture	EX-11	136,700	34,175 OSEC	PAS
Chief of Staff	ES-6	125,900	31,475 OSEC	Non-Career
Deputy Chief of Staff	ES-1	106,412	26,603 OSEC	Non-Career
Counsel to the Secretary	ES-6	125,900	31,475 OSEC	Non-Career
Confidential Assistant	GS-15	85,579	21,395 OSEC	Schedule C
Confidential Assistant	GS-15	77,709	19,427 OSEC	Schedule C
Confidential Assistant	GS-14	66,138	16,535 OSEC	Schedule C
Confidential Assistant	GS-15	85,579	21,395 OSEC	Schedule C
Special Assistant	ES-6	125,900	31,475 OSEC	Non-Career
Counsel to the Secretary	ES-01	106,412	26,603 OSEC	Non-Career
Special Assistant	ES-03	116,495	29,124 OSEC	Non-Career
Executive Assistant	ES-6	125,900	31,475 OSEC	Non-Career
Confidential Assistant	GS-15	77,798	19,450 OSEC	Schedule C
Confidential Assistant	GS-13	59,700	14,925 OSEC	Schedule C
Executive Assistant	ES-1	106,412	26,603 OSEC	Non-Career
Confidential Assistant	GS-12	47,066	11,767 OSEC	Schedule C
Staff Assistant	GS-8	30,364	7,591 OSEC	Schedule C
Staff Assistant	GS-10	35,742	8,936 OSEC	Schedule C
Staff Assistant	GS-8	29,384	7,346 OSEC	Schedule C
Motor Vehicle Operator	WG-6	30,374	7,594 OSEC	Career
Motor Vehicle Operator	WG-6	30,374	7,594 OSEC	Career
Secretary	GS-6	27,060	6,765 OSEC	Career
Office Automation Clerk	GS-4	19,146	4,787 OSEC	Career
Program Analyst/Travel Coordinator	GS-13	65,296	16,324 CFO	Career
Secretary	GS-6	25,468	6,367 OSEC	Career

**OFFICE OF THE SECRETARY - IMMEDIATE OFFICE
FISCAL YEAR 1999**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Secretary of Agriculture	EX-1	\$151,800	\$37,950 OSEC	PAS
Deputy Secretary of Agriculture	EX-11	136,700	34,175 OSEC	PAS
Chief of Staff	ES-6	125,900	31,475 OSEC	Non-Career
Deputy Chief of Staff	ES-1	110,351	27,588 OSEC	Non-Career
Counsel to the Secretary	ES-6	125,900	31,475 OSEC	Non-Career
Special Assistant	ES-6	125,900	31,475 OSEC	Non-Career
Executive Assistant	ES-1	110,351	27,588 OSEC	Non-Career
Counsel to the Secretary	ES-02	115,529	28,882 OSEC	Non-Career
Special Assistant	ES-1	110,351	27,588 OSEC	Non-Career
Confidential Assistant	GS-15	80,658	20,165 OSEC	Schedule C
Confidential Assistant	GS-13	61,895	15,474 OSEC	Schedule C
Confidential Assistant	GS-15	80,658	20,165 OSEC	Schedule C
Confidential Assistant	GS-14	68,570	17,143 OSEC	Schedule C
Confidential Assistant	GS-13	58,027	14,507 OSEC	Schedule C
Staff Assistant	GS-10	37,057	9,264 OSEC	Schedule C
Staff Assistant	GS-10	37,057	9,264 OSEC	Schedule C
Staff Assistant	GS-8	30,465	7,616 OSEC	Schedule C
Staff Assistant	GS-8	30,465	7,616 OSEC	Schedule C
Secretary	GS-6	28,055	7,014 OSEC	Career
Special Assistant	ES-3	120,814	30,204 OSEC	Non-Career
Motor Vehicle Operator	WG-6	31,466	7,867 OSEC	Career
Motor Vehicle Operator	WG-6	31,466	7,867 OSEC	Career
White House Fellow	GS-14	73,141	18,285 OSEC	Schedule C
Office Automation Clerk	GS-04	20,853	5,213 OSEC	Career
Clerk	GS-01	14,414	3,604 OSEC	Career
Public Affairs Specialist	GS-09	33,650	8,413 OC	Schedule C
Secretary	GS-6	29,705	7,426 OSEC	Career
Program Analyst/Travel Coordinator	GS-13	67,697	16,924 CFO/DA	Career

**ASSISTANT SECRETARY FOR ADMINISTRATION
FISCAL YEAR 1998**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Acting Assistant Secretary	ES-6	\$125,900	\$31,475 OSEC	Career
Deputy Assistant Secretary	ES-3	116,495	29,124 OSEC	Non-Career
Confidential Assistant	GS-15	75,935	18,984 OSEC	Schedule C
Secretary	GS-11	47,123	11,781 OSEC	Schedule C
Staff Assistant	GS-7	30,952	7,738 OSEC	Schedule C

**ASSISTANT SECRETARY FOR ADMINISTRATION
FISCAL YEAR 1999**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Acting Assistant Secretary	EX-IV	\$118,400	\$29,600 OSEC/CFO	PAS
Deputy Assistant Secretary	ES-4	125,900	31,475 OSEC	Non-Career
Confidential Assistant	GS-14	68,570	17,143 OSEC/CFO	Schedule C
Secretary	GS-11	48,856	12,214 OSEC	Career
Acting Associate Assistant Secretary	ES-6	125,900	31,475 OSEC/CFO	Career
Secretary	GS-09	41,503	10,376 OSEC/CFO	Career
Staff Assistant	GS-15	91,410	22,853 DA	Career

**ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS
FISCAL YEAR 1998**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Congressional Relations Activities:				
Assistant Secretary	EX-IV	\$118,400	\$29,600 OSEC	PAS
Deputy Assistant Secretary	ES-2	111,454	27,864 OSEC	Non-Career
Confidential Assistant	GS-15	88,173	22,043 OSEC	Schedule C
Confidential Assistant	GS-14	66,138	16,535 OSEC	Schedule C
Confidential Assistant	GS-13	55,969	13,992 OSEC	Schedule C
Secretary	GS-11	43,197	10,799 OSEC	Schedule C
Secretary	GS-10	46,468	11,617 OSEC	Career
Secretary Typing	GS-8	36,766	9,192 OSEC	Career
Motor Vehicle Operator	WG-7	32,552	8,138 OSEC	Career
Intergovernmental Affairs Activities:				
Director, Intergovernmental Affairs	GS-15	88,173	22,043 OSEC	Schedule C
Confidential Assistant	GS-12	47,066	11,767 OSEC	Schedule C
Director, Native American Programs	GS-15	101,142	25,286 OSEC	Schedule C
Secretary	GS-9	37,868	9,467 OSEC	Career

**ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS
FISCAL YEAR 1999**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Congressional Relations Activities:				
Assistant Secretary	EX-IV	\$118,400	\$29,600 OSEC	PAS
Deputy Assistant Secretary	ES-3	120,814	30,204 OSEC	Non-Career
Confidential Assistant	GS-15	91,410	22,853 OSEC	Schedule C
Confidential Assistant	GS-15	104,851	26,213 OSEC	Schedule C
Confidential Assistant	GS-14	70,855	17,714 OSEC	Schedule C
Confidential Assistant	GS-13	61,895	15,474 OSEC	Schedule C
Secretary	GS-11	46,142	11,536 OSEC	Schedule C
Secretary	GS-10	48,173	12,043 OSEC	Career
Secretary Typing	GS-9	38,137	9,534 OSEC	Career
Motor Vehicle Operator	WG-7	33,851	8,463 OSEC	Career
Intergovernmental Affairs Activities:				
Director, Intergovernmental Affairs	GS-15	91,410	22,853 OSEC	Schedule C
Confidential Assistant	GS-12	48,796	12,199 OSEC	Schedule C
Director, Native American Programs	ES-1	110,351	27,588 OSEC	Non-Career
Secretary	GS-9	39,259	9,815 OSEC	Career

**UNDER SECRETARY FOR RESEARCH, EDUCATION, AND ECONOMICS
FISCAL YEAR 1998**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-3	116,495	29,124 OSEC	Non-Career
Confidential Assistant	GS-11	40,579	10,145 OSEC	Schedule C
Secretary	GS-11	47,123	11,781 OSEC	Career
Secretary	GS-7	29,184	7,296 OSEC	Career
Communications Coordinator	GS-15	101,142	25,286 ARS/CSREES/ERS/NASS	Schedule C
Confidential Assistant	GS-12	47,066	11,767 ARS/CSREES/ERS/NASS	Schedule C
REE Budget Coordinator	ES-1	106,412	26,603 ARS/CSREES/ERS/NASS	Career

**UNDER SECRETARY FOR RESEARCH, EDUCATION, AND ECONOMICS
FISCAL YEAR 1999**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-111	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-4	125,900	31,475 OSEC	Non-Career
Secretary	GS-11	48,856	12,214 OSEC	Career
Secretary	GS-7	30,259	7,565 OSEC	Career
Special Assistant	GS-15	104,951	26,258 ARS/CSREES/ERS/HASS	Schedule C
REE Budget Coordinator	ES-1	110,351	27,588 ARS/CSREES/ERS/HASS	Career
Special Assistant	GS-15	88,722	22,181 ARS/CSREES/ERS/HASS	Schedule C
Secretary	GS-7	27,508	6,877 ARS/CSREES/ERS/HASS	Career

**UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS
FISCAL YEAR 1998**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Assistant Secretary	EX-IV	\$118,400	\$29,600 OSEC	PAS
Deputy Assistant Secretary	ES-6	125,900	31,475 OSEC	Non-Career
Special Assistant	GS-15	82,985	20,746 OSEC	Career
Secretary	GS-11	47,275	11,819 OSEC	Career
Secretary	GS-10	43,029	10,757 OSEC	Career
Confidential Assistant	GS-15	80,997	20,249 APHS	Schedule C
Confidential Assistant	GS-15	91,121	22,780 AMS	Schedule C

**UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS
FISCAL YEAR 1999**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-IV	\$118,400	\$29,600 OSEC	PAS
Deputy Under Secretary	ES-6	125,900	31,475 OSEC	Non-Career
Special Assistant	GS-15	86,034	21,509 OSEC	Career
Secretary	GS-11	50,213	12,553 OSEC	Career
Secretary	GS-10	45,702	11,426 OSEC	Career
Confidential Assistant	GS-15	104,851	26,213 AMS	Schedule C
Confidential Assistant	GS-15	88,722	22,181 APHS	Schedule C

**UNDER SECRETARY FOR FOOD SAFETY
FISCAL YEAR 1998**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-111	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-2	111,454	27,864 OSEC	Non-Career
Secretary	GS-11	41,888	10,472 OSEC	Career
Secretary	GS-9	33,792	8,448 FS15	Career

**UNDER SECRETARY FOR FOOD SAFETY
FISCAL YEAR 1999**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-111	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-3	120,814	30,204 OSEC	Non-Career
Secretary	GS-12	48,796	12,199 OSEC	Career
Secretary	GS-9	35,704	8,926 FS15	Career

**UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES
FISCAL YEAR 1998**

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-111	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-4	122,824	30,706 OSEC	Non-Career
Deputy Under Secretary	ES-5	125,900	31,475 OSEC	Non-Career
Secretary	GS-12	58,051	14,513 OSEC	Career
Special Assistant	GS-15	101,142	25,286 RNA	Schedule C
Special Assistant	GS-15	80,391	20,098 FAS	Schedule C
Staff Assistant	GS-11	41,888	10,472 FSA	Career
Secretary	GS-9	36,786	9,197 FSA	Career

UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES
FISCAL YEAR 1999

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-4	125,900	31,475 OSEC	Non-Career
Deputy Under Secretary	ES-5	125,900	31,475 OSEC	Non-Career
Secretary	GS-12	60,183	15,046 OSEC/FAS	Career
Counsel to the Secretary	GS-15	83,346	20,837 FAS	Schedule C
Special Assistant	GS-15	104,851	26,213 RMA	Schedule C
Special Assistant	GS-14	68,570	17,143 RMA	Schedule C
Staff Assistant	GS-11	43,428	10,857 FSA	Career
Secretary	GS-9	38,137	9,534 FSA	Career

UNDER SECRETARY FOR RURAL DEVELOPMENT
FISCAL YEAR 1998

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-6	125,900	31,475 OSEC	Non-Career
Deputy Under Secretary	ES-3	116,495	29,124 OSEC	Non-Career
Confidential Assistant	GS-13	55,969	13,992 OSEC	Schedule C
Confidential Assistant	GS-15	98,714	24,679 RBGS	Schedule C
Confidential Assistant	GS-12	47,471	11,868 RBGS	Schedule C
Staff Assistant	GS-9	32,457	8,114 RBGS	Career
Staff Assistant	GS-6	24,081	6,020 RBGS	Career

UNDER SECRETARY FOR RURAL DEVELOPMENT
FISCAL YEAR 1998

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-6	125,900	31,475 OSEC	Non-Career
Deputy Under Secretary	ES-4	125,900	31,475 OSEC	Non-Career
Confidential Assistant	GS-13	58,027	14,507 OSEC	Schedule C
Confidential Assistant	GS-15	104,851	26,213 RBGS	Schedule C
Correspondence Control Officer	GS-8	35,540	8,885 RHS	Career
Secretary	GS-8	35,540	8,885 RBGS	Career
Program Assistant	GS-10	37,057	9,264 RHS	Career
Staff Assistant	GS-6	25,468	6,367 RHS	Career

ASSISTANT SECRETARY FOR NATURAL RESOURCES & ENVIRONMENT
FISCAL YEAR 1998

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-IV	\$118,400	\$29,600 OSEC	PAS
Deputy Under Secretary	ES-1	106,412	26,603 OSEC	Non-Career
Deputy Under Secretary	ES-1	106,412	26,603 OSEC	Non-Career
Private Secretary	GS-12	42,164	10,541 OSEC	Schedule C
Confidential Assistant	GS-14	66,138	16,535 OSEC/FS	Schedule A
Confidential Assistant	GS-13	55,969	13,992 FS	Schedule C

ASSISTANT SECRETARY FOR NATURAL RESOURCES & ENVIRONMENT
FISCAL YEAR 1998

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF SCHEDULE C
Under Secretary	EX-III	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-1	110,351	27,588 OSEC	Non-Career
Deputy Under Secretary	ES-1	110,351	27,588 OSEC	Non-Career
Private Secretary	GS-12	50,423	12,606 OSEC	Schedule C
Secretary	GS-09	33,650	8,413 OSEC	Schedule C
Secretary	GS-08	30,465	7,616 OSEC	Schedule C
Confidential Assistant	GS-14	68,570	17,143 FS	Schedule C
Special Assistant	GS-12	52,049	13,012 FS	Career

UNDER SECRETARY FOR FOOD, NUTRITION, AND CONSUMER SERVICES
FISCAL YEAR 1998

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-2	111,454	27,864 OSEC	Non-Career
Secretary	GS-10	45,277	11,319 OSEC	Career
Secretary	GS-11	44,505	11,126 OSEC	Career
Executive Assistant	GS-14	66,138	16,535 OSEC/FNS	Career

UNDER SECRETARY FOR FOOD, NUTRITION, AND CONSUMER SERVICES
FISCAL YEAR 1998

TITLE	GRADE	SALARY	BENEFITS FUNDED BY	IDENTITY OF APPOINTMENT
Under Secretary	EX-III	\$125,900	\$31,475 OSEC	PAS
Deputy Under Secretary	ES-3	120,814	30,204 OSEC	Non-Career
Secretary	GS-11	50,213	12,553 OSEC	Career
Secretary	GS-11	46,142	11,536 OSEC	Career
Executive Assistant	GS-14	70,855	17,714 OSEC/FNS	Career

FOOD STAMP BENEFITS PROVIDED BY EBT

Mr. Skeen: What percentage of food stamp benefits are currently being delivered by EBT?

Response: Currently more than 50 percent of food stamp benefits are issued via EBT.

WIC ELIGIBILITY AND PARTICIPATION RATES

Mr. Skeen: Please submit a copy of the Department's most recent estimate of WIC eligibles for the record.

Response: The estimates, based on 1997 data from Census, are presented in an attachment.

[The information follows:]

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

ELIGIBILITY AND COVERAGE ESTIMATES 1997 UPDATE - U.S. and Outlying Areas

Overview

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is a Federal-State nutrition and health assistance program for low-income childbearing women, infants and young children. To be eligible, an applicant must meet three basic criteria:

- 1) Categorical -- Participants must be pregnant women, breastfeeding women up to 1 year after delivery, non-breastfeeding postpartum women up to 6 months after delivery, infants up to 12 months of age, or children up to their fifth birthday.
- 2) Income -- The maximum income limit is 185 percent of the U.S. Poverty Guidelines (e.g., \$30,433 for a family of four as of July 1, 1998). In addition, individuals are automatically considered income-eligible if they receive benefits under the Federal Medicaid, Aid to Families with Dependent Children (AFDC)¹, or Food Stamps Program (FSP). Income limits for the AFDC and FSP are below the WIC income cutoff; however, in some cases, Medicaid serves persons over 185% of poverty.
- 3) Nutritional Risk -- Participants must be certified to be at nutritional risk. Three major types of risk are recognized: medically based risk, such as anemia, underweight, maternal age, history of pregnancy complications or poor outcomes, etc.; diet-based risk -- inadequate dietary patterns, as determined by 24-hour food recall or food-frequency analysis, and predisposing risk conditions, such as homelessness and migrancy.

1997 Estimate of WIC Eligibles

The estimates which follow use the same methodology that has been used by the USDA Food and Nutrition Service to produce WIC eligibility and coverage estimates for the last four years. This allows comparisons of change in the estimates due to changes in income and fertility. In response to Congressional interest, the Department has committed to convene an expert panel to review the estimation methodology. Information from newly available studies that might alter the methodology has not been incorporated in these estimates, pending consideration by the expert panel.

¹ The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) replaced AFDC with the Temporary Assistance for Needy Families (TANF) program. TANF recipients will continue to be considered automatically income eligible for WIC as long as the income standards established by States for TANF are not less restrictive than those for AFDC.

1997 Estimate of WIC Eligibles (#s in thousands)

	PREGNANT WOMEN	POSTPARTUM AND BREASTFEEDING WOMEN	INFANTS	CHILDREN	TOTAL
1996 Income Eligible	1262	903	1697	7235	11097
1996 Fully Eligible	1148	822	1612	5426	9009
1996 Participation	712	963	1835	3769	7279
1996 Coverage (CY)	62%	117%	114%	69%	81%
1997 Income Eligible	1202	860	1617	6813	10492
1997 Fully Eligible	1094	783	1536	5110	8522
1997 Participation	756	953	1869	3808	7386
1997 Coverage (CY)	69%	122%	122%	75%	87%

Estimates of persons eligible for the WIC program are used for several purposes. They provide an indication of the number of persons who would participate in WIC if funds were available. As such, the eligibles estimates are an important component in developing program budget estimates used in the President's budget request and the Congressional budget process. Finally, the eligibles estimates provide a basis for estimating program coverage -- that is, for determining what share of the eligible population the program is currently reaching. Based on the March 1998 Current Population Survey (CPS), FNS estimates that 8.5 million women, infants and children were fully eligible for the WIC Program in 1997, a 5 percent decrease from the number estimated eligible in 1996. A total of about 10.5 million women, infants and children fell below the WIC income eligibility limit in 1997, vs. an estimated 11.1 million in 1996.

Program Coverage

The decrease in the estimated number of WIC income-eligibles, combined with an increase in average monthly participation of just over 100,000 for the calendar year, allowed overall program coverage to increase by six percentage points, from 81% in 1996 to 87% in 1997. This coverage estimate does not factor in changes in participation that have occurred since 1997.

Estimated coverage of pregnant women is approximately 69 percent for 1997. This represents the proportion of women at all stages of pregnancy who are participating in WIC. Because women are very unlikely to participate in WIC for a full 40 weeks of pregnancy, this rate should be expected to be significantly below 100%. For example, if all eligible pregnant women were to participate for six months of their pregnancy, the calculated participation rate would equal 65%.

Estimated coverage rates for infants and breastfeeding/postpartum women were over 100% in 1997. These extremely high coverage rates are likely attributable to some disparities between the methodology used to estimate income-eligibles and the certification practices in the WIC program, as well as the imprecision inherent in any survey-based estimate. Recent Medicaid expansion and income variability during pregnancy and the postpartum period may also be important factors. However, these data do strongly suggest that the program has likely achieved virtually full coverage of persons in these categories at the national level. Estimated coverage of children also rose substantially from 1996 to 1997, from 69% to 75%.

The estimate of 8.5 million WIC eligible persons in 1997 assumes that about 4 out of 5 income eligible persons are also at nutritional risk and thus fully eligible for the WIC Program. The estimates of pregnant, postpartum and breastfeeding women are based on the count of infants from the CPS and relationships found in the 1990 Decennial Census.

WIC Full Participation

The President's Budget proposes to fully fund the WIC Program and serve 7.5 million women, infants, and children throughout Fiscal Year 2000. The full funding participation level, providing adequate funding to serve all eligible persons who would choose to participate in WIC, has been assumed to be approximately 7.5 million persons for budget purposes for the past several years. This target was originally based on a budget estimate prepared in 1993 by the Congressional Budget Office. It is also consistent with FNS' full participation estimate produced in 1996 using 1994 WIC eligibles data.

Previous estimates of full participation have assumed that, on average, approximately 80% of all persons fully-eligible for the program would participate. We now know that higher participation rates by the target population can be achieved. This is supported by the experience of the Food Stamp Program, where participation rates for families with children under 5 are over 90%, and the AFDC program, where participation rates since 1990 have ranged from 82% to 86%.

Given that the estimated number of fully-eligible persons exceeds 7.5 million, and actual participation in WIC and other low-income assistance programs serving children exceeds the 80% previously assumed, a full funding participation target for FY2000 of 7.5 million remains reasonable and prudent.

MONTHLY WIC REPORTING DATA

Mr. Skeen: Update the table that appears on page 169 of last year's hearing record showing the monthly participation levels of the WIC program to include fiscal year 1998, and to date in fiscal year 1999.

Response: I would be happy to provide that information.

[The information follows:]

FUNDED ADVISORY COMMITTEES

Mr. Skeen: The fiscal year 1999 appropriations bill put a limit of \$1.8 million on advisory committees, panels, task forces, and commissions. For the record, please provide a list of all activities that were funded. Indicate those that are mandated by law and those that are discretionary as well as the funding level of each. Also list each advisory committee, panel, taskforce and commission that you propose to operate in FY 2000 and the proposed budget for each.

Response: I am providing a table that lists USDA advisory committees subject to the limitation.

[The information follows:]

FUNDED ADVISORY COMMITTEES			
Committee Title	Statutory (S) Discretionary (D)	FY 1999	FY 2000
FOOD, NUTRITION AND CONSUMER SERVICES:			
National Advisory Council on Maternal, Infant and Fetal Nutrition.....	S 42 U.S.C.1786	\$50,000	\$50,000
FOOD SAFETY:			
National Advisory Committee on Meat and Poultry Inspection....	S 21 U.S.C. 601	60,000	64,000
National Advisory Committee on Microbiological Criteria for Foods.....	D Departmental Regulation 1043-28	75,000	40,000
Total Food Safety.....		135,000	104,000
RESEARCH, EDUCATION AND ECONOMICS:			
Forestry Research Advisory Council.....	S 16 U.S.C. 582a	25,100	26,100
Strategic Planning Task Force on Research Facilities.....	S P.L. 101-445	64,050	0
USDA/Hispanic Association of Colleges and Universities.....	D Memorandum of Agreement dated 10/96	18,900	19,500
USDA/American Indian Higher Education Consortium.....	S P.L. 104-127	57,800	59,000
Subtotal, CSREES.....		165,850	104,600
National Genetic Resources Advisory Council.....	S 7 U.S.C. 5843	16,000	16,500
Dietary Guidelines Advisory Committee.....	D Departmental Regulation 1042-94	123,600	123,600
Subtotal, ARS.....		139,600	140,100
Census Advisory Committee on Agriculture Statistics.....	S 5 U.S.C. App. 2	25,000	26,000
Total, RHE.....		330,450	270,700
MARKETING AND REGULATORY PROGRAMS:			
Advisory Committee on Foreign Animal and Poultry Diseases....	D Secretary's Memorandum 1991..	21,000	18,900

FOUNDED ADVISORY COMMITTEES			
General Conference Committee of the National Poultry Improvement Plan.....	D Secretary's Memorandum 1758	11,300	9,930
National Wildlife Services Advisory Committee (formerly the National Animal Damage Control Advisory Committee)....	D Departmental Regulation 1041-1	18,100	18,100
Subtotal, APHIS.....		50,400	46,930
National Organic Standards Board.....	S 7 U.S.C. 6518	50,000	50,000
Subtotal, AMS.....		50,000	50,000
Federal Grain Inspection Advisory Committee.....	S 7 U.S.C. 87i	30,000	31,000
Total, MRP.....		130,400	127,930
FARM AND FOREIGN AGRICULTURAL SERVICES:			
Agricultural Policy Advisory Committee for Trade.....	D Departmental Regulation 1042-68	14,120	14,120
Ag. Tech. Adv. Comm. For Trade in:			
Animal & Animal Products....	D Departmental Regulation 1042-68	14,110	14,110
Fruits and Vegetables.....	D Departmental Regulation 1042-68	14,110	14,110
Grains, Feed, and Oilseeds...	D Departmental Regulation 1042-68	14,110	14,110
Sweeteners and Sweetener Products.....	D Departmental Regulation 1042-68	14,110	14,110
Tobacco, Cotton & Peanuts....	D Departmental Regulation 1042-68	14,110	14,110
Emerging Markets Advisory Committee.....	Statutory (Congress created)	14,000	32,700
Edward R. Madigan Agricultural Export Excellence Award Board..	S P.L. 104-127	14,110	15,000
Subtotal, FAS.....		112,780	132,370
Advisory Committee on Beginning Farmers and Ranchers.....	S P.L. 102-554	26,640	28,000
Subtotal, FSA.....		26,640	28,000
National Drought Policy Commission.....	S P.L. 105-199	443,000	157,000
Advisory Committee on Risk Management.....	D Departmental FACA	60,000	60,000
Subtotal, RMA.....		503,000	217,000
Total, FPAS.....		642,420	377,370
NATURAL RESOURCES AND ENVIRONMENT:			

FOUNDED ADVISORY COMMITTEES			
Task Force on Agricultural Air Quality Research.....	D Departmental Regulation 1042-126	50,000	50,000
National Commission on Small Farms.....	D Departmental Regulation 1043-43	36,000	25,000
USDA/1890 Task Force.....	D Deputy Secretary's Memo dated 8/29/88	15,000	15,000
Total, NRE.....		101,000	90,000
OFFICE OF THE CHIEF ECONOMIST:			
Commission on 21st Century Production Agriculture.....	S P.L. 104-127	275,000	275,000
DEPARTMENTAL ADMINISTRATION:			
Secretary's Small Business Advisory Committee.....	D To be established	30,000	25,000
Subtotal, Advisory Committees.....		1,694,270	1,320,000
Contingencies/Reserve.....		105,730	480,000
TOTAL, ADVISORY COMMITTEES.....		1,800,000	1,800,000

OUTSIDE COUNSEL

Mr. Skeen: Please provide the name and firm of any outside counsel hired by the Department in FY 1998 and please provide the total amount paid for services.

Response: Private outside counsel were under contract to various agencies of the Department in fiscal year 1998 and agencies of the Department have continued with this practice into fiscal year 1999. This practice has provided substantial value to agencies of the Department in more expeditious service and lower costs.

<u>Name</u>	<u>Firm</u>
Gary McDavid	McDermot, Will & Emery (RTB)
Shelia S. Hollis	Duane, Morris & Heckscher **
Robert Winter	Arnold and Porter **
Sharon Taylor	
Lee Narrow	
Michael Zimmer	Thelen, Reid and Priest **
Deborah DeMasi	
George Martin, Jr.	Coudert Brothers **
David J. Schmidt	
John Vogel	Patton Boggs, L.L.P. **
George J. Schutzer	
Robert Hager	
Guy Morley	Winston & Strawn **
Lori Ann Bean	
Filberto Agusti	Steptoe and Johnson **
Gregory R. deKeyser	(Sole Practitioner) *

H. James Lossin, Sr.	(Sole Practitioner) *
William D. O'Regan, III	(Sole Practitioner) *
(Firm)	Newell and Newell
(Firm)	Dimos, Brown & Erskine
Billie D. Holland	(Sole Practitioner)
(Firm)	Canova and Delahaye
(Firm)	Tillery and Tillery
Donnie L. Floyd	(Sole Practitioner) *
Ann B. McIntyre	(Sole Practitioner) *
Richard A. Rozanski	Provosty, Sadler & Delaunay *
Kaliste J. Saloom, III	Saloom & Saloom *
Stephen D. Miles	(Sole Practitioner)
(Firm)	Rieger, Spencer, Carpenter & Daugherty
(Firm)	Heywood & Cari
(Firm)	Daniel Law Office
Kenneth William Jost	(Sole Practitioner)
Neal Young	(Sole Practitioner)
(Firm)	Dunlap and Murphy
(Firm)	Annis, Mitchell
William Golson	(Sole Practitioner)
(Firm)	MacQuarrie and Associates
(Firm)	Cooper, Krettek & Associates
Elizabeth Mason	(Sole Practitioner)
(Firm)	Leverick & Musselman
Richard H. Broderick, Sr.	Broderick & Broderick
(Firm)	Melendez-Perez, Moran & Santiago
(Firm)	Mantleman, Weinroth & Miller
(Firm)	Adelson, Golden, Loria & Simons, P.C.
Robert H. Greene, P.C.	(Sole Practitioner)
(Firm)	McIntire, Johnson, Levin & Webb
(Firm)	Twilley & Street
Edward M. Tsuji	(Sole Practitioner)
(Firm)	Menezes, Tsukazaki, Yeh & Moore
M. Lynn Dunlap	Stephen, Kvanig, Greenwood, Stone & Trainor
Kurt R. Taylor	(Sole Practitioner)
Susan Wiebe	Wiebe Law Office

(Firm)

Law Office of Del Priore & Associates

Firms marked with a double asterisk (**) were placed under contract to provide expert legal advice to the Rural Utilities Service. The fees were paid by the utility involved and the services were provided at no cost to the Government under section 18(c) of the Rural Electrification Act of 1936. The Rural Utilities Service also paid approximately \$11,300 to these counsel and to Rural Telephone Board counsel under section 11 of that Act.

Firms marked with a single asterisk (*) were placed under contract to the Farm Service Agency to provide services relating to foreclosure under farmer loan programs of the agency. Most of these firms were or are also under contract to the Rural Housing Service to provide foreclosure services under section 502 of the Housing Act of 1949. The amount expended by the Farm Service Agency in fiscal year 1998 for foreclosure services totaled approximately \$36,100. Contracts are authorized under section 331(c) of the Consolidated Farm and Rural Development Act.

Firms not designated with asterisks performed foreclosure services for the Rural Housing Service. Amounts expended during fiscal year 1998 as payment under contracts to private attorneys equaled approximately \$872,000. Contracts are authorized under section 510(d) of the Housing Act of 1949.

CRP PROGRAM COSTS

Mr. Skeen: Please update the table that appears on page 174 of last year's hearing record showing the total cost of the CRP program since its inception to include FY 1998 actuals and FY 1999 estimates.

Response: A summary of cost by fiscal year since the inception of the program, including both cash outlays and the value of CCC commodity certificates issued for rental payments, follows:

CONSERVATION RESERVE PROGRAM (Dollars in thousands)			
Fiscal Year	Cash Outlays	CCC Commodity Certificates	Total
1986	23,146	0	23,146
1987	267,024	409,969	676,993
1988	291,477	759,067	1,050,544
1989	1,372,205	-13,509	1,358,696
1990	1,513,092	-3,507	1,509,585
1991	1,630,977	0	1,630,977
1992	1,669,275	-178	1,669,097
1993	1,689,602	-251	1,689,351
1994	1,735,587	-268	1,735,319
1995	1,732,343	-237	1,732,106
1996	1,732,194	-50	1,732,144
1997	1,690,960	-44	1,690,916
1998	1,731,326	0	1,731,326
1999 (est.)	1,580,336	0	1,580,336
TOTAL	18,659,544	1,150,992	19,810,536

1/ Outlays in FY 1996 include funds from the appropriated account (\$1.730 billion) and the CCC account (\$1.946 million).

- 2/ Outlays in FY 1997 include funds from the appropriated account (\$20.3 million) and the CCC account (\$1.671 billion).
- 3/ Outlays in FY 1998 include funds from the appropriated account (\$38.4 million) and the CCC account (\$1.693 billion).
- 4/ Outlays estimated for FY 1999 include funds from the appropriated account (\$72.6 million) and the CCC account (\$1.508 billion).

NOTE: Negative CCC Commodity Certificates represent adjustments to prior years' activities.

KARNAL BUNT

Mr. Skeen: What developments have occurred in the Karnal Bunt situation since FY 1998?

Response: In August 1998, we unexpectedly found bunted kernel within the regulated area in central Arizona. This find led to an additional level of sampling and certification and delayed deregulation. We are continuing to work with our trading partners, industry, the research community and State officials to change to their perception of KB from a quarantine issue to a grade and quality issue. In any event, our National monitoring program has demonstrated to our trading partners that KB is not widely distributed throughout the United States.

Mr. Skeen: What work has the Department done on Karnal Bunt in 1998 and what additional work is expected in 1999?

Response: For the upcoming 1999 harvest season, we are proposing to greatly reduce the size of the existing regulated areas and deregulate any areas in the future which have 3 years without Karnal bunt. By transitioning the effort from an emergency program to a routine domestic program, we will downplay the significance of the disease.

Mr. Skeen: How much has been spent to date on Karnal Bunt compensation?

Response: Since 1996, when the program began, over \$33 million has been provided to mitigate producer and handler losses.

FUND FOR RURAL AMERICA

Mr. Skeen: Please provide a table showing the levels of funding, both program level and budget authority, for the activities of the Fund for Rural America to date.

Response: Funding for the Fund for Rural America was only available for FY 1997 and was limited to \$80 million. No funding was authorized for FY 1998, and the use of authorized FY 1999 funding of \$60 million was blocked by appropriations language. The following table shows how the FY 1997 funding was allocated.

FUND FOR RURAL AMERICA FY 1997 Funding

<u>Program</u>	<u>Budget Authority</u>	<u>Program Level</u>
Rural Development Activities:		
Rural Housing Service		
Section 502 Housing Loans	\$15,500,000	\$109,309,000
Farm Labor Housing Loans	569,000	1,191,000
Farm Labor Housing Grants	<u>1,431,000</u>	<u>1,431,000</u>
Total, Rural Housing Service	17,500,000	111,931,000
Rural Utilities Service:		
Direct Water and Waste Disposal Loans	381,000	4,224,000
Direct Water and Waste Disposal Grants	4,219,000	4,219,000
Distance Learning and Medical Link Grants	<u>6,500,000</u>	<u>6,500,000</u>
Total, Rural Utilities Service	11,100,000	14,943,000

Rural Business-Cooperative Service:		
Rural Business Enterprise Grants	6,600,000	6,600,000
Cooperative Development Services	1,100,000	1,100,000
EZ/EC Technical Assistance	<u>600,000</u>	<u>600,000</u>
Total, Rural Business-Cooperative Service	8,300,000	8,300,000
Alternative Agricultural Research and		
Commercialization Corporation	500,000	500,000
Office of Outreach	4,500,000	4,500,000
Farm Service Agency:		
Beginning Farmer Loan Program	<u>2,000,000</u>	<u>9,510,000</u>
Total, Rural Development Activities	\$43,900,000	\$149,684,000
Research, Extension and Education Grants:		
Core Initiative	26,100,000	26,100,000
Secretary's Initiative	7,800,000	7,800,000
Telecommunications Infrastructure Research	<u>2,200,000</u>	<u>2,200,000</u>
Total, Research, Extension and Education Grants	<u>36,100,000</u>	<u>36,100,000</u>
TOTAL	<u>\$80,000,000</u>	<u>\$185,784,000</u>

Mr. Skeen: Of the funds available to the Department since FY 1997, how much has not been obligated?

Response: All \$80 million in available funding was obligated.

STAFF YEAR REDUCTIONS

Mr. Skeen: Please update the table on page 177 of last year's hearing record that shows, by fiscal year and agency, the staff year reductions that have occurred, including how much has been spent through the use of early outs and buyouts.

Response: The actual amount that was spent for fiscal years 1997 and 1998 on buyouts that were authorized by Section 727 of P.L. 104-180 for the Department is \$146.4 million. This represents one-time costs for Voluntary Separation Incentive Payments and additional contributions to the retirement system. Even with these costs, we estimate that use of the buyouts resulted in savings of \$12.6 million in 1997 and \$2.3 million in 1998.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
Staff Years03/05/99
09:26 PM

Agency	FY 1993 Calling	FY 1994 Change	FY 1995 Change	FY 1995 Change	FY 1996 Change	FY 1997 Change	1998	FY 1998 Change	FY 1993-1998 Total Change
Farm Service Agency.....	7,628	7,112	6,602	6,283	5,970	5,645	5,465	-204	-1,862
Risk Management Agency.....	664	651	543	536	37	526	530	4	1,842
Foreign Agricultural Service.....	923	906	907	885	-22	881	914	33	-9
Rural Utilities Service.....	890	891	850	765	-85	745	686	-69	-194
Rural Housing Service.....	8,222	7,870	7,234	6,311	-323	6,227	6,029	-198	-2,193
Rural Business-Cooperative Service.....	428	419	391	331	-60	320	297	-23	-131
Alternative Agricultural Research and Commercialization Corporation.....	7	6	7	7	0	6	6	0	-1
Food and Nutrition Service.....	2,009	1,933	1,868	1,807	-61	1,711	1,638	-73	-371
Forest Service.....	43,025	40,598	38,349	37,234	-1,125	36,330	34,798	-1,532	-8,227
Natural Resources Conservation Service.....	13,784	13,311	12,157	11,533	-324	11,088	11,916	28	-1,868
Food Safety and Inspection Service.....	9,950	10,111	10,090	9,760	-330	9,697	9,698	1	-252
Agricultural Research Service.....	8,426	7,933	7,621	7,617	-4	7,521	7,431	-90	-995
Coop. State Research, Education & Ext. Ser	408	424	386	380	-6	394	404	10	-4
Economic Research Service.....	788	717	625	591	-34	570	531	-39	-257
National Agricultural Statistics Service..	1,487	1,345	1,214	1,047	-167	1,097	1,147	50	-340
Agricultural Marketing Service.....	4,027	3,956	3,863	3,605	-198	3,524	3,517	-7	-510
Animal and Plant Health Inspection Service	6,352	6,562	6,303	6,285	-108	6,295	6,342	47	-110
Grain Inspection, Packers and Stock Admin	938	867	812	808	-4	788	757	-31	-179
Office of the Secretary.....	83	72	64	66	2	61	64	3	-19
Office of the Chief Economist.....	45	36	37	37	0	40	39	-1	-6
National Appeals Division.....	152	151	132	132	0	133	129	-4	-23
Office of Budget and Program Analysis.....	76	72	71	72	1	73	70	-3	-6
Office of the General Counsel.....	420	402	368	353	-15	351	340	-11	-80
Office of the Inspector General.....	850	825	777	754	-23	742	737	-5	-113
Office of the Chief Information Officer...	297	281	279	262	-17	246	230	-16	-47
Office of the Chief Financial Officer.....	1,221	1,288	1,153	1,033	-12	1,239	1,279	40	-38
Departmental Administration.....	727	710	638	623	-15	618	649	31	-72
Office of Communications.....	130	135	127	123	-4	119	118	-1	-12
Subtotal, USDA.....	114,175	109,668	103,547	100,280	-3,267	98,012	95,989	-2,023	-18,186
Thrift Savings Plan.....	367	397	408	430	22	445	421	-24	54
Total, USDA, Federal.....	114,542	110,065	103,955	100,710	-3,245	98,457	96,410	-2,047	-18,132
FSM, Non-Federal County.....	14,953	14,176	13,432	12,738	-694	11,999	10,733	-666	-4,220
Total, USDA.....	129,495	124,241	117,387	113,448	-3,939	109,856	107,143	-2,713	-22,352

FARM CREDIT LOANS FOR BEGINNING/SOCIALLY DISADVANTAGED FARMERS

Mr. Skeen: What is the level of direct farm credit loans that will be targeted to beginning and socially disadvantaged farmers and ranchers under the proposed BY 2000 budget?

Response: The targeting rates for socially disadvantaged and beginning farmer loans in FSA direct loan programs in FY 2000 are as follows:

<u>Program</u>	<u>Beginning farmer</u>	<u>Socially disadvantaged</u>
Direct Operating	35%	11%
Direct Farm Ownership	70%	18%

DAIRY OPTIONS PILOT PROGRAM

Mr. Skeen: How much has the Department spent to date in administration, subsidies and other costs on the Dairy Option Pilot Program and what are the projections through FY 2000?

Response: During FY 1998, \$503,124 was obligated for administrative expenses, which included system engineering costs to develop the Dairy Options Pilot Program (DOPP) tracking system. To date, for FY 1999, there has been \$117,331 spent on administrative costs which covered meeting rooms, advertising, printing, and travel. RMA expects total administrative costs to reach approximately \$397,000 in FY 1999 and \$441,400 in FY 2000.

In addition, for FY 1999, to date, \$7,080 has been paid out in broker fees and \$102,196 for producer subsidies. At this time, we are unable to estimate projected broker fees or producer subsidies for the remainder of FY 1999 or FY 2000 because the second and third round states and counties have not been chosen.

EXPORT SUBSIDY REDUCTION COMMITMENTS

Mr. Skeen: Please provide a list of the annual maximum level of export subsidy funding allowable for each year of the GATT/WTO agreement.

Response: A chart showing both the quantity and expenditure limitations on U.S. agricultural export subsidies will be provided for the record.

{The information follows:}

U.S. SUBSIDIZED EXPORTS PERMITTED UNDER URUGUAY ROUND AGREEMENT

COMMODITY	QUANTITY (thous tons)		Commitment									
	Base		1988-90	1991-92	7/85-8/86	7/86-8/87	7/87-8/88	7/88-8/89	7/89-8/90	7/90-8/91		
WHEAT/FLOUR	18,382	21,382	1,908	1,908	19,096	17,952	16,809	15,865	14,522			
COARSE GRAINS	1,975		1,975		1,837	1,768	1,630	1,561				
RICE	49	318	272	225	178	132	85	39				
VEGETABLE OILS	179	677	568	498	409	320	231	141				
BUTTER/BUTTEROIL	27	47	43	39	34	30	25	21				
SKIM MILK POWDER	86	116	108	100	92	84	76	68				
CHEESE	4	4	4	4	4	4	3	3				
OTHER (WMP)	0.04	15	12	10	7	5	3	0.03				
BOVINE MEAT	22		21	21	20	19	18	18				
PIGMEAT	0.5		0.5	0.5	0.4	0.4	0.4	0.4				
POULTRY MEAT	35		34	33	32	30	29	28				
LIVE DAIRY CATTLE (head)	13,955		13,467	12,978	12,490	12,001	11,513	11,024				
EGGS (000 doz)	8,759	34,930	30,262	25,593	20,925	16,256	11,588	6,920				

COMMODITY	BUDGET OUTLAYS (\$million)		Commitment									
	Base		1988-90	1991-92	FY 1988	FY 1987	FY 1988	FY 1988	FY 1988	FY 2000	FY 2001	
WHEAT/FLOUR	568.5	845.3	765.5	685.2	604.8	524.5	444.2	363.8				
COARSE GRAINS	72.1		67.7	63.4	59.1	54.8	50.4	48.1				
RICE	3.7	18.4	15.7	13.0	10.4	7.7	6.0	2.4				
VEGETABLE OILS	22.0	60.7	53.0	45.2	37.4	29.8	21.9	14.1				
BUTTER/BUTTEROIL	47.7		44.8	41.9	39.1	36.2	33.4	30.5				
SKIM MILK POWDER	128.8		121.1	113.4	105.7	97.9	90.2	82.9				
CHEESE	5.7		5.3	5.0	4.7	4.3	4.0	3.8				
OTHER (WMP)	0.033	17.2	14.4	11.5	8.6	5.8	2.9	0.021				
BOVINE MEAT	35.7		33.5	31.4	29.2	27.1	25.0	22.8				
PIGMEAT	0.8		0.7	0.7	0.6	0.6	0.5	0.5				
POULTRY MEAT	22.7		21.4	20.0	18.6	17.3	15.9	14.8				
LIVE DAIRY CATTLE	18.6		17.5	16.3	15.2	14.1	13.0	11.9				
EGGS	2.5	8.9	7.8	6.4	5.2	4.0	2.8	1.6				
TOTAL	828.7		1,168.2	1,053.4	938.7	823.9	709.1	594.4				

FUND FOR RURAL AMERICA

Mr. Skeen: Are any funds available for obligation or dispersal from the Fund for Rural America for FY 2000?

Response: On October 1, 1999, \$120 million becomes available for obligation from the Fund for Rural America (The Fund). The \$120 million includes \$60 million in mandatory funding for the Fund authorized for FY 2000 by the Agricultural Research, Extension and Education Reform Act of 1998. It also includes \$60 million which was authorized for FY 1999 but was blocked from use by appropriations language and becomes available again on October 1, 1999. The FY 2000 President's budget proposes that the use of this latter \$60 million be rescinded.

YEAR 2000 CONVERSION COST

Mr. Skeen: What is USDA's latest estimate of the amount it will spend to correct the Department's Year 2000 problems in fiscal year 1999 and 2000? Please provide, for the record, a breakdown of these costs by agency.

Response: USDA's latest estimate of the amount it will spend to correct the Department's Year 2000 problems in fiscal year 1999 and 2000 is \$95,773,000. I will provide a breakdown of these costs by agency.

[The information follows:]

USDA Year 2000 FY 1999 - 2000 Costs
(Dollars in Thousands)

Agency	Total Cost	Total Cost	Total FY1999and FY2000
Foreign Agricultural Service	\$2,648	\$70	\$2,718
Farm Service Agency - KC	\$5,620	\$2,130	\$7,750
Farm Service Agency - HQ	\$0	\$0	\$0
Risk Management Agency	\$800	\$0	\$800
Farm and Foreign Agricultural Services			
	\$9,068	\$2,200	\$11,268
Food and Nutrition Service			
Food, Nutrition and Consumer Services			
	\$4,950	\$0	\$4,950
Food Safety and Inspection Service	\$8,426	\$85	\$8,511
Food Safety	\$8,426	\$85	\$8,511
Agricultural Marketing Service	\$3,005	\$30	\$3,035
Animal and Plant Health Inspection Service	\$7,718	\$2,196	\$9,914
Grain Inspection, Packers and Stockyards Administration	\$989	\$0	\$989
Marketing and Regulatory Programs	\$11,712	\$2,226	\$13,938
Forest Service	\$8,950	\$200	\$9,150
Natural Resources Conservation Service	\$6,442	\$110	\$6,552
Natural Resources and Environment	\$15,392	\$310	\$15,702
Agricultural Research Service	\$5,111	\$205	\$5,316
Cooperative State Research, Education and Extension Service	\$942	\$280	\$1,222
Economic Research Service	\$664	\$60	\$724
National Agricultural Statistics Service	\$124	\$100	\$224
Research, Education and Economics	\$6,841	\$645	\$7,486
Rural Development	\$9,890	\$0	\$9,890
Rural Development	\$9,890	\$0	\$9,890
Offices			
Departmental Administration	\$4,325	\$500	\$4,825
National Appeals Division	\$65	\$0	\$65
Office of the Chief Financial Officer - NFC	\$2,800	\$1,000	\$3,800
Office of the Chief Information Officer	\$10,814	\$2,920	\$13,734

Office of Communications	\$150	\$300	\$450
Office of the Chief Economist	\$4	\$0	\$4
Office of the Inspector General	\$1,000	\$0	\$1,000
Office of Budget and Program Analysis	\$150	\$0	\$150
Office of the General Counsel	\$0	\$0	\$0
Subtotal	\$19,308	\$4,720	\$24,028
TOTALS	\$85,587	\$10,186	\$95,773

Mr. Skeen: How much of the funding comes from the fiscal year 1999 emergency appropriation and how much is included in the budget request for fiscal year 2000?

Response: The fiscal year 1999 emergency appropriation provided \$37,789,000 in funding. Estimates for fiscal year 2000 are \$10,186,000 for all of USDA.

FIELD OFFICE SERVICE CENTERS

Mr. Skeen: What will be the cost for each fiscal year from 1999 to 2002 of providing one-stop shopping for the Department's Field Service Centers?

Response: Implementation of the service center concept through continued investment in the Department's Service Center Modernization Initiative (SCMI) will improve customer service by providing collocated agencies the ability to share information and deliver services in a modern business manner. The cost of providing one-stop service for our rural and county-based agencies consists of two elements: agency operating costs and the investment cost of the SCMI. The on-going agency operations costs are reflected in agency budgets and are those costs required to continue daily operations while USDA modernizes the infrastructure and business processes of service centers. The costs of the SCMI were also funded within the agency budgets through FY 1999. However, in FY 2000, the investment costs of SCMI are requested within the Support Services Bureau Budget.

The original costs projected for the modernization effort were significantly higher than they are today. USDA has been judicious and found ways to reduce that original estimate through coordinated purchases of hardware and efficiencies gained through inter-agency coordination efforts. FY 1998 expenditures for SCMI were \$90,127,000. The FY 1999 President's Budget included a request for \$92,000,000 within the agency budgets. Since the total request was not funded, the current estimate for the SCMI in FY 1999 is \$49,670,000. The estimated FY 2000 funding level is \$90,281,000. Combined funding requirements for FY 2001 and FY 2002 total \$461,000,000. The progress made during fiscal years 1999 and 2000 will allow us to determine the exact allocation of the funding needed in each of these outyears. The SCMI integrated project plan is currently being revised to reflect changes in the program schedule as a result of the current budgetary shortfalls. The revisions are necessary to ensure effective and efficient use of all funds made available for the initiative.

During the past two years, the SCMI has made significant progress in many areas of service center implementation. Office consolidation activities required to reach objectives specified in the 1994 County Office Streamlining Plan are effectively complete. More than 2,000 service centers have a modern voice and data communications infrastructure implemented by our LAN/WAN/Voice Team. Customer service training was recently completed for more than 24,000 service center employees. Acquisition of data for our Geographical Information System (GIS) is well underway. Reengineering of business processes that utilize geospatial data provides more than 35 percent of the projected savings for SCMI. We have also made substantial progress in reengineering our business processes to improve the quality of customer service, reduce customer burden, and reduce the costs of program delivery. Six reengineering projects are currently in pilot testing at service centers, and preliminary results indicate significant process savings and reduced customer burden to provide improved program delivery. Another six projects will begin pilot testing this year.

At the core of the vision for service centers is a Shared Information System built on a Common Computing Environment (CCE) that will provide service center staffs access to customer service, program, technical and administrative information, regardless of the agency they represent. The CCE is based on identified business needs and will provide the technology for implementing reengineered business processes that will reinvent the ways that service centers will provide service to customers. The CCE investment is essential to the overall success of the service center concept as well as the implementation of administrative convergence. We are about to deploy over 16,000 computer workstations nationwide to address Y2K compliance issues and meet some basic mission critical program requirements. However, despite our significant success to date, the SCMI has not achieved all objectives that were envisioned by 1999. Since resources are limited in FY 1999, a higher level of investment will be required to complete design and development of the CCE over the next two years. The total investment to acquire the CCE is approximately \$360 million. Without the investment, it will be impossible to build upon office consolidations and the newly deployed LAN/WAN/Voice infrastructure, and implement reengineered business processes.

CODEX ALIMENTARIUS

Mr. Skeen: What does USDA plan to spend on Codex Alimentarius activities in FY '99 and FY '00?

Response: USDA plans to spend approximately \$782,000 on Codex Alimentarius activities in fiscal years 1999 and 2000.

AGRICULTURAL TRADE POLICY

Mr. Skeen: When will you name the members of the Agricultural Policy Advisory Committee for Trade and the Agricultural Technical Advisory Committees for Trade?

Response: The charters for the Agricultural Policy Advisory Committee for Trade and the five Agricultural Technical Advisory Committees for Trade expire April 3, 1999. To ensure continued operation of the committees, it is the Department's intention to recharter them and make membership appointments no later than the end of March.

Mr. Skeen: Do you intend to fill the vacant trade policy advisor's position in the Office of the Secretary?

Response: This is an important position in the Department, particularly in view of the upcoming World Trade Organization negotiations in November 1999. The Department is in the process of determining how this position can be utilized best in view of the upcoming multilateral negotiations.

SUPPLEMENTALS

Mr. Skeen: The President's budget includes no request for additional funding for fiscal year 1999. Does that mean that none is required?

Response: The Department is currently considering some additional funding needs to help farmers during fiscal year 1999.

[Clerk's note: Subsequent to the hearing, the Administration submitted a request to the Congress for \$152.4 million to provide urgently needed funds. The request includes \$109.6 million in budget authority to support \$1.1 billion in additional lending to farmers and ranchers for emergency, operating, and ownership loans. Also, \$42.8 million is requested for the Farm Service Agency to support greater than projected workload required to implement emergency farms programs for the remainder of the year.]

FUNDING FARM SERVICE AGENCY STAFFING

Mr. Skeen: Mr. Secretary, will the budget request for the Farm Service Agency fully fund the Agency's staffing requirements throughout fiscal year 2000?

Response: The Farm Service Agency FY 2000 budget request will fund the 5,745 federal and 10,048 non-federal county staff years. This reflects a reduction of 752 staff years (100 federal and 652 non-federal county) from the

FY 1999 budget. These staffing levels assume a reduction in workload demands and an easing of the farm crisis which may not materialize and may not reflect the economic realities currently facing us.

Mr. Skeen: If not, what funding is required in addition to the budget request?

Response: Additional funding of \$45 million would be necessary for the Farm Service Agency to avoid the proposed reduction of the 752 staff-years. For FY 2000, we are expecting the workload to increase for marketing assistance loans, loan deficiency payments and servicing of farm loans. At currently proposed staffing levels, program delivery and timely service to producers will be negatively affected. We would have to reassess current workload projections in order to come up with any funding required beyond the \$45 million that is necessary to simply avoid the 752 FTE reduction.

CCC LEGISLATIVE PROPOSAL

Mr. Skeen: Submit for the record a copy of the legislative proposal to allow Commodity Credit Corporation to cover a portion of FSA's computer operations and maintenance costs for the farm programs.

Response: The legislative proposal to increase available CCC funding under the ADP cap is worded as follows:

"Section 4(g) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714b) is amended by striking "\$188,000,000" and inserting "\$293,000,000".

RISK MANAGEMENT AGENCY

Mr. Skeen: Mr. Secretary, since the President's budget was submitted, you have been speaking of the need to strengthen the farm safety net by reforming the crop insurance program. As you may know, it is our intention to move our bill as early as we can this year. Do you foresee submitting any request to this subcommittee as a fiscal year 2000 budget amendment? If so, when?

Response: It would be premature to discuss a budget amendment. We would like to first come to agreement on the needed changes, then identify the costs and work with Congress in a responsible manner to find the required funding.

EXPORT ENHANCEMENT PROGRAM

Mr. Skeen: You state that the Administration will propose to permit unobligated balances of Export Enhancement Program funds to be transferred to other foreign food assistance programs, such as P.L. 480, toward the end of each year. Can this be done under current law, or is legislation required?

Response: USDA's Office of the General Counsel has advised that legislation is required to permit funds authorized for the Export Enhancement Program to be transferred to support other program activities, including foreign food aid activities.

Mr. Skeen: What amounts do you estimate will be transferred at the end of fiscal year 2000?

Response: The proposed legislation would authorize the Secretary of Agriculture, in the last quarter of the fiscal year, to determine the amount of unobligated EEP funds that can be transferred to support certain foreign food aid activities. At this point, it is simply premature to project a specific amount of funding that might be designated for transfer, and the budget estimates do not assume anything in this regard.

Mr. Skeen: What is the relationship between this proposal and the funding request for P.L. 480 for fiscal year 2000 - which is the chicken and which is the egg?

Response: The funding proposed for P.L. 480 programs in the President's budget does not assume any use of unobligated EEP funds in support of P.L. 480 programming. Rather, the P.L. 480 budget request is intended to provide a level of funding which is adequate for meeting the program's objectives, while adhering to the strict targets that have been established for discretionary spending government-wide. Difficult choices are always necessary when

budgetary resources are tight.

The proposal to authorize the use of unobligated EEP funds for certain food aid activities is designed to provide greater flexibility to program managers so they may respond to changing program needs and world events during the course of the year. Clearly, there is a tremendous need for foreign food assistance at the present time. As a result of the President's Food Aid Initiative and the package of food assistance for Russia, the United States will be programming over 10 million metric tons of foreign food assistance this year.

At the same time, funding authorized for EEP has barely been used in recent years. It seems prudent, therefore, to authorize alternative uses for that funding, particularly when discretionary funding is so tight. Farm groups in recent years have called on the Department to use EEP funding for other purposes if it is not being fully used for EEP bonus awards; this proposal responds to their concerns.

Finally, it should be noted that the Administration's proposal will allow the unobligated EEP funds to be used to support food aid activities under the Food for Progress program and to purchase commodities to replenish the Food Security Commodity Reserve. Thus, the funds can be used for purposes other than just additional P.L. 480 programming.

AGRICULTURAL RESEARCH TERMINATION

Mr. Skeen: The budget request proposes to terminate ninety-six specific research projects, and to apply a general reduction to all projects, in order to finance proposed new research projects in fiscal year 2000. Describe for us in some detail how you decided that these ninety-six projects should be terminated.

Response: The projects proposed for termination are recognized as important research to the Department and the specific groups, producers and consumers who would benefit from this research. However, these projects have been identified as being less critical to the Nation's broader interests and research needs, such as global climate change research, food safety research and research on sustainable systems. Many of the projects proposed for termination in this budget were identified in prior Administration budgets as less critical and remain in this category. A number of newly initiated projects not included in the President's requests were also added to the proposed termination list. The screening criteria used by ARS officials includes the following elements: the relevance of the research project; the availability of sufficient resources to conduct the research; and the overall impact of research on American agriculture. The projects are numerically ranked according to these criteria, and those with the lower rankings are proposed for termination.

The funding allocation for discretionary programs in the FY 2000 budget remains exceedingly tight. Choices between better and best research are never easy but constraints in this budget made this a necessary process. Let me reiterate that those projects recommended for termination have or will contribute to the solution of agricultural and consumer problems - but they are considered less essential to continue because of a very constrained Federal budget with competing, higher priority research needs. The proposed savings of \$35 million in project terminations are necessary to finance critical research initiatives advanced in this budget.

Mr. Skeen: Identify which of these projects have legitimately reached completion.

Response: The projects being proposed for termination are all active research projects. Thus, none of these projects have reached completion.

OTHER ASSISTANCE PROGRAMS

Mr. Skeen: In a number of USDA grant, loan, and other assistance programs, the budget proposes substantial increases in program levels that are affordable primarily due to reduction in subsidy costs, reflecting the overall decline in interest rates. Please submit for the record a table which will show the budget authority and related loan levels for all USDA direct and guaranteed loan programs for fiscal years 1999 and 2000.

Response: Yes, I will provide that information for the record.

[The information follows:].

USDA RURAL DEVELOPMENT DIRECT AND GUARANTEED LOANS PROGRAMS SUMMARY
(Dollars in thousands)

	FY 1999		FY 2000	
	Current Estimate	Budget	President's Budget	Budget
Program	Program	Authority	Program	Authority
Level	Level	Authority	Level	Authority
<u>RURAL UTILITIES SERVICE LOAN PROGRAMS</u>				
Direct Electric	\$71,503	9,324	50,000	450
Municipal Electric	295,000	25,842	250,000	9,175
FFB Electric	700,000	0	300,000	0
Direct Telecommunications	75,005	7,343	50,000	560
Treasury Telecommunications	300,000	810	300,000	2,370
FFB Telecommunications	120,000	0	120,000	0
Rural Telephone Bank	157,509	4,174	175,000	3,290
Treasury Distance Learning	150,000	180	200,000	700
Direct Water & Waste Disposal	729,944	119,544	900,000	63,900
Guar. Water & Waste Disposal	<u>75,000</u>	<u>0</u>	<u>75,000</u>	<u>0</u>
Total	<u>2,673,961</u>	<u>167,217</u>	<u>2,420,000</u>	<u>80,445</u>
<u>RURAL HOUSING SERVICE LOAN PROGRAMS</u>				
Direct Single Family Housing	\$965,313	114,100	1,100,000	93,830
Guar. Single Family Housing	3,000,000	2,700	3,200,000	19,520
Direct Multi-Family Housing	114,385	55,160	100,000	39,680
Guar. Multi-Family Housing	74,839	2,320	100,000	480
Housing Repair	25,001	8,808	32,396	9,900
Farm Labor Housing	20,000	10,406	25,001	11,308
Housing Site Development	5,152	17	5,152	4
Self-Help Housing Site	5,000	282	5,000	281
Single Family Housing Credit Sales	19,968	1,801	6,253	380
Multi-Family Housing Credit Sales	3,500	1,691	1,250	494
Direct Community Facility	170,793	23,286	250,000	15,150
Guar. Community Facility	<u>210,000</u>	<u>0</u>	<u>210,000</u>	<u>0</u>
Total	<u>4,613,951</u>	<u>220,571</u>	<u>5,035,052</u>	<u>191,027</u>
<u>RURAL BUSINESS-COOPERATIVE SERVICE LOAN PROGRAMS</u>				
Intermediary Relending Program	\$32,999	16,615	52,495	22,799
Rural Economic Development	15,000	3,783	15,000	3,453
Direct Business and Industry	50,000	0	50,000	0
Guar. Business and Industry	<u>1,028,602</u>	<u>10,200</u>	<u>1,000,000</u>	<u>31,100</u>
Total	<u>1,126,608</u>	<u>30,598</u>	<u>1,117,495</u>	<u>57,352</u>
<u>FARM SERVICE AGENCY FARM LOAN PROGRAMS</u>				
Direct Farm Ownership	\$85,651	\$12,822	\$128,049	\$4,827
Direct Farm Operating	500,000	34,150	500,000	29,300
Direct Farm Operating:				
Supplemental	233,806	15,969	0	0
Emergency Disaster	250,000	5,900	53,000	8,231
Boll Weevil Eradication	100,000	1,440	100,000	0
Indian Land Acquisition	1,000	1,530	1,028	21
Guaranteed Farm Ownership	425,031	6,758	431,373	2,416
Guaranteed Farm Operating:				
(Unsubsidized)	948,276	11,000	1,697,842	23,940
Guaranteed Farm Operating:				
(Unsubsidized) - Supplemental	150,000	1,740	0	0
Guaranteed Farm Operating:				
(Subsidized)	200,000	17,480	97,442	9,585
Guaranteed Farm Operating:				
(Subsidized) - Supplemental	<u>156,704</u>	<u>13,696</u>	<u>0</u>	<u>0</u>

Total \$3,050,468 \$122,485 \$3,008,734 \$78,320

ECONOMIC ASSUMPTIONS

Mr. Skeen: Please describe and quantify the economic assumptions upon which these figures are based.

Response: The economic assumptions for the credit reform Treasury discount rate as provided by OMB declined sharply between the FY 1999 President's Budget and FY 2000 President's Budget. As a result of this declining Treasury discount rate, subsidy costs for direct loan programs declined and subsidy costs for guaranteed loan programs increased.

In FY 1999, OMB estimated Treasury discount rates used to calculate the credit subsidy cost was 6.03% for loan cohorts with average maturities that were greater than 10 years, but less than 20 years, and 6.11% for loan cohorts with average maturities that were 20 years or greater.

In FY 2000, OMB estimated Treasury discount rates used to calculate the subsidy cost was 5.01% for loan cohorts with average maturities that were greater than 10 years, but less than 20 years, and 5.06% for loan cohorts with average maturities that were 20 years or greater.

For the Farm Service Agency (FSA) the economic assumptions consist of the Treasury interest rate and the borrower loan interest rate. The Treasury interest rate is the rate charged on government borrowings by the Agency and is provided by the Office of Management and Budget. The borrower loan interest rate is calculated based on the Treasury borrowing interest rate.

[The information follows:].

FARM SERVICE AGENCY
Farm Loan Programs
Economic Assumptions
President's Budget - Fiscal Years 1999 and 2000

Loan Term		FY 1999		FY 2000	
		Agency Borrowing (Treasury)	Projected Average Borrowers'	Agency Borrowing (Treasury)	Projected Average Borrowers'
		Rate 1/ Rate 2/	Rates 2/ Rates 4/	Rate 3/ Rate 4/	Rates 4/ Rates 4/
Direct Farm Ownership	40	6.11	6.61	5.06	5.56
Direct Farm Operating	4	5.66	6.16	4.77	5.27
Direct Emergency Disaster	10	6.03	3.75	5.01	3.75
Direct Indian Land Acquisition	40	6.11	5.00	5.06	5.00
Boll Weevil Eradication	7	5.87	5.87	4.91	6.75
Guaranteed Farm Ownership	40	6.11	9.36	5.06	8.75
Guaranteed Farm Operating: Unsubsidized	4	5.66	9.04	4.77	9.00
Guaranteed Farm Operating: Subsidized	4	5.66	9.04	4.77	9.00

1/ Treasury interest rates provided by OMB's "Economic Assumptions for the 1999 Budget"

2/ OMB's "Economic Assumptions for the 1999 Budget" were used for projected FY 1999 borrower's interest rates.

3/ Treasury interest rates provided by OMB's "Economic Assumptions for the 2000 Budget"

4/ OMB's "Economic Assumptions for the 2000 Budget" were used for projected FY 2000 borrower's interest rates.

IMPACT OF ECONOMIC ASSUMPTIONS

Mr. Skeen: Please describe any impact on such programs if actual economic performance during fiscal years 1999 and 2000 do not match the assumptions

upon which the budget is based.

Response: There is no impact on the level of program funding for fiscal years 1999 and 2000. The subsidy costs calculated for the President's Budget must be used for executing the program and cannot be revised for changes in economic assumptions. As required by OMB, subsidy costs are revised for each loan program, by year, based on actual performance (including economic assumptions). Reestimates of subsidy costs are made annually as long as loans are outstanding.

FOOD STAMP PARTICIPATION GROWTH IN A GOOD ECONOMY

Mr. Skeen: How do the optimistic economic assumptions for the loan and grant programs relate to the projected growth of 400,000 additional food stamp participants?

Response: Food stamp participation figures are driven by the Office of Management and Budget (OMB) economic assumptions and the historic relationship between unemployment and food stamp participation. We are all optimistic that the current economic situation will continue, but everyone is also nervous that it cannot go on forever. Prudent budgeting dictates that a seemingly pessimistic figure be used for unemployment. Our figures reflect OMB's projection of a slight increase in the unemployment rate and the number of unemployed over the next ten years. In addition, we have seen the drop in participation slow so far in 1999. Due to these factors, we have projected a slight increase in food stamp participation.

RATTLESNAKE RIDGE

Mr. Skeen: Please bring us up to date regarding the projects for improvements that may be financed through water and waste disposal loans and/or grants in the Rattlesnake Ridge Rural Water Development District in Northeast Kentucky.

Response: The District has submitted an application to USDA-Rural Development in Kentucky to cover a portion of the cost of constructing a new water treatment plant. The District has requested grant loan assistance totaling about \$1.8 million. Kentucky Rural Development is processing the application, and is well along with review of the environmental assessment. The State of Kentucky currently plans to supply nearly \$2.5 million in grants toward the water treatment project, and is also constructing a new prison in the area served by the District.

BUDGET RELATED LEGISLATIVE PROPOSALS

Mr. Skeen: Provide for the record a simple comprehensive listing of all matters to be addressed in legislative proposals that are anticipated for submission to the Congress during the current session, including the costs and savings of each proposal.

Response: We will provide the information for the record.

[The information follows:]

AGENCY	PROPOSAL	BUDGET AUTHORITY (MILLIONS OF DOLLARS)
FY 2000 User Fee Proposals Which Impact Discretionary Spending		

AGENCY	PROPOSAL	BUDGET AUTHORITY (MILLIONS OF DOLLARS)
Food Safety and Inspection Service	Salaries and Expenses. This proposal would charge fees for the full cost of providing Federal inspection of meat, poultry, and egg products. The user fees exclude Grants to States and Special Assistance to State Programs.	-\$504
Animal and Plant Health Inspection Service	Salaries and Expenses. This proposal would establish user fees for costs for animal welfare inspections and issuance of biotechnology certificates.	-9
Grain Inspection, Packers and Stockyards Administration	Salaries and Expenses. This proposal would establish a fee for grain standardization and a licensing fee to cover the costs of administering the provisions of the Packers and Stockyards Act relating to meat packing and stockyards activities.	-19
FY 2000 Proposed Budget-Related Legislative Proposals Which Impact Discretionary Spending		
Rural Utilities Service	Rural Electrification Loans. This proposal would add a new Treasury rate electric loan program, in the amount of \$400 million. Borrowers would apply for direct (Treasury rate) loans at an interest rate that is tied to the Government's cost of money. This type of loan is similar to the successful telecommunication Treasury rate loan program.	Less than \$500 thousand
Rural Housing Service	Section 538 Guaranteed Multi-Family Housing Loans. This proposal would eliminate the statutory requirement that 20 percent of the loans guaranteed must receive interest assistance.	0

AGENCY	PROPOSAL	BUDGET AUTHORITY (MILLIONS OF DOLLARS)
FY 2000 Proposed Budget-Related Legislative Proposals Which Impact Mandatory Spending		
Commodity Credit Corporation	Legislation is proposed to increase the CCC limit on computer expenditures by \$105 million over 2000 through 2002. This would provide a total cap of \$293 million over 1997 through 2002.	35
	The budget includes proposed legislation to modify the Export Enhancement Program (EEP) levels for 2000 to 2004. Under this proposal, total funding of about \$1.9 billion will be available for EEP during the 2000 to 2004 period, with a \$494 million limitation for EEP in 2000.	-85
	The budget proposes to fund the Foreign Market Development Cooperator Program as a mandatory program in CCC. Previously, it was funded as a discretionary program from FAS Salaries and Expenses. This will ensure a stable source of funding for the program.	28
	The Administration will propose legislation to increase CCC funding for EQIP by \$100 million in 2000 and by a total of \$500 million for the period 2000 to 2004.	100
	The budget includes a new Quality Samples Program which will be used to apprise potential buyers overseas of the high quality of U.S. agricultural products. Mandatory funding for this program is proposed from CCC.	2
	The budget proposes to offset funding for Wildlife Habitat Incentives Program and Farmland Protection Program by reduction in funds for the Conservation Farm Option Program.	-38
Rural Development	Rural Empowerment Zone/Enterprise Community Grants. This proposal provides mandatory funding for 10 years for Empowerment Zones and Enterprise Communities. Authority for a second round of EZ/EC was included in the Tax Payer Relief Act of 1997. The 1999 Appropriations Act provided \$15 million in discretionary funding for the first year grants.	15
Food and Nutrition Service	Food Stamp Program. The Administration is proposing to restore benefits to qualified legal immigrants with lawful permanent resident status on August 22, 1996, who subsequently reach the age of 65 made ineligible by restrictions in the Welfare Reform legislation passed in 1996.	10

AGENCY	PROPOSAL	BUDGET AUTHORITY (MILLIONS OF DOLLARS)
	Child Nutrition Programs. The Administration is proposing legislation to count the value of bonus commodities towards the statutory requirement that at least 12 percent of Federal school lunch support be in the form of commodities.	-57
Natural Resources Conservation Service	Debt for Nature. This proposal would provide technical and financial assistance to USDA borrowers with serious cash flow problems who also have lands that require conservation treatment. In order to help borrowers who face foreclosure as a result of the declining farm economy, these funds will be directed to provide expanded technical and cost-share assistance.	5
	Wildlife Habitat Incentives Program (WHIP). This proposal would authorize additional funds to continue the program. The 1996 Farm Bill authorized \$50 million the program and these funds will be fully exhausted in 1999.	10
	Farmland Protection Program. This proposal would authorize new funding for 2000. The current funding authorization was reached in 1998.	28
Cooperative State Research, Education, and Extension Service	Initiative for Future Agriculture and Food Systems. Mandatory funding of \$120 million per year is authorized for this program beginning in 2000. The 1999 appropriations bill blocked the use of these funds in 1999. Legislation is proposed to restore the \$120 million authorized for 1999 in \$30 million annual increments beginning in 2001.	0
Fund for Rural America	Fund for Rural America. Mandatory funding of \$60 million per year is authorized for the Fund for Rural America for FY 1999 through 2003. The 1999 Appropriations Act blocked the use of these funds in 1999. Legislation is proposed to restore the \$60 million authorized for 1999 in \$15 million increments beginning in 2001.	0

WIC ESTIMATION BASIS

Mr. Skeen: What information is the Department relying on for the estimate that the average monthly participation in the WIC program will be 7.5 million?

Response: FNS' most current estimate, based on 1997 data, is that there are about 8.5 million women, infants and children who meet the income threshold and are at nutritional risk, well above the Administration's 7.5 million participation target. The Administration continues to maintain 7.5 million participants as a realistic target. This is the number who of eligibles who are expected to apply to participate. In recent years, participation exceeded 7.4 million numerous months, reaching a high of 7.5 million in January of 1997. Thus, we believe this is a reasonable and achievable target.

COMMENTS ON 1999 CONGRESSIONAL ACTION

Mr. Skeen: I would like to offer you this opportunity for any comments you may care to make regarding Congressional actions on last year's budget request.

Response: I appreciate the opportunity to comment on last year's action. I recognize that the Committee was faced with difficult decisions in developing the 1999 appropriations bill, just as we were in putting together our budget proposals. I greatly appreciate the efforts to include in the bill some of my top priorities, such as assistance to farmers, the statute of limitations language and funding for the food safety initiative.

There are some areas where I have concerns with the actions taken on the budget. I am very concerned over the elimination of mandatory funds for the Fund for Rural America and the newly authorized \$120 million research program. These programs were created to improve the quality of life in rural America and support agricultural research needed to increase American farm productivity and competitiveness in global markets. The current situation in the agricultural sector speaks clearly to the need for continuing investments in research and Rural America. I am also concerned that funds were not provided for urgently needed investments in technology for the county-based agencies. It is absolutely critical that modern technology be provided to these offices to allow them to function within the lower staffing levels available. Finally, some modest proposals for work in the areas of packer concentration and implementation of the Food Quality Protection Act were either not funded or only partially funded. I urge the Committee to provide additional resources in these areas consistent with the levels included in the FY 2000 Budget.

FOOD PROGRAM STUDIES

Mr. Skeen: Our Committee feels pretty strongly that food program studies can and should be performed by disinterested agencies. How strongly do you feel that they should be done through the Food and Nutrition Service, and why?

Response: Lawmakers, Federal and State policymakers and program operators need objective, practical research findings founded in experience of the nutrition assistance programs. Study results need to be useful for decision making at these levels, so studies must be designed to yield information from which one can actually make decisions. It is also necessary that those most knowledgeable about the programs shape both the study agenda and the studies themselves. We will continue to manage these important study and evaluation resources to ensure that we achieve a distinguished and objective track record.

SUPPORT SERVICES BUREAU (SSB)

Mr. Skeen: Why is the Department proposing to establish a new "Support Services Bureau," rather than performing this activity another way -- such as through the Working Capital Fund or via reimbursable arrangement or transfers of funds?

Response: The SSB will be financed by a combination of direct appropriations and transfers from the serviced agencies. Specifically, the salaries and expenses of the SSB will be financed through transfers from the serviced agencies. A direct appropriation is needed to continue implementation of the Service Center Modernization Initiative (SCMI). The SSB will reflect the combined costs of the agencies' administrative functions and will allow common services such as information technology, financial management, and human services to be shared; thereby, reducing redundant requests, decreasing paperwork, reducing costs, and easing the workload for internal staff.

Mr. Skeen: Isn't there a substantial new "overhead" cost for simply establishing this new bureau?

Response: There will be some new overhead costs to establish the SSB such as developing the organization's coding structure at the National Finance Center and placing functional area employees together so that work can be accomplished more efficiently. However, these and other overhead cost will be more than offset by the savings realized through eliminating the costs and inefficiencies associated with maintaining and operating three separate and

redundant delivery systems among these several agencies.

FARM OWNERSHIP AND OPERATING LOANS

Mr. Skeen: As you may know, last week the Farm Bureau, together with several other organizations, sent a letter to all members of Congress stating their concern that the Department was running out of funds for guaranteed farm ownership and operating loans, and for the interest assistance program. Is there any basis for their concern?

Response: Funding shortfalls are occurring in numerous States in the guaranteed operating loans with interest assistance and farm ownership loans. The lack of funds is most likely to affect applicants who are not classified as socially disadvantaged or beginning farmers. Funding authority in the emergency loan program is completely exhausted.

Mr. Skeen: Please submit for the record a detailed report on the status of funds for these programs.

Response: Following is a summary of FY 1999 allocations and obligations (as of 2/23/99) of the guaranteed programs:

<u>Program</u>	<u>Available Funds</u>	<u>Funds Used</u>	<u>Unused Funds</u>
Guaranteed Operating:			
Unsubsidized	\$1,098,276,000	\$313,504,000	\$784,772,000
Guaranteed Operating:			
With Interest Assistance	356,705,000	187,552,000	169,153,000
Guaranteed Farm Ownership	425,031,000	296,956,000	128,075,000

The majority of unused funds in these programs are targeted for beginning farmers and socially disadvantaged applicants.

Mr. Skeen: In your view, are there sufficient funds in these programs to meet the requirements throughout fiscal year 1999?

Response: Funding shortfalls are anticipated in FY 1999 in the guaranteed operating and farm ownership loan programs. This includes the guaranteed operating with interest assistance loan program.

FEDERAL REGISTER PUBLICATION OF FINAL RULE

Mr. Skeen: On Monday, February 8, Vice President Gore issued a press release announcing "faster and more efficient" loan procedures in these programs, which will be published as a new rule in the Federal Register later this week. Please submit for the record a copy of this rule when it is published.

Response: A copy of the Final Rule on streamlining the guaranteed loan program is included for the record.

[The information follows:]

federal register

Friday
February 12, 1999

Part V

Department of Agriculture

Farm Service Agency
Rural Housing Service
Rural Business-Cooperative Service
Rural Utilities Service

7 CFR Parts 762 and 1980
Implementation of Preferred Lender
Program and Streamlining of Guaranteed
Loan Regulations; Final Rule

Eligibility Criteria for Certified and
Preferred Lenders; Notice

DEPARTMENT OF AGRICULTURE**Farm Service Agency****7 CFR Part 762****Rural Housing Service****Rural Business-Cooperative Service****Rural Utilities Service****Farm Service Agency****7 CFR Part 1980**

RIN 0560-AF38

Implementation of Preferred Lender Program and Streamlining of Guaranteed Loan Regulations

AGENCY: Rural Housing Service, Rural Business-Cooperative Service, Rural Utilities Service, and Farm Service Agency, USDA.

ACTION: Final rule and request for comments.

SUMMARY: This action amends the regulations governing the Farm Service Agency's (FSA) guaranteed farm loan programs. It clarifies, simplifies, and streamlines the procedures to apply for, make, and service FSA guaranteed loans. This action also establishes the Preferred Lender Program.

This action also provides for an Interest Assistance Program to replace the former interest rate buydown program (IRBD). The intended effect of this rule is to clarify and simplify the rules, and to finalize the interim rule which implemented the provisions of the Omnibus Budget Reconciliation Act of 1990. As contained in the final rule, FSA grants interest assistance at a 4 percent subsidy rate in all situations that qualify for interest assistance. FSA is requesting comments on alternative methods of determining the amount of subsidy paid, including granting interest assistance at incremental rates based upon the borrower's needs.

FSA is also incorporating changes mandated by Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, 1999, (1999 Act), signed on October 21, 1998.

DATES: This regulation is effective on February 12, 1999. Comments on the alternative interest assistance subsidy rate calculation must be received on or before April 13, 1999.

ADDRESSES: Submit written comments to the Farm Service Agency, U.S. Department of Agriculture, Farm Loan Programs Loan Making Division, Attention: Director, Room 5438-S, 1400 Independence Avenue, SW, STOP 0522,

Washington, DC 20250-0522. All written comments received in connection with this rule will be available for public inspection 8:15 am-4:45 pm, Washington, DC time, except holidays, at 1400 Independence Avenue, SW, Washington, DC 20250-0522.

FOR FURTHER INFORMATION CONTACT: Steven K. Ford, Senior Loan Officer, Farm Service Agency; telephone: 202-720-3889; Facsimile: 202-690-1117; E-mail: sford@wdc.fsa.usda.gov

SUPPLEMENTARY INFORMATION:**Executive Order 12866**

This rule has been determined to be significant and was reviewed by the Office of Management and Budget under Executive Order 12866.

This rule substantially streamlines FSA's procedures implementing the guaranteed loan program. By making FSA's guaranteed loan program more consistent with standard practices used within the lending industry, use by lenders will be simplified and they will be more willing to use the program. This will increase the availability of commercial credit for family size farmers.

FSA currently guarantees repayment on approximately 65,000 farm loans to 40,000 farmers. Each year, FSA receives 15,000 requests for new loans. By reducing the application burden on lenders, and making FSA rules more consistent with industry practices, we expect lenders will increase requests for loan guarantees by 25 percent, or an additional \$395 million. This means an additional 3,000 farmers will be able to receive commercial credit. These farmers would otherwise have gone without credit or required assistance through FSA's direct loan programs.

Regulatory Flexibility Act

The Agency certifies that this rule will not have a significant economic effect on a substantial number of small entities and therefore is not required to perform a Regulatory Flexibility Analysis as required by the Regulatory Flexibility Act, Pub. L. 96-534, as amended (5 U.S.C. 601). An insignificant number of guaranteed loan borrowers and no lenders are small entities. This rule does not impact the small entities to a greater extent than large entities.

Environmental Impact Statement

It is the determination of FSA that this action is not a major Federal action significantly affecting the environment. Therefore, in accordance with the National Environmental Policy Act of

1969, Pub. L. 91-190, and 7 CFR part 1940, subpart G, an Environmental Impact Statement is not required.

Executive Order 12988

This rule has been reviewed in accordance with E.O. 12988, Civil Justice Reform. In accordance with that Executive Order: (1) All State and local laws and regulations that are in conflict with this rule will be preempted; (2) no retroactive effect will be given to this rule except that Agency servicing under this rule will apply to loans guaranteed prior to the effective date of the rule; and (3) administrative proceedings in accordance with 7 CFR parts 11 and 780 must be exhausted before requesting judicial review.

Executive Order 12372

For reasons set forth in the Notice to 7 CFR part 3015, subpart V (48 FR 29115, June 24, 1983) the programs and activities within this rule are excluded from the scope of Executive Order 12372, which requires intergovernmental consultation with state and local officials.

Unfunded Mandates

Title II of the Unfunded Mandates Reform Act of 1995 (UMRA), Pub. L. 104-4, requires Federal agencies to assess the effects of their regulatory actions on State, local, and tribal governments or the private sector. Agencies generally must prepare a written statement, including a cost benefit assessment, for proposed and final rules with "Federal mandates" that may result in expenditures of \$100 million or more in any 1 year for state, local, or tribal governments, in the aggregate, or to the private sector. UMRA generally requires agencies to consider alternatives and adopt the more cost effective or least burdensome alternative that achieves the objectives of the rule.

The rule contains no Federal mandates, as defined by title II of the UMRA, for State, local, and tribal governments or the private sector. Thus, this rule is not subject to the requirements of sections 202 and 205 of UMRA.

Paperwork Reduction Act

The amendments to 7 CFR parts 762 and 1980 contained in this final rule require no revisions to the information collection requirements that were previously approved by OMB under control number 0560-0155. A proposed rule containing an estimate of the burden impact of this rule was published on September 25, 1998 [63 FR 51458-51488]. No comments regarding

the burden estimates were received. Comments received relating to forms and the information collected are addressed in the discussion below.

Federal Assistance Program

These changes affect the following FSA programs as listed in the Catalog of Federal Domestic Assistance:

10.406—Farm Operating Loans
10.407—Farm Ownership Loans

Change in CFR Parts

FSA is moving its regulations governing the guaranteed farm loan program from 7 CFR part 1980, subparts A and B to 7 CFR part 762. This will better organize FSA regulations and incorporate farm loan program regulations with other FSA programs.

Discussion of the Final Rule

In response to the proposed rule published September 25, 1998, 231 respondents from 35 States and the District of Columbia commented. Most of the comments involved a number of different sections of the proposed rule. Comments were received from Agency employees, farm interest groups, lenders, lender and employee associations, individuals, and Members of Congress. The comments received on the proposed rule were overwhelmingly in support of most of the changes proposed by the Agency.

This regulation provides the features, requirements, and restrictions of the program. However, internal Agency procedures and processes were excluded. The Agency will issue a handbook and update its lender manual. These documents will, within the framework of these published regulations, more thoroughly describe processes for the Agency and lenders, identify and discuss the completion of specific Agency forms, and otherwise provide more detail than is in the Federal Register.

There were many comments concerning problems with program delivery. Issues included Agency employees not following or knowing regulations, slow processing, inconsistency between offices, lack of staff, and need for training. These issues will be handled internally by the Agency and are not addressed in this document.

The 1999 Act contains several revisions to the statute governing the Agency's farm loan programs. Statutory changes that impact guaranteed loan limits and borrower training requirements are discussed below in response to comments received on the proposed rule.

The 1999 Act also eased the debt forgiveness restrictions which were mandated by the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act). Previously, any FSA borrower receiving debt forgiveness would be ineligible for additional FSA credit. The 1999 Act provides that a borrower may have received debt forgiveness on three occasions prior to or on April 4, 1998, and still be determined eligible for guaranteed credit. Borrowers receiving debt forgiveness on more than three occasions, or any debt forgiveness after April 4, 1996, will be ineligible for FSA guaranteed loans.

The 1996 Act provided an additional exception to the debt forgiveness provision. A borrower who received debt write down, as compared with other types of debt forgiveness, previously could receive an annual operating loan. The 1999 Act expanded this exception to include borrowers who are current on confirmed bankruptcy reorganization plans. These changes have been incorporated into the final regulation at § 762.120.

Appraisals

One hundred and nine comments were received concerning raising the threshold for requiring a certified general appraiser from \$100,000 to \$250,000. Nine comments objected to the change, 94 supported it, and six requested clarification or modifications. Those supporting the change cited reduced costs, shortened application process and compliance with their regulatory requirements as reasons. The concern, expressed by all of those opposed to the change, is that relaxing the policy will adversely affect the quality of the appraisals. Most of the commenters objecting to the change stated that many of the appraisals currently received from certified general appraisers are not correct and do not adhere to Uniform Standards of Professional Appraisal Practice (USPAP). Another concern was that less qualified licensed appraisers (previously used for transactions up to \$100,000) were more experienced with residential rather than agricultural appraising and not qualified to perform the more complicated appraisals of agriculture property.

On transactions of \$250,000 or less, the proposed rule provided that the appraiser would determine if the appraiser possessed adequate experience and training to estimate the value of the type property in question. It also required appraisals to be completed in accordance with USPAP. The Agency desires to comply with

industry standards, and with the controls in place, is convinced that relaxing the policy will not adversely affect appraisal quality. Therefore, the Agency has decided to leave the threshold at \$250,000, as in the proposed rule with minor editorial changes in § 762.127(d)(3) to clarify that the entire appraisal process, not just the report, will be completed in accordance with USPAP. The Agency has requested and the Office of Management of Budget (OMB) has granted an exception from OMB circular A-129 for this purpose.

Three comments requested additional clarification of what is an acceptable appraiser. The proposed rule stated that the lender must demonstrate to the Agency's satisfaction that the appraiser possesses sufficient experience or training to estimate values. As proposed, the lender could provide any documentation considered appropriate to demonstrate this expertise. The level of expertise could vary by region and complexity of agriculture. The Agency did not want to dictate and limit what could be used to demonstrate appraiser competency. However, a revision has been made to § 762.127(d)(2)(i) to require the appraisal expertise to be in appraising agricultural property. Additional guidance consistent with this standard will be placed in the agency handbook and lender manual.

Several comments noted an inconsistency between the proposed rule and the preamble. The preamble incorrectly stated that the appraiser must use all three approaches to value, while the regulation required that appraisal reports comply with USPAP standards. The final rule at § 762.127(d)(3) should eliminate any confusion concerning this matter. It states that real estate appraisals must be completed in accordance with USPAP.

Two respondents suggested we permit only the original appraiser to update an appraisal. One of the comments went on to say USPAP requires that the original appraiser be involved in an update. These suggestions were not adopted because the Agency believes that the requirement that appraisals be performed in accordance with USPAP adequately covers the respondents' concern. The agency handbook and lender manual will include clarification and guidance of the standard published in this final rule.

Two comments objected to approving a loan subject to an adequate appraisal. Eighty-five respondents supported this change. A concern appears to be that the lender may ignore the conditions of approval and close the loan without adequate security. The Agency would then refuse to issue the guarantee. The

Agency has determined that the benefits of a simplified application process outweigh the minimal risk to the lender that the Agency would so act and will not adopt this suggestion.

Another comment suggested an estimate of value be included with the application. This will be included on the application form.

One respondent suggested the regulation include the specific items needed in a chattel appraisal. The regulation states that lenders may use the Agency's form or any other form containing at least the same information. The Agency feels this adequately identifies the information required for a valid appraisal.

Two comments were received suggesting outside chattel appraisers be required for refinancing bank debt. Another comment suggested bank loan officers not be permitted to perform real estate appraisals over \$100,000. Since the regulation permits the Agency to determine if the appraiser possesses adequate experience or training, the Agency feels safeguards are adequate to assure valid appraisals by lenders. Therefore, these suggestions are not being adopted.

Package Requirements

Ninety-seven comments were opposed to the proposal to restrict lender use of loan packages. Many of the comments preferred to address excessive fees by simplifying the paperwork requirements and making packaging services unnecessary. Six comments suggested varying levels of restrictions or clarification such as limiting the fee to a certain percentage of the loan, prohibiting package use entirely, or clarification of how any limitations would be enforced. Although the Agency feels that the proposed rule change reduced paperwork requirements, it agrees that packages do provide a valuable service to some farmers and any arbitrary limitations would not be warranted. Therefore, the use of packages will not be prohibited or restricted in the final rule.

Loan Limits

Twenty-eight comments were received indicating the maximum guarantee loan limits of \$300,000 for Farm Ownership (FO) loans and \$400,000 for Operating Loans (OL) were too low. Numerous suggestions to raise or modify the limits were provided. Loan limits are established by statute and the Agency has no authority to raise them. However, the 1999 Act did modify the loan limits and provided for a maximum of \$700,000 total

guaranteed FO and OL indebtedness. This will permit an applicant to receive a total of \$700,000 guaranteed OL and FO loans. The \$200,000 Direct FO and OL limitations remain in place. The result is that in some situations, the borrowing limit may be \$900,000. The revised limitation was incorporated into § 762.122.

One comment was received concerning the need to conform approval authorities with other FSA regulations. This suggestion will be implemented administratively.

Loan Restrictions

One comment suggested that lenders be permitted to advance funds to purchase cooperative membership stock outside the guarantee. There is nothing in existing or proposed regulations that would prevent a lender from financing stock purchases with unguaranteed funds. Therefore, no change to the regulation is needed.

One comment was received concerning joint ventures, suggesting a relaxing of the requirement that members of an entity must operate the farm. The proposal is that the applicant only need take an active role in management. The Agency is unable to adopt this suggestion as §§ 302 and 311 of the CONACT require that the members holding a majority interest in the entity must operate the farm. However, the Agency has clarified the regulation to say only the members holding a majority interest must operate the farm. See § 762.120(e) and (f).

One respondent suggested limiting the size of the farm dwelling to be financed with a guarantee. Such a restriction would be arbitrary and contrary to the Agency's policy of reducing regulatory limitations. The Agency is not directly supervising the loan, does not wish to become actively involved in the loan applicant's management decisions and is not in a position to dictate the maximum size of a dwelling. The lender is required to place limits on borrower expenditures to prevent the buildup of excessive debt, with the resulting inability to repay the loan. The suggestion was not adopted.

One comment stated that the guaranteed program is designed for row crop loans and does not fully address the needs of livestock producers. No specific examples were provided. The Agency does not agree with this comment because livestock issues are specifically discussed throughout the regulation.

This same individual objected to the lender certification requirements. Since the Agency is unable to identify the specific objectionable requirements the

commentor is referring to, the Agency is unable to address this comment.

One comment was received requesting that "bridge" loans made by the lender while waiting for a final decision from the Agency can be included under the guarantee, once it is approved. This practice, although not prohibited by regulation, is strongly discouraged. There could be a question of the need for a guarantee if the lender was willing to close the loan without one. However, if the lender is willing to assume the risk of making a bridge loan prior to any Agency decision to guarantee the permanent loan, the final rule does not prohibit including such debt under the guarantee. This will be further discussed in the agency handbook and lender manual.

One comment suggested that the lender should certify at loan closing that no material adverse change has occurred in the operation since the request for guarantee was submitted. The existing regulation requires this certification to reveal changes since the conditional commitment was issued. The Agency agrees with this suggestion and adopted it in the final rule.

Five comments suggested removing the prohibition of additional guaranteed OLs after a borrower has received loans for 15 years. This requirement is statutory and cannot be eliminated without legislative action.

One comment suggested the Agency treat a husband and wife applicant as an individual, rather than a joint operation. The Agency agrees that this can be burdensome for some lenders. However the Agency desires to maintain continuity with its direct loan programs and will reevaluate this issue as the direct loan program regulations are revised.

One respondent suggested that veterans preference for funding be expanded. The Agency feels the current policy, which was not changed in this rule, is appropriate.

Conflict of Interest

One comment indicated that the conflict of interest changes will permit a loan to be made where a conflict of interest exists. This is not correct. The lender is required to provide information concerning ownership or business relationships, and the Agency will determine if these relationships are sufficiently likely to result in a conflict. The Agency revised § 762.110(f) to say relationships, rather than conflicts will be reported to the Agency.

Another respondent suggested specifying a penalty for the lender if a relationship is not reported, but is later identified. A specific penalty is not

being adopted for not reporting conflicts. Such situations are case specific and depending on the severity of the situation, such a violation will be handled with regulations already in place. Additional guidance will be provided in the agency handbook and lender manual.

Interest Assistance

There were seven comments requesting an extension of interest assistance beyond the 7 or 10 years, making the argument that the limits are arbitrary and will result in failure. While the Agency sympathizes with the plight of individuals in need of a subsidy which is expiring, the Agency's mission is one of temporary assistance to farm families. In addition, the interest assistance program is the most expensive of the Agency's guaranteed farm loan programs and limits must be placed to control costs. This recommendation was not adopted.

One respondent requested that interest assistance be available for existing guaranteed loans. The Agency agrees that this would be ideal, and this is currently not prohibited by regulation. However, the interest assistance program is very expensive and funding for paying a subsidy on existing loans is not available. Including this option for all guaranteed loans would result in a dramatic increase in costs for the entire guarantee program or reduce the number of applicants that could receive credit. Therefore, the Agency will not adopt this recommendation.

Additional public comments received concerning the interest assistance program interim rule are discussed below.

Preferred and Certified Lender Programs

The Agency received 131 comments concerning various aspects of the preferred lender program (PLP) and certified lender programs (CLP). Comments from almost all of the respondents supported the introduction of PLP and the minor modifications made to the existing CLP.

The proposed rule provided that lenders could request either PLP or CLP status. One comment suggested that lenders be permitted to operate under both the CLP and PLP if they desired. For administrative simplification and clarity, it is desirable for each lender to operate under only one status. PLP lenders will be able to receive 95 percent guarantees when refinancing Agency direct farm loans or when the borrower will be participating in the Agency's down payment loan program. The Agency did not adopt the

suggestion to allow lenders to request both PLP and CLP status.

The proposed rule provided that the Agency will determine which branches of the lender have the necessary experience and ability to participate in CLP or PLP. Comments from 82 respondents suggested that it would be more expedient if the applying institution designate those branches it wishes to be considered for certification, followed by Agency approval or disapproval. The Agency intended this in the proposed rule. The proposed rule provided that lenders desiring PLP or CLP status address, in their request, the State in which they desire status. One comment suggested that applicants specify the county or parish in which they desire status, to assure consistency with the requirement that an office be located near enough to the collateral's location to efficiently discharge loan making and servicing responsibilities. In response to these comments the Agency has included a provision in § 762.106(a)(1)(i) that lenders requesting PLP or CLP status indicate the branch offices they want considered for status.

The proposed rule provided that lenders desiring PLP or CLP status must send their request to the Agency State office for the State in which the lender's headquarters are located. One comment suggested that the lender send the request to the Agency state office for each State in which the lender intends to make guaranteed loans. This suggested change was based upon the fact that banking laws, security requirements, and other lending procedures vary from one State to another and each Agency State office is independently responsible for maintaining credit quality and consistency within the State. The Agency recognizes the administrative need to coordinate among various Agency State offices; however, the Agency believes it would be unnecessarily burdensome to require a lender to apply for status at several Agency offices. The administrative details of coordinating requests that cover several States will be addressed in the agency handbook and lender manual. The Agency did not adopt the suggested change.

Three comments suggested the Agency centralize the processing of CLP and PLP loan making and servicing activities, pointing out that centralization would promote uniformity. The proposed and final rule purposely does not specify where the Agency will process guarantee applications. This will allow the Agency administrative flexibility to configure operations in the most effective manner.

One comment expressed concern about the "10 loan [sic] in 2 year requirement" under the CLP. The proposed rule continued existing Agency policy at 7 CFR § 1980.190(h)(1)(vii) and required, for CLP eligibility, that a lender have closed a minimum of ten Agency guaranteed loans or lines of credit and have closed a total of five Agency loans in the past 2 years. The Agency developed these requirements to assure that CLP lenders have a reasonable amount of experience with the guaranteed program. The Agency believes that these requirements are reasonable and will not change them.

The proposed rule provided that, to be eligible for PLP status, a lender must have made at least 20 PLP, CLP, or approved lender program (ALP) loans, or a combination of these type loans within the past 5 years. The ALP is another level of lender status and is being discontinued with this rule. This requirement was established at a level designed to permit the Agency to grant PLP status to one percent of the 2,500 lenders that make guaranteed farm loans each year. Clarification or reconsideration of this requirement was requested by 98 respondents. Several respondents expressed concern that criteria that limited the program to only 25 lenders was too restrictive. Most commenters suggested that the Agency clarify that 20 individual loans, as opposed to 20 borrowers, be the criteria. Comments from two respondents suggested that the 20 should refer to borrowers. Another respondent suggested that either all guaranteed loans or just PLP and CLP loans be considered, suggesting that ALP doesn't show any better quality than a loan from a standard lender. Other comments suggested that all guaranteed loans be considered. Three respondents suggested that the number of loans be eliminated as an eligibility criteria or alternate criteria be considered. One respondent suggested that agricultural banks (as defined by either the Federal Reserve or FDIC) be PLP lenders based on the lenders call report data. The respondent pointed out that call report data is the proven result of the quality of the lender's credit management system. The Agency considered the various comments and determined that criteria that restrict PLP status to one percent of the 2,500 lenders that make guaranteed farm loans each year is too restrictive. The Agency also agrees that all FSA guaranteed loans that a lender has made should be considered.

The Agency wants to establish the PLP eligibility criteria at a level where the lenders have demonstrated adequate

recent experience with the guaranteed program while not being too restrictive. The Agency modified § 762.106(c)(3) to provide that the lender will have made a minimum number of guaranteed loans within the previous 3 years as set out in a separate published notice. As the Agency and lenders become accustomed to these PLP process, the volume requirements may be changed. These changes will be established in a Federal Register notice.

One comment requested clarification of the rating service acceptable to the Agency for determining an acceptable level of financial soundness for Farm Credit System institutions. Instead of defining a particular rating or rating service, the Agency has determined a more appropriate requirement is that the lender not be under any regulatory enforcement action based upon financial condition. The Agency's National office will work with the financial institution regulators to assure that lenders holding CLP or PLP status are financially sound. Section 762.106(b)(6) has been modified to include this requirement.

The Agency received 82 comments requesting clarification or parameters as to what elements comprise a satisfactory credit management system. The comments pointed out that more specific criteria that the lender must address would help promote uniformity and assure that objective criteria are considered when the Agency evaluates the lender's credit management systems. The respondents suggested that the Agency use a methodology similar to that contained in bank and thrift regulators manuals. The Agency does not want to unnecessarily limit a PLP lender in the methods used to administer their credit transactions, therefore the Agency has not added additional specificity or regulatory requirements for a satisfactory credit management system. However, the Agency agrees that additional guidance of what should be addressed in the lender's credit management system would result in more uniformity and it will provide such guidance in the agency handbook and lender manual. In addition, § 1980.106(d)(4) has been modified to state that any lending criteria not specifically addressed in the lender's credit management system will be governed by the CLP requirements.

One respondent stated that requiring that the PLP lender show a consistent practice of submitting applications that are detailed with complete information that supports the loan proposal is subjective, and questioned how to ensure consistency across State lines. The Agency will gather and review

information from all of the States in which the lender wishes to do business. The process by which this information will be gathered will be addressed in the agency handbook and lender manual.

The Agency proposed that a PLP lender have a history of using the guaranteed programs for new loans instead of refinancing the lender's existing debts. Comments from 93 respondents addressed this requirement. Comments from seven respondents supported this requirement or suggested that the restriction be expanded. One comment suggested that the Agency disallow all refinancing of existing debt, another suggested the Agency limit the guarantee to 80 percent in all cases of refinancing, another suggested that refinancing not be allowed under CLP or PLP, and another recommended that PLP be "limited to lenders with a past history of promoting new credit and willing to continue activity promoting new credit." Comments from 88 respondents either opposed the requirement or suggested that the requirement was too ambiguous and counterproductive. These comments pointed out that the requirement was not amenable to a bright line of interpretation and that the Agency had provided little rationale for imposing the criteria. They commented that this burdensome requirement would cause some lenders to not participate in the program and could adversely impact borrowers. The Agency agrees that the requirement is ambiguous, of limited value, is burdensome and would cause some lenders not to participate. The requirement has been removed.

Three comments suggested that the Agency pre-approve all Farm Credit System lenders for CLP or PLP. Because each separate Farm Credit System entity will need to select which status they desire and meet those eligibility criteria, the Agency cannot adopt this recommended change.

One respondent suggested that applicants for CLP and PLP status should be required to have fulfilled obligations regarding graduation and market placement. Since the Agency is responsible for these programs and cannot transfer these obligations to a lending institution. The Agency did not adopt the suggested additional eligibility requirement.

One respondent suggested that the Agency revoke CLP or PLP status if the lender does not make 40 percent of the guaranteed operating loans and 25 percent of the guaranteed farm ownership loans to beginning farmers. While the Agency agrees with the need to encourage lending to beginning farmers and does target guarantee funds

for that purpose, the Agency does not feel revocation of lender status would be a reasonable method of encouragement; therefore the Agency did not adopt this suggestion.

Lender Eligibility

One respondent suggested that standard eligible lenders be approved for 5 years, rather than demonstrating eligibility for each guarantee request submitted. The Agency did not change the requirements from existing practice and does not contemplate that a standard eligible lender will need to provide all evidence demonstrating eligibility with each guarantee request. The Agency did not adopt the multi-year eligibility suggestion for standard eligible lenders. However, the language in the introductory paragraph of § 762.105(a) is clarified so that the lender must demonstrate eligibility and provide evidence when the Agency requests.

One comment suggested that the Agency use the terminology "standard lender" rather than "standard eligible lender" to simplify reference and that the Agency add an abbreviation for "standard lender." Another comment suggested the terminology should be "eligible lender." Since the use of terminology and an abbreviation is within the Agency's discretion, FSA decided that its own terminology is reasonably descriptive and did not to adopt either recommendation for publication.

One respondent suggested that the Agency require lenders to have agricultural loan experience. The respondent was concerned that without this requirement, the lenders may not have the necessary experience to properly make and service agricultural loans. The Agency generally agrees with this concern, and has added clarifying language to § 762.105(b)(1) to require that the lender must have experience in making and servicing agricultural loans.

One respondent suggested that the Agency require that lenders have a permanent presence in the State where they originate loans. The Agency believes that the eligibility requirement contained in the proposed rule concerning lender locations is adequate to assure good loan servicing and did not revise the rule.

The Agency received two comments requesting that the Agency clarify or remove the requirement that a lender be in "good standing" with all applicable State or Federal regulatory agencies. The Agency agrees that this requirement was ambiguous and removed it.

Two comments suggested that a "maximum loss rate" eligibility

requirement for standard eligible lenders be established. The Agency did not establish a "maximum loss rate" for Standard Eligible Lenders; however, in response to these comments, it added a requirement in § 762.105(b)(2) that the lender must not have losses or deficiencies in processing and servicing guaranteed loans above a level which would indicate an inability to properly process and service a guaranteed loan.

One respondent recommended that the Agency establish a method to remove standard eligible lenders from the guaranteed loan program when the lender does not perform in accordance with its agreements. The Agency may revoke a lender's PLP or CLP status for failure to meet a regulatory requirement, but the Agency has no comparable "penalty" for standard eligible lenders. The Agency may recommend that a lender be debarred or suspended from participation in all Government programs, but cannot merely revoke participation in the Agency's guaranteed programs. The Agency agrees with the concern and § 762.105 allows the Agency to determine that a lender may no longer participate in the guaranteed farm loan programs. This provides a less severe penalty than debarment or suspension, which would restrict participation in all Government programs. Additional guidance will be provided in the agency handbook and lender manual.

One respondent suggested that lenders notify the Agency when the lender assigns responsibilities to other than the authorized designee and that the Agency should reconsider the lender's CLP or PLP status at that time. The commenter noted that CLP loan making and servicing quality often deteriorate when the lender changes their "authorized designee". The purpose in revising the regulation was to reasonably increase lender loan making and servicing flexibility. Therefore, the Agency chose not to adopt the suggestion.

One respondent recommended that consideration be given to allowing standard eligible lenders make farm ownership loans. The proposed and final regulation allows all lenders, regardless of status, to make either operating loans or farm ownership loans.

The agency received 161 comments concerning the Agency's consideration of allowing certain non-traditional financial entities to make guaranteed loans. The respondents in 156 comments opposed the expansion of lender eligibility criteria, citing concerns that unregulated lenders such as machinery manufacturers and

agricultural supply firms lack credit expertise and have an inherent conflict when they are trying to provide financing for a sale. Two commenters suggested that eligibility should be expanded based on financial strength, while one commenter suggested that it would be "beneficial" to expand eligibility to some mortgage or insurance companies. One respondent suggested that the guarantee program eligibility be expanded to authorize guarantees for farmers when the individual is a retiring farmer selling land to a beginning farmer. The general tenor of the comments was that a lender must have experience in making and servicing agricultural loans and have the capability to make and service the loan for which a guarantee is requested. The Agency agrees and has decided not to expand the eligibility to nontraditional lenders.

Several respondents suggested that the Agency not require lenders to provide information to consumer and commercial credit reporting agencies. The comments noted that this requirement is inconsistent with standard practices of many lenders. Rather than requiring lenders to provide the information, the Agency will provide the information on guaranteed loan extension to credit reporting agencies, as required by the Debt Collection Improvement Act of 1996. The proposed lender requirement was removed.

Percent of Guarantee and Maximum Loss

The proposed regulation provided that all guarantees issued to PLP lenders would be at 80 percent, unless the loan was eligible for a 95 percent guarantee. Comments from 15 respondents suggested that PLP guarantees should be at a higher percentage, arguing that lenders would not use the PLP if only an 80 percent guarantee was available and it is inconsistent for the Agency to penalize the program's best performing lenders with a lower percent of guarantee. The Agency should encourage its best lenders to be active. The Agency agrees with these comments. Loss rates for CLP lenders have been lower than those for other lenders and the Agency expects this to continue under the PLP program. In addition, since the PLP will take less time to process, the Agency's administrative cost savings will be greater if more lenders participate in the PLP. Also, the statutory language prescribing the percent of guarantees for CLP and PLP lenders is identical. For these reasons, the Agency has revised

§ 762.129(c) to authorize up to a 90 percent guarantee for PLP lenders.

Loan Approval and Issuing the Guarantee

Eight respondents suggested that the 14 day automatic approval for PLP should be removed, arguing that it is unreasonable, a bad business practice, and not in the best interest of the Government. The Agency is sympathetic to these arguments, but disagrees with them. The review of PLP applications will be significantly reduced from present guarantee application review requirements and the Agency has management methods and responsibilities to assure that the PLP loans are timely reviewed. The automatic approval is statutorily mandated and will not be modified in the final rule. One comment suggested that, at a minimum, the automatic PLP approval requirement be changed to 14 business days, citing concern for Agency office coverage. Because calendar days are also statutorily mandated, this suggestion was not adopted.

Two respondents recommended requiring applications be submitted by certified mail to document the beginning of the 14 day time period. The Agency chose not to impose this additional burden; however, the Agency will send the lender a letter confirming receipt of the application and indicating the date of receipt. Section 762.130(a)(3) has been added to include this procedure.

Two respondents suggested the Agency clarify what happens in cases where the Agency has asked for additional information or clarification. The Agency is committed to providing a response to the lender within 14 days of receipt of a complete application. However, in some situations, it will be impossible for the Agency to satisfy its environmental responsibilities based on the information supplied with a PLP application. In those situations, the Agency will notify the lender within the 14 day time period of the additional information that is needed to complete the Agency's environmental review, and that the 14 day automatic approval is suspended until this information is received. After the Agency receives this additional information, another 14 day approval period will start. The Agency does not anticipate this additional information will be required in a large number of cases. Section 762.130(a)(2)(ii) has been revised to provide for this procedure.

One respondent suggested the 14 day processing timeframe for CLP be removed. Since this is a statutory

requirement at § 339(c)(4)(C) of the CONACT, no modification was made in response to the comment.

Another respondent requested that the Agency ensure that all approvals are made within 14 days. Since the Agency's methods to ensure that all approvals are timely issued is an administrative matter, this issue will be addressed in the agency handbook. No changes were made in the regulation as a result of this comment.

Insurance and Farm Inspection Requirements

One comment suggested that the lender be required to obtain an assignment of crop insurance and be shown as loss payee. This requirement can be addressed, as necessary, as part of collateral requirements in the agency's conditional commitment for guarantee. This will be further clarified in the Agency handbook and lender manual.

Security Requirements

One respondent suggested that the requirement that a lien be taken on all "significant nonessential assets" is contradictory to the requirement that the lender is responsible for ensuring that adequate security is obtained. A lien on nonessential assets is often unnecessary for security purposes, and does not improve the quality of the loan. The Agency agrees with the comment and removed the requirement. If the Agency determines, on a case by case basis, that a lien on a nonessential asset is needed, to assure that the loan has adequate security that requirement may be included as a condition for issuing the guarantee. Additional guidance will be provided in the agency handbook and lender manual.

One respondent requested the Agency amend the proposed rule to allow individual principals to own collateral where the borrower is a legal entity. The proposed rule at § 1980.126 did not specify who has to own the collateral, therefore no change was made in § 762.126 to address this comment.

One respondent suggested limiting real estate financing to no more than 90 percent of the appraised value. While the Agency recognizes the risk of 100 percent financing, and that additional collateral should be taken when available to adequately secure the debt, the Agency does not want to prohibit lenders from providing credit to otherwise viable operations, because of tight collateral margins. This suggestion was not adopted, however the agency handbook and lender manual will provide guidance on this issue.

One respondent recommended that the Agency should clearly specify that a line of credit used for the purchase of feeder livestock must always be secured by a first lien on the livestock. The regulation states at § 762.126(e)(3) that junior liens on livestock will not be relied upon for security unless the lender is involved in multiple loans to the same borrower and also has first lien on the collateral. This requirement adequately addresses the respondent's concern in that it will assure a first lien on livestock except in very limited situations. The suggestion to add an additional regulatory requirement was therefore not adopted.

One respondent requested the regulation be clarified regarding acceptable differentiation on identifiable livestock. The final regulation, in § 762.126(c) explains that, for security to be identifiable, the lender must be able to distinguish the collateral item and adequately describe it in the security instrument. This requirement applies to all security, including livestock. The Agency does not believe additional regulatory clarification is necessary, however, additional guidance will be provided in the agency handbook and lender manual.

Line of Credit

The proposed rule allows lenders to advance funds from a line of credit for a borrower to make term debt payments on capital items. Comments were received from 109 respondents concerning this proposed change, with 98 comments supporting the change because it will conform the guaranteed program more closely to current industry practices. Eight respondents recommended the Agency not allow lenders to advance funds from a line of credit for a borrower to make term debt payments on capital items. Two comments were concerned that this use would reduce the number of loans the Agency could guarantee as each borrower's lending needs would increase. The other opposing respondents argued that advancing for term payments was not prudent lending, and should be restricted. One respondent suggested that the Agency restrict payments on non-agricultural and real estate debts. The Agency considered the comments and determined that the practice of making term payments on capital items cannot be deemed imprudent lending, because that practice is customary in much of the agriculture lending industry. While the Agency recognizes that this additional authorized purpose may marginally impact funding availability, the advantages of a less restrictive

program that will benefit more borrowers outweigh that concern. The Agency determined that an overall limitation on non-agricultural and real estate debts was too restrictive, however the Agency addressed the concern by clarifying in § 762.121 that the debt be for authorized FO loan or OL purposes.

One respondent recommended that the Agency eliminate the line of credit program and allow the lender to renew loans annually without submitting a complete new application. The Agency could not discern an advantage for the lenders or borrowers from the suggested change and so chose not to implement this recommendation.

One respondent suggested that the Agency authorize revolving lines of credit for capital purchases and term loans. The Agency chose not to implement this recommendation because it is concerned that adequate controls cannot be effectively implemented to assure proper supervision of major financial planning decisions.

Interest Rates, Terms, Charges, and Fees

The Agency provided the interest rate may not exceed the rate the lender charges its average farm customer. Two comments recommended that the Agency remove restrictions on the interest rate or allow a more reasonable range of interest rate. One comment recommended that the interest rate ceiling should be the rate paid by the average farm customer in the same interest rate program. The comment explained that a lender may have many rate options that are based on the risk profile of the borrower and other factors, and it would be more acceptable to limit the rate on guaranteed loans to no greater than some specific spread over the lender's index rate. The comment argued that the proposed regulation may not permit lenders to price to market in many instances. Because the Agency believes that the interest rate limitation is a reasonable, understandable restriction, and that the guarantee reduces the lender's credit risk in loans, the Agency did not adopt the proposal.

One respondent recommended that the Agency clarify what penalties will be imposed upon a lender that charges more than the rate charged to their average customer. A lender that charges more than the rate charged to their average customer is in violation of the terms of the lender's agreement and subject to revocation of PLP or CLP status under § 762.106(g). A standard eligible lender in violation of the terms of the lender's agreement could be prohibited from making additional loans under § 762.105(b)(2). In addition, the

Agency may contest the guarantee under § 762.103(a) if the lender misrepresents the interest rate charged. Because these penalties were already contained in the regulation, the Agency did not add any clarifying language to the regulation in response to this comment.

One comment recommended creating incentives for lenders who seek low cost funding sources, limit spreads and guide borrowers toward the use of long term fixed rate loans. The Agency fully supports the goal of providing competitive as well as fixed rates to guarantee borrowers, the advantages to financially stressed producers are well documented. Many lenders are able to provide such rates through participation in the secondary market and such activity is encouraged by the Agency. The comment did not provide specific suggestions, but encouraged the Agency to study these issues further. The Agency agrees that this issue warrants further study.

One respondent recommended that the 7 year limitation on operating loans be removed because it is unrealistic for a young farmer to completely pay for cattle and machinery in 7 years. Section 316(b) of the CONACT requires that guarantees on all operating loans be repaid in a term not to exceed 7 years; therefore, the Agency did not adopt the recommendation. The regulation at § 762.124(d) does provide that repayment schedules may include unequal or balloon installments if needed to establish a new enterprise.

The proposed rule stated that crops, livestock, or livestock products produced are not sufficient collateral for loans with balloon installments. Two comments recommended that breeding livestock should be acceptable collateral. The Agency agrees with this recommendation and has modified the rule accordingly.

One respondent recommended that balloon installments must be secured by real estate. The Agency did not adopt this recommendation because it would be too restrictive.

Two respondents recommended that balloon installments should be authorized for FO loans. The final rule modified § 762.124 to provide that balloon installments are authorized for any loan issued under a loan guarantee.

One respondent recommended that balloon installments should not be authorized because the use of balloon payments will cause excessive future servicing requirements and future losses. The Agency does not agree with the rationale for limiting balloon installments and believes there will be situations where a balloon payment is prudent, such as when reduced

installments are needed to establish a new enterprise, develop a farm, or recover from a disaster or an economic reversal. Therefore, the Agency did not change the rule.

Year 2000 Compliance

The proposed rule stated the Agency was considering adding a requirement that lenders have computer systems which are year 2000 compliant and requested comments on this requirement. The Agency received seven comments opposing this requirement and five comments in support. Comments pointed out that lenders were already addressing the issue internally and regulators are closely monitoring this problem. Regulators already require lenders to have a year 2000 action plan and have been incorporating this into lender reviews. Therefore, the Agency did not adopt this requirement, however, lenders are encouraged to ensure their systems are compliant.

Application and Forms

The proposed rule reduced application requirements to minimize burden on all lenders applying for guarantees. Eliminating the need for the lender to submit copies of all leases and contracts, and the need to submit detailed legal documentation for all entity loan applicants were adopted. The rule also permitted the agency to approve a loan subject to an acceptable appraisal. The Agency received 90 comments supporting its reduced application requirements.

The agency received one comment requesting articles of incorporation or partnership agreements be submitted as part of a complete application and one comment requesting the application provide information on entity members. The comment requesting entity legal documents indicated concerns that the Agency's approval official would not be familiar with the entity's structure. The lender's loan narrative submitted with each application will contain sufficient description of the entity's structure, owners, and roles of the entity members; therefore, no changes are being made regarding entity information.

One comment requested the Agency specify the items which must be contained in a line of credit agreement. In response to this comment and to reduce the burden, the Agency removed the requirement in the proposed § 1980.110(b)(5) that a loan agreement be submitted to the Agency. The information generally included in a loan agreement is adequately addressed in the loan narrative.

Two comments were received regarding credit reports. One comment requested all lenders submit credit reports or certify to credit history. The Agency does not believe this is necessary and has proposed no changes. Credit reports will be required for all loans and CLP lenders may certify to satisfactory credit history. Any unusual items will be addressed in the lender's loan narrative. One comment also requested that commercial credit reports not be required for small, closely held farm entities. The Agency does not specify when a commercial credit report is required. We believe this is best addressed on a case by case basis between the Agency's responsible office and the lender. No changes are being made regarding credit reports.

Financial and Production History

The proposed rule reduced the amount of financial and production history required to be gathered and analyzed by lenders. The Agency reduced the history from 5 years to 3 years on loans above \$50,000, eliminated history requirements for loans under \$50,000, and permitted CLP lenders to base cash flows on financial history rather than requiring production history. In addition to the 90 comments supporting reduced application requirements, 17 comments specifically supported reducing the financial history requirement from 5 years to 3 years.

The Agency received ten comments requesting the proposed requirement be strengthened. Four comments requested 3 years of production history be required in all cases; three comments requested 5 years of financial and production history be required in all cases; and three comments requested the Agency require 5 years financial and production history if the loan purpose is for refinancing debt. Two comments suggested the lender's file contain production and financial history. Comments requesting additional financial and production history cited concerns over credit quality; specifically, the ability of Agency loan officers to determine whether the loan applicant's cashflow projection was reasonable.

The Agency has considered the credit quality concerns and continues to believe that 3 years financial and production history is sufficient to arrive at reasonable cashflow projections. In addition, CLP and PLP lenders have already demonstrated the ability to properly process a loan application and should not be required to submit financial and production history. Therefore, the suggestions are not being adopted.

Regarding small loans, the risk of loss on loans under \$50,000 is much smaller and does not warrant the same amount of documentation. Also, under past procedures, lenders often could not justify making small loans under the guaranteed program because of the excessive administrative costs to gather and process the required information. However, operations requesting these loans are likely to be smaller, and the lender typically can estimate the feasibility using industry standards. Therefore, the Agency is not making any changes from the proposed rule regarding financial and production history.

PLP Application

The Agency proposed that a complete application will consist of at least (1) an application form, (2) a loan narrative, and (3) any other items agreed to during the approval of the PLP lender's status. The Agency received two comments requesting PLP lenders be required to submit a cashflow and one comment requesting the Agency to require PLP lenders to certify their cashflow is based on past history. Feasibility of the loan applicant's request will be addressed in the lender's loan narrative. Furthermore, as part of the request for PLP status, a lender will describe their application requirements and underwriting standards. The PLP lender will certify that each application is processed as proposed in their application for status; therefore, the proposed requirements are sufficient.

The Agency received one comment requesting the Agency clarify what is required of PLP. PLP lenders will be required to submit an application form and loan narrative to the Agency. The particular items the lender maintains in their file will vary depending on that lender's procedures and will be defined during application for PLP status. Therefore, it would not be appropriate for the Agency to further define the requirement in the Federal Register.

Small Loan Applications

In the proposed rule, the Agency substantially reduced the amount of documentation required for loans under \$50,000. This was directed by 333A(g)(1) of the CONACT. The Agency received 96 comments supporting the abbreviated application requirements for loans under \$50,000.

The Agency received four comments requesting the \$50,000 threshold be increased. While the Agency does have some administrative latitude to increase this threshold, the CONACT clearly identifies \$50,000 as Congress' intended level. After the Agency has more

experience and historical data to analyze the impact of reduced documentation requirements on its small loans, the level may be increased beyond \$50,000.

The Agency received four comments requesting lenders be able to determine whether a sufficiently strong equity position exists to require an appraisal. The proposed § 1980.127(b)(2) stated that the Agency determined whether a strong equity position exists. This requirement was removed from § 762(b)(2). As with most other requirements, the lender is expected to make the initial determination subject to Agency approval. On a case-by-case basis, if the Agency disagrees with the lender's recommendation, they can require an appraisal as an approval condition.

The Agency received three comments requesting clarification that a lender's cash flow budget may be abbreviated. The Agency agrees with this comment and clarified in the definition of cash flow budget at § 762.102(b) that cash flow budgets for loans under \$50,000 are not required to have income and expenses itemized by categories.

The Agency received three comments requesting it include the ability to require lenders with excessive losses or poor performance to submit full documentation required on loans above \$50,000. The comments were concerned about potential lender abuse with no Agency authority to require needed documentation. The Agency agrees with these comments and included the authority in § 762.110(a)(4) to require lenders with losses in excess of the maximum CLP loss rate to submit those additional items required of loans above \$50,000.

The proposed rule stated the Agency expects lenders to utilize the same level of documentation and evaluation as they require for their nonguaranteed loans under \$50,000. The Agency received one comment requesting banks be required to submit their written policies for approval before the loan is made. While the Agency understands the potential for lenders to perform lesser evaluation for Agency guaranteed loans under \$50,000 than it does for its nonguaranteed loans, it believes sufficient safeguards are already in place to prevent this from becoming a major problem. Lenders will be aware of the requirement through the lender manual and training. Lenders who do not perform the same level of evaluation may have a loss claim under the guarantee adjusted or denied. Therefore, this recommendation was not adopted.

The Agency received one comment requesting additional information

requirements be reduced, not just the application form. The Agency already had language to reduce information required on the application by eliminating financial and production history and verifications of debt and income. The Agency feels the remaining requirements for information are necessary for adequate oversight and program administration. No further changes are being made.

The Agency received one comment requesting lenders be prohibited from making two \$50,000 loans to same borrower in order to circumvent the threshold. The Agency agrees. The regulation as proposed did not prevent this circumstance. The Agency revised the language in section § 762.110 to apply the \$50,000 to any one package of loan guarantee proposals.

Forms

Four comments requested the Agency automate forms or allow applications to be filed electronically. Several private companies provide financial software packages which print Agency application forms. Many Agency forms are now available through the Agency Internet site. In addition, the Agency is working on the problem of applying through the Internet. At this time, many of the Agency's local offices do not have the ability to receive electronic applications. As our automation system is updated we will pursue electronic applications.

Eligibility

The Agency received one comment requesting the Agency revise its loan applicant eligibility criteria to require loan applicants to have been truthful and not have provided false or misleading information. The comment expressed concerns that the Agency has no way to deny loan guarantees to these loan applicants. The Agency agrees with this comment and has included the eligibility condition in § 762.120(f).

The Agency received one comment requesting delinquent IRS debt be included in the requirement that a borrower cannot be delinquent on Federal Debt. This exception to the definition of a Federal Debt is permitted by 31 U.S.C. 3720B(a). Rather than administratively modify the definition of Federal Debt, the Agency considers delinquent IRS debt as part of its creditworthiness determination and also in the cash flow budget used to determine feasibility.

Family Farm Definition

Four comments suggested the Agency remove its requirement that a loan applicant has been a family farmer, or

that the Agency provide a uniform definition of family farmer. Two comments recommended simply ensuring the loan applicants were producers of agricultural products. Any modification of the family farmer definition should be consistent between the Agency's direct and guaranteed programs; therefore, these comments will be addressed when the Agency revises its direct program regulations.

Financial Feasibility

The Agency received one comment that financial feasibility requirements be clarified to state that in cases of startup or expansion, factors beyond financial history should be considered. This was included under projecting yields, but not for other projections in cash flows. This was an oversight and the Agency has added the ability to use other sources to develop a cashflow projection when actual history is not available or not appropriate to § 762.125(a)(5).

Advancing Funds

The Agency received one comment recommending that the lender be required to only advance funds when needed by the borrower. The commenter was concerned that some lenders advance more funds than needed by the borrower at that time, thereby accruing excessive interest charges. While the Agency understands this does occur in isolated cases, the problem should be worked out between the lender and the borrower. The Agency believes it is the borrower's responsibility as manager of the farm operation to decide when funds are needed. Furthermore, identifying what amount is excessive would be unreasonably burdensome for the Agency and the lender. No changes were made regarding advancing of funds.

Environmental

The Agency received 82 comments requesting clarification of the impact on a lender of finding a previously undetected environmental hazard, particularly whether the guarantee will be put in jeopardy. The proposed regulations require the lender to perform a due diligence investigation for any guarantee request involving real estate. Unless the lender fails to perform the due diligence investigation, or the Agency can demonstrate that the lender was negligent in performing the investigation, the guarantee will not be in jeopardy. Further clarification may be incorporated into Agency environmental regulations, agency handbook, and lender manual, see also the discussion below concerning the use of the American Society of Testing

Materials (ASTM) transaction screen questionnaire.

The Agency received 72 comments requesting reduced environmental review for small loans or expressing concern with the cost associated with the reviews. In addition, the Agency received one comment requesting the lender be required to provide evidence of environmental compliance with a small loan application. The environmental statutes governing Farm Loan Programs do not permit the Agency to differentiate its review based solely on the amount of the transaction. However, the Agency believes loan requests under \$50,000 involving real estate will normally not require a complicated environmental review. These loans are typically made to smaller operations and do not involve extensive land development or large animal populations. The Agency intends to simplify its environmental review process as it revises its environmental regulations.

The Agency received two comments requesting the ASTM transaction screen questionnaire not be required. In considering this requirement, the Agency believed a standard for due diligence needed to be identified. In our research, the Agency selected ASTM as the most widely accepted industry standard for a due diligence investigation. The Agency also recognizes that many lenders already have adopted investigation forms and procedures comparable with the ASTM form. To permit lenders to use their own forms and processes, the proposed rule stated the Agency will accept any similar documentation to the ASTM transaction screen questionnaire. The Agency believes this provides sufficient flexibility.

The Agency received one comment requesting clarification of lender and Agency environmental responsibilities. Section 762.128 provides that lenders will assist in the environmental review process by providing environmental information, and enumerates the specific requirements and documentation expectations. Any remaining investigation or determination is the Agency's responsibility. There are many environmental laws applying to Agency loans. Only those which require direct input from the lender have been addressed in these regulations. Rather than duplicate the requirements for Agency review, the environmental regulations governing the Agency's review are presently published in 7 CFR part 1940 subpart G. The agency handbooks will clarify the procedures for the Agency's review.

The Agency received one comment requesting that compliance with wetlands and HBL be included as an eligibility requirement. This requirement is already part of 7 CFR part 1940, subpart G. To avoid duplication and potential conflicts between regulations, the Agency has decided to reference the environmental regulations rather than repeat the requirements in these regulations.

Lender's Debt Instruments

The Agency proposed removing the requirement that a lender's promissory note not contain a "payment on demand" clause. The Agency received two comments requesting this restriction be retained. This long standing requirement was intended to ensure lenders clearly establish the payment schedule on the promissory note. In evaluating debt instruments, the Agency found that many contained industry accepted language which ensured the lender's ability to accelerate a note in the event the collection of the loan was impaired. Many Agency offices interpreted this language to be in violation of the regulations when the note satisfied the intent of the regulations. The Agency therefore clarified its intent by stating the lenders note must clearly state the principal and interest repayment schedule, but the regulation does not prohibit demand clauses.

Loan Underwriting

The Agency requested comments on its underwriting standards, particularly whether the Agency should adopt more comprehensive criteria. The Agency received 16 comments on its underwriting criteria. Seven comments suggested the Agency remove its requirement for a 1.10 term debt and capital lease coverage ratio (TDCLCR), with one commenter offering the alternative of incorporating exception authority. Comments stated that during years of depressed prices, disasters, or other unforeseen problems a 10 percent margin was not possible to project. The Agency adopted the 10 percent margin as a provision for future capital replacement as required by § 339(b) of the CONACT. Approving a loan to an operation unable to project a 10 percent margin would be imprudent lending and surely result in higher default rates for the program. The Agency continues to believe that a TDCLCR of 1.10 is necessary, particularly in the absence of any other criteria to measure financial feasibility.

One comment recommended the Agency implement a credit scoring system and several comments suggested

the Agency incorporate additional financial ratios into its decision. While the Agency is aware of the merits of incorporating financial ratios or a credit scoring system, further analysis is needed before implementing such a change. The Agency will continue to study improved methods to underwrite its loans.

The Agency received 82 comments requesting clarification of its positive cash flow definition. While the Agency did not add more detail to this already extensive definition, it added a definition of the cash flow budget in § 762.102 to provide a mechanism for achieving a positive cash flow.

Loan Servicing Comments

The comments received regarding loan servicing were overwhelmingly in support of most of the changes proposed by the Agency. Most of the comments received were from lenders that participate in the Agency's guaranteed loan program, Agency field office personnel, or associations that represent the interests of those groups. The lending community unanimously supported the Agency's efforts to revise its guaranteed lending regulations, as did the large majority of Agency personnel and others who commented. However, there were some proposals, such as mandatory lender buyback of loans sold on the secondary market, that caused extensive concern. Numerous other comments were made requesting clarification, pointing out potential problems with the proposed rule or expressing personal opinion on a particular issue. The following is a discussion of specific comments, grouped into main subject areas, with Agency information providing clarification of some comments, adoption of others, and explanations for those that are not being incorporated into the final rule.

Mandatory Repurchase

The secondary market repurchase requirements proposed in § 1980.144 generated many comments. Of the 231 total comments received on the proposed rule, 105 expressed vehement opposition to the Agency proposal to require mandatory lender buyback of loans sold on the secondary market. The overwhelmingly negative comments were provided by farmer associations, secondary market purchasers, lenders and lender associations, including the American Bankers Association (ABA) and the Independent Bankers Association of America (IBAA). The proposed change was supported by two Agency employees, two Agency employee associations, and one bank.

Most of the 105 negative comments indicated that the requirement seems to punish all participating lenders for the errors of a few. In summary, these comments said that this policy would cause irreparable harm to the fledgling secondary market for FSA guaranteed loans, and that lenders would be discouraged from making long term fixed rate loans. The commenters almost all agreed that it is essential for many banks to sell fixed rate loans because they do not have the ability to match loan funding to the loan term unless they structure the loans to be sold in the secondary market. By selling the loan, the bank is better able to match its interest rate risk. Also, by removing the loans from their books, they obtain liquidity to make more loans. According to the ABA, requiring the lender to buy the loan back is tantamount to restructuring them as full recourse loans. As a result, the ABA and IBAA are concerned that bank regulators may hold the full capital charge against these loans, thereby increasing the cost of capital for banks and causing higher interest rates for borrowers. Liquidity planning would be more difficult because banks would be uncertain of funding capacity if they must maintain reserves to potentially buy back loans that were sold.

As a result of these comments, the Agency has eliminated mandatory repurchase of loans sold, and addressed problems with repurchased loans in other ways. First, delinquent account servicing regulations in § 762.143(b)(2) now spell out that the lender consider repurchasing the guaranteed portion of the loan sold on the secondary market. Second, § 762.144(b)(1) requires the lender to consider the request according to the servicing actions that are necessary on the loan, and encourages lenders to repurchase the loan upon the holder's request. Third, direct consequences of a lender's failure to comply with § 762.144(c) were added at § 762.160(a)(2). This states that if the lender does not comply with requirements to reimburse the Agency for the repurchase within 180 days, the Agency will not execute the Assignment of Guarantee, and will prohibit the sale of future loans on the secondary market. Provisions were included for waiver of this prohibition if the lender is in compliance with an Agency approved liquidation plan. The 180 day liquidation or reimbursement requirement in §§ 762.144(c)(7)(ii) and 762.144(c)(7)(iii) were proposed in § 1980.144(c)(6) and no negative comments were received. Finally, the Agency has clarified proposed

§ 1980.106(g)(2)(ix) by requiring in § 762.106(g) that consistent deficiencies in servicing loans sold on the secondary market will be considered when reviewing PLP or CLP status as part of the assessment of the lender's abilities. The agency handbook will provide guidelines for implementing this requirement, such as considering whether those repurchases resulted in increased losses or servicing problems for the borrowers.

Reporting Requirements

Comments were received requesting the Agency specify the lender's reporting requirements in the lenders agreement. The lenders agreement for guaranteed loans currently references the Code of Federal Regulations (CFR) for all reporting requirements. The Agency recognizes that there are older loans with specific reporting requirements that may differ from the CFR, but they represent a very small portion of the existing portfolio. Several years ago it was recognized that different lender designations had different reporting requirements in the respective lender's agreements, that were inconsistent with regulations. It was because of this inconsistency that a change was made to have the new lender's agreement for guaranteed loans refer to the CFR. The comment is not being adopted.

A comment was received requesting that the Agency reduce lender status reporting from semi-annual to annual. The Department of Treasury requires the Agency to report the condition of its loan portfolio on a semi-annual basis. In the recent past, the Agency was able to reduce the burden of its guaranteed loan status report by allowing multiple loans to be included on one report and automating its input at the local level. The Agency will continue to explore areas where it can reduce reporting burdens; however, the comment cannot be adopted and the semi-annual status requirement has not been revised.

Servicing Actions

Numerous comments were received on the Agency's various proposals to authorize lenders to conduct servicing actions on their guaranteed loans. One comment felt that lenders should conduct all servicing actions and, to enforce this, suggested that the Agency provide for revocation of preferred or certified status when a lender assigns or contracts for applications or servicing with an outside agent. The Agency did not adopt this comment. Part of the reason for this rule is that the lending industry, especially in agriculture, is changing. For the Agency to continue to

encourage lenders to provide credit to family farmers and ranchers. It is critical that the Agency also change and adapt with the industry. The rule will maintain the provisions that exist today in that a lender has authority to contract with outside agents to service guaranteed loans. However, under the guarantee, the lender remains accountable for any actions of its agents or assignees that are inconsistent with the loan requirements, regulations and statutes.

Another comment was made requesting that lender servicing authorities be decided on a case by case basis, rather than basing this on the particular lender designation (Preferred Lender Program (PLP), Certified Lender Program (CLP), Standard Eligible Lender (SEL)). The comment was assumed to mean a loan by loan basis, since these statuses will be awarded on a per lender basis, as proposed. The comment is not being adopted because lender status designation will be based on its overall experience, including servicing, and expertise in conducting business with the Agency. The lender is responsible for servicing the loan in accordance with its agreements with the Agency. If a lender chooses to ignore these requirements, that noncompliance will result in the reduction or denial of a loss claim, should one be submitted. The Agency cannot assume that lenders will purposely ignore Agency requirements. The guaranteed loan is the lender's loan; lenders have requested the additional responsibility placed upon them in this rule with the full understanding that the Agency will hold them accountable for carrying out servicing in accordance with regulations and loan agreements.

A comment requested that the Agency require an annual loan classification of the guaranteed loan in order to determine the risk of loss. Currently the Agency uses existing loss rates on guaranteed loans in determining the subsidy cost for this program. Guaranteed loan loss rates have remained fairly stable since the farm crisis of the mid 1980's and, as a result, the Agency's current method of projecting losses, which does take into effect noted weather or related economic setbacks, is adequate for risk determination. Therefore, the Agency is not adopting the comment at this time.

Another comment requested that the Agency not allow retroactive servicing authority. In order to maintain consistency and provide a more simplified approach for Agency personnel, the rule must be retroactive. For example, Agency internal review procedures provide that 20 percent of an SEL lender's loans and 40 percent of a

CLP lender's loan files will be reviewed annually. If the lender is worthy of an enhanced status, it will likely service all loans equally well. Requiring FSA field office review of 40 percent of a lender's loans made before a certain date and 20 percent of the loans made after that date would be burdensome and confusing.

A comment was made requesting that the Agency clarify that a line of credit balance can go to zero. In the past the Agency has heard concern from lenders that if a line is paid to a zero balance, then it is paid in full. This is not an Agency requirement and our interpretation is that a line of credit must be paid as its security is sold. The fact that a multiple advance note may be paid to \$0 does not terminate it. Thus, no change was made in the final rule. The rule does not prohibit or require an annual balance of zero.

Negligent Servicing

The Agency received multiple comments requesting clarification of the definition of negligent servicing and how it would affect the determination of a loss payment as stated in § 762.149(c)(6). Negligent servicing was defined in § 1980.102(b) of the proposed rule as follows:

The failure to perform those services which would be considered normal industry standards of loan management or failure to comply with any servicing requirement of this subpart. The term includes the concept of a failure to act or failure to act timely, consistent with actions of a reasonable lender in loan making, servicing and collection.

In addition, the Agency's guaranteed documents under the full faith and credit provisions describe negligent servicing as those actions which a reasonably prudent lender will take in the servicing of a loan if such loan were not guaranteed. Moreover, failure to service a loan in accordance with the corresponding lender's agreements and Agency regulations can lead to reduction or denial of a loss claim due to negligent servicing. The Agency believes that to protect the government's interest, the definition of negligent servicing must remain flexible, and no change is being made.

Borrower Analysis

One comment requested that the Agency remove the requirement that all lenders complete a borrower analysis for chattel secured loans. Along this same line, a few comments suggested that the Agency delete the requirement for SEL to provide an annual statement of financial condition. Since chattel loan security often depreciates quickly, and is likely to deteriorate very quickly if an operation is struggling financially, the

first suggestion is not being adopted. Contrary to the comment, the Agency has found that some level of security monitoring and financial performance measurement is performed by most lenders on their chattel secured agricultural loans. This analysis quickly identifies potential problems and can be used to correct the problem, change the operation or avoid future problems. It is a valuable decision making tool for any chattel secured loan and is not overly burdensome to lenders. As far as an annual balance sheet or statement of financial condition is concerned, this comment appears to address real estate loans and the SEL reporting requirements. While the Agency has removed this requirement for CLP lenders, SEL may be more inexperienced and may require a closer level of monitoring by the Agency. The Agency will only review a sample of an SEL guaranteed loan files in a given year; therefore a balance sheet in the Agency loan file will assist monitoring of these loans.

A comment requested that the Agency clarify the rule to state that any decision not to perform an annual analysis will be made after consultation with the Agency. This comment deals with proposed § 1980.141(d)(1) that allowed CLP lenders to forgo a complete analysis if there is sufficient financial strength to support the decision. The comment is not being adopted. A large number of comments indicated their support for the analysis requirements as proposed. The Agency's internal handbook will provide examples of financial strength factors that may be acceptable as reasons to waive the analysis. If lenders do not perform an analysis, § 762.141(d)(1) requires that the reasons be documented in their file and in their narrative, which is submitted to the Agency. FSA will review the narrative and the case file can be audited during a routine lender monitoring visit.

Consolidation

Several comments were received discussing loan consolidation. The Agency is also making some clarifications and minor modifications. First, the Agency has removed consolidation from the distressed servicing section. As used by FSA, consolidation is simply a combination of two or more similar performing loans into one loan and, thus, is not a distressed servicing action and is not useful as a tool to correct default. Therefore, in the final rule, proposed § 1980.145(b) has been moved from the distressed servicing section to § 762.146(e), other servicing procedures.

A comment requested that loan consolidation authority be eliminated. Loan consolidation is included as an authorized loan restructuring action in the Consolidated Farm and Rural Development Act and must be maintained as an authorized action. Moreover, loan consolidation is a standard industry practice and, in the interest of allowing lenders to conduct business as usual on their guaranteed loans, the Agency wishes to allow the practice to continue.

A comment suggested that the prohibition against consolidating loans made prior to fiscal year (FY) 1992 with those made after FY 1992, proposed in § 1980.145(b)(3), be eliminated. The proposed rule provided that consolidation of an FY 1991 loan with a post FY 1991 loan that did not have interest assistance would eliminate the ability to provide interest assistance for servicing on the consolidated loan. This result ensues because, under Agency budgeting procedures, the consolidated loan becomes an FY 1992 loan. The Budget Reconciliation Act of 1991 eliminated budget authority for interest assistance on FO loans and greatly restricted the Agency's ability to provide interest assistance for servicing actions by, in effect, making the awarding of subsidy on these loans cost prohibitive. To implement this authority and adopt the comment would result in a dramatic increase in the assumed cost of the guaranteed OL program and a commensurate decrease in its loan funds. The result would be a drastic reduction in the number of loans the Agency could guarantee and the number of farmers it would be able to assist. Therefore, the comment was not adopted.

Comments were received requesting that consolidations be limited to only those loans with the same percent of guarantee. The comment was not adopted; however, the final rule provides that when a new guarantee will be provided for a consolidated loan, the percentage of guarantee will be the lesser of the loans being consolidated.

Interest Rates

Comments were received requesting that the Agency allow for refinancing of existing guaranteed loans when the interest rate can be fixed. The proposed rule at § 1980.146(d) and the final rule at § 762.146(d)(3) provide for a change in rates from variable to fixed even if the loan is not delinquent. Therefore refinancing for this purpose is not necessary.

Substitution of Lenders

One comment was received requesting the Agency to clarify substitution of lenders. When a borrower wishes to move a guaranteed loan from one lender to another, or a lender wishes to sell a guaranteed loan to another lender, with or without the borrower's consent, FSA must process a substitution of lender. When a substitution occurs, the existing guaranteed documents must be assigned to the new lender. The Agency agrees with the comment that the lender substitution provisions in § 1980.105(c) were inadequate. The Agency has revised § 762.105 to clarify that the original lender and the Agency must concur with the substitution. If the original lender does not agree to assign their promissory note, lien instruments, loan agreements, and other documents to the new lender, then the substitution cannot take place and the new lender could only refinance the original lender. Refinancing would require the use of new loan funds and a guarantee fee. The Agency believes that the new authorities provided to lenders in this rule, such as partial release, subordination and change in interest rates will provide lenders with additional tools to continue to service existing borrowers, so that a substitution request will be less likely.

Partial Releases

Almost every comment received was in support of the Agency proposal to add partial release authorities to its guaranteed lending regulations. Additionally, many comments suggested that we, "clarify that partial release authority would be at the field office level," and "clarify when appraisals will be required for partial releases." Agency approval authorities for partial releases is an administrative matter and will be delegated through internal FSA directives. It is not included as part of this rule. Authority is likely to be extended to local offices. However, the Agency agrees that the proposed rule contained excessive application requirements for some types of partial releases. Therefore, § 762.142 has been revised to clarify what items are needed to request a partial release by CLP lenders and SELs. Similarly, the proposed rule is revised from requiring Agency concurrence to not requiring Agency approval when the security is being sold for market value, and the proceeds will be applied in accordance with lien priorities, when the security will be used as a trade-in or as a source of down payment funds for a like item that will be taken as security, or when

the security item has no present or prospective value. Agency concurrence is required only when the proceeds will be used to make improvements to real estate in an amount equal to the amount being released, as stated in the proposed rule, security is being released without consideration but the loan to value after the release will be .75 (loan balance to collateral value) or less. The handbook will provide guidance as far as how proceeds would be applied on the loan, and how input may be requested when there is a question of whether reasonable value is being obtained for the security.

As for appraisals, the proposed rule at § 1980.142(d)(2)(i) provided that, for CLP lenders and SEL, the Agency would determine the need for any chattel appraisals and that real estate appraisals will not be required of the lender unless the Agency specifically requests them. Section 762.142(b)(2)(vi) provides that appraisals will be required when security is released without consideration. A suggestion that the Agency never require an appraisal for restructuring a loan, or for a partial release, was not adopted. Appraisals are not required to reschedule a loan, but since partial releases involve releasing loan security, an appraisal was not viewed as overly burdensome.

Subordination

Several commenters suggested that the Agency delegate to local county offices concurrence with a lender's request to subordinate a guaranteed loan. This comment is being partially adopted. The Agency has revised § 762.142(c)(3) to allow for the subordination of normal income security for the guaranteed lender or another lender to make an operating expense loan without Agency concurrence. The Agency agrees that the subordination of normal income security for a lender to make an operating loan is consistent with the mission of the Agency, to help borrowers progress to the point of obtaining credit without Agency assistance.

Some comments were received requesting that the Agency expand its subordination authority to include real estate loans. This comment was not adopted because, in most cases, subordination of guaranteed loan security increases the risk of loss to the Government. The Agency will continue to discourage subordination of real estate security and not provide regulatory approval authority at levels lower than the Deputy Administrator for Farm Loan Programs. See § 762.142(c)(3). If a request is received

that the State Executive Director feels is in the best interest of the Government and the borrower, it can be forwarded to National office for final consideration.

Other comments suggested that the Agency subordinate for tax exempt transactions. This comment is not being adopted. The Agency understands that tax exempt transactions often result in a lower interest rate for the borrower; however, has determined that a subordination of a Federal loan guarantee will not be provided in these types of transactions.

Emergency Advances

Overall comments were very favorable toward the proposal to add an emergency line of credit advance provision, although, several comments were received requesting that Agency approval be obtained on all emergency advances. The proposed rule did not specifically require Agency approval on emergency advances. The Agency recognizes that this may be confusing, so the suggestion to clarify approval is being adopted in § 762.146(a)(2), which will require CLP lenders and SEL to obtain prior FSA concurrence for emergency advances. PLP lenders will make these advances in accordance with the provisions of the PLP agreement. In all cases, the financial benefit to the lender and the Government must exceed the amount of the advance and the lender must document the financial justification for the advance.

Another comment requested that the Agency limit emergency advances to 10 percent of the line of credit ceiling or set a dollar limit. This comment is not being adopted. The Agency understands the comment's concern that there be a limit to the amount of the advances. However, if a specific percentage or dollar amount were established, it could have the opposite effect of what the comment intended. This policy would encourage lenders to assume 10 percent or a certain dollar limit is always acceptable. Therefore, FSA will not adopt this policy. The experiences supporting this proposal have shown that when this situation arises, the need is usually less than 10 percent of the line. However, in a few instances, a greater advance is required. In any case, the benefit to the lender and the Government must exceed the advance. For example, if a lender with a \$400,000 line of credit advances \$20,000 as an emergency advance for irrigation and saves a crop, the Government may pay \$20,000 in losses on the loan. But had the crop not been watered, it may have been a total loss and the Agency loss may have been \$400,000. In this

example, the benefits derived obviously exceed the advance amount.

Several comments requested that the Agency clarify the emergency advance lien priority as it relates to the guaranteed loan and how it is paid, and a few comments indicated confusion regarding the difference among an emergency advance, protective advance, and an additional loan. These comments are addressed in § 762.146(a)(3)(iv) by requiring that the emergency advance must constitute an advance against the line of credit and be secured by the same lien instruments. Emergency advances are not a separate loan, but part of the guaranteed loan. To subordinate this advance in favor of the lender on a non guaranteed basis, as was suggested by some, would provide an effective 100 percent guarantee of repayment of the advance, because the emergency advance would be paid in full before application of payments to the line of credit. Because the emergency advance is necessary for the guaranteed loan, the lender should share the risk in proportion to the guarantee. Emergency advances are similar to protective advances in that they are made to protect security from being lost, constitute an obligation under the promissory note, and cannot be made in lieu of a new loan. They differ from protective advances in that emergency advances are made only in the case of a line of credit to protect, harvest or market only normal income security, when the borrower is not in liquidation. Protective advances are made to protect any type of security for a multitude of purposes, when a loan is in default and liquidation is likely.

The Agency received a comment requesting expansion of the lender's authority to make emergency advances in situations outside the limitations placed in the rule. This comment is not being adopted. The Agency does not agree that there are any circumstances justifying further exposure on the guarantee, other than when loss of crops or livestock is imminent, the advance is for authorized operating loan purposes, and the benefit derived will exceed the amount of the advance. These situations are covered by § 762.146(a)(3).

Restructuring

In the proposed rule, only SELs required Agency approval when restructuring a guaranteed loan. CLP and PLP lenders would not require Agency approval with restructuring actions, except for loan write-downs. While a majority of the comments were in favor of the rule, several commenters felt that Agency approval of all restructuring actions was necessary to

ensure that the restructuring is in accordance with regulations. This suggestion was not adopted. PLP and CLP lenders are more experienced lenders and they are more familiar with Agency requirements. Still, they must restructure loans in accordance with the minimum Agency requirements for restructuring for all lenders. Lenders who do not restructure in accordance with minimum regulatory requirements risk not being paid in the event of a loss. Furthermore, Agency approval of a lender's restructuring action does not endorse servicing that occurred prior to the restructuring, nor does a note's compliance with Agency regulations ensure that the restructuring was completed correctly. Agency officials often do not have the time to thoroughly analyze all facets of a lender's restructuring request, and lenders and their associations have suggested that Agency employees be less involved with approval of a lender's actions. Therefore, the Agency is placing this responsibility upon the more experienced lender.

A similar comment requested that the Agency require PLP lenders to submit a credit analysis prior to Agency approval of rescheduling. PLP lenders have significant agricultural lending experience in addition to their familiarity with Agency guaranteed loan programs. Having the Agency review the PLP lender analysis, in most instances serves no useful purpose. PLP lenders know how to analyze credit and make loan restructuring decisions based upon those analyses. In addition, they are required to have documentation of their analysis in the file. If a PLP lender does not take those actions required by the lender's agreement and Agency regulations prior to restructuring, in the event of a loss, the lender's loss claim under the guarantee may be reduced or denied.

One comment requested that the Agency make a decision on the PLP or CLP lender's servicing requests within 14 days, rather than state that the Agency will "consider the request." Proposed § 1980.145(a)(1)(i)(C) states that only SELs are required to obtain Agency approval and the Agency must notify the SEL within 14 days of the request. The comment apparently mistook the Agency's discussion of proposed changes in the rule, which used the word "consider", for the regulatory requirement.

Another comment suggested that the Agency not be required to act in 14 days if the borrower has a direct loan that is being serviced under the provisions of 7 CFR part 1951, subpart S. This comment is also apparently a

misunderstanding, because the rule stipulates certain items to be submitted to the Agency for approval before the 14 day period begins. If a guaranteed borrower is having direct loans rescheduled by the Agency, much of the required information, such as a feasible plan, cannot be provided by the lender until direct loan servicing is complete.

One comment requested that the Agency require the lender to account for security and provide a loan history as part of any loan restructuring action. The Agency believes that the adoption of this suggestion would not provide additional assurance that the loan was adequately serviced. The existing rule states that a final loss claim may be reduced, adjusted, or rejected as a result of negligent servicing after the concurrence with a restructuring action. The intent of this statement is to remind SELs that Agency concurrence with an action does not mean that all actions up to that point regarding servicing are satisfactory. The statement in the rule also applies to CLP and PLP lenders, who do not require Agency concurrence prior to restructuring.

Balloon Payments

Several comments were received requesting the Agency allow for the reamortization and restructuring of loans with a balloon payment in the repayment schedule. The Agency agreed to add a regulatory prohibition against rescheduling loans with balloon payments several years ago in response to a recommendation of the USDA Office of Inspector General (OIG). OIG determined that many Agency-guaranteed loans were being restructured with no realistic planned repayment when the balloon payment came due. As a result, the borrower did not receive any real benefit and, in many cases, the balloon payment was used to simply put off the inevitable. This caused continuing difficulties for the borrower and, ultimately, a larger loss to the Agency. However, the Agency does recognize the need for the lender to have the flexibility of being able to restructure a loan with a payment schedule other than equal amortized payments. Thus, § 762.145(a)(3) allows a loan to be rescheduled with uneven payments provided the borrower projects a feasible plan for the upcoming year and can reasonably demonstrate that when the installments increase they will be repaid without further restructuring. The Agency intends that unequal installments will coincide with the need to re-establish an enterprise or an unusual cash flow cycle.

Prohibition of Advances on Rescheduled Lines of Credit

One comment requested that prohibiting advances on rescheduled lines of credit should not apply to those lines of credit already in effect. The comment suggested that FSA "grandfather in" all existing lines of credit to allow them to be rescheduled, and permit advances on the difference between the line maximum and the rescheduled balance. FSA's intent in § 762.145(b)(1)(ii) is that, on the effective date of this rule, the change will apply to all lines of credit except those that have been previously restructured. To adopt the comment's suggestion would require gradual implementation of the restriction for up to five years on existing lines of credit. This would create problems in administering the restriction. Therefore, the Agency will not adopt this suggestion for all lines of credit. While the final rule will allow rescheduled lines of credit with remaining balances to be re-advanced, on the effective date of this rule, the Agency will not allow advances on lines of credit where restructuring has not already occurred.

Debt Writedown

Several comments were received from Agency field offices concerning the Agency's debt writedown provisions proposed in § 1980.145(e). One comment was received suggesting that the Agency require an OL loan that is being written down to be amortized over a minimum of 10 years, as opposed to the 5 year minimum that was proposed in § 1980.145(e)(5). The Agency understands the commenter's concern that the amount written off and the resulting loss claim payment is higher when the loan has a shorter term. However, the Agency intends to be flexible in those situations where the life of the security is less than 10 years and it is the lender's policy to not restructure beyond the life of the security. This may provide an incentive for lenders to provide a writedown to a farmer that needs one to stay in business.

Another comment requested that the Agency require the lender to take a lien on all assets when writing down a guaranteed loan. The Agency considered this option; however, it was not adopted because it would create future credit problems for the operation. The Agency felt that this situation should be handled on a case-by-case basis, with guidance provided in the Agency handbook and in consideration of the lender's internal policies. Also, § 762.145(e)(9) does require a cross

collateralization of security if the borrower has other guaranteed loans that are not secured with the same security as the loan being written down.

Several comments expressed concern over the 20 year minimum amortization for an FO loan that is being written down. For example, there is concern that if there are only 19 years left on a 40 year FO loan, in accordance with § 307(a)(1) of the CONACT, it cannot be reamortized to exceed 40 years from the original date of the loan. The Agency has written § 762.145(e)(5) to state that the loan will have a 20 year term minimum, unless the remaining term exceeds the statutory term. If the term cannot be extended to 20 years, it will be extended to the maximum term available under the CONACT.

Servicing Fees

One comment requested the Agency not pay the holder a servicing fee when repurchasing a guaranteed loan from the secondary market. The proposed rule at § 1980.144(b)(3) stated that the Agency will not reimburse the lender for any servicing fees which have been assessed to the holder. The comment is being adopted in § 762.144(b)(3) of the final rule by adding the words "after the Agency repurchase."

Bankruptcy Costs

The proposed rule at § 1980.148 contained several revisions to the Agency's loss claim procedures with regard to the costs incurred when a borrower files for protection under the provisions of the bankruptcy code. The most consequential of these changes is the reversal of current policy prohibiting the payment of legal fees and appraisal fees in a bankruptcy. A large number of comments were received on this proposal, with the majority in favor of the change. However, several comments were received requesting that these fees not be covered or that they be covered at a reduced percentage. The comments suggest that inclusion of these fees in the lender's guaranteed loss will reduce a lender's incentive to minimize these expenses and exacerbate the Government's losses on these loans. As stated in the discussion of this change in the proposed rule, the Agency believes that payment of the guaranteed percentage of legal fees in a bankruptcy is a legitimate and logical extension of current policies on the payment of a lender's losses. Also, this change will benefit more family farmers and ranchers by encouraging lenders who have not previously participated in the guaranteed loan program to now make loans. Many lenders have said that one

of the reasons they do not participate, or participate at a minimum level in the Agency's guaranteed loan program, is because the Agency does not cover all fees with the guarantee. Maintaining the reasonableness of legal fees is an issue that will have to be dealt with through appropriate guaranteed loan portfolio management. The Agency will retain the option of scrutinizing a lender's claimed expenses and reducing a loss claim request when a lender has not monitored expenses and has allowed unfettered fees to accumulate.

Where appraisals are concerned, the court often requires the lender to have the collateral appraised, or at least share in the cost of an appraisal. The Agency allows appraisal costs in a liquidation loss claim, and this change will make bankruptcy procedures more consistent. More importantly, the coverage of the cost of an appraisal will assure that, in bankruptcy cases, accurate representations of security values will be obtained.

Several comments suggested modifications in the final rule, such as limiting coverage of lender legal fees to 50 percent, making sure that the fees are not excessive, clarifying what expenses are reasonable, requiring prior approval of estimated legal fees, and not guaranteeing legal fees at all. One comment suggested that covering legal fees is detrimental to the borrower. The Agency will only guarantee reasonable legal fees. We believe, and lenders have stated, that they are more likely to aggressively act in bankruptcy cases if they know that such costs are covered by the guarantee. While a lender's aggressive action in bankruptcy may be viewed as adverse to a borrower, the borrower's interest is protected by the court. The Agency's exposure on the guarantee is with the lender. The Agency believes it is unlikely that a borrower will lack due process as a result of covering legal fees under the guarantee. Since the Agency believes that the commenter's suggestion embellishes the likely effect of the rule, it will not adopt the comment. It is in the Government's interest to assure that the lender takes every action to protect its loan security and ensure that losses are minimized. The overriding consideration is that more lenders will participate in the guaranteed loan program, increasing credit availability and providing a benefit to family farmers and ranchers.

The suggestion that the Agency pre-approve estimates of fees was also not adopted. Agency approval of an estimated expense is time consuming and burdensome on both the Agency and the lender and serves no purpose

other than to have an estimate which may be higher or lower than the actual amount.

Also, in response to another comment, the Agency will guarantee attorney fees based upon the assumption that lenders will be using sound, licensed, professional legal counsel when involved in such an action. Losses incurred as a result of servicing deficiencies may not be paid under a loss claim. Such deficiencies may include the failure of a lender's legal counsel to represent its interest by not filing objections where appropriate or other actions.

On a related subject, a comment suggested that FSA guarantee legal fees incurred outside of bankruptcy, as well as fees incurred as a result of lender liability suits brought by the borrower. For the former, the rule provides that lenders subtract reasonable liquidation expenses from the proceeds received from a liquidation action. However, lender liability suits are actions specific to the relationship between the lender and the borrower. As such, they are recognized as a risk of business for which the Government is neither responsible, nor prepared to assume responsibility for under the guarantee.

This rule does not expound on what the Agency regards as reasonable or frivolous expenses as suggested by several comments. The Agency acknowledges the potential for inconsistency in how "frivolous" or "unreasonable" is determined. By "frivolous", the Agency is referring to those expenses which, in its opinion, the lender's attorney cannot legitimately claim, or the lender cannot legitimately request coverage of by FSA. The decision of what is "reasonable" is situational. The Agency believes that the terms "frivolous" and "unreasonable" are sufficiently precise to establish standards of "reasonable" expenses. The standards are based on each case considering the legal costs in the locality, the size of the debt, the type of security, and the amount of opposition encountered. The expenses will be adjusted based on a comparison of each of these items for similar cases in the area. Guidance on review and approval of bankruptcy loss claims will be included in the Agency field office handbooks. Current policy of not covering the lender's in house, or normal operating expenses, will continue. See § 762.148(b)(1)(i) of the final rule.

Default Meeting

One comment requested that the Agency require its personnel to be included in a meeting described in the

proposed rule at § 1980.143(b)(3). The Agency does not feel that it is necessary to attend the meeting between the lender and the borrower to discuss the loan delinquency. Agency personnel have the option to attend the meeting, if requested by the lender, if they are unsure what actions may or may not jeopardize the guarantee. However, the lender often needs to act quickly and there may be scheduling conflicts. Placing Agency employees at the meeting can leave the impression with the borrower that Agency guidance regarding regulations means the FSA employee is making the decisions. The loan is the lender's and it is the lender's responsibility to service it.

Liquidation

Several comments were received regarding the time frames lenders are required to meet in a liquidation action. A similar comment suggested that the Agency not require the consideration of interest assistance prior to liquidation. Both comments suggest removal of proposed § 1980.143(b)(3)(v). The reasons for the suggestion are understandable, as nothing is accomplished by the required 60 day waiting period. Nonetheless, lenders who participate in the Agency guaranteed loan program are required by § 351(g) of the CONACT to wait 60 days after considering interest assistance before initiating liquidation. However, if restructuring is not an option and liquidation should proceed, the lender can conduct preliminary activities to liquidation, to expedite recoveries after the 60 day period has passed. Also, if the borrower waives interest assistance, liquidation may begin immediately. This rule includes clarification of how interest assistance is considered in conjunction with a distressed servicing action and the FSA handbooks will include additional guidance on how this provision is to be dealt with. The Agency believes the other time frames for liquidations provided are reasonable considering the complexities involved in any liquidation action.

A similar comment asked the Agency to clarify how the borrower's eligibility for interest assistance is automatically determined upon receipt of the default status report. As stated above, interest assistance will not cure a default, except as part of a rescheduling proposal. In response to this comment, the Agency added language to § 762.143(b)(iii) to state that lender's consideration of a borrower for interest assistance will be included on a default status report. This amended procedure will advise the Agency that interest assistance has been considered, and to assure that the

Interest assistance has been considered in all cases.

Liquidation Plans

Several comments requested that the Agency not require PLP lenders to submit liquidation plans, while other comments requested that the Agency not require lenders prepare liquidation plans. The first suggestion is being adopted and § 762.149(b)(2) is revised so that PLP lenders are not required to submit liquidation plans unless the lender's agreement requires it. PLP lenders will be required to have a plan developed for liquidation, although each PLP liquidation plan may differ slightly, as spelled out in the PLP agreement. Agency monitoring of default status reports, which will contain previous actions and planned actions, will allow Agency officials to monitor PLP progress on liquidations. As far as non PLP lenders are concerned, the Agency feels that a liquidation plan is necessary to protect the Government's interest, and provide guidance on the status of defaulted guaranteed loans. Plans can be brief as long as they include the items required to be addressed by § 762.149(b). Agency personnel must be kept informed when a guaranteed loan moves to the liquidation stage. The liquidation plan's preparation assures the Agency that repurchase from a secondary market holder has been considered and advance preparation to minimize losses has begun. Also it serves to assure the lender that the Agency is in agreement with its actions, so misunderstandings may be avoided.

The Agency was requested not to specify how estimated loss payments will be applied. The comment stated that since interest accrual ceases upon payment of the estimated loss claim, it does not matter how the lender applies the loss claim payment. The application of the proceeds becomes insignificant because interest accrual on the defaulted loan ceases. The Agency is adopting this comment and has amended § 762.149(d)(2) accordingly.

The Agency was also requested to respond to lenders' liquidation plans sooner than 30 days. The Agency agrees that there is little justification for the 30 day period since the Agency reply requirement is based on a complete plan and the Agency must simply respond with an approval, request for clarification or additional information. As a result, § 762.149(c)(2) was revised to state that the Agency will respond within 20 calendar days; otherwise, the lender may assume the plan is approved and proceed with reasonable actions to

protect its interest and liquidate the loan.

A commenter suggested that the Agency hold a lender harmless for liquidation actions taken prior to FSA concurrence as long as they are prudent and reasonable. The standard to which a lender will be held is "reasonableness." The Agency will not penalize a lender in this situation for reasonable actions. This comment will be addressed further as an administrative matter in the Agency handbook, providing that loss claims will only be reduced as far as the lender's actions contributed to the loss.

Several comments requested that the Agency not require a liquidation value appraisal be provided with a liquidation plan and another suggested requiring a value in between the liquidation value and the market value to be bid at any forced security sale. The comment's suggestion that all estimated losses be based upon a market value appraisal, less estimated liquidation costs, is being adopted. The Agency agrees that the "liquidation value" term is confusing when used in context of liquidation plans and estimated loss claims. Section 762.149(b)(4) has been revised to require the lender to provide a net recovery value determination, defined in the final rule as the difference between market value and anticipated selling expenses. At a minimum the lender must bid the lesser of this value or the unpaid guaranteed loan balance at any forced sale. See § 762.149(h). This complies with standard industry practices and the Agency sees no benefit in bidding higher than net recovery value at a distress sale. Another comment on this section requested that the Agency be flexible on the requirement to obtain a balance sheet as part of the liquidation plan, as it may be difficult for a lender to obtain a current balance sheet from a distressed borrower. The comment is not being adopted; however, clarification of expectations when a borrower is uncooperative has been added to § 762.149(b)(1). The Agency would expect the lender to provide the most recent financial information available in these instances.

Protective Advances

Comments were received requesting the Agency raise the limits on protective advances proposed in § 1980.149(e)(1). The proposed rule required that protective advances in excess of \$500 for SELs and \$3,000 for CLP lenders must be approved in writing by the Agency. These limits have been in place for several years and the Agency agrees that costs have increased and these limits may be outdated. Therefore the

rule has been revised to raise the limits for CLP lenders to \$5,000 and SELs to \$3,000. The Agency believes that these limits are sufficient for advances that a lender must make before receiving a written response from the Agency. PLP lenders will make protective advances in accordance with the PLP agreement. These limits do not apply to emergency advances described in § 762.146(a).

Net Recovery Value

The Agency received a comment suggesting that it amend the definition of net recovery value to reflect the difference between the market value and the lender's cost of liquidation, instead of the Government's cost. We have adopted this suggestion and made the change in § 762.102(b).

Another comment suggested the Agency define net recovery value. The proposed rule at § 1980.102(b) did define net recovery value; however, further clarification was needed regarding the term "estimated future value" which was used in the definition. Section 762.102(b) has been revised to replace that element of net recovery value with "market value." This value, less the lender's estimated cost associated with the disposal of the property, is the net recovery value. Further guidance on net recovery value calculations and their use in loan servicing actions will be provided in FSA handbooks.

Interest Accrual

One comment requested that the Agency clarify interest accrual on loss claims. The suggestion is being adopted. While the rule clearly states that interest accrual will cease upon the payment of an estimated loss claim, the comment is concerned about a case where no loss is expected, but there is a loss after final disposition. Section 762.149(d)(2) requires the lender to provide the Agency a loss estimate of zero, whereupon interest accrual will cease on the defaulted loan. This will encourage the lender to liquidate the account expeditiously and provide the Agency with a record of a liquidating account. The lender may collect all manner of late charges, fees, costs, and interest on the loan up to the point it is paid in full, as long as security proceeds are sufficient to pay the entire debt. If a loss occurs upon submission of the final claim, the guaranteed percentage of the loss will be paid; however, interest that accrues after receipt of the no-loss estimate will not. This is consistent with the handling of those accounts that have an additional final loss, not including interest accrual which ceased

upon the Agency's payment of an estimated loss claim.

Final Loss Payment

Several comments suggested clarification of the Agency's policies and procedures on payment of final loss settlements contained in proposed § 1980.149(i). One comment dealt with losses when a lender takes possession of real estate collateral. The comment requested that the Agency allow lenders to request a final loss payment upon the borrower's transfer of the security, provided the lender receives the full appraised value of the security. A related comment requested that all final losses be based upon the ultimate disposition of collateral. Agency experience and common sense, as discussed in the proposed rule, indicates that few lenders opt for final payment prior to ultimate disposition. In order to establish consistency in the final payment process and avoid the misunderstandings that have occurred, this seldom used option was eliminated.

One comment requested the Agency clarify proposed § 1980.149(i)(6) as to how the deduction for the value of security that has not been accounted for will be calculated. Failure to obtain a lien on, monitor, inspect, or properly apply proceeds from the sale of collateral in most cases will be used as a reason for a reduction or denial of a lender's claim under a guarantee due to negligent servicing. However, the fact that there is unaccounted for security will not necessarily cause a reduction because of negligent servicing. The decision will be based upon the lender's servicing and collection efforts. Also the Agency will not penalize a lender for servicing deficiencies that did not contribute materially to a loss. The Agency has clarified this provision in § 1980.149(i)(6) as suggested.

Future Recovery

Another comment requested that the Agency include specific procedures and time frames for additional collection actions after a guaranteed loan loss claim has been paid. The proposed rule at §§ 1980.149(j) and 1980.141(f) outlined what the lender's responsibility is for future collections. The rule proposed submission of an annual report on all unsatisfied accounts for three years following payment of a claim. Sections 762.149(j) and 762.141(f) adopts these provisions unchanged. Further explanation of the administrative aspects of the rule will be provided in the Agency handbook.

Release of Liability

One commenter questioned why the Agency is giving the lender release of liability authority. The meaning of the comment is unclear since §§ 1980.146(b) and (c) of the proposed rule provided for Agency approval of release of liability in the case of SEL and CLP lenders. Also, as outlined in the proposed rule, releases of liability will only occur in cases of divorce, bankruptcy, withdrawal from the operation (without retention of any farm assets), and liquidation, and will be based on the strength of the remaining liable party. The Agency estimates that this new authority will not impact current loss levels.

Termination

One comment was received requesting that the termination of guaranteed loans be expanded to include the denial of loss claims upon written notification by the Agency. The comment is not being adopted, as such a provision is included in the guarantee document itself. Also, termination of the guarantee automatically occurs upon the denial of a loss claim after all appeal rights are concluded. Requiring Agency personnel to specifically state this in a letter is an administrative issue that will be covered in the Agency handbook. Similarly, it was suggested that the Agency require lenders to return guarantees marked paid in full on all paid guaranteed loans. The Agency has revised § 762.149(i)(11) to require this.

Interest Assistance

On February 28, 1991, Farmers Home Administration (FmHA) published an interim rule [56 Fed. Reg. 8258-8272] with a comment period ending April 29, 1991. The Omnibus Budget Reconciliation Act of 1990: (1) increased the potential level of government reimbursement for interest rate reductions made by lenders on guaranteed farm loans; (2) extended the potential term of interest rate reduction on guaranteed farm loans; and (3) extended authorization for the subsidy program through September 30, 1995. On February 10, 1996, it was extended until November 30, 2002. See Pub. L. 104-105 § 220. It was necessary to implement this rule upon publication to provide assistance to a large number of farmers who would otherwise be unable to obtain sufficient credit to operate in 1991. In response to the interim rule, 175 respondents from 24 States and the District of Columbia commented in writing. Many of the respondents' letters contained comments on a number of the sections of the interim rule. Comments

were received from individuals, Agency employees, interest groups, lenders, bankers associations, Farmer Mac, Members of the Congress, and the Department of Treasury. Several comments complimented various segments of the program.

There were four comments on the consideration of significant non-essential assets. Of those, one comment recommended that significant non-essential assets be made available for security but that their sale not be forced or assumed in cash flow. A second comment suggested that all members of entities be required to pledge all non-essential assets. Two respondents requested that borrowers be required to liquidate significant non-essential assets before the interest assistance loan is closed or before the subsidy is continued. In the interim rule, cash flow is calculated based on the assumption that significant non-essential assets will be sold. There is no requirement to actually sell non-essential assets if the obligations can be met otherwise. The Agency has adopted the recommendation to continue with the policy of the interim rule, with a clarification in § 762.150(b)(3) to consider non-essential assets of entity members. FSA has a long-standing policy not to provide subsidized credit to enable applicants to retain assets which are not essential to the farming operation.

The interim rule provided for a floating maximum subsidy rate not to exceed 4 percent. Two respondents commented that it was clearly the intent of the legislation that the 4 percent subsidy be made available to all eligible borrowers based on need. One comment suggested that the maximum rate available be reduced in stages over the life of the agreement.

Under the interim rule, the level of interest assistance to be received is determined and set at .25 percent increments. One hundred fourteen comments objected to the use of the increments. The Agency agrees that projected farm budgets cannot be as precise as the .25 percent increment required and implied. Granting interest assistance at the 4 percent level in every case would give recipients subsidy for their need, and increase their probability of remaining a viable farming enterprise. On December 17, 1993, the Agency published a change at 58 FR 65871, 65887 adopting the recommendation to determine and set interest assistance at 4 percent in all interest assistance situations which require any level of subsidy. This is adopted at § 762.150(d)(1)(i).

The Agency changed from incremental amounts of interest assistance to a straight subsidy amount of 4 percent on December 17, 1993. The Agency is considering whether alternative methods such as a return to the use of increments in determining subsidy levels would be appropriate. During the review of the regulations, questions were raised as to whether alternative subsidy calculation methods would produce a cost savings and increase the number of producers that could be helped. By using incremental subsidy, rather than a 4 percent subsidy, the Agency might be able to target the amount of interest assistance subsidy paid more closely to borrower need, reducing the assistance in some cases, so that more qualifying producers could be assisted with the available subsidy. To assist us in considering alternative proposals, we are specifically asking for comments regarding the use of incremental subsidies, at what increments should the subsidy be established, and any other alternative methods of establishing the subsidy rate.

The Interim rule provides for interest assistance payments to be made to lenders on the basis of claims which can be submitted only once annually. All comments on this issue wanted to be able to submit claims more often than once annually. Various methods of payment were suggested by the comments. Based upon the comments received, the Agency believes that more frequent claims may be conducive to lenders sale of the guaranteed portion of loans with interest assistance into the secondary market and may allow the lender to offer a slightly lower interest rate to the borrower. However, the lender's increased earnings would be minimal and may or may not be passed on to the borrower in the form of lower rates. Because Agency resources are limited, processing frequent (i.e., monthly) claims would overload Agency offices. Therefore, the Agency has decided to continue to allow claims only at 12-month intervals.

All comments regarding the cap on variable interest rates were in opposition to it. The Agency has adopted the recommendation to remove the cap on variable interest rate increases to be consistent with other loan programs and the industry standard. See § 762.150(b)(7).

The Interim rule required that the need for interest assistance be reviewed annually, and the level of assistance be adjusted if necessary. One hundred twenty-one separate comments requested various changes in this requirement. Most of the comments

recommended the review period be increased to 2 or 3 years, several recommended a 5 year interval and others objected the review, but offered no alternative. The Agency acknowledges that periodic reviews place a burden on the lender. However, this requirement was established as a control to prevent borrowers whose financial position improves from receiving unneeded subsidy in later years of the loan. The Agency has considered the comments and believes that less frequent reviews will create a significant risk of payment of excess subsidy. Therefore, the Agency has decided to not change the review period.

Eight comments were received regarding the minimum loan terms for interest assistance. Minimum terms are specified as a safeguard to prevent use of a reduced payment term which would increase installments so that an applicant or borrower, who would otherwise not need interest assistance, might qualify. Two of these comments suggested that existing loans whose original terms met the requirements, even though they do not meet them now, should qualify for interest assistance. Other comments suggested permitting a balloon payment in 5 or 10 years. Balloon installments place additional risk on the long term viability of the operation and are not acceptable for borrowers in need of a subsidy. The Agency has changed § 762.150(b)(1)(iii) to consider the 20-year requirement on farm ownership and soil and water loans secured by real estate, to begin on the loan closing date (on loans with existing guarantees) instead of the effective date of the interest assistance agreement. This is consistent with the intent of the provision, and reduces the cost and paperwork for borrowers who had a loan with terms of 20 years or more, but have less than 20 years remaining.

The Interim rule required that requests for interest assistance on annual operating loans and lines of credit be accompanied by a monthly cash-flow budget. The Agency received seven comments in opposition to the requirement. The purpose of this budget is to accurately estimate the maximum credit needs of the borrower and the average loan balance. This is a fundamental part of sound credit analysis. Therefore, the Agency is not adopting this suggestion, since it would reduce the quality of the analysis.

Three comments discussed the issue of the inadequacy of compensation for lenders for the extra work required by the subsidy program. Two of them suggested higher interest rates or

assessing fees to the borrower as compensation. One comment suggested that the Agency pay a fee to the lender to cover additional costs. It is not reasonable to expect that borrowers whose financial position allows them to qualify for the subsidy program to afford the additional cost for payment of a fee. Section 351(c) of the CONACT prohibits the Agency from paying a fee in addition to 100% of the cost of interest reduction. Therefore, the Agency has not adopted these suggestions.

One comment requested clarification of the penalty for lenders who fail to complete annual analyses or submit claims within the 60-day timeframe. The Agency is concerned that the analysis needs to be tied to the claim to encourage timely analysis and planning. Section 762.150(d)(1)(ii) has been revised to encourage filing within 60 days and state that failure to submit a claim within 1 year will result in forfeiture of the payment.

Several comments requested that the Agency establish timeframes to process claims. The Agency agrees that claims should be processed in a timely manner. Suggested timeframes have been established in the agency handbook.

The Interim rule limited the term of interest assistance to 10 years on each loan. Eighty-seven comments were received on this subject; one suggested that we should make the term of eligibility limitation per borrower rather than per loan, two suggested allowing interest assistance for the life of the loan, one was concerned that the period of assistance is too long, and 83 were pleased to see the increase from 3 to 10 years. The program is designed to provide temporary assistance to borrowers. It is most reasonable to tie the eligibility period to the borrower rather than any particular loan. Tying eligibility to any loan provides an almost unending subsidy as borrowers can receive additional loans and continue the subsidy almost indefinitely. The Agency adopted the recommendation to limit the term of interest assistance to 10 consecutive years per borrower.

The Interim rule required a positive cash flow (with a 10-percent margin) to be eligible for interest assistance. This subject drew a variety of comments from 94 respondents. A few comments were in support of the interim rule while the vast majority were opposed to various aspects of the margin requirement. Recommendations ranged from deleting the requirement altogether to allowing a greater than 10-percent margin. Many respondents suggested allowing continuation of interest assistance or applying subsidy to existing guaranteed

loans, with no margin requirement. The Agency continues to believe that as a cash flow lender, a margin of at least 10 percent of the term debt payments is essential for an applicant to have reasonable prospects for success. See the definition of positive cash flow contained in § 762.102, which is required in § 762.150(b)(4)(i) for interest assistance on new guaranteed loans. However, it also agrees that withdrawing or prohibiting subsidy in cases where the Agency already has exposure only increases that exposure and is not consistent with program objectives. The Agency partially adopted this recommendation by deleting the requirement for a margin on continuation requests or existing loans. See § 762.150(b)(5)(i).

The interim rule provides for the level of need for subsidy to be based upon a projected cash flow. One comment suggested that a second needs test should be calculated at the end of the claim period based on the borrower's actual performance, to determine the level of subsidy to be paid. In order for the borrower and lender to make sound business decisions, they must be able to project the effective interest rate for the next plan period. Since this recommendation would reduce the ability to plan, the Agency is not adopting it.

One respondent requested clarification on the method of performing the needs test on multiple loans. This clarification has been provided in the Agency handbook and lender manual.

One comment suggested that the definition of "positive cash flow" be added. An explanation of positive cash flow has been added in § 762.102.

Two respondents requested guidance on accounting for the subsidy portion of the interest payment. This is a management decision to be made by each individual lender and should not be dictated by the Agency. Therefore, no change is made.

One respondent requested clarification as to whether "other debt" is to be considered for restructuring before interest assistance is to be considered. This is not a requirement but an option under the interim rule. No change is being made.

Many of the respondents who sent similar letters, recommended that the Agency not cancel interest assistance due to a court ordered reduction in the interest rate. Such a policy could result in having to process two claims. For administrative simplicity, the Agency prefers that the lender request the interest reduction through the loss claim process rather than through an interest

assistance claim. The interest assistance agreement is changed to clarify this point. The interest assistance agreement will also be revised for administrative simplicity, to say that interest assistance will be canceled when a debt write down is approved.

One comment requested clarification that lenders can reduce their interest rate voluntarily in conjunction with interest assistance. This has always been the policy and clarification is added to § 762.150(b)(7).

One comment feels that the proposed rule contains more stringent rules and will hinder the ability of Agency direct loan customers to graduate to guaranteed loans. The Agency feels that the new program is less stringent and should be more appealing as several of the changes being made with this final rule will be more beneficial to the loan applicant and lender. Examples of these changes include a simplified claim process, Agency timeframes to process claims, reduced margin requirements for servicing, and elimination of .25 percent increments.

One respondent commented that the Agency does not seem to trust the commercial lender in implementing the interest assistance program. The regulations of this program reflect a balance of internal controls to protect the Government's interest, with a workable program to benefit the borrower and to appeal to lenders. No change will be made.

One comment suggested that mid-year adjustments of the subsidy level should be available. Such an adjustment would not be significant to either the lender or the borrower, especially since elimination of the .25 percent increments, and would add to the administrative time required of all parties. No change is made.

Thirty-four comments recommended limiting a borrower's effective interest rate to a level no lower than the limited resource rate for the same loan type. The limited resource rate is the lowest rate charged for Agency direct loans. However, the standards for the guaranteed program do not correlate with the direct loans program. Such a limitation would be administratively burdensome to the lender and would complicate the program. Therefore, the Agency is not adopting this recommendation.

Seventy-nine respondents, requested that the Agency adopt a policy that no guarantee fee will be charged for loans in which a majority of the funds are used to refinance Agency loans. This would encourage graduation of borrowers from the direct loan program to the guaranteed loan program. The

Agency implemented this recommendation without publication in 1993 and in § 762.130(d)(4).

Eighty-three comments, stated the amount of paperwork and preparation time involved with the interest assistance application process will prove too difficult and costly for borrowers and banks and will decrease participation in the program. No specific changes were recommended. Every effort has been made to minimize paperwork, while protecting the interest of the Government and meeting statutory requirements. Many changes that are being made in this rule will reduce the paperwork associated with interest assistance loans. Examples include a much less complex claims process, simplified needs test, and elimination of an amortization schedule for loans with equal payments. The Agency will continue to accept comments on specific changes which will result in a burden reduction.

Twenty-two comments requested that consideration be given to an Agency developed software program that would complete forms associated with interest assistance. Development of software for public use is outside the scope of the Agency's current focus. Commitment of time necessary for development, service and maintenance of such software would reduce the effectiveness of the Agency's other loan programs and the software is available commercially. The Agency will not adopt this recommendation at this time.

One comment suggested that an amortization table beyond the initial 24 months is not useful in analyzing the request. For loans with unequal payments, this schedule is necessary to evaluate the long-term viability of the plan. Since it is not essential for loans with equally amortized installments, the Agency is changing the requirement to exclude loans with equal payments from the amortization table.

Four comments recommended allowing lenders to cancel interest rate buy down (IRBD) and have the interest rate revert back to the rate in effect before IRBD. This recommendation cannot be adopted because it would result in windfall gains to lenders while offering no benefit to the borrower or the Agency.

One comment recommended that a provision be made for the Agency to cancel interest assistance if borrowers do not adhere to their plan. While this would be prudent lending, it is nearly impossible to monitor and enforce such a requirement and would be primarily subjective. If borrowers do not adhere to the plan, the appropriate remedy is

liquidation. The change will not be adopted.

Various comments concerning forms were received; as a result, the forms were redesigned for clarity.

Justification for Effective Date

Good cause is shown for an immediate effective date because of the need to accelerate the availability of assistance under this program. Numerous natural disasters throughout the country have reduced farm production and widespread reductions in commodity prices have lowered income which has resulted in deteriorating financial conditions for many producers. As a result of those deteriorating financial conditions, we anticipate an increased demand for guaranteed farm loans. These streamlining regulations will enable the Agency to serve the needs of the financially stressed farmers and lenders more quickly and efficiently; therefore an immediate implementation is justified.

List of Subjects

7 CFR Part 762

Agriculture, Loan programs—Agriculture.

7 CFR Part 1980

Agriculture, Loan programs—Agriculture.

The Farm Service Agency adopts the proposed rule published September 25, 1998, in the *Federal Register* [63 FR 51458–51488] and also adopts its interim rule published February 28, 1991, in the *Federal Register* [56 FR 8258–8272] with changes based upon comments received. Accordingly, 7 CFR chapters VII and XVIII are amended as follows:

7 CFR Chapter VII

1. Part 762 is added to read as follows:

PART 762—GUARANTEED FARM LOANS

Sec.

- 762.1–762.100 [Reserved].
- 762.101 Introduction.
- 762.102 Abbreviations and definitions.
- 762.103 Full faith and credit.
- 762.104 Appeals.
- 762.105 Eligibility and substitution of lenders.
- 762.106 Preferred and certified lender programs.
- 762.107–762.109 [Reserved].
- 762.110 Loan application.
- 762.111–762.119 [Reserved].
- 762.120 Loan applicant eligibility.
- 762.121 Loan purposes.
- 762.122 Loan limitations.
- 762.123 Insurance and farm inspection requirements.

- 762.124 Interest rates, terms, charges, and fees.
- 762.125 Financial feasibility.
- 762.126 Security requirements.
- 762.127 Appraisal requirements.
- 762.128 Environmental and special laws.
- 762.129 Percent of guarantee and maximum loss.
- 762.130 Loan approval and issuing the guarantee.
- 762.131–762.139 [Reserved].
- 762.140 General servicing responsibilities.
- 762.141 Reporting requirements.
- 762.142 Servicing related to collateral.
- 762.143 Servicing distressed accounts.
- 762.144 Repurchase of guaranteed portion from a secondary market holder.
- 762.145 Restructuring guaranteed loans.
- 762.146 Other servicing procedures.
- 762.147 Servicing shared appreciation agreements.
- 762.148 Bankruptcy.
- 762.149 Liquidation.
- 762.150 Interest assistance program.
- 762.151–762.159 [Reserved].
- 762.160 Sale, assignment and participation.

Authority: 5 U.S.C. 301; 7 U.S.C. 1989; 42 U.S.C. 1480.

PART 762—GUARANTEED FARM LOANS

§§ 762.1–762.100 [Reserved].

§ 762.101 Introduction.

(a) Scope. This subpart contains regulations governing Operating Loans and Farm Ownership loans guaranteed by the Farm Service Agency. This subpart applies to lenders, holders, borrowers, Agency personnel, and other parties involved in making, guaranteeing, holding, servicing, or liquidating such loans.

(b) Policy. The Agency issues guarantees on loans made to qualified loan applicants without regard to race, color, religion, sex, national origin, marital status, or age, provided the loan applicant can enter into a legal and binding contract, or whether all or part of the applicant's income derives from any public assistance program or whether the applicant, in good faith, exercises any rights under the Consumer Protection Act.

(c) Lender list and classification.

(1) The Agency maintains a current list of lenders who express a desire to participate in the guaranteed loan program. This list is made available to farmers upon request.

(2) Lenders who participate in the Agency guaranteed loan program will be classified into one of the following categories:

- (i) Standard Eligible Lender under § 762.105.
 - (ii) Certified Lender, or
 - (iii) Preferred Lender under § 762.106.
- (3) Lenders may continue to make loans under Approved Lender Program

(ALP) agreements until they expire; however, these agreements will not be renewed when they expire. All ALP agreements with farm credit institutions will expire on February 12, 2001.

(d) Type of guarantee. Guarantees are available for both a loan note or a line of credit. A loan note is used for a loan of fixed amount and term. A line of credit has a fixed term, but no fixed amount. The principal amount outstanding at any time, however, may not exceed the line of credit ceiling contained in the contract. Both guarantees are evidenced by the same loan guarantee form.

(e) Termination of loan guarantee.

The loan guarantee will automatically terminate as follows:

- (1) Upon full payment of the guaranteed loan. A zero balance within the period authorized for advances on a line of credit will not terminate the guarantee;
- (2) Upon payment of a final loss claim; or
- (3) Upon written notice from the lender to the Agency that a guarantee is no longer desired provided the lender holds all of the guaranteed portion of the loan. The loan guarantee will be returned to the Agency office for cancellation within 30 days of the date of the notice by the lender.

§ 762.102 Abbreviations and definitions.

(a) Abbreviations.

ALP—Approved lender program
CLP—Certified lender program
CONACT—Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.)
EPA—Environmental Protection Agency
EIS—Environmental impact statement
EM—Emergency loans
FO—Farm ownership loans
FSA—Farm Service Agency
OL—Operating loans
PLP—Preferred lender program
SW—Soil and water
USDA—United States Department of Agriculture

(b) Definitions.

Additional security. Collateral in excess of that needed to fully secure the loan.

Agency. The Farm Service Agency, including its employees and state and area committee members, and any successor agency.

Allonge. An attachment or an addendum to a note.

Applicant. For guaranteed loans, the lender requesting a guarantee is the applicant. The party applying to the lender for a loan will be considered the loan applicant.

Aquaculture. The husbandry of aquatic organisms in a controlled or

selected environment. An aquatic organism is any fish, amphibian, reptile, or aquatic plant. An aquaculture operation is considered to be a farm only if it is conducted on the grounds which the loan applicant owns, leases, or has an exclusive right to use. An exclusive right to use must be evidenced by a permit issued to the loan applicant and the permit must specifically identify the waters available to be used by the loan applicant only.

Assignment of guaranteed portion. A process by which the lender transfers the right to receive payments or income on the guaranteed loan to another party, usually in return for payment in the amount of the loan's guaranteed principal. The lender retains the unguaranteed portion in its portfolio and receives a fee from the purchaser or assignee to service the loan, and receive and remit payments according to a written assignment agreement. This assignment can be reassigned or sold multiple times.

Average farm customers. Those conventional farm borrowers who are required to pledge their crops, livestock, and other chattel and real estate security for the loan. This does not include those high-risk farmers with limited security and management ability who are generally charged a higher interest rate by conventional agricultural lenders. Also, this does not include those low-risk farm customers who obtain financing on a secured or unsecured basis, who have as collateral such items as savings accounts, time deposits, certificates of deposit, stocks and bonds, and life insurance, which they are able to pledge for the loan.

Basic Security. All farm machinery, equipment, vehicles, foundation and breeding livestock herds and flocks, including replacements, and real estate which serves as security for a loan guaranteed by the Agency.

Beginning farmer or rancher. A beginning farmer or rancher is an individual or entity who:

(1) Meets the loan eligibility requirements for OL or FO assistance, as applicable; in accordance with this subpart;

(2) Has not operated a farm or ranch, or who has operated a farm or ranch for not more than 10 years. This requirement applies to all members of an entity;

(3) Will materially and substantially participate in the operation of the farm or ranch;

(4) In the case of a loan made to an individual, individually or with the immediate family, material and substantial participation requires that the individual provide substantial day-

to-day labor and management of the farm or ranch, consistent with the practices in the county or State where the farm is located.

(ii) In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm or ranch. Material and substantial participation requires that the individual provide some amount of the management, or labor and management necessary for day-to-day activities, such that if the individual did not provide these inputs, operation of the farm or ranch would be seriously impaired.

(4) Agrees to participate in any loan assessment and financial management programs required by Agency regulations;

(5) Does not own real farm or ranch property or who, directly or through interests in family farm entities owns real farm or ranch property, the aggregate acreage of which does not exceed 25 percent of the average farm or ranch acreage of the farms or ranches in the county where the property is located. If the farm is located in more than one county, the average farm acreage of the county where the loan applicant's residence is located will be used in the calculation. If the applicant's residence is not located on the farm or if the loan applicant is an entity, the average farm acreage of the county where the major portion of the farm is located will be used. The average county farm or ranch acreage will be determined from the most recent Census of Agriculture developed by the U.S. Department of Commerce, Bureau of the Census or USDA.

(6) Demonstrates that the available resources of the loan applicant and spouse (if any) are not sufficient to enable the loan applicant to enter or continue farming or ranching on a viable scale; and

(7) In the case of an entity:

(i) All the members are related by blood or marriage; and
(ii) All the stockholders in a corporation are beginning farmers or ranchers.

Borrower. An individual or entity which has outstanding obligations to the lender under any Agency loan or loan guarantee program. A borrower includes all parties liable for Agency debt, including collection-only borrowers, except those whose total loan and accounts have been voluntarily or involuntarily foreclosed or liquidated, or who have been discharged of all Agency debt.

Capital leases. Agreements under which the lessee effectively acquires ownership of the asset being leased. A

lease is a capital lease if it meets any one of the following criteria:

(1) The lease transfers ownership of the property to the lessee at the end of the lease term.

(2) The lessee has the right to purchase the property for significantly less than its market value at the end of the lease.

(3) The term of the lease is at least 75 percent of the estimated economic life of the leased property.

(4) The present value of the minimum lease payments equals or exceeds 90 percent of the fair market value of the leased property.

Cash flow budget. A projection listing all anticipated cash inflows (including all farm income, nonfarm income and all loan advances) and all cash outflows (including all farm and nonfarm debt service and other expenses) to be incurred by the borrower during the period of the budget. Cash flow budgets for loans under \$50,000 do not require income and expenses itemized by categories. A cash flow budget may be completed either for a 12 month period, a typical production cycle or the life of the loan, as appropriate. It may also be prepared with a breakdown of cash inflows and outflows for each month of the review period and includes the expected outstanding operating credit balance for the end of each month. The latter type is referred to as a "monthly cash flow budget".

Collateral. Property pledged as security for a loan to ensure repayment of an obligation.

Conditional commitment. The Agency's commitment to the lender that the material it has submitted is approved subject to the completion of all conditions and requirements contained therein.

Consolidation. The combination of outstanding principal and interest balance of two or more OL loans.

Controlled. When a director or employee has more than a 50 percent ownership in the entity or, the director or employee, together with relatives of the director or employee, have more than a 50 percent ownership.

Cooperative. An entity which has farming as its purpose and whose members have agreed to share the profits of the farming enterprise. The entity must be recognized as a farm cooperative by the laws of the State in which the entity will operate a farm.

Cosigner. A party who joins in the execution of a promissory note to assure its repayment. The cosigner becomes jointly and severally liable to comply with the terms of the note. In the case of an entity applicant, the cosigner

cannot be a member, partner, joint operator, or stockholder of the entity.

County average yield. The historical average yield for a commodity in a particular political subdivision, as determined or published by a government entity or other recognized source.

Debt writedown. To reduce the amount of the borrower's debt to that amount that is determined to be collectible based on an analysis of the security value and the borrower's ability to pay.

Deferral. A postponement of the payment of interest or principal or both. Principal may be deferred in whole or in part; interest may only be partially deferred.

Depreciation and amortization expenses. An annual allocation of the cost or other basic value of tangible capital assets, less salvage value, over the estimated life of the unit (which may be a group of assets), in a systematic and rational manner.

Direct loan. A loan serviced by the Agency as lender.

Entity. Cooperatives, corporations, partnerships, or joint operations.

Family farm. A farm which:

(1) Produces agricultural commodities for sale in sufficient quantities so that it is recognized in the community as a farm rather than a rural residence;

(2) Provides enough agricultural income by itself, including rented land, or together with any other dependable income to enable the borrower to:

(i) Pay necessary family living and operating expenses;

(ii) Maintain essential chattel and real property; and

(iii) Pay debts;

(3) Is managed by:

(i) The borrower when a loan is made to an individual; or

(ii) The members, stockholders, partners, or joint operators responsible for operating the farm when a loan is made to an entity;

(4) Has a substantial amount of the labor requirement for the farm and nonfarm enterprise provided by:

(i) The borrower and the borrower's immediate family for a loan made to an individual; or

(ii) The members, stockholders, partners, or joint operators responsible for operating the farm, along with the families of these individuals, for a loan made to an entity; and

(5) May use a reasonable amount of full-time hired labor and seasonal labor during peak load periods.

Family living expenses. Any withdrawals from income to provide for needs of family members.

Family members. The immediate members of the family residing in the

same household with the individual borrower, or, in the case of an entity, with the operator.

Farm. A tract or tracts of land, improvements, and other appurtenances which are used or will be used in the production of crops, livestock, or aquaculture products for sale in sufficient quantities so that the property is recognized as a farm rather than a rural residence. The term "farm" also includes any such land and improvements and facilities used in a nonfarm enterprise. It may also include the residence which, although physically separate from the farm acreage, is ordinarily treated as part of the farm in the local community.

Feasible plan. A plan for loan servicing purposes which shows the elements of "positive cash flow" except that the minimum acceptable "Term Debt and Capital Lease Coverage Ratio" is 1.0 rather than 1.1 required for "positive cash flow."

Financially viable operation. An operation which, with Agency assistance, is projected to improve its financial condition over a period of time to the point that the operator can obtain commercial credit without further Agency direct or guaranteed assistance. A borrower that will meet the Agency classification of "commercial," as defined in Agency Instruction 2006-W, available in any Agency office, will be considered to be financially viable. Such an operation must generate sufficient income to:

(1) Meet annual operating expenses and debt payments as they become due;

(2) Meet basic family living expenses to the extent they are not met by dependable nonfarm income;

(3) Provide for replacement of capital items; and

(4) Provide for long-term financial growth.

Fish. Any aquatic, gilled animal commonly known as "fish" as well as mollusks, or crustaceans (or other invertebrates) produced under controlled conditions (that is, feeding, tending, harvesting, and such other activities as are necessary to properly raise and market the products) in ponds, lakes, streams, artificial enclosures, or similar holding areas.

Fixture. An item of personal property attached to real estate in such a way that it cannot be removed without defacing or dismantling the structure, or substantially damaging the structure itself.

Graduation. The Agency's determination that a borrower of a direct loan, is financially stable enough to refinance that loan with a commercial lender with or without a guarantee.

Guaranteed loan. A loan made and serviced by a lender for which the Agency has entered into a lenders agreement and for which the Agency has issued a loan note guarantee. This term also includes lines of credit except where otherwise indicated.

Hazard insurance. Includes fire, windstorm, lightning, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, builder's risk, public liability, property damage, flood or mudslide, workers compensation, or any similar insurance that is available and needed to protect the security, or that is required by law.

Holder. The person or organization other than the lender who holds all or a part of the guaranteed portion of an Agency guaranteed loan but who has no servicing responsibilities. When the lender assigns a part of the guaranteed loan to an assignee by way of execution of an assignment form, the assignee becomes a holder.

In-house expenses. Expenses associated with credit management and loan servicing by the lender and the lender's contractor. In-house expenses include, but are not limited to: employee salaries, staff lawyers, travel, supplies, and overhead.

Interest assistance agreement. The signed agreement between the Agency and the lender setting forth the terms and conditions of the interest assistance.

Interest assistance anniversary date.

Date on which interest assistance reviews and claims will be effective.

This date is established by the lender. Once established, it will not change unless the loan is restructured.

Interest assistance review. The yearly review process which includes an analysis of the borrower or applicant's farming operation and need for continued interest assistance, completion of the needs test and request for continuation of interest assistance.

Joint operation. Individuals that have agreed to operate a farm or farms together as a business unit. The real and personal property is owned separately or jointly by the individuals. Joint operations include limited liability companies having more than one member.

Land development. Items such as terracing, clearing, leveling, fencing, drainage and irrigation systems, ponds, forestation, permanent pastures, perennial hay crops, basic soil amendments, and other items of land improvements which conserve or permanently enhance productivity.

Lender. The organization making and servicing the loan or advancing and servicing the line of credit which is guaranteed under the provisions of

Agency regulations. The lender is also the party requesting a guarantee.

Lender's agreement. The appropriate Agency form executed by the Agency and the lender setting forth the loan responsibilities of the lender and agency when the loan guarantee is issued.

Lien. A legally enforceable hold or claim on the property of another obtained as security for the repayment of indebtedness or an encumbrance on property to enforce payment of an obligation.

Liquidation expenses. The cost of an appraisal, due diligence evaluation, environmental assessment, outside attorney fees and other costs incurred as a direct result of liquidating the security for the guaranteed loan. Liquidation fees do not include in-house expenses.

Loan or line of credit agreement. A document which contains certain lender and borrower agreements, conditions, limitations, and responsibilities for credit extension and acceptance in a loan format where loan principal balance may fluctuate throughout the term of the document.

Loan applicant. The party applying to a lender for a guaranteed loan or line of credit.

Loan transaction. Any loan approval or servicing action.

Loss claim. A request made to the Agency by a lender to receive a reimbursement based on a percentage of the lender's loss on a loan covered by an Agency guarantee.

Loss rate. The net amount of guaranteed OL, FO, and SW loss claims paid on loans made in the past 7 years divided by the total loan amount of OL, FO, and SW made in the past 7 years.

Major deficiency. A deficiency that directly affects the soundness of the loan.

Majority interest. Any individual or a combination of individuals owning more than a 50 percent interest in a cooperative, corporation, joint operation, or partnership.

Market value. The amount which an informed and willing buyer would pay an informed and willing, but not forced, seller in a completely voluntary sale.

Minor deficiency. A deficiency that violates Agency regulations, but does not affect the soundness of a loan.

Mortgage. A legal instrument giving the lender a security interest or lien on real or personal property of any kind.

Negligent servicing. The failure to perform those services which would be considered normal industry standards of loan management or failure to comply with any servicing requirement of this subpart or the lenders agreement or the guarantee. The term includes the concept of a failure to act or failure to

act timely consistent with actions of a reasonable lender in loan making, servicing, and collection.

Net farm operating income. The gross income generated by a farming operation annually, minus all yearly operating expenses (including withdrawals from entities for living expenses), operating loan interest, interest on term debt and capital lease payments, and depreciation and amortization expenses. Net farm operating income does not include off-farm income and social security taxes, carryover debt and delinquent interest.

Net recovery value. The market value of the security property assuming that it will be acquired by the lender, and sold for its highest and best use, less the lender's costs of property acquisition, retention, maintenance, and liquidation.

Nonessential asset. Assets in which the borrower has an ownership interest that do not contribute an income to pay essential family living expenses or maintain a sound farming operation, and are not exempt from judgment creditors.

Normal income security. All security not considered basic security.

Participation. A loan arrangement where a primary or lead lender is typically the lender of record but the loan funds may be provided by one or more other lenders due to loan size or other factors. Typically, participating lenders share in the interest income or profit on the loan based on the relative amount of the loan funds provided after deducting the servicing fees of the primary or lead lender.

Partnership. Any entity consisting of two or more individuals who have agreed to operate a farm as one business unit. The entity must be recognized as a partnership by the laws of the State in which the entity will operate and must be authorized to own both real estate and personal property and to incur debts in its own name.

Positive cash flow. The ability of a borrower's operation to demonstrate: a term debt and capital lease coverage ratio of at least 1.1; and a capital replacement and term debt repayment margin equal to or greater than any planned capital asset purchases not financed. The term debt and capital lease coverage ratio and the capital replacement and term debt repayment margin are calculated as follows:

(1) Add projected net farm operating income, projected annual nonfarm income, projected capital depreciation and amortization expenses, scheduled annual interest on term debt, and scheduled annual interest on capital leases.

(2) Subtract from this sum projected annual income and social security tax payments, including any delinquent taxes, and family living expenses. The difference is the balance available for term debt repayment.

(3) Divide the balance available for term debt repayment by the sum of the annual scheduled principal and interest payments on term debt, plus the annual scheduled principal and interest payments on capital leases, excluding delinquent installments. The quotient is the term debt and capital lease coverage ratio.

(4) Add the balance available for term debt repayment to any cash carryover from the preceding year.

(5) Subtract from this sum the amount of the total annual scheduled term debt and capital lease payments, and any debt carried over from the previous year. The difference is the capital replacement and term debt repayment margin.

Potential liquidation value. The amount of the lender's protective bid at the foreclosure sale. Potential liquidation value is determined by an independent appraiser using comparables from other forced liquidation sales.

Present value. The present worth of a future stream of payments discounted to the current date.

Primary security. The minimum amount of collateral needed to fully secure a proposed loan.

Principals of borrowers. Includes owners, officers, directors, entities and others directly involved in the operation and management of a business.

Protective advances. Advances made by a lender to protect or preserve the collateral itself from loss or deterioration. Protective advances include but are not limited to:

- (1) Payment of delinquent taxes,
- (2) Annual assessments,
- (3) Ground rents,
- (4) Hazard or flood insurance premiums against or affecting the collateral,
- (5) Harvesting costs,
- (6) Other expenses needed for emergency measures to protect the collateral.

Recapture. The amount that a guaranteed lender is entitled to recover from a guaranteed loan borrower in consideration for the lender writing down a portion of their guaranteed loan debt when that loan was secured by real estate and that real estate increases in value. Also, the act of collecting shared appreciation.

Related by blood or marriage. Individuals who are connected to one another as husband, wife, parent, child, brother, or sister.

Relative. An individual or spouse and anyone having the following relationship to either: parent, son, daughter, sibling, stepparent, stepson, stepdaughter, stepbrother, stepsister, half brother, half sister, uncle, aunt, nephew, niece, grandparent, granddaughter, grandson, and the spouses of the foregoing.

Rescheduling. To rewrite the rates and terms of a single note or line of credit agreement.

Restructuring. Changing terms of a debt through either a rescheduling, deferral, or writedown or a combination thereof.

Sale of guaranteed portion. See assignment of guaranteed portion.

Security. Property of any kind subject to a real or personal property lien. Any reference to "collateral" or "security property" shall be considered a reference to the term "security."

Shared appreciation agreement. An agreement between a guaranteed lender and borrower that requires a borrower that has received a write down on a guaranteed loan secured by real estate to repay the lender some or all of the writedown received, based on a percentage of any increase in the value of that real estate at some future date, if certain conditions exist.

State. The major political subdivision of the United States and the organization of program delivery for the Agency.

Subordination. A document executed by a lender to relinquish their priority of lien in favor of another lender that provides the other lender with a priority right to collect a debt of a specific dollar amount from the sale of the same collateral.

Subsequent loans. Any loans processed by the Agency after an initial loan has been made to the same borrower.

Transfer and assumption. The conveyance by a debtor to an assuming party of the assets, collateral, and liabilities of the loan in return for the assuming party's binding promise to pay the debt outstanding.

Typical plan. A projected income and expense statement listing all anticipated cash flows for a typical 12-month production cycle; including all farm and nonfarm income and all expenses (including debt service) to be incurred by the borrower during such period.

Unaccounted for security. Items, as indicated on the lender's loan application, request for guarantee, or any interim agreements provided to the Agency, that are security for the guaranteed loan that were misplaced, stolen, sold, or otherwise missing, where replacement security was not

obtained or the proceeds from their sale have not been applied to the loan.

United States. The United States itself, each of the several States, the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

Veteran. Any person who served in the military, naval, or air service during any war as defined in section 101 (12) of title 38, United States Code.

§ 782.103 Full faith and credit.

(a) **Fraud and misrepresentation.** The loan guarantee constitutes an obligation supported by the full faith and credit of the United States. The Agency may contest the guarantee only in cases of fraud or misrepresentation by a lender or holder, in which:

(1) The lender or holder had actual knowledge of the fraud or misrepresentation at the time it became the lender or holder, or

(2) The lender or holder participated in or condoned the fraud or misrepresentation.

(b) **Lender violations.** The loan guarantee cannot be enforced by the lender, regardless of when the Agency discovers the violation, to the extent that the loss is a result of:

(1) Violation of usury laws;

(2) Negligent servicing;

(3) Failure to obtain the required security; or,

(4) Failure to use loan funds for purposes specifically approved by the Agency.

(c) **Enforcement by holder.** The guarantee and right to require purchase will be directly enforceable by the holder even if:

(1) The loan guarantee is contestable based on the lender's fraud or misrepresentation; or

(2) The loan note guarantee is unenforceable by the lender based on a lender violation.

§ 782.104 Appeals.

(a) The loan applicant or borrower and lender must jointly execute the written request for review of an alleged adverse decision made by the Agency. However, in cases where the Agency has denied or reduced the amount of the final loss payment, the decision may be appealed by the lender only.

(b) A decision made by the lender adverse to the borrower is not a decision by the Agency, whether or not concurred in by the Agency, and may not be appealed.

(c) The lender or Agency may request updated information from the borrower to implement an appeal decision.

(d) Appeals will be handled in accordance with parts 11 and 780 of this title.

§ 782.105 Eligibility and substitution of lenders.

(a) **General.** To participate in FSA guaranteed farm loan programs, a lender must meet the eligibility criteria in this part. The standard eligible lender must demonstrate eligibility and provide such evidence as the Agency may request.

(b) **Standard eligible lender eligibility criteria.**

(1) A lender must have experience in making and servicing agricultural loans and have the capability to make and service the loan for which a guarantee is requested;

(2) The lenders must not have losses or deficiencies in processing and servicing guaranteed loans above a level which would indicate an inability to properly process and service a guaranteed agricultural loan.

(3) A lender must be subject to credit examination and supervision by an acceptable State or Federal regulatory agency;

(4) The lender must maintain an office near enough to the collateral's location so it can properly and efficiently discharge its loan making and loan servicing responsibilities or use Agency approved agents, correspondents, branches, or other institutions or persons to provide expertise to assist in carrying out its responsibilities. The lender must be a local lender unless it:

(i) normally makes loans in the region or geographic location in which the loan applicant's operation being financed is located, or

(ii) demonstrates specific expertise in making and servicing loans for the proposed operation.

(5) The lender, its officers, or agents must not be debarred or suspended from participation in Government contracts or programs or be delinquent on a Government debt.

(c) **Substitution of lenders.** A new eligible lender may be substituted for the original lender, upon the original lender's concurrence, under the following conditions:

(1) The Agency approves of the substitution in writing.

(2) The new lender agrees in writing to:

(i) Assume all servicing and other responsibilities of the original lender and to acquire the unguaranteed portion of the loan;

(ii) Execute a lender's agreement if one is not in effect;

(iii) Execute a modification of the guarantee provided by the Agency to identify the new lender, and contain the

amount of debt at the time of the substitution and the new loan terms if applicable; and,

(iv) Give any holder written notice of the substitution. If the rate and terms are changed, written concurrence from the holder is required.

(3) The original lender will:

(i) Assign their promissory note, lien instruments, loan agreements, and other documents to the new lender.

(ii) If the loan is subject to an existing interest assistance agreement, submit a request for subsidy for the partial year that it has owned the loan.

(d) *Lender name or ownership changes.*

(1) When a lender begins doing business under a new name or undergoes an ownership change the lender will notify the Agency.

(2) The lender's CLP or PLP status is subject to reconsideration when ownership changes.

(3) The lender will execute a new lender's agreement when ownership changes.

§ 762.106 . Preferred and certified lender programs.

(a) *General.*

(1) Lenders who desire PLP or CLP status must prepare a written request addressing:

(i) The States in which they desire to receive PLP or CLP status and their branch offices which they desire to be considered by the Agency for approval; and

(ii) Each item of the eligibility criteria for PLP or CLP approval in this section, as appropriate.

(2) The lender may include any additional supporting evidence or other information the lender believes would be helpful to the Agency in making its determination.

(3) The lender must send its request to the Agency State office for the State in which the lender's headquarters is located.

(4) The lender must provide any additional information requested by the Agency to process a PLP or CLP request if the lender continues with the approval process.

(b) *CLP criteria.* The lender must meet the following requirements to obtain CLP status:

(1) Qualify as a standard eligible lender under § 762.105;

(2) Have a lender loss rate not in excess of the maximum CLP loss rate established by the Agency and published periodically in a Federal Register Notice. The Agency may waive the loss rate criteria for those lenders whose loss rate was substantially affected by a disaster as defined in part 1945, subpart A, of this title.

(3) Have proven an ability to process and service Agency guaranteed loans by showing that the lender:

(i) Submitted substantially complete and correct guaranteed loan applications; and

(ii) Serviced all guaranteed loans according to Agency regulations;

(4) Have made the minimum number of guaranteed OL, FO, or Soil and Water (SW) loans established by the Agency and published periodically in a Federal Register Notice.

(5) Not be under any regulatory enforcement action such as a cease and desist order, written agreement, or an appointment of conservator or receiver, based upon financial condition;

(6) Designate a qualified person or persons to process and service Agency guaranteed loans for each of the lender offices which will process CLP loans. To be qualified, the person must meet the following conditions:

(i) Have attended Agency sponsored training in the past 12 months or will attend training in the next 12 months; and

(ii) Agree to attend Agency sponsored training each year.

(7) Use forms acceptable to the Agency for processing, analyzing, securing, and servicing Agency guaranteed loans and lines of credit;

(8) Submit to the Agency copies of financial statements, cash flow plans, budgets, promissory notes, analysis sheets, collateral control sheets, security agreements and other forms to be used for farm loan processing and servicing;

(c) *PLP criteria.* The lender must meet the following requirements to obtain PLP status:

(1) Meet the CLP eligibility criteria under this section.

(2) Have a credit management system, satisfactory to the Agency, based on the following:

(i) The lender's written credit policies and underwriting standards;

(ii) Loan documentation requirements;

(iii) Exceptions to policies;

(iv) Analysis of new loan requests;

(v) Credit file management;

(vi) Loan funds and collateral management system;

(vii) Portfolio management;

(viii) Loan reviews;

(ix) Internal credit review process;

(x) Loan monitoring system; and

(xi) The board of director's responsibilities.

(3) Have made the minimum number of guaranteed OL, FO, or SW loans established by the Agency and published periodically in a Federal Register Notice.

(4) Have a lender loss rate not in excess of the rate of the maximum PLP

loss rate established by the Agency and published periodically in a Federal Register Notice. The Agency may waive the loss rate criteria for those lenders whose loss rate was substantially affected by a disaster as defined in part 1945, subpart A, of this title.

(5) Show a consistent practice of submitting applications for guaranteed loans containing accurate information supporting a sound loan proposal.

(6) Show a consistent practice of processing Agency guaranteed loans without recurring major or minor deficiencies.

(7) Demonstrate a consistent, above average ability to service guaranteed loans based on the following:

(i) Borrower supervision and assistance;

(ii) Timely and effective servicing; and

(iii) Communication with the Agency.

(8) Designate a person or persons, approved by the Agency, to process and service PLP loans for the Agency.

(d) *CLP and PLP approval.*

(1) If a lender applying for CLP or PLP status is or has recently been involved in a merger or acquisition, all loans and losses attributed to both lenders will be considered in the eligibility calculations.

(2) The Agency will determine which branches of the lender have the necessary experience and ability to participate in the CLP or PLP program based on the information submitted in the lender application and on Agency experience.

(3) Lenders who meet the criteria will be granted CLP or PLP status for a period not to exceed 5 years.

(4) PLP status will be conditioned on the lender carrying out its credit management system as proposed in its request for PLP status and any additional loan making or servicing requirements agreed to and documented the PLP lender's agreement. If the PLP lender's agreement does not specify any agreed upon process for a particular action, the PLP lender will act according to regulations governing CLP lenders.

(e) *Monitoring CLP and PLP lenders.* CLP and PLP lenders will provide information and access to records upon Agency request to permit the Agency to audit the lender for compliance with these regulations.

(f) *Renewal of CLP or PLP status.*

(1) PLP or CLP status will expire within a period not to exceed 5 years from the date the lender's agreement is executed, unless a new lender's Agreement is executed.

(2) Renewal of PLP or CLP status is not automatic. A lender must submit a written request for renewal of a lender's

agreement with PLP or CLP status which includes information:

(i) Updating the material submitted in the initial application; and

(ii) Addressing any new criteria established by the Agency since the initial application.

(3) PLP or CLP status will be renewed if the applicable eligibility criteria under this section are met, and no cause exists for denying renewal under paragraph (g) of this section.

(g) *Revocation of PLP or CLP status.*

(i) The Agency may revoke the lender's PLP or CLP status at any time during the 5 year term for cause.

(2) Any of the following instances constitute cause for revoking or not renewing PLP or CLP status:

(i) Violation of the terms of the lender's agreement;

(ii) Failure to maintain PLP or CLP eligibility criteria;

(iii) Knowingly submitting false or misleading information to the Agency;

(iv) Basing a request on information known to be false;

(v) Deficiencies that indicate an inability to process or service Agency guaranteed farm loan programs loans in accordance with this subpart;

(vi) Failure to correct cited deficiencies in loan documents upon notification by the Agency;

(vii) Failure to submit status reports in a timely manner;

(viii) Failure to use forms, or follow credit management systems (for PLP lenders) accepted by the Agency; or

(ix) Failure to comply with the reimbursement requirements of § 762.146(c)(7).

(3) A lender which has lost PLP or CLP status must be reconsidered for eligibility to continue as a Standard Eligible Lender (for former PLP and CLP lenders), or as a CLP lender (for former PLP lenders) in submitting loan guarantee requests. They may reapply for CLP or PLP status when the problem causing them to lose their status has been resolved.

§ 762.107-762.109 [Reserved]

§ 762.110 Loan Application.

(a) *Loans for \$50,000 or less.* All lenders except PLP lenders will submit the following items:

(i) A complete application for loans of \$50,000 or less must, at least, consist of:

(i) The application form;

(ii) Loan narrative;

(iii) Balance sheet;

(iv) Cash flow budget;

(v) Credit report;

(vi) A plan for servicing the loan.

(2) In addition to the minimum requirements, the lender will perform at

least the same level of evaluation and documentation for a guaranteed loan that the lender typically performs for non-guaranteed loans of a similar type and amount.

(3) The \$50,000 threshold includes any single loan, or package of loans submitted for consideration at any one time. A lender must not split a loan into two or more parts to meet the threshold thereby avoiding additional documentation.

(4) The Agency may require lenders with a lender loss rate in excess of the rate for CLP lenders to assemble additional documentation from paragraph (b) of this section.

(b) *Loans over \$50,000.* A complete application for loans over \$50,000 will consist of the items required in paragraph (a) of this section plus the following:

(1) Verification of income;

(2) Verification of debts over \$1,000;

(3) Three years financial history;

(4) Three years of production history

(for standard eligible lenders only);

(5) Proposed loan agreements; and

(6) If construction or development is planned, a copy of the plans, specifications, and development schedule.

(c) *Applications from PLP lenders.*

Notwithstanding paragraphs (a) and (b) of this section, a complete application for PLP lenders will consist of at least:

(1) An application form;

(2) A loan narrative; and

(3) Any other items agreed to during the approval of the PLP lender's status and contained in the PLP lender agreement.

(d) *Submitting applications.*

(1) All lenders must compile and maintain in their files a complete application for each guaranteed loan. See paragraphs (a), (b), and (c) of this section.

(2) The Agency will notify CLP lenders which items to submit to the Agency.

(3) PLP lenders will submit applications in accordance with their agreement with the Agency for PLP status.

(4) CLP and PLP lenders must certify that the required items, not submitted, are in their files.

(5) The Agency may request additional information from any lender or review the lender's loan file as needed to make eligibility and approval decisions.

(e) *Incomplete applications.* If the lender does not provide the information needed to complete its application by the deadline established in an Agency request for the information, the application will be considered withdrawn by the lender.

(f) *Conflict of interest.*

(1) When a lender submits the application for a guaranteed loan, the lender will inform the Agency in writing of any relationship which may cause an actual or potential conflict of interest.

(2) Relationships include:

(i) The lender or its officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners having a financial interest (other than lending relationships in the normal course of business) in the loan applicant or borrower.

(ii) The loan applicant or borrower, a relative of the loan applicant or borrower, anyone residing in the household of the loan applicant or borrower, any officer, director, stockholder or other owner of the loan applicant or borrower holds any stock or other evidence of ownership in the lender.

(iii) The loan applicant or borrower, a relative of the loan applicant or borrower, or anyone residing in the household of the loan applicant or borrower is an Agency employee.

(iv) The officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners of the lender have substantial business dealings (other than in the normal course of business), with the loan applicant or borrower.

(v) The lender or its officers, directors, principal stockholders, or other principal owners have substantial business dealings with an Agency employee.

(3) The lender must furnish additional information to the Agency upon request.

(4) The Agency will not approve the application until the lender develops acceptable safeguards to control any actual or potential conflicts of interest.

§ 762.111-762.119 [Reserved]

§ 762.120 Loan applicant eligibility.

Loan applicants must meet all of the following requirements to be eligible for a guaranteed OL or a guaranteed FO:

(a) *Agency loss.* The loan applicant, and anyone who will execute the promissory note, have not caused the Agency a loss by receiving debt forgiveness on more than three occasions on or prior to April 4, 1996, or on any occasion after April 4, 1996, on all or a portion of any direct or guaranteed loan made under the authority of the CONACT by debt write-down, write-off, compromise under the

provisions of section 331 of the CONACT, adjustment, reduction, charge-off, or discharge in bankruptcy or through any payment of a guaranteed loss claim under the same circumstances. Notwithstanding the preceding sentence, applicants who receive a write-down under section 353 of the CONACT, or are current on payments under a confirmed bankruptcy reorganization plan, may receive direct and guaranteed OL loans to pay annual farm and ranch operating expenses, which include family subsistence, if the applicant meets all other requirements for the loan.

(b) *Delinquent Federal debt.* The loan applicant, and anyone who will execute the promissory note, is not delinquent on any Federal debt, other than a debt under the Internal Revenue Code of 1986. (Any debt under the Internal Revenue Code of 1986 may be considered by the lender in determining cash flow and creditworthiness.)

(c) *Outstanding judgments.* The loan applicant, and anyone who will execute the promissory note, have no outstanding unpaid judgment obtained by the United States in any court. Such judgments do not include those filed as a result of action in the United States Tax Courts.

(d) *Citizenship.*

(1) The loan applicant is a citizen of the United States or an alien lawfully admitted to the United States for permanent residence under the Immigration and Nationalization Act. Indefinite parolees are not eligible. For an entity applicant, all members of an entity must meet this citizenship test.

(2) Aliens must provide the appropriate Immigration and Naturalization Service forms to document their permanent residency.

(e) *Legal capacity.* The loan applicant and all borrowers on the loan must possess the legal capacity to incur the obligations of the loan.

(f) *False or misleading information.* The loan applicant, in past dealings with the Agency, must not have provided the Agency with false or misleading documents or statements.

(g) *Credit history.*

(1) The individual or entity loan applicant and all entity members must have acceptable credit history demonstrated by debt repayment.

(2) A history of failures to repay past debts as they came due when the ability to repay was within their control will demonstrate unacceptable credit history.

(3) Unacceptable credit history will not include:

(i) Isolated instances of late payments which do not represent a pattern and were clearly beyond their control; or,
(ii) Lack of credit history.

(h) *Test for credit.*

(1) The loan applicant is unable to obtain sufficient credit elsewhere without a guarantee to finance actual needs at reasonable rates and terms.

(2) The potential for sale of any significant nonessential assets will be considered when evaluating the availability of other credit.

(3) Ownership interests in property and income received by an individual or entity loan applicant, and any entity members as individuals will be considered when evaluating the availability of other credit to the loan applicant.

(i) *For OLs:*

(1) The individual or entity loan applicant must be an operator of not larger than a family farm after the loan is closed.

(2) In the case of an entity borrower:
(i) The entity must be authorized to operate, and own if the entity is also an owner, a farm in the State or States in which the farm is located; and

(ii) If the entity members holding a majority interest are related by marriage or blood, at least one member of the entity must operate the family farm; or

(iii) If the entity members holding a majority interest are not related by marriage or blood, the entity members holding a majority interest must also operate the family farm.

(j) *For FOs:*

(1) The individual must be the operator and owner of not larger than a family farm after the loan is closed.

(2) In the case of an entity borrower:
(i) The entity must be authorized to own and operate a farm in the state or states in which the farm is located; and

(ii) If the entity members holding a majority interest are related by marriage or blood, at least one member of the entity also must operate the family farm and at least one member of the entity or the entity must own the family farm; or

(iii) If the entity members holding a majority interest are not related by marriage or blood, the entity members holding a majority interest must operate the family farm and the entity members holding a majority interest or the entity must own the family farm.

(k) *For entity loan applicants.* Entity loan applicants must meet the following additional eligibility criteria:

(1) Each entity member's ownership interest may not exceed the family farm definition limits;

(2) The collective ownership interest of all entity members may exceed the family farm definition limits only if the following conditions are met:

(i) All of the entity members are related by blood or marriage;

(ii) All of the members are or will be operators of the entity; and,

(iii) The majority interest holders of the entity must meet the requirements of paragraphs (d), (f), (g), and (i) through (j) of this section;

(3) The entity must be controlled by farmers or ranchers engaged primarily and directly in farming or ranching in the United States after the loan is made; and

(4) The entity members are not themselves entities.

(l) Neither the applicant nor any entity member has been convicted of planting, cultivating, growing, producing, harvesting, or storing a controlled substance under Federal or state law within the last five crop years. "Controlled substance" is defined at 21 CFR 1308. Applicants must certify on the application that it and its members, if an entity, have not been convicted of such a crime within the relevant period. If the lender uses the lender's Agency approved forms, the certification may be an attachment to the form.

§ 762.121 *Loan purposes.*

(a) *Operating Loan purposes.*

(1) Loan funds disbursed under an OL guarantee may only be used for the following purposes:

(i) Payment of costs associated with reorganizing a farm or ranch to improve its profitability;

(ii) Purchase of livestock, including poultry, and farm or ranch equipment or fixtures, quotas and bases, and cooperative stock for credit, production, processing or marketing purposes;

(iii) Payment of annual farm or ranch operating expenses, examples of which include feed, seed, fertilizer, pesticides, farm or ranch supplies, repairs and improvements which are to be expensed, cash rent and family subsistence;

(iv) Payment of scheduled principal and interest payments on term debt provided the debt is for authorized FO or OL purposes;

(v) Other farm and ranch needs;

(vi) Payment of costs associated with land and water development for conservation or use purposes;

(vii) Refinancing indebtedness incurred for any authorized OL purpose, when the lender and loan applicant can demonstrate the need to refinance;

(viii) Payment of loan closing costs;

(ix) Payment of costs associated with complying with Federal or State-approved standards under the Occupational Safety and Health Act of 1970 (29 U.S.C. 655, 667). This purpose is limited to applicants who

demonstrate that compliance with the standards will cause them substantial economic injury; and

(x) Payment of training costs required or recommended by the Agency.

(2) Loan funds under a line of credit may be advanced only for the following purposes:

(i) Payment of annual operating expenses, family subsistence, and purchase of feeder animals;

(ii) Payment of current annual operating debts advanced for the current operating cycle; (Under no circumstances can carry-over operating debts from a previous operating cycle be refinanced);

(iii) Purchase of routine capital assets, such as replacement of livestock, that will be repaid within the operating cycle;

(iv) Payment of scheduled, non-delinquent, term debt payments provided the debt is for authorized FO or OL purposes.

(v) Purchase of cooperative stock for credit, production, processing or marketing purposes; and

(vi) Payment of loan closing costs.

(b) *Farm ownership loan purposes.*

Guaranteed FO are authorized only to:

- (1) Acquire or enlarge a farm or ranch; examples include, but are not limited to, providing down payments, purchasing easements for the loan applicant's portion of land being subdivided, and participating in the beginning farmer downpayment FO program under part 1943, subpart A, of this title;

- (2) Make capital improvements; examples include, but are not limited to, the construction, purchase, and improvement of a farm dwelling, service buildings and facilities that can be made fixtures to the real estate. (Capital improvements to leased land may be financed subject to the limitations in § 782.122);

- (3) Promote soil and water conservation and protection; examples include the correction of hazardous environmental conditions, and the construction or installation of tiles, terraces and waterways;

- (4) Pay closing costs, including but not limited to, purchasing stock in a cooperative and appraisal and survey fees; and

- (5) Refinancing indebtedness incurred for authorized FO and OL purposes, provided the lender and loan applicant demonstrate the need to refinance the debt.

(c) *Highly erodible land or wetlands conservation.* Loans may not be made for any purpose which contributes to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity. A

decision by the Agency to reject an application for this reason may be appealable. An appeal questioning whether the presence of a wetland, converted wetland, or highly erodible land on a particular property must be filed directly with the USDA agency making the determination in accordance with the agency's appeal procedures.

(d) *Judgment debts.* Loans may not be used to satisfy judgments obtained in the United States District courts. However, Internal Revenue Service judgment liens may be paid with loan funds.

§ 782.122 Loan limitations.

(a) *Dollar limits.* Guaranteed loans are limited to the following:

- (1) The total outstanding combined Direct and Guaranteed FO and OL principal balance cannot exceed \$700,000 and.

- (2) The total outstanding direct and guaranteed FO principal balance cannot exceed \$700,000 and.

- (3) The total outstanding direct and guaranteed OL principal balance cannot exceed \$700,000 and.

- (4) The total combined outstanding direct and guaranteed FO and OL balance cannot exceed \$900,000.

(b) *Line of credit advances.* The total dollar amount of line of credit advances and income releases cannot exceed the total estimated expenses, less interest expense, as indicated on the borrower's cash flow budget, unless the cash flow budget is revised and continues to reflect a feasible plan.

(c) *OL term limitations.*

- (1) No guaranteed OL shall be made to any loan applicant after the 15th year that a loan applicant, or any individual signing the promissory note, first received direct or guaranteed OL.

- (2) Notwithstanding paragraph (c)(1) of this section, if a borrower had any combination of direct or guaranteed OL closed in 10 or more prior calendar years prior to October 28, 1992, eligibility to receive new guaranteed OL is extended for 5 additional years from October 28, 1992, and the years need not run consecutively. However, in the case of a line of credit, each year in which an advance is made after October 28, 1992, counts toward the 5 additional years. Once determined eligible, a loan or line of credit may be approved for any authorized term.

(d) *Leased land.* When FO funds are used for improvements to leased land the terms of the lease must provide reasonable assurance that the loan applicant will have use of the improvement over its useful life, or provide compensation for any

unexhausted value of the improvement if the lease is terminated.

(e) *Tax-exempt transactions.* The Agency will not guarantee any loan made with the proceeds of any obligation the interest on which is excluded from income under section 103 of the Internal Revenue Code of 1986. Funds generated through the issuance of tax-exempt obligations may not be used to purchase the guaranteed portion of any Agency guaranteed loan. An Agency guaranteed loan may not serve as collateral for a tax-exempt bond issue.

(f) *Floodplain restrictions.* The Agency will not guarantee any loan to purchase, build, or expand buildings located in a special 100 year floodplain as defined by FEMA flood hazard area maps unless flood insurance is available and purchased.

§ 782.123 Insurance and farm inspection requirements.

(a) *Insurance.*

- (1) Lenders must require borrowers to maintain adequate property, public liability, and crop insurance to protect the lender and Government's interests.

- (2) By loan closing, loan applicants must either:

- (i) Obtain at least the catastrophic risk protection (CAT) level of crop insurance coverage, if available, for each crop of economic significance, as defined by part 402 of this title, or

- (ii) Waive eligibility for emergency crop loss assistance in connection with the uninsured crop. EM loan assistance under part 1945, subpart D, of this title is not considered emergency crop loss assistance for purposes of this waiver and execution of the waiver does not render the borrower ineligible for EM loans.

- (3) Loan applicants must purchase flood insurance if buildings are or will be located in a special flood hazard area as defined by FEMA flood hazard area maps and if flood insurance is available.

- (4) Insurance, including crop insurance, must be obtained as required by the lender or the Agency based on the strengths and weaknesses of the loan.

(b) *Farm inspections.* Before submitting an application the lender must make an inspection of the farm to assess the suitability of the farm and to determine any development that is needed to make it a suitable farm.

§ 782.124 Interest rates, terms, charges, and fees.

(a) *Interest rates.*

- (1) The interest rate on a guaranteed loan or line of credit may be fixed or variable as agreed upon between the

borrower and the lender. The lender may charge different rates on the guaranteed and the non-guaranteed portions of the note. The guaranteed portion may be fixed while the unguaranteed portion may be variable, or vice versa. If both portions are variable, different bases may be used.

(2) If a variable rate is used, it must be tied to a rate specifically agreed to between the lender and borrower in the loan instruments. Variable rates may change according to the normal practices of the lender for its average farm customers, but the frequency of change must be specified in the loan or line of credit instrument.

(3) Neither the interest rate on the guaranteed portion nor the unguaranteed portion may exceed the rate the lender charges its average agricultural loan customer. At the request of the Agency, the lender must provide evidence of the rate charged the average agricultural loan customer. This evidence may consist of average yield data, or documented administrative differential rate schedule formulas used by the lender.

(4) Interest must be charged only on the actual amount of funds advanced and for the actual time the funds are outstanding. Interest on protective advances made by the lender to protect the security will be charged at the note rate but limited to paragraph (a)(3) of this section.

(5) The lender and borrower may collectively obtain a temporary reduction in the interest rate through the interest assistance program in accordance with § 762.150.

(b) *OL terms.*

(1) Loan funds or advances on a line of credit used to pay annual operating expenses will be repaid when the income from the year's operation is received, except when the borrower is establishing a new enterprise, developing a farm, purchasing feed while feed crops are being established, or recovering from disaster or economic reverses.

(2) The final maturity date for each loan cannot exceed 7 years from the date of the promissory note or line of credit agreement. Advances for purposes other than for annual operating expenses will be scheduled for repayment over the minimum period necessary considering the loan applicant's ability to repay and the useful life of the security, but not in excess of 7 years.

(3) All advances on a line of credit must be made within 5 years from the date of the Loan Guarantee.

(c) *FO terms.* Each loan must be scheduled for repayment over a period

not to exceed 40 years from the date of the note or such shorter period as may be necessary to assure that the loan will be adequately secured, taking into account the probable depreciation of the security.

(d) *Balloon installments under loan note guarantee.* Balloon payment terms are permitted on FO or OL subject to the following:

(1) Extended repayment schedules may include equal, unequal, or balloon installments if needed on any guaranteed loan to establish a new enterprise, develop a farm, or recover from a disaster or an economical reversal.

(2) Loans with balloon installments must have adequate collateral at the time the balloon installment comes due. Crops, livestock other than breeding livestock, or livestock products produced are not sufficient collateral for securing such a loan.

(3) The borrower must be projected to be able to refinance the remaining debt at the time the balloon payment comes due based on the expected financial condition of the operation, the depreciated value of the collateral, and the principal balance on the loan.

(e) *Charges and Fees.*

(1) The lender may charge the loan applicant and borrower fees for the loan provided they are no greater than those charged to unguaranteed customers for similar transactions. Similar transactions are those involving the same type of loan requested (for example, operating loans or farm real estate loans).

(2) Late payment charges (including default interest charges) are not covered by the guarantee. These charges may not be added to the principal and interest due under any guaranteed note or line of credit. However, late payment charges may be made outside of the guarantee if they are routinely made by the lender in similar types of loan transactions.

(3) Lenders may not charge a loan origination and servicing fee greater than 1 percent of the loan amount for the life of the loan when a guaranteed loan is made in conjunction with a down payment FO for beginning farmers under part 1943, subpart A, of this title.

§ 762.125 Financial feasibility.

(a) *General.*

(1) Notwithstanding any other provision of this section, PLP lenders will follow their internal procedures on financial feasibility as agreed to by the Agency during PLP certification.

(2) The loan applicant's proposed operation must project a positive cash flow.

(3) For standard eligible lenders, the projected income and expenses of the borrower and operation used to determine positive cash flow must be based on the loan applicant's proven record of production and financial management.

(4) For CLP lenders, the projected income and expenses of the borrower and the operation must be based on the loan applicant's financial history and proven record of financial management.

(5) For those farmers without a proven history, a combination of any actual history and any other reliable source of information that are agreeable with the lender, the loan applicant, and the Agency will be used.

(6) The cash flow budget analyzed to determine positive cash flow must represent the predicted cash flow of the operating cycle.

(7) Lenders must use price forecasts that are reasonable and defensible. Sources must be documented by the lender and acceptable to the Agency.

(8) When positive cash flow depends on income from other sources in addition to income from owned land, the income must be dependable and likely to continue.

(9) The lender will analyze business ventures other than the farm operation to determine their soundness and contribution to the operation. Guaranteed loan funds will not be used to finance a nonfarm enterprise. Nonfarm enterprises include, but are not limited to: raising earthworms, exotic birds, tropical fish, dogs, or horses for nonfarm purposes; welding shops; boarding horses; and riding stables.

(10) When the loan applicant has or will have a cash flow budget developed in conjunction with a proposed or existing Agency direct loan, the two cash flow budgets must be consistent.

(b) *Estimating production.*

(1) Standard eligible lenders must use the best sources of information available for estimating production in accordance with this subsection when developing cash flow budgets.

(2) Deviations from historical performance may be acceptable, if specific to changes in operation and adequately justified and acceptable to the Agency.

(3) For existing farmers, actual production for the past 3 years will be utilized.

(4) For those farmers without a proven history, a combination of any actual history and any other reliable source of information that are agreeable with the lender, the loan applicant, and the Agency will be used.

(5) When the production of a growing commodity can be estimated, it must be considered when projecting yields.

(6) When the loan applicant's production history has been so severely affected by a declared disaster that an accurate projection cannot be made, the following applies:

(i) County average yields are used for the disaster year if the loan applicant's disaster year yields are less than the county average yields. If county average yields are not available, State average yields are used. Adjustments can be made, provided there is factual evidence to demonstrate that the yield used in the farm plan is the most probable to be realized.

(ii) To calculate a historical yield, the crop year with the lowest actual or county average yield may be excluded, provided the loan applicant's yields were affected by disasters at least 2 of the previous 5 consecutive years.

(c) *Refinancing.* Loan guarantee requests for refinancing must ensure that a reasonable chance for success still exists. The lender must demonstrate that problems with the loan applicant's operation that have been identified, can be corrected, and the operation returned to a sound financial basis.

§ 762.128 Security requirements.

(a) *General.*

(1) The lender is responsible for ensuring that proper and adequate security is obtained and maintained to fully secure the loan, protect the interest of the lender and the Agency, and assure repayment of the loan or line of credit.

(2) The lender will obtain a lien on additional security when necessary to protect the Agency's interest.

(b) *Guaranteed and unguaranteed portions.*

(1) All security must secure the entire loan or line of credit. The lender may not take separate security to secure only that portion of the loan or line of credit not covered by the guarantee.

(2) The lender may not require compensating balances or certificates of deposit as means of eliminating the lender's exposure on the unguaranteed portion of the loan or line of credit. However, compensating balances or certificates of deposit as otherwise used in the ordinary course of business are allowed for both the guaranteed and unguaranteed portions.

(c) *Identifiable security.* The guaranteed loan must be secured by identifiable collateral. To be identifiable, the lender must be able to distinguish the collateral item and adequately describe it in the security instrument.

(d) *Type of security.*

(1) Guaranteed loans may be secured by any property if the term of the loan and expected life of the property will not cause the loan to be undersecured.

(2) For loans with terms greater than 7 years, a lien must be taken on real estate.

(3) Loans can be secured by a mortgage on leasehold properties if the lease has a negotiable value and is subject to being mortgaged.

(4) The lender or Agency may require additional personal and corporate guarantees to adequately secure the loan. These guarantees are separate from, and in addition to, the personal obligations arising from members of an entity signing the note as individuals.

(e) *Lien position.* All guaranteed loans will be secured by the best lien obtainable. Provided that:

(1) When the loan is made for refinancing purposes, the guaranteed loan must hold a security position no lower than on the refinanced loan.

(2) Any chattel-secured guaranteed loan must have a higher lien priority (including purchase money interest) than an unguaranteed loan secured by the same chattels and held by the same lender.

(3) Junior lien positions are acceptable only if the equity position is strong. Junior liens on crops, or livestock products will not be relied upon for security unless the lender is involved in multiple guaranteed loans to the same borrower and also has the first lien on the collateral.

(4) When taking a junior lien, prior lien instruments will not contain future advance clauses (except for taxes, insurance, or other reasonable costs to protect security), or cancellation, summary forfeiture, or other clauses that jeopardize the Government's or the lender's interest or the borrower's ability to pay the guaranteed loan, unless any such undesirable provisions are limited, modified, waived or subordinated by the lienholder for the benefit of the Agency and the lender.

(f) Additional security, or any loan of \$10,000 or less may be secured by the best lien obtainable on real estate without title clearance or legal services normally required, provided the lender believes from a search of the county records that the loan applicant can give a mortgage on the farm and provided that the lender would, in the normal course of business, waive the title search. This exception to title clearance will not apply when land is to be purchased.

(g) *Multiple owners.* If security has multiple owners, all owners must

execute the security documents for the loan.

(h) *Exceptions.* The Deputy Administrator for Farm Loan Programs has the authority to grant an exception to any of the requirements involving security, if the proposed change is in the best interest of the Government and the collection of the loan will not be impaired.

§ 762.127 Appraisal requirements.

(a) *General.* The Agency may require a lender to obtain an appraisal based on the type of security, loan size, and whether it is primary or additional security. Except for authorized liquidation expenses, the lender is responsible for all appraisal costs, which may be passed on to the borrower, or a transferee in the case of a transfer and assumption.

(b) *Exception.* Notwithstanding other provisions of this section, an appraisal is not required for any additional security, or for loans of \$50,000 or less if a strong equity position exists.

(c) *Chattel appraisals.* A current appraisal (not more than 12 months old) of primary chattel security is generally required on all loans. An appraisal for loans or lines of credit for annual production purposes that are secured by crops is only required when a guarantee is requested late in the current production year and actual yields can be reasonably estimated. The appraised value of chattel property will be based on public sales of the same, or similar, property in the market area. In the absence of such public sales, reputable publications reflecting market values may be used. Appraisal reports may be on the Agency's appraisal of chattel property form or on any other appraisal form containing at least the same information. Chattel appraisals will be performed by appraisers who possess sufficient experience or training to establish market (not retail) values as determined by the Agency.

(d) *Real estate appraisals.* A current real estate appraisal is required when real estate will be primary security. Agency officials may accept an appraisal that is not current if there have been no significant changes in the market or on the subject real estate and the appraisal was either completed within the past 12 months or updated by a qualified appraiser if not completed within the past 12 months.

(i) Appraiser qualifications. On loan transactions of \$250,000 or less, the lender must demonstrate to the Agency's satisfaction that the appraiser possesses sufficient experience or training to estimate the market value of agricultural property. On loan

transactions greater than \$250,000, which includes principal plus accrued interest through the closing date, the appraisal must be completed by a State certified general appraiser.

(2) Appraisals. Real estate appraisals must be completed in accordance with the Uniform Standards of Professional Appraisal Practice. Appraisals may be either a complete or limited appraisal provided in a self-contained or summary format. Restricted reports, as defined in the Uniform Standards of Professional Appraisal Practice, are not acceptable.

§ 782.128 Environmental and special laws.

(a) *Environmental requirements.* The requirements found in part 1940, subpart G, of this title must be met for guaranteed OL and FO. CLP and PLP lenders may certify that they have documentation in their file to demonstrate compliance with paragraph (c) of this section. Standard eligible lenders must submit evidence supporting compliance with this section.

(b) *Determination.* The Agency determination of whether an environmental problem exists will be based on:

(1) The information supplied with the application;

(2) The Agency Official's personal knowledge of the operation;

(3) Environmental resources available to the Agency including, but not limited to, documents, third parties, and governmental agencies;

(4) A visit to the farm operation when the available information is insufficient to make a determination;

(5) Other information supplied by the lender or loan applicant upon Agency request. If necessary, information not supplied with the application will be requested by the Agency.

(c) *Special requirements.* Lenders will assist in the environmental review process by providing environmental information. In all cases, the lender must retain documentation of their investigation in the loan applicant's case file.

(1) A determination must be made as to whether there are any potential impacts to a 100 year floodplain as defined by Federal Emergency Management Agency floodplain maps, Natural Resources Conservation Service data, or other appropriate documentation.

(2) The lender will assist the borrower in securing any applicable permits or waste management plans. The lender may consult with the Agency for guidance on activities which require consultation with State regulatory

agencies, special permitting or waste management plans.

(3) The lender will examine the security property to determine if there are any structures or archeological sites which are listed or may be eligible for listing in the National Register of Historic Places. The lender may consult with the Agency for guidance on which situations will need further review in accordance with the National Historical Preservation Act and part 1940, subpart G, and part 1901, subpart F, of this title.

(4) The loan applicant must certify they will not violate the provisions of § 363 of the CONACT, the Food Security Act of 1985, and Executive Order 11990 relating to Highly Erodible Land and Wetlands.

(5) All lenders are required to ensure that due diligence is performed in conjunction with a request for guarantee of a loan involving real estate. Due diligence is the process of evaluating real estate in the context of a real estate transaction to determine the presence of contamination from release of hazardous substances, petroleum products, or other environmental hazards and determining what effect, if any, the contamination has on the security value of the property. The Agency will accept as evidence of due diligence the most current version of the American Society of Testing Materials (ASTM) transaction screen questionnaire available from 100 Barr Harbor Drive, West Conshohocken, Pennsylvania 19428-2959, or similar documentation, approved for use by the Agency, supplemented as necessary by the ASTM phase I environmental site assessments form.

(d) *Equal opportunity and nondiscrimination.*

(1) With respect to any aspect of a credit transaction, the lender will not discriminate against any applicant on the basis of race, color, religion, national origin, sex, marital status, or age, provided the applicant can execute a legal contract. Nor will the lender discriminate on the basis of whether all or a part of the applicant's income derives from any public assistance program, or whether the applicant in good faith, exercises any rights under the Consumer Protection Act.

(2) Where the guaranteed loan involves construction, the contractor or subcontractor must file all compliance reports, equal opportunity and nondiscrimination forms, and otherwise comply with all regulations prescribed by the Secretary of Labor pursuant to Executive Orders 11246 and 11375.

(e) *Other Federal, State and local requirements.* Lenders are required to coordinate with all appropriate Federal,

State, and local agencies and comply with special laws and regulations applicable to the loan proposal.

§ 782.129 Percent of guarantee and maximum loss.

(a) *General.* The percent of guarantee will not exceed 80 percent based on the credit risk to the lender and the Agency both before and after the transaction. The Agency will determine the percentage of guarantee.

(b) *Exceptions.* The guarantee will be issued at 95 percent in any of the following circumstances:

(1) The sole purpose of a guaranteed FO or OL is to refinance an Agency direct farm loan. When only a portion of the loan is used to refinance a direct Agency farm credit program loan, a weighted percentage of a guarantee will be provided;

(2) When the purpose of an FO guarantee is to participate in the down payment loan program; or

(3) When a guaranteed OL is made to a farmer or rancher who is participating in the Agency's down payment loan program. The guaranteed OL must be made during the period that a borrower has the down payment loan outstanding.

(c) *CLP and PLP guarantees.* All guarantees issued to CLP or PLP lenders will not be less than 80 percent.

(d) *Maximum loss.* The maximum amount the Agency will pay the lender under the loan guarantee will be any loss sustained by such lender on the guaranteed portion including:

(1) The pro rata share of principal and interest indebtedness as evidenced by the note or by assumption agreement;

(2) Any loan subsidy due and owing;

(3) The pro rata share of principal and interest indebtedness on secured protective and emergency advances made in accordance with this subpart; and

(4) Principal and interest indebtedness on recapture debt pursuant to a shared appreciation agreement. Provided that the lender has paid the Agency its pro rata share of the recapture amount due.

§ 782.130 Loan approval and issuing the guarantee.

(a) *Processing timeframes.*

(1) *Standard Eligible Lenders.* Complete applications from Standard Eligible Lenders will be approved or rejected, and the lender notified in writing, no later than 30 calendar days after receipt.

(2) *CLP and PLP lenders.*

(1) Complete applications from CLP or PLP lenders will be approved or rejected no later than 14 calendar days after receipt.

(ii) For PLP lenders, if this time frame is not met, the proposed guaranteed loan will automatically be approved, subject to funding, and receive an 80 or 95 percent guarantee, as appropriate.

(3) Complete applications. For purposes of determining the application processing timeframes, an application will not be considered complete until all information required to make an approval decision, including the information for an environmental review, is received by the Agency.

(4) The Agency will confirm the date an application is received with a written notification to the lender.

(b) *Funding preference.* Loans are approved subject to the availability of funding. When it appears that there are not adequate funds to meet the needs of all approved loan applicants, applications that have been approved will be placed on a preference list according to the date of receipt of a complete application. If approved applications have been received on the same day, the following will be given priority:

(1) An application from a veteran

(2) An application from an Agency direct loan borrower

(3) An application from a loan applicant who:

(i) Has a dependent family,

(ii) Is an owner of livestock and farm implements necessary to successfully carry out farming operations, or

(iii) Is able to make down payments.

(4) Any other approved application.

(c) *Conditional commitment.*

(1) The lender must meet all of the conditions specified in the conditional commitment to secure final Agency approval of the guarantee.

(2) The lender, after reviewing the conditions listed on the conditional commitment, will complete, execute, and return the form to the Agency. If the conditions are not acceptable to the lender, the Agency may agree to alternatives or inform the lender and the loan applicant of their appeal rights.

(d) *Lender requirements prior to issuing the guarantee.*

(1) Lender certification. The lender will certify as to the following on the appropriate Agency form:

(i) No major changes have been made in the lender's loan or line of credit conditions and requirements since submission of the application (except those approved in the interim by the Agency in writing);

(ii) Required hazard, flood, crop, worker's compensation, and personal life insurance (when required) are in effect;

(iii) Truth in lending requirements have been met;

(iv) All equal employment and equal credit opportunity and nondiscrimination requirements have been or will be met at the appropriate time;

(v) The loan or line of credit has been properly closed, and the required security instruments have been obtained, or will be obtained, on any acquired property that cannot be covered initially under State law;

(vi) The borrower has marketable title to the collateral owned by the borrower, subject to the instrument securing the loan or line of credit to be guaranteed and subject to any other exceptions approved in writing by the Agency.

When required, an assignment on all USDA crop and livestock program payments has been obtained;

(vii) When required, personal, joint operation, partnership, or corporate guarantees have been obtained;

(viii) Liens have been perfected and priorities are consistent with requirements of the conditional commitment;

(b) Loan proceeds have been, or will be disbursed for purposes and in amounts consistent with the conditional commitment and as specified on the loan application. In line of credit cases, if any advances have occurred, advances have been disbursed for purposes and in amounts consistent with the conditional commitment and line of credit agreements;

(c) There has been no material adverse change in the borrower's condition, financial or otherwise, since submission of the application; and

(d) All other requirements specified in the conditional commitment have been met.

(2) Inspections. The lender must notify the Agency of any scheduled inspections during construction and after the guarantee has been issued. The Agency may attend these field inspections. Any inspections or review performed by the Agency, including those with the lender, are solely for the benefit of the Agency. Agency inspections do not relieve any other parties of their inspection responsibilities, nor can these parties rely on Agency inspections for any purpose.

(3) Execution of lender's agreement. The lender must execute the Agency's lender's agreement and deliver it to the Agency.

(4) Closing report and guarantee fees.

(i) The lender must complete an Agency closing report form and return it to the Agency along with any guarantee fees.

(ii) Guarantee fees are 1 percent and are calculated as follows: Fee = Loan

Amount x % Guaranteed x .01. The nonrefundable fee is paid to the Agency by the lender. The fee may be passed on to the borrower and included in loan funds.

(iii) The following guaranteed loan transactions are not charged a fee:

(A) Loans involving interest assistance;

(B) Loans where a majority of the funds are used to refinance an Agency direct loan; and

(C) Loans to beginning farmers or ranchers involved in the direct beginning farmer downpayment program.

(e) *Promissory notes, line of credit agreements, mortgages, and security agreements.* The lender will use its own promissory notes, line of credit agreements, real estate mortgages (including deeds of trust and similar instruments), and security agreements (including chattel mortgages in Louisiana and Puerto Rico), provided:

(1) The forms meet Agency requirements;

(2) Documents comply with State law and regulation;

(3) The principal and interest repayment schedules are stated clearly in the notes and are consistent with the conditional commitment;

(4) The note is executed by the individual liable for the loan. For entities, the note is executed by the member who is authorized to sign for the entity, and by all members of the entity as individuals. Individual liability can be waived by the Agency for members holding less than 10 percent ownership in the entity if the collectability of the loan will not be impaired; and

(5) When the loan purpose is to refinance or restructure the lender's own debt, the lender may continue to use the existing debt instrument and attach an allonge that modifies the terms of the original note.

(f) *Replacement of loan guarantee, or assignment guarantee agreement.* If the guarantee or assignment guarantee agreements are lost, stolen, destroyed, mutilated, or defaced, except where the evidence of debt was or is a bearer instrument, the Agency will issue a replacement to the lender or holder upon receipt of acceptable documentation including a certificate of loss and an indemnity bond.

§ 782.131-782.139 [Reserved]

§ 782.140 General servicing responsibilities.

(a) General.

(1) Lenders are responsible for servicing the entire loan in a reasonable

and prudent manner, protecting and accounting for the collateral, and retaining the mortgage or secured party of record.

(2) The lender cannot enforce the guarantee to the extent that a loss results from a violation of usury laws or negligent servicing.

(b) **Borrower supervision.** The lender's responsibilities regarding borrower supervision include, but are not limited to the following:

(1) Ensuring loan funds are not used for unauthorized purposes.

(2) Ensuring borrower compliance with the covenants and provisions contained in the promissory note, loan agreement, mortgage, security instruments, any other agreements, and this part. Any violations which indicate non-compliance on the part of the borrower must be reported, in writing, to both the Agency and the borrower.

(3) Ensuring the borrower is in compliance with all laws and regulations applicable to the loan, the collateral, and the operations of the farm.

(4) Receiving all payments of principal and interest on the loan as they fall due and promptly disbursing to any holder its pro-rata share according to the amount of interest the holder has in the loan, less only the lender's servicing fee.

(5) Performing an annual analysis of the borrower's financial condition to determine the borrower's progress. The annual analysis will include:

(i) For loans secured by real estate only, the analysis for standard eligible lenders must include an analysis of the borrower's balance sheet. CLP lenders will determine the need for the annual analysis based on the financial strength of the borrower and document the file accordingly. PLP lenders will perform an annual analysis in accordance with the requirements established in the lender's agreement.

(ii) For loans secured by chattels, all lenders will review the borrower's progress regarding business goals, trends and changes in financial performance, and compare actual to planned income and expenses for the past year.

(iii) An account of the whereabouts or disposition of all collateral.

(iv) A discussion of any observations about the farm business with the borrower.

(c) **Monitoring of development.** The lender's responsibilities regarding the construction, repairs, or other development include, but are not limited to:

(1) Determining that all construction is completed as proposed in the loan application;

(2) Making periodic inspections during construction to ensure that any development is properly completed within a reasonable period of time; and

(3) Verification that the security is free of any mechanic's, materialmen's, or other liens which would affect the lender's lien or result in a different lien priority from that proposed in the request for guarantee.

(d) The guaranteed loan installments will be paid before unguaranteed loans held by the same lender.

§ 782.141 Reporting requirements.

Lenders are responsible for providing the local Agency credit officer with all of the following information on the loan and the borrower:

(a) When the guaranteed loan becomes 30 days past due, and following the lender's meeting or attempts to meet with the borrower, all lenders will submit the appropriate Agency form showing guaranteed loan borrower default status. The form will be resubmitted every 60 days until the default is cured either through restructuring or liquidation.

(b) All lenders will submit the appropriate guaranteed loan status reports as of March 31 and September 30 of each year;

(c) CLP lenders also must provide the following:

(1) A written summary of the lender's annual analysis of the borrower's operation. This summary should describe the borrower's progress and prospects for the upcoming operating cycle. This annual analysis may be waived or postponed if the borrower is financially strong. The summary will include a description of the reasons an analysis was not necessary.

(2) For lines of credit, an annual certification stating that a cash flow projecting at least a feasible plan has been developed, that the borrower is in compliance with the provisions of the line of credit agreement, and that the previous year income and loan funds and security proceeds have been accounted for.

(d) In addition to the requirements of paragraphs (a), (b), and (c) of this section, the standard eligible lender also will provide:

(1) Borrower's balance sheet, and income and expense statement for the previous year.

(2) For lines of credit, the cash flow for the borrower's operation that projects a feasible plan or better for the upcoming operating cycle. The standard eligible lender must receive approval

from the Agency before advancing future years' funds.

(3) An annual farm visit report or collateral inspection.

(e) PLP lenders will submit additional reports as required in their lender's agreement.

(f) A lender receiving a final loss payment must complete and return an annual report on its collection activities for each unsatisfied account for 3 years following payment of the final loss claim.

§ 782.142 Servicing related to collateral.

(a) **General.** The lender's responsibilities regarding servicing collateral include, but are not limited to, the following:

(1) Obtain income and insurance assignments when required.

(2) Ensure the borrower has or obtains marketable title to the collateral.

(3) Inspect the collateral as often as deemed necessary to properly service the loan.

(4) Ensure the borrower does not convert loan security.

(5) Ensure the proceeds from the sale or other disposition of collateral are accounted for and applied in accordance with the lien priorities on which the guarantee is based or used for the purchase of replacement collateral.

(6) Ensure the loan and the collateral are protected in the event of foreclosure, bankruptcy, receivership, insolvency, condemnation, or other litigation.

(7) Ensure taxes, assessments, or ground rents against or affecting the collateral are paid.

(8) Ensure adequate insurance is maintained.

(9) Ensure that insurance loss payments, condemnation awards, or similar proceeds are applied on debts in accordance with lien priorities on which the guarantee was based, or used to rebuild or acquire needed replacement collateral.

(b) Partial releases.

(1) A lender may release guaranteed loan security without FSA concurrence as follows:

(i) When the security item is being sold for market value and the proceeds will be applied to the loan in accordance with lien priorities. In the case of term loans, proceeds will be applied as extra payments and not as a regular installment on the loan.

(ii) The security item will be used as a trade-in or source of down payment funds for a like item that will be taken as security.

(iii) The security item has no present or prospective value.

(2) A partial release of security may be approved in writing by the Agency upon the lender's request when:

(i) Proceeds will be used to make improvements to real estate that increase the value of the security by an amount equal to or greater than the value of the security being released.

(ii) Security will be released outright with no consideration, but the total unpaid balance of the guaranteed loan is less than or equal to 75 percent of the value of the security for the loan after the release, excluding the value of growing crops or planned production, based on a current appraisal of the security.

(iii) Significant income generating property will not be released unless it is being replaced and business assets will not be released for use as a gift or any similar purpose.

(iv) Agency concurrence is provided in writing to the lender's written request. Standard eligible lenders and CLP lenders will submit the following to the Agency:

(A) A current balance sheet on the borrower; and

(B) A current appraisal of the security. Based on the level of risk and estimated equity involved, the Agency will determine what security needs to be appraised. Any required security appraisals must meet the requirements of § 762.127; and

(C) A description of the purpose of the release; and

(D) Any other information requested by the Agency to evaluate the proposed servicing action.

(3) The lender will provide the Agency copies of any agreements executed to carry out the servicing action.

(4) PLP lenders will request servicing approval in accordance with their agreement with the Agency at the time of PLP status certification.

(c) *Subordinations.*

(1) The Agency may subordinate its security interest on a direct loan when a guaranteed loan is being made if the requirements of the regulations governing Agency direct loan subordinations are met and only in the following circumstances:

(i) To permit a guaranteed lender to advance funds and perfect a security interest in crops, feeder livestock, livestock offspring, or livestock products;

(ii) When the lender requesting the guarantee needs the subordination of the Agency's lien position to maintain its lien position when servicing or restructuring;

(iii) When the lender requesting the guarantee is refinancing the debt of another lender and the Agency's position on real estate security will not be adversely affected; or

(iv) To permit a line of credit to be advanced for annual operating expenses.

(2) The Agency may subordinate its basic security in a direct loan to permit guaranteed line of credit only when both of the following additional conditions are met:

(i) The total unpaid balance of the direct loans is less than or equal to 75 percent of the value of all of the security for the direct loans, excluding the value of growing crops or planned production, at the time of the subordination. The direct loan security value will be determined by an appraisal. The lender requesting the subordination and guarantee is responsible for providing the appraisal and may charge the applicant a reasonable appraisal fee.

(ii) The applicant cannot obtain sufficient credit through a conventional guaranteed loan without a subordination.

(3) The lender may not subordinate its interest in property which secures a guaranteed loan except as follows:

(i) The lender may subordinate its security interest in crops, feeder livestock, livestock offspring, or livestock products when no funds have been advanced from the guaranteed loan for their production, so a lender can make a loan for annual production expenses; or

(ii) The Agency's national office may provide an exception to the subordination prohibition if such action is in the Agency's best interest.

However, in no case can the loan made under the subordination include tax exempt financing.

(d) *Transfer and assumption.* Transfers and assumptions are subject to the following conditions:

(1) For standard eligible and CLP lenders, the servicing action must be approved by the Agency in writing.

(2) For standard eligible and CLP lenders, the transferee must apply for a loan in accordance with § 762.110, including a current appraisal, unless the lien position of the guaranteed loan will not change, and any other information requested by the Agency to evaluate the transfer and assumption.

(3) PLP lenders may process transfers and assumptions in accordance with their agreement with the Agency.

(4) Any required security appraisals must meet the requirements of § 762.127.

(5) The Agency will review, approve or reject the request in accordance with the time frames in § 762.130.

(6) The transferee must meet the eligibility requirements and loan limitations for the loan being transferred, all requirements relating to

loan rates and terms, loan security, feasibility, and environmental and other laws applicable to a loan applicant under this part.

(7) The lender will use its own assumption agreements or conveyance instruments, providing they are legally sufficient to obligate the transferee for the total outstanding debt. The lender will provide the Agency copies of any agreements executed to carry out the servicing action.

(8) The lender must execute a modification of the guarantee provided by the Agency to designate the party that assumed the guaranteed debt, the amount of debt at the time of the assumption (including interest that being capitalized), and the new loan terms, if applicable.

(9) The lender must give any holder notice of the transfer. If the rate and terms are changed, written concurrence from the holder is required.

(10) The Agency will agree to releasing the transferor or any guarantor from liability only if the requirements of § 762.146(c) are met.

§ 762.143 Servicing distressed accounts.

(a) A borrower is in default when 30 days past due on a payment or in violation of provisions of the loan documents.

(b) In the event of a borrower default, SEL and CLP lenders will:

(1) Report to the Agency in accordance with § 762.141.

(2) Determine whether it will repurchase the guaranteed portion from the holder in accordance with § 762.144, if the guaranteed portion of the loan was sold on the secondary market.

(3) Arrange a meeting with the borrower within 15 days of default (45 days after payment due date for monetary defaults) to identify the nature of the delinquency and develop a course of action that will eliminate the delinquency and correct the underlying problems. Non-monetary defaults will be handled in accordance with the lender's note, loan agreements and any other applicable loan documents.

(i) The lender and borrower will prepare a current balance sheet and cash flow projection in preparation for the meeting. If the borrower refuses to cooperate, the lender will compile the best financial information available.

(ii) The lender or the borrower may request the attendance of an Agency credit officer. If requested, the Agency credit officer will assist in developing solutions to the borrower's financial problems.

(iii) The lender will summarize the meeting and proposed solutions on the Agency form for guaranteed loan

borrower default status completed after the meeting. The lender will indicate the results on this form for the lender's consideration of the borrower for interest assistance in conjunction with rescheduling under § 762.145(b).

(iv) The lender must decide whether to restructure or liquidate the account within 90 days of default, unless the lender can document circumstances that justify an extension by the Agency.

(v) The lender may not initiate foreclosure action on the loan until 60 days after eligibility of the borrower to participate in the interest assistance programs has been determined by the Agency. If the lender or the borrower does not wish to consider servicing options under this section, this should be documented, and liquidation under § 762.149 should begin.

(vi) If a borrower is current on a loan, but will be unable to make a payment, a restructuring proposal may be submitted in accordance with § 762.145 prior to the payment coming due.

(c) PLP lenders will service defaulted loans according to their lender's agreement.

§ 762.144 Repurchase of guaranteed portion from a secondary market holder.

(a) *Request for repurchase.* The holder may request the lender to repurchase the unpaid guaranteed portion of the loan when:

(1) The borrower has not made a payment of principal and interest due on the loan for at least 60 days; or

(2) The lender has failed to remit to the holder its pro-rata share of any payment made by the borrower within 30 days of receipt of a payment.

(b) *Repurchase by the lender.*

(1) When a lender is requested to repurchase a loan from the holder, the lender must consider the request according to the servicing actions that are necessary on the loan. In order to facilitate servicing and simplified accounting of loan transactions, lenders are encouraged to repurchase the loan upon the holder's request.

(2) The repurchase by the lender will be for an amount equal to the portion of the loan held by the holder plus accrued interest.

(3) The guarantee will not cover separate servicing fees that the lender accrues after the repurchase.

(c) *Repurchase by the Agency.*

(1) If the lender does not repurchase the loan, the holder must inform the Agency in writing that demand was made on the lender and the lender refused. Following the lender's refusal, the holder may continue as holder of the guaranteed portion of the loan or request that the Agency purchase the

guaranteed portion. Within 30 days after written demand to the Agency from the holder with required attachments, the Agency will forward to the holder payment of the unpaid principal balance, with accrued interest to the date of repurchase. If the holder does not desire repurchase or purchase of a defaulted loan, the lender must forward the holder its pro-rata share of payments, liquidation proceeds and Agency loss payments.

(2) With its demand on the Agency, the holder must include:

(i) A copy of the written demand made upon the lender.

(ii) Originals of the guarantee and note properly endorsed to the Agency, or the original of the assignment of guarantee.

(iii) A copy of any written response to the demand of the holder by the lender.

(iv) An account to which the Agency can forward the purchase amount via electronic funds transfer.

(3) The amount due the holder from the Agency includes unpaid principal, unpaid interest to the date of demand, and interest which has accrued from the date of demand to the proposed payment date.

(i) Upon request by the Agency, the lender must furnish upon Agency request a current statement, certified by a bank officer, of the unpaid principal and interest owed by the borrower and the amount due the holder.

(ii) Any discrepancy between the amount claimed by the holder and the information submitted by the lender must be resolved by the lender and the holder before payment will be approved by the Agency. The Agency will not participate in resolution of any such discrepancy. When there is a discrepancy, the 30 day Agency payment requirement to the holder will be suspended until the discrepancy is resolved.

(iii) In the case of a request for Agency purchase, the government will only pay interest that accrues for up to 90 days from the date of the demand letter to the lender requesting the repurchase.

However, if the lender requested repurchase from the Agency within 60 days of the request to the holder and for any reason not attributable to the holder and the lender, the Agency cannot make payment within 30 days of the holder's demand to the Agency, the holder will be entitled to interest to the date of the payment.

(4) At the time of purchase by the Agency, the original assignment of guarantee will be assigned by the holder to the Agency without recourse, including all rights, title, and interest in the loan.

(5) Purchase by the Agency does not change, alter, or modify any of the lender's obligations to the Agency specified in the lender's agreement or guarantee; nor does the purchase waive any of the Agency's rights against the lender.

(6) The Agency succeeds to all rights of the holder under the Guarantee including the right of set-off against the lender.

(7) Within 180 days of the Agency's purchase, the lender will reimburse the Agency the amount of repurchase, with accrued interest, through one of the following ways:

(i) By liquidating the loan security and paying the Agency its pro-rata share of liquidation proceeds; or

(ii) Paying the Agency the full amount the Agency paid to the holder plus any accrued interest.

(8) The lender will be liable for the purchase amount and any expenses incurred by the Agency to maintain the loan in its portfolio or liquidate the security. While the Agency holds the guaranteed portion of the loan, the lender will transmit to the Agency any payment received from the borrower, including the pro-rata share of liquidation or other proceeds.

(9) If the borrower files for reorganization under the provisions of the bankruptcy code or pays the account current while the purchase by the Government is being processed, the Agency may hold the loan as long it determines this action to be in the Agency's interest. If the lender is not proceeding expeditiously to collect the loan or reimbursement is not waived under this paragraph, the Agency will demand payment by the lender and collect the purchase amount through administrative offset of any claims due the lender.

(10) The Agency may sell a purchased guaranteed loan on a non-recourse basis if it determines that selling the portion of the loan that it holds is in the Government's best interest. A non-recourse purchase from the Agency requires a written request to the Agency from the party that wishes to purchase it, and written concurrence from the lender.

(d) *Repurchase for servicing.*

(1) If, due to loan default or imminent loan restructuring, the lender determines that repurchase is necessary to adequately service the loan, the lender may repurchase the guaranteed portion of the loan from the holder, with the written approval of the Agency.

(2) The lender will not repurchase from the holder for arbitrage purposes. With its request for Agency concurrence, the lender will notify the

Agency of its plans to resell the guaranteed portion following servicing.

(3) The holder will sell the guaranteed portion of the loan to the lender for an amount agreed to between the lender and holder.

§ 762.145 Restructuring guaranteed loans.

(a) General.

(1) To restructure guaranteed loans standard eligible lenders must:

(i) Obtain prior-written approval of the Agency for all restructuring actions; and

(ii) Provide the items in paragraph (b) and (e) of this section to the Agency for approval.

(2) If the standard eligible lender's proposal for servicing is not agreed to by the Agency, the Agency approval official will notify the lender in writing within 14 days of the lender's request.

(3) To restructure guaranteed loans CLP lenders must:

(i) Obtain prior written approval of the Agency only for debt write down under this section.

(ii) Submit all calculations required in paragraph (e) of this section for debt written down.

(iii) For restructuring other than write down, provide FSA with a certification that each requirement of this section has been met, a narrative outlining the circumstances surrounding the need for restructuring, and copies of any applicable calculations.

(4) PLP lenders will restructure loans in accordance with their lender's agreement.

(5) All lenders will submit copies of any restructured notes or lines of credit to the Agency.

(b) *Requirements.* For any restructuring action, the following conditions apply:

(i) The borrower meets the eligibility criteria of § 762.120, except the provisions regarding prior debt forgiveness and delinquency on a federal debt do not apply.

(2) The borrower's ability to make the amended payment is documented by the following:

(i) A feasible plan (see § 762.102(b)). If interest assistance is required to achieve a feasible plan, the items required by § 762.150(d) must be submitted with a restructuring request. Feasible plan is defined in § 762.102(b).

(ii) Current financial statements from all liable parties.

(iii) Verification of nonfarm income.

(iv) Verification of all debts of \$1,000 or more.

(v) Applicable credit reports.

(vi) Financial history (and production history for standard eligible lenders) for the past 3 years to support the cash flow projections.

(3) A final loss claim may be reduced, adjusted, or rejected as a result of negligent servicing after the concurrence with a restructuring action under this section.

(4) Balloon payments are prohibited; however, the loan can be restructured with unequal installments, provided that, in addition to a feasible plan for the upcoming operating cycle, a feasible plan can be reasonably projected after the installments increase. Feasible plan is defined in § 762.102(b).

(5) If a borrower is current on a loan, but will be unable to make a payment, a restructuring proposal may be submitted prior to the payment coming due.

(6) The lender may capitalize the outstanding interest when restructuring the loan as follows:

(i) As a result of the capitalization of interest, a rescheduled promissory note may increase the amount of principal which the borrower is required to pay. However, in no case will such principal amount exceed the statutory loan limits contained in § 762.122.

(ii) When accrued interest causes the loan amount to exceed the statutory loan limits, rescheduling may be approved without capitalization of the amount that exceeds the limit. Noncapitalized interest may be scheduled for repayment over the term of the rescheduled note.

(iii) Only interest that has accrued at the rate indicated on the borrower's original promissory notes may be capitalized. Late payment fees or default interest penalties that have accrued due to the borrower's failure to make payments as agreed are not covered under the guarantee and may not be capitalized.

(iv) The Agency will provide the lender with a modification of guarantee form to identify the new loan principal and the guaranteed portion if greater than the original loan amounts, and to waive the restriction on capitalization of interest, if applicable, to the existing guarantee documents. The modification form will be attached to the original guarantee as an addendum.

(v) Approved capitalized interest will be treated as part of the principal and interest that accrues thereon. In the event that a loss should occur.

(7) The lender's security position will not be adversely affected because of the restructuring. New security instruments may be taken if needed, but a loan does not have to be fully secured in order to be restructured.

(8) Any holder agrees in writing to any changes in the original loan terms, including the approval of interest assistance. If the holder does not agree,

the lender must repurchase the loan from the holder for any loan restructuring to occur.

(9) After a guaranteed loan is restructured, the lender must provide the Agency with a copy of the restructured promissory note.

(c) *Rescheduling.* The following conditions apply when a guaranteed loan is rescheduled or reamortized:

(1) Payments will be rescheduled within the following terms:

(i) FO and existing SW may be amortized over the remaining term of the note or rescheduled with an uneven payment schedule. The maturity date cannot exceed 40 years from the date of the original note.

(ii) OL notes must be rescheduled over a period not to exceed 15 years from the date of the rescheduling. An OL line of credit may be rescheduled over a period not to exceed 7 years from the date of the rescheduling or 10 years from the date of the original note, whichever is less. Advances cannot be made against a line of credit loan that has had any portion of the loan rescheduled.

(2) The interest rate for a rescheduled loan is the negotiated rate agreed upon by the lender and the borrower at the time of the action, subject to the loan limitations for each type of loan.

(3) A new note is not necessary when rescheduling occurs. However, if a new note is not taken, the existing note or line of credit agreement must be modified by attaching an addendum or other legally effective amendment, evidencing the revised repayment schedule and any interest rate change. If a new note is taken, the new note must reference the old note and state that the indebtedness evidenced by the old note or line of credit agreement is not satisfied. The original note or line of credit agreement must be retained.

(d) *Deferrals.* The following conditions apply to deferrals:

(1) Payments may be deferred up to 5 years, but the loan may not be extended beyond the final due date of the note.

(2) The principal portion of the payment may be deferred either in whole or in part.

(3) Interest may be deferred only in part. Payment of a reasonable portion of accruing interest as indicated by the borrower's cash flow projections is required for multi-year deferrals.

(4) There must be a reasonable prospect that the borrower will be able to resume full payments at the end of the deferral period.

(e) *Debt writedown.* The following conditions apply to debt writedown:

(1) A lender may only write down a delinquent guaranteed loan or line of

credit in an amount sufficient to permit the borrower to develop a feasible plan as defined in § 762.102(b).

(2) The lender will request other creditors to negotiate their debts before a writedown is considered.

(3) The borrower cannot develop a feasible plan after consideration is given to rescheduling and deferral under this section.

(4) The present value of the loan to be written down, based on the interest rate of the rescheduled loan, will be equal to or exceed the net recovery value of the loan collateral.

(5) The loan will be restructured with regular payments at terms no shorter than 5 years for a line of credit and OL note and no shorter than 20 years for FO, unless required to be shorter by § 762.145(c)(1)(i) and (ii).

(6) No further advances may be made on a line of credit that is written down.

(7) Loans may not be written down with interest assistance. If a borrower's loan presently on interest assistance requires a writedown, the writedown will be considered without interest assistance. If approved, the existing interest assistance agreement will be canceled.

(8) The writedown is based on writing down the shorter-term loans first.

(9) When a lender requests approval of a writedown for a borrower with multiple loans, the security for all of the loans will be cross-collateralized and continue to serve as security for the loan that is written down. If a borrower has multiple loans and one loan is written off entirely through debt writedown, the security for that loan will not be released and will remain as security for the other written down debt. Additional security instruments will be taken if required to cross-collateralize security and maintain lien priority.

(10) The writedown will be evidenced by an allonge or amendment to the existing note or line of credit reflecting the writedown.

(11) The borrower executes an Agency shared appreciation agreement for loans which are written down and secured by real estate.

(i) The lender will attach the original agreement to the restructured loan document.

(ii) The lender will provide the Agency a copy of the executed agreement, and

(iii) Security instruments must ensure future collection of any appreciation under the agreement.

(12) The lender will prepare and submit the following to the Agency:

(i) A current appraisal of all security in accordance with § 762.127.

(ii) A completed report of loss on the appropriate Agency form for the proposed writedown loss claim.

(iii) Detailed writedown calculations as follows:

(A) Calculate the present value.

(B) Determine the net recovery value.

(C) If the net recovery value exceeds the present value, writedown is unavailable; liquidation becomes the next servicing consideration. If the present value equals or exceeds the net recovery value, the debt may be written down to the present value.

(iv) The lender will make any adjustment in the calculations as requested by the Agency.

§ 762.146 Other servicing procedures.

(a) *Additional loans and advances.*

(1) Notwithstanding any provision of this section, the PLP lender may make additional loans or advances in accordance with the lender's agreement with the Agency.

(2) SEL and CLP lenders must not make additional loans or advances without prior written approval of the Agency, except as provided in the borrower's loan or line of credit agreement.

(3) In cases of a guaranteed line of credit, lenders may make an emergency advance when a line of credit has reached its ceiling. The emergency advance will be made as an advance under the line and not as a separate note. The lender's loan documents must contain sufficient language to provide that any emergency advance will constitute a debt of the borrower to the lender and be secured by the security instrument. The following conditions apply:

(i) The loan funds to be advanced are for authorized operating loan purposes;

(ii) The financial benefit to the lender and the Government from the advance will exceed the amount of the advance; and

(iii) The loss of crops or livestock is imminent unless the advance is made.

(4) Protective advance requirements are found in § 762.149.

(b) *Release of liability upon withdrawal.*

An individual who is obligated on a guaranteed loan may be released from liability by a lender, with the written consent of the Agency, provided the following conditions have been met:

(1) The individual to be released has withdrawn from the farming or ranching operation;

(2) A divorce decree or final property settlement does not hold the withdrawing party responsible for the loan payments;

(3) The withdrawing party's interest in the security is conveyed to the

individual or entity with whom the loan will be continued;

(4) The ratio of the amount of debt to the value of the remaining security is less than or equal to .75, or the withdrawing party has no income or assets from which collection can be made; and

(5) Withdrawal of the individual does not result in legal dissolution of the entity to which the loans are made. Individually liable members of a general or limited partnership may not be released from liability.

(6) The remaining liable party projects a feasible plan (see § 762.102(b)).

(c) *Release of liability after liquidation.*

After a final loss claim has been paid on the borrower's account, the lender may release the borrower or guarantor from liability if:

(1) The Agency agrees to the release in writing;

(2) The lender documents its consideration of the following factors concerning the borrower or guarantors:

(i) The likelihood that the borrower or guarantor will have a sufficient level of income in the reasonably near future to contribute to a meaningful reduction of the debt;

(ii) The prospect that the borrower or guarantor will inherit assets in the near term that may be attached by the Agency for payment of a significant portion of the debt;

(iii) Whether collateral has been properly accounted for, and whether liability should be retained in order to take action against the borrower or a third party for conversion of security;

(iv) The availability of other income or assets which are not security;

(v) The possibility that assets have been concealed or improperly transferred;

(vi) The effect of other guarantors on the loan; and

(vii) Cash consideration or other collateral in exchange for the release of liability.

(3) The lender will use its own release of liability documents.

(d) *Interest rate changes.*

(1) The lender may change the interest rate on a performing (nondelinquent) loan only with the borrower's consent.

(2) If the loan has been sold on the secondary market, the lender must repurchase the loan or obtain the holder's written consent.

(3) To change a fixed rate of interest to a variable rate of interest or vice versa, the lender and the borrower must execute a legally effective allonge or amendment to the existing note.

(4) If a new note is taken, it will be attached to and refer to the original note.

(5) The lender will inform the Agency of the rate change.

(e) *Consolidation.* Two or more Agency guaranteed loans may be consolidated, subject to the following conditions:

(1) The borrower must project a feasible plan after the consolidation. See § 762.102(b) for definition of feasible plan.

(2) Only OL may be consolidated.

(3) Existing lines of credit may only be consolidated with a new line of credit if the final maturity date and conditions for advances of the new line of credit are made the same as the existing line of credit.

(4) Guaranteed OL may not be consolidated with a line of credit, even if the line of credit has been rescheduled.

(5) Guaranteed loans made prior to October 1, 1991, cannot be consolidated with those loans made on or after October 1, 1991.

(6) OL secured by real estate or with an outstanding interest assistance agreement or shared appreciation agreement cannot be consolidated.

(7) A new note or line of credit agreement will be taken. The new note or line of credit agreement must describe the note or line of credit agreement being consolidated and must state that the indebtedness evidenced by the note or line of credit agreement is not satisfied. The original note or line of credit agreement must be retained.

(8) The interest rate for a consolidated OL loan is the negotiated rate agreed upon by the lender and the borrower at the time of the action, subject to the loan limitations for each type of loan.

(9) A modification of guarantee will be executed. The modification will indicate the consolidated loan amount, new terms, and percentage of guarantee, and will be attached to the originals of the guarantees being consolidated. If loans with a different guarantee percentage are consolidated, the new guarantee will be at the lowest percentage of guarantee being consolidated.

(10) Any holders must consent to the consolidation, or the guaranteed portion must be repurchased by the lender.

§ 762.147 Servicing shared appreciation agreements.

(a) *Lender responsibilities.* The lender is responsible for:

(1) Monitoring the borrower's compliance with the shared appreciation agreement;

(2) Notifying the borrower of the amount of recapture due; and

(3) Beginning October 1, 1999, a notice of the agreement's provisions not

later than 12 months before the end of the agreement; and

(4) Reimbursing the Agency for its pro-rata share of recapture due.

(b) *Recapture.*

(1) Recapture of any appreciation of real estate security will take place at the end of the term of the agreement, or sooner if the following occurs:

(i) On the conveyance of the real estate security (or a portion thereof) by the borrower.

(A) If only a portion of the real estate is conveyed, recapture will only be triggered against the portion conveyed. Partial releases will be handled in accordance with § 762.141(b).

(B) Transfer of title to the spouse of the borrower on the death of such borrower will not be treated as a conveyance under the agreement.

(ii) On repayment of the loan; or

(iii) If the borrower ceases farming.

(2) Calculating recapture.

(i) The amount of recapture will be based on the difference between the value of the security at the time recapture is triggered and the value of the security at the time of writedown, as shown on the shared appreciation agreement.

(ii) Security values will be determined through appraisals obtained by the lender and meeting the requirements of § 762.127.

(iii) All appraisal fees will be paid by the lender.

(iv) The amount of recapture will not exceed the amount of writedown shown on the shared appreciation agreement.

(v) If recapture is triggered within 4 years of the date of the shared appreciation agreement, the lender shall recapture 75 percent of any positive appreciation in the market value of the property securing the loan or line of credit agreement.

(vi) If recapture is triggered after 4 years from the date of the shared appreciation agreement, the lender shall recapture 50 percent of any positive appreciation in the market value of the property securing the loan or line of credit agreement.

(3) *Servicing recapture debt.*

(i) If recapture is triggered under the shared appreciation agreement and the borrower is unable to pay the recapture in a lump sum, the lender may:

(A) Reschedule the recapture debt with the consent of the Agency, provided the lender can document the borrower's ability to make amortized payments on the recapture debt, plus pay all other obligations. In such case, the recapture debt will not be covered by the guarantee;

(B) Pay the Agency its pro rata share of the recapture due. In such case, the

recapture debt of the borrower will be covered by the guarantee; or

(C) Service the account in accordance with § 762.149.

(ii) If recapture is triggered, and the borrower is able but unwilling to pay the recapture in a lump sum, the lender will service the account in accordance with § 762.149.

(4) Paying the Agency. Any shared appreciation recaptured by the lender will be shared on a pro-rata basis between the lender and the Agency.

§ 762.148 Bankruptcy.

(a) *Lender responsibilities.* The lender must protect the guaranteed loan debt and all collateral securing the loan in bankruptcy proceedings. The lender's responsibilities include, but are not limited to:

(1) Filing a proof of claim where required and all the necessary papers and pleadings;

(2) Attending, and where necessary, participating in meetings of the creditors and court proceedings;

(3) Protecting the collateral securing the guaranteed loan and resisting any adverse changes that may be made to the collateral;

(4) Seeking a dismissal of the bankruptcy proceeding when the operation as proposed by the borrower to the bankruptcy court is not feasible;

(5) When permitted by the bankruptcy code, requesting a modification of any plan of reorganization if it appears additional recoveries are likely.

(6) Monitor confirmed plans under chapters 11, 12 and 13 of the bankruptcy code to determine borrower compliance. If the borrower fails to comply, the lender will seek a dismissal of the reorganization plan; and

(7) Keeping the Agency regularly informed in writing on all aspects of the proceedings.

(i) The lender will submit a default status report when the borrower defaults and every 60 days until the default is resolved or a final loss claim is paid.

(ii) The default status report will be used to inform the Agency of the bankruptcy filing, the reorganization plan confirmation date and effective date, when the reorganization plan is complete, and when the borrower is not in compliance with the reorganization plan.

(b) *Bankruptcy expenses.*

(1) Reorganization.

(i) Expenses, such as legal fees and the cost of appraisals incurred by the lender as a direct result of the borrower's chapter 11, 12, or 13 reorganization, are covered under the guarantee, provided they are reasonable, customary, and provide a demonstrated

economic benefit to the lender and the Agency.

(ii) Lender's in-house expenses, which are those expenses which would normally be incurred for administration of the loan, including in-house lawyers, are not covered by the guarantee.

(2) Liquidation expenses in bankruptcy.

(i) Reasonable and customary liquidation expenses may be deducted from the proceeds of the collateral in liquidation bankruptcy cases.

(ii) In-house expenses are not considered customary liquidation expenses, may not be deducted from collateral proceeds, and are not covered by the guarantee.

(c) *Estimated loss claims in reorganization.*

(1) At confirmation. The lender may submit an estimated loss claim upon confirmation of the reorganization plan in accordance with the following:

(i) The estimated loss payment will cover the guaranteed percentage of the principal and accrued interest written off, plus any allowable costs incurred as of the effective date of the plan.

(ii) The lender will submit supporting documentation for the loss claim, and any additional information requested by the Agency, including justification for the legal fees included on the claim.

(iii) The estimated loss payment may be revised as consistent with a court-approved reorganization plan.

(iv) Protective advances made and approved in accordance with § 762.149 may be included in an estimated loss claim associated with a reorganization, if:

(A) They were incurred in connection with the initiation of liquidation action prior to bankruptcy filing; or

(B) The advance is required to provide repairs, insurance, etc. to protect the collateral as a result of delays in the case, or failure of the borrower to maintain the security.

(2) Interest only losses. The lender may submit an estimated loss claim for interest only after confirmation of the reorganization plan in accordance with the following:

(i) The loss claims may cover interest losses sustained as a result of a court-ordered, permanent interest rate reduction.

(ii) The loss claims will be processed annually on the anniversary date of the effective date of the reorganization plan.

(iii) If the borrower performs under the terms of the reorganization plan, annual interest reduction loss claims will be submitted on or near the same date, beyond the period of the reorganization plan.

(3) Actual loss.

(i) Once the reorganization plan is complete, the lender will provide the Agency with documentation of the actual loss sustained.

(ii) If the actual loss sustained is greater than the prior estimated loss payment, the lender may submit a revised estimated loss claim to obtain payment of the additional amount owed by the Agency under the guarantee.

(iii) If the actual loss is less than the prior estimated loss, the lender will reimburse the Agency for the overpayment plus interest at the note rate from the date of the payment of the estimated loss.

(4) Payment to holder. In reorganization bankruptcy, if a holder makes demand upon the Agency, the Agency will pay the holder interest to the plan's effective date. Accruing interest thereafter will be based upon the provisions of the reorganization plan.

(d) *Liquidation under the bankruptcy code.*

(1) Upon receipt of notification that a borrower has filed for protection under Chapter 7 of the bankruptcy code, or a liquidation plan under chapter 11, the lender must proceed according to the liquidation procedures of this part.

(2) If the property is abandoned by the trustee, the lender will conduct the liquidation according to § 762.149.

(3) Proceeds received from partial sale of collateral during bankruptcy may be used by the lender to pay reasonable costs, such as freight, labor and sales commissions, associated with the partial sale. Reasonable use of proceeds for this purpose must be documented with the final loss claim in accordance with § 762.149(a)(vi).

§ 762.149 Liquidation.

(a) *Mediation.* When it has been determined that default cannot be cured through any of the servicing options available, or if the lender does not wish to utilize any of the authorities provided in this part, the lender must:

(1) Participate in mediation according to the rules and regulations of any State which has a mandatory farmer-creditor mediation program;

(2) Consider private mediation services in those States which do not have a mandatory farmer-creditor mediation program; and

(3) Not agree to any proposals to rewrite the terms of a guaranteed loan which do not comply with this part. Any agreements reached as a result of mediation involving defaults and/or loan restructuring must have written concurrence from the Agency before they are implemented.

(b) *Liquidation plan.* If a default cannot be cured after considering servicing options and mediation, the lender will proceed with liquidation of the collateral in accordance with the following:

(1) Within 30 days of the decision to liquidate, standard eligible and CLP lenders will submit a written liquidation plan to the Agency which includes:

(i) Current balance sheets from all liable parties or, if the parties are not cooperative, the best information available, or in liquidation bankruptcies, a copy of the bankruptcy schedules or discharge notices;

(ii) A proposed method of maximizing the collection of debt which includes specific plans to collect any remaining loan balances on the guaranteed loan after loan collateral has been liquidated, including possibilities for judgment;

(A) If the borrower has converted loan security, the lender will determine whether litigation is cost effective. The lender must address, in the liquidation plan, whether civil or criminal action will be pursued. If the lender does not pursue the recovery, the reason must be documented when an estimated loss claim is submitted.

(B) Any proposal to release the borrower from liability will be addressed in the liquidation plan in accordance with § 762.146(c)(2);

(iii) An independent appraisal report on all collateral securing the loan that meets the requirements of § 762.127 and a calculation of the net recovery value of the security as defined in § 762.102. The appraisal requirement may be waived by the Agency in the following cases:

(A) The bankruptcy trustee is handling the liquidation and the lender has submitted the trustee's determination of value;

(B) The lender's proposed method of liquidation rarely results in receipt of less than market value for livestock and used equipment; or

(C) A purchase offer has already been received for more than the debt;

(iv) An estimate of time necessary to complete the liquidation;

(v) An estimated loss claim if the liquidation period is expected to exceed 90 days.

(vi) An estimate of reasonable liquidation expenses; and

(vii) An estimate of any protective advances.

(2) FLP lenders will submit a liquidation plan as required by their lender's agreement.

(c) *Agency approval of the liquidation plan.*

(1) CLP lender's or standard eligible lender's liquidation plan, and any

revisions of the plan, must be approved by the Agency.

(2) If, within 20 calendar days of the Agency's receipt of the liquidation plan, the Agency fails to approve it or fails to request that the lender make revisions, the lender may assume the plan is approved. The lender may then proceed to begin liquidation actions at its discretion as long as it has been at least 60 days since the borrower's eligibility for interest assistance was considered.

(3) At its option, the Agency may liquidate the guaranteed loan as follows:

(i) Upon Agency request, the lender will transfer to the Agency all rights and interests necessary to allow the Agency to liquidate the loan. The Agency will not pay the lender for any loss until after the collateral is liquidated and the final loss is determined; and

(ii) If the Agency conducts the liquidation, interest accrual will cease on the date the Agency notifies the lender in writing that it assumes responsibility for the liquidation.

(d) *Estimated loss claims.* An estimated loss claim will be submitted by the lender with the liquidation plan if the liquidation is expected to exceed 90 days. The estimated loss will be based on the following:

(1) The lender will pay the lender the guaranteed percentage of the total outstanding debt, less the net recovery value of the remaining security, less any unaccounted for security; and

(2) The lender will discontinue interest accrual on the defaulted loan at the time the estimated loss claim is paid by the Agency. If the lender estimates that there will be no loss after considering the costs of liquidation, interest accrual will cease 90 days after the decision to liquidate or an estimated loss of zero will be submitted.

(e) *Protective advances.*

(1) Prior written authorization from the Agency is required for all protective advances in excess of \$5,000 for CLP lenders and \$3,000 for standard eligible lenders. The dollar amount of protective advances allowed for PLP lenders will be specified when PLP status is awarded by the Agency or as contained in the lender's agreement.

(2) The lender may claim recovery for the guaranteed portion of any loss of monies advanced as protective advances as allowed in this part, plus interest that accrues on the protective advances.

(3) Payment for protective advances is made by the Agency when the final loss claim is approved, except in bankruptcy actions.

(4) Protective advances are used only when the borrower is in liquidation, liquidation is imminent, or when the

lender has taken title to real property in a liquidation action.

(5) Legal fees are not a protective advance.

(6) Protective advances may only be made when the lender can demonstrate the advance is in the best interest of the lender and the Agency.

(7) Protective advances must constitute a debt of the borrower to the lender and be secured by the security instrument.

(8) Protective advances must not be made in lieu of additional loans.

(f) *Unapproved loans or advances.* The amount of any payments made by the borrower on unapproved loans or advances outside of the guarantee will be deducted from any loss claim submitted by the lender on the guaranteed loan, if that loan or advance was paid prior to, and to the detriment of, the guaranteed loan.

(g) *Acceleration.*

(1) If the borrower is not in bankruptcy, the lender shall send the borrower notice that the loan is in default and the entire debt has been determined due and payable immediately after other servicing options have been exhausted.

(2) The loan cannot be accelerated until after the borrower has been considered for interest assistance and the conclusion of mandatory mediation in accordance with § 762.149.

(3) The lender will submit a copy of the acceleration notice or other document to the Agency.

(h) *Foreclosure.*

(1) The lender is responsible for determining the necessary parties to any foreclosure action, or who should be named on a deed of conveyance taken in lieu of foreclosure.

(2) When the property is liquidated, the lender will apply the net proceeds to the guaranteed loan debt.

(3) When it is necessary to enter a bid at a foreclosure sale, the lender may bid the amount that it determines is reasonable to protect its and the Agency's interest. At a minimum, the lender will bid the lesser of the net recovery value or the unpaid guaranteed loan balance.

(i) *Final loss claims.*

(1) Lenders may submit a final loss claim when the security has been liquidated and all proceeds have been received and applied to the account.

(2) If a lender acquires title to property either through voluntary conveyance or foreclosure proceeding, the lender will submit a final loss claim after disposing of the property. The lender may pay reasonable maintenance expenses to protect the value of the property while it is owned by the

lender. These may be paid as protective advances or deducted as liquidation expenses from the sales proceeds when the lender disposes of the property. The lender must obtain Agency written concurrence before incurring maintenance expenses which exceed the amounts allowed in § 762.149(e)(1).

(3) The lender will make its records available to the Agency for the Agency's audit of the propriety of any loss payment.

(4) All lenders will submit the following documents with a final loss claim:

(i) An accounting of the use of loan funds;

(ii) An accounting of the disposition of loan security and its proceeds;

(iii) A copy of the loan ledger indicating loan advances, interest rate changes, protective advances, and application of payments, rental proceeds, and security proceeds, including a running outstanding balance total; and

(iv) Documentation, as requested by the Agency, concerning the lender's compliance with the requirements of this part.

(5) The Agency will notify the lender of any discrepancies in the final loss claim or, approve or reject the claim within 40 days.

(6) The Agency will reduce a final loss claim based on its calculation of the dollar amount of loss caused by the lender's negligent servicing of the account. Loss claims may be reduced or rejected as a result of the following:

(i) A loss claim may be reduced by the amount caused by the lender's failure to secure property after a default, and will be reduced by the amount of interest that accrues when the lender fails to contact the borrower or takes no action to cure the default, once it occurs.

Losses incurred as a result of interest accrual during excessive delays in collection, as determined by the Agency, will not be paid.

(ii) Unauthorized release of security proceeds, failure to verify ownership or possession of security to be purchased, or failure to inspect collateral as often required so as to ensure its maintenance.

(7) Losses will not be reduced for the following:

(i) Servicing deficiencies that did not contribute materially to the dollar amount of the loss.

(ii) Unaccounted security, as long as the lender's efforts to locate and recover the missing collateral was equal to that which would have been expended in the case of an unguaranteed loan in the lender's portfolio.

(8) Default interest, late charges, and loan servicing fees are not payable under the loss claim.

(9) The final loss will be the remaining outstanding balance after application of the estimated loss payment and the application of proceeds from the liquidation of the security.

(10) If the final loss is less than the estimated loss, the lender will reimburse the Agency for the overpayment, plus interest at the note rate from the date of the estimated loss payment.

(11) The lender will return the original guarantee marked paid after receipt of a final loss claim.

(j) *Future Recovery.* The lender will remit any recoveries made on the account after the Agency's payment of a final loss claim to the Agency in proportion to the percentage of guarantee, in accordance with the lender's agreement, until the account is paid in full or otherwise satisfied.

(k) *Overpayments.* The lender will repay any final loss overpayment determined by the Agency upon request.

(l) *Electronic funds transfer.* The lender will designate one or more financial institutions to which any Agency payments will be made via electronic funds transfer.

§ 762.150 Interest assistance program.

(a) *Requests for interest assistance.*

(1) To apply for interest assistance in conjunction with a new request for guarantee, the lender will submit the following:

(i) A completed cash flow projection and interest assistance needs analysis portion of the application form. Interest assistance can be applied to each loan, only to one loan or any distribution the lender selects; however, interest assistance is only available on as many loans as necessary to achieve a positive cash flow.

(ii) For loans with unequal payments, a proposed debt repayment schedule which shows principal and interest payments for the subject loan, in each year of the loan.

(2) To request interest assistance on an existing guaranteed loan, the lender must submit to the Agency the following:

(i) A completed cash flow projection and interest assistance needs analysis portion of the application form. Interest assistance can be applied to each loan, only to one loan or any distribution the lender selects as required to achieve a feasible plan.

(ii) For loans with unequal payments, a proposed debt repayment schedule which shows scheduled payments for

the subject loan in each of the remaining years of the loan.

(iii) Cash flow budgets and supporting justification to document that the request meets the requirements outlined in paragraph (b) of this section. This will include a typical cash flow if the projected cash flow budget is atypical.

(3) Requests for interest assistance on lines of credit or loans made for annual operating purposes must be accompanied by a projected monthly cash flow budget.

(b) *Requirements.*

(1) The typical term of scheduled loan repayment will not be reduced solely for the purpose of maximizing eligibility for interest assistance. To be eligible for interest assistance, a loan must be scheduled over the maximum terms typically used by lenders for similar type loans within the limits set by § 762.124 of this part. At a minimum, loans will be scheduled for repayment over the terms listed below, but for OL not to exceed the life of the security:

(i) An OL for the purpose of providing annual operating and living expenses will be scheduled for repayment when the income is scheduled to be received from the sale of the crops, livestock, and livestock products which will serve as security for the loan.

(ii) OL for purposes other than annual operating and living expenses (i.e., equipment, livestock, refinancing of existing debt) will be scheduled over 7 years from the effective date of the proposed interest assistance agreement.

(iii) FO and SW secured by real estate will be scheduled for 20 years from the closing date of the original note covered by the guarantee.

(2) The lender must document that positive cash flow, as defined in § 762.102(b), is not possible without reducing the interest rate on the borrower's loan and with the debt restructured over the term of repayment cited above.

(3) The lender must determine whether the borrower, including members of an entity, owns any significant assets which do not contribute directly to essential family living or farm operations. The lender must determine the market value of these assets and prepare a cash flow budget based on the assumption that the value of these assets will be used for debt reduction. If a positive cash flow can then be achieved, the borrower is not eligible for interest assistance. All interest assistance calculations will be based on the cash-flow budget which assumes that the assets will be sold.

(4) A borrower's new guaranteed loan is eligible for interest assistance if all the following conditions are met:

(i) The applicant needs interest assistance in order to achieve a positive cash flow as defined in § 762.102(b).

(ii) If significant changes in the borrower's cash flow budget are anticipated after the initial 12 months, then the typical cash flow budget must demonstrate that the borrower will still have a feasible plan, as defined in § 762.102(b), following the anticipated changes, with or without interest assistance.

(iii) If a positive cash flow cannot be achieved, even with other creditors voluntarily adjusting their debts and with the interest assistance, the interest assistance request will not be approved.

(5) An existing guaranteed loan is eligible for interest assistance if the borrower needs interest assistance to achieve a feasible plan as defined in § 762.102(b), and the borrower meets the eligibility criteria of § 762.120, except the provision regarding prior debt forgiveness. If a feasible plan cannot be achieved, even with other creditors voluntarily adjusting their debts and with the interest assistance, the interest assistance request will not be approved. If a borrower has multiple loans, interest assistance may be provided on one or each loan, as available, to the extent necessary to achieve a feasible plan.

(6) The term of the interest assistance agreement under this section shall not exceed 10 years from the date of the first interest assistance agreement signed by the loan applicant, including entity members, or the outstanding term of the loan, as limited by this section, whichever is less.

(7) The lender may charge a fixed or variable interest rate. The type of rate must be the same as the type of rate in the underlying note or line of credit agreement. The lender will reduce the interest rate charged the borrower's account by at least the amount of interest assistance.

(8) The borrower must be an operator of not larger than a family size farm.

(c) *Interest assistance closing.*

(1) Initial guaranteed loans will be closed in accordance with § 762.130.

(2) The lender will then prepare and deliver to the Agency a closing report for each initial and existing guaranteed loan which has been granted interest assistance.

(3) When all requirements have been met, the lender and the Agency will execute an interest assistance agreement.

(d) *Interest assistance claims and payments.*

(1) The interest assistance claim will be prepared by the lender. The following conditions apply to the claims process:

(i) No claim period can exceed 12 months. The initial and final claim periods may be less than 12 months. In such claims, the 4 percent payment will be prorated over the number of months in the claim period. The period for all other claims must be 12 months.

(ii) To permit the borrower to prepare for the upcoming year, a claim should be filed within 60 days of each anniversary date. Claims not filed within 1 year of the anniversary date will not be paid and the amount due the lender is permanently forfeited.

(iii) If a claim is submitted without an interest assistance review in accordance with § 762.102, when it is required, the claim will not be processed until the review is submitted by the lender.

(iv) Upon full payment of the note or line of credit, the lender will immediately prepare the request for interest assistance payment and submit it to the Agency.

(v) Interest assistance payments shall cease upon the assumption and transfer of the loan if the transferee was not liable for the debt on the effective date of the interest assistance agreement. The lender shall request payment through the date of the transfer or assumption. The claim must be submitted within 1 year or it will be denied and the payment permanently forfeited.

(vi) All claims will be supported by detailed calculations of average daily principal balances during the claim period.

(vii) The Agency will review the claim and the supporting documentation. If the information and the supporting documentation is not complete and correct, the reviewing official will notify the lender in writing of the actions needed to correct the request.

(viii) If there is a substitution of lender, a claim for the first lender's interest assistance, through the effective date of the substitution, will be submitted by the first lender and processed at the time of the substitution.

(ix) Interest assistance claims shall be submitted concurrently with the submission of estimated loss claims where interest accrual ceases, or final loss claims that are not preceded by an estimated loss claim.

(2) [Reserved]

(c) *Request for continuation of interest assistance.*

(1) For all interest assistance agreements exceeding 12 months, the lender will perform an analysis of the applicant's farming operation and need for continued interest assistance. The following information will be submitted to the Agency:

(i) A summary of the operation's actual financial performance in the previous year, including a detailed income and expense statement.

(ii) A narrative description of the causes of any major differences between the previous year's projections and actual performance.

(iii) A current balance sheet.

(iv) A cash flow budget for the period being planned. A monthly cash flow budget is required for all lines of credit and operating loans made for annual operating purposes. All other loans may include either an annual or monthly cash flow budget.

(v) A copy of the interest assistance needs analysis portion of the application form which has been completed based on the planned period's cash flow budget.

(2) The loan will be eligible for continuation of interest assistance if a feasible plan, including interest assistance, can be projected for the plan period. If the evaluation indicates that the borrower needs a level of interest assistance greater than 4 percent to project a feasible plan, then the Agency will deny the continuation of interest assistance. Interest assistance will be reduced to zero during that review period. See § 762.102(b) for the definition of feasible plan.

(3) The documentation listed above will be provided to the Agency concurrently with the lender's submission of its request for interest assistance payment. This information will be provided to the Agency within 60 days after the review date specified on the interest assistance agreement.

(4) A request for continuation of interest assistance will be completed for 12 month periods, effective on the anniversary date.

(5) The initial review may be submitted in conjunction with any claim within the initial 12 month period. The anniversary date and length of the review period will be stated on the interest assistance agreement. Any request for interest assistance adjustment submitted effective any time other than the review date will be denied, except for those cases where it is necessary to service the loan with rescheduling, reamortization, deferral or writedown.

(6) If the review is not completed and submitted to the Agency within 1 year of the review date, no claim will be paid for that period.

(f) *Notification of Adverse Action.* The lender will be notified in writing of all Agency decisions in which a request for interest assistance, a request for continuation of interest assistance or lender's claim for interest assistance are

denied. The notification letter will provide specific reasons for the decision and appeals will be handled in accordance with parts 11 and 780 of this title.

(g) *Servicing of loans covered by an interest assistance agreement.*

(1) Loans covered by interest assistance agreements cannot be consolidated.

(2) The loan will be transferred with the interest assistance agreement only in cases where the transferee was liable for the debt at the time interest assistance was granted. Under no other circumstances will the interest assistance be transferred. If interest assistance is necessary for the transferee to achieve a positive cash flow, the lender may request such assistance, which may be approved if interest assistance funds are available and the applicant is eligible. The maximum length of the agreement will be 10 years from the date of the first agreement covering a loan for which the transferee was liable. If interest assistance is necessary for a positive cash flow and funds are not available, the request for assumption of the Agency guaranteed debt will be denied.

(3) When consideration is given to using a debt writedown to service a delinquent account, the subsidy level will be recalculated prior to any writedown. If a feasible plan can be obtained using interest assistance and funds are available, then the interest assistance will be authorized and no writedown will be approved. If a feasible plan cannot be achieved using 4 percent interest assistance, all further calculations for determining debt writedown eligibility and amounts to be written down will be based on the borrower receiving no interest assistance. If debt writedown is approved, the interest assistance claim for the previous review period will be processed in conjunction with the writedown loss claim. The interest assistance agreement will not be canceled and the anniversary date can remain the same or be re-established under the same guidelines that it was originally established. If the lender determines through its annual analysis that interest assistance is necessary for a feasible plan, a request to reinstate the subsidy in a subsequent review period may be submitted in accordance with paragraph (e) of this section.

(4) In the event of rescheduling or deferral of loans with interest assistance, interest assistance will remain available for that loan under the terms of the existing interest assistance agreement. Additional years of interest assistance and/or increases in the

restructured loan amount will require additional funding. If the additional interest assistance is needed in order to produce a feasible plan throughout the life of the rescheduled loan and funds are not available for the additional interest assistance, then the rescheduling will not be approved by the Agency. In no case will the subsidy be extended more than 10 years from the effective date of the first interest assistance agreement signed by the loan applicant or by anyone who signed the note or line of credit agreement. Rescheduling or deferral will only be processed in conjunction with a claim, effective on the claim date or anniversary date. A review will be completed, in accordance with paragraph (e)(1) of this section. The anniversary date can remain the same or be re-established under the same guidelines that it was originally established.

(5) In cases where the interest on a loan covered by an interest assistance agreement is reduced by court order in a reorganization plan under the bankruptcy code, interest assistance agreement will be terminated effective on the date of the court ordered interest reduction. The lender will file a claim due through the effective date of the court ordered interest reduction. Guaranteed loans which have had their interest reduced by bankruptcy court order are not eligible to receive interest assistance.

(6) For Loan Guarantees held by holders, Agency purchase of the guaranteed portion of a loan will stop interest assistance payments on that portion. Interest assistance payments will cease upon termination of the Loan Guarantee, upon reaching the expiration date contained in the agreement or upon cancellation by the Agency.

(7) When a borrower defaults on a loan, interest assistance may be considered in conjunction with a rescheduling action in accordance with § 762.145(b). After the meeting required by § 762.143(b)(3) and consideration of actions to correct the delinquency, the lender will notify the Agency of the results of the meeting. If the restructuring proposal includes interest assistance, the lender will provide the items required by paragraph (d) of this section in addition to those items required by § 762.145. Liquidation must not be initiated, except in accordance with § 762.145(b)(3)(v).

(h) *Cancellation of interest assistance agreement.* The interest assistance agreement is incontestable except for fraud or misrepresentation, of which the lender and borrower have actual knowledge at the time that the interest

assistance agreement is executed, or which the lender or borrower participates in or condones.

(i) *Adjustment of assistance level between review dates.* After the initial or renewal request for interest assistance is processed, no adjustments can be made until the next review or adjustment date except when necessary to service the loan with a rescheduling or deferral.

(j) *Excessive interest assistance.* Upon written notice to the lender, borrower and any holder, the Agency may amend or cancel the interest assistance agreement and collect from the lender any amount of interest assistance granted which resulted from incomplete or inaccurate information, an error in computation, or any other reason which resulted in payment that the lender was not entitled to receive.

(k) The Deputy Administrator for Farm Loan Programs has the authority to grant an exception to any requirement involving interest assistance if it is in the best interest of the Government.

§ 762.151-762.159 [Reserved].

§ 762.160 Sale, assignment and participation.

(a) The following general requirements apply to selling, assigning or participating guaranteed loans.

(1) Subject to Agency concurrence, the lender may sell, assign or participate all or part of the guaranteed portion of the loan to one or more holders at or after loan closing, only if the loan is not in default. However, a line of credit can be participated, but not sold or assigned.

(2) The Agency may refuse to execute the Assignment of Guarantee and prohibit the sale in case of the following:

(i) The Agency purchased and is holder of a loan that was sold by the lender that is requesting the assignment.

(ii) The lender has not complied with the reimbursement requirements of § 762.146(c)(7), except when the 180 day reimbursement or liquidation requirement has been waived by the Agency.

(3) The lender will provide the Agency with copies of all appropriate forms used in the sale or assignment.

(4) The guaranteed portion of the loan may not be sold or assigned by the lender until the loan has been fully disbursed to the borrower, except a line of credit may be participated prior to being fully advanced.

(5) The lender is not permitted to sell, assign or participate any amount of the guaranteed or unguaranteed portion of loan to the loan applicant or borrower, or members of their immediate families, their officers, directors, stockholders,

other owners, or any parent, subsidiary, or affiliate.

(6) Upon the lender's sale or assignment of the guaranteed portion of the loan, or participation of the line of credit, the lender will remain bound to all obligations indicated in the Guarantee, lender's agreement, the Agency program regulations, and to future program regulations not inconsistent with the provisions of the Lenders agreement. The lender retains all rights under the security instruments for the protection of the lender and the United States.

(b) The following will occur upon the lender's sale or assignment of the guaranteed portion of the loan:

(1) The holder will succeed to all rights of the Guarantee pertaining to the portion of the loan purchased.

(2) The lender will send the holder the borrower's executed note attached to the Guarantee.

(3) The holder, upon written notice to the lender and the Agency, may assign the unpaid guaranteed portion of the loan. The holder must sell the guaranteed portion back to the original lender if requested for servicing or liquidation of the account.

(4) The guarantee or assignment of guarantee in the holder's possession does not cover:

(i) Interest accruing 90 days after the holder has demanded repurchase by the lender, except as provided in the assignment of guarantee and § 762.144(c)(3)(iii).

(ii) Interest accruing 90 days after the lender or the Agency has requested the holder to surrender evidence of debt repurchase, if the holder has not previously demanded repurchase.

(c) In a participation, the lender sells an interest in a loan but retains the note, the collateral securing the note, and all responsibility for loan servicing and liquidation. The guarantee does not encompass the participant.

(1) The lender must retain at least 10 percent of the total guaranteed loan amount from the unguaranteed portion of the loan in its portfolio, except when the loan guarantee exceeds 90 percent, the lender must retain the total unguaranteed portion.

(2) Participation with a lender by any entity does not make that entity a holder or a lender as defined in this part.

(d) Negotiations concerning premiums, fees, and additional payments for loans are to take place between the holder and the lender. The Agency will participate in such negotiations only as a provider of information.

7 CFR Chapter XVIII

PART 1980—GENERAL

2. The authority citation for part 1980 continues to read as follows:

Authority: 5 U.S.C. 301; 7 U.S.C. 1989; 42 U.S.C. 1480.

Subpart A—General

3. Revise § 1980.1 to read as follows:

§ 1980.1 Purpose.

This subpart contains the general regulations and prescribed forms which are applicable to Community Programs Guaranteed Loans under subpart 1 of this part.

4. Amend § 1980.6 as follows:

- a. Remove in paragraph (a) the definitions of "Conditional Commitment (Farmer Programs)" (Form FmHA or its successor agency under Pub.L. 103-354 1980-15), "Contract of Guarantee (Line of Credit)" (Form FmHA or its successor agency under Pub.L. 103-354 1980-27), "Guaranteed line of credit," and "Line of credit agreement";
- b. Remove in paragraph (a), in the definition of "Guaranteed loan," the phrase "or Form FmHA 1980-38";
- c. Remove in paragraph (b), the abbreviations "ASCS," "CLP," "EM," "FO," "OL," "OL-Y," "RL," and "SW"; and

d. In paragraph (a), remove the definition of "Lender's Agreement (Forms FmHA or its successor agency under Pub.L. 103-354 449-35 or 1980-38)" and add a new definition to read as follows:

§ 1980.6 Definitions and abbreviations.

(a) * * *

Lender's Agreement (Form RD 449-35). The signed agreement between Rural Development and the lender setting forth the lender's loan responsibilities when the Loan Note Guarantee is issued.

* * * * *

§ 1980.11 [Amended]

5. Amend § 1980.11 as follows:

- a. In the first sentence, remove the phrase "and Contract of Guarantee" and revise the word "constitute" to read "constitutes";
 - b. In the second sentence, remove the phrase "Contract of Guarantee";
 - c. In the fifth sentence, remove the phrase "or Contract of Guarantee"; and
 - d. Remove the third and sixth sentences.
6. Amend § 1980.13 as follows:
- a. In the introductory text to paragraph (b), remove the fourth sentence; and
 - b. Revise the introductory text of paragraph (b)(4) to read as follows:

§ 1980.13 Eligible lenders.

* * * *

(b) * * *

(4) *Conflict of Interest.* The Agency shall determine whether such ownership or business dealings are sufficient to result in a conflict of interest or an apparent conflict of interest. All lenders will, for each proposed loan, inform the Agency in writing and furnish such additional evidence as the Agency requests as to whether and the extent for those loans covered by Form RD 449-35, the lender or its principals or officers (including immediate family) or the borrower or its principals or officers (including immediate family) hold any stock or other evidence of ownership in the other.

* * * * *

7. Revise the last sentence of the introductory text of § 1980.20(a) to read as follows:

§ 1980.20 Loan guarantee limits.

(a) * * * Also, the maximum loss covered by Form RD 449-34 (available in any Agency office) can never exceed the lesser of:

* * * * *

8. Revise § 1980.21 to read as follows:

§ 1980.21 Guarantee fee.

The fee will be the applicable rate multiplied by the principal loan amount multiplied by the percent of guarantee, paid one time only at the time the Loan Note Guarantee is issued.

(a) The fee will be paid to the Agency by the lender and is nonreturnable. The lender may pass on the fee to the borrower.

(b) Guarantee fee rates are specified in exhibit K of RD Instruction 440.1 (available in any Rural Development Office).

9. Amend § 1980.22 as follows:

- a. In the introductory text of paragraph (b) and in paragraph (b)(3), remove the phrase "or Contract of Guarantee"; and
- b. Revise paragraph (a) to read as follows:

§ 1980.22 Charges and fees by lender.

(a) *Routine charges and fees.* The lender may establish the charges and fees for the loan, provided they are the same as those charged other applicants for similar types of transactions. "Similar types of transactions" means those transactions involving the same type of loan requested for which a non-guaranteed loan applicant would be assessed charges and fees.

* * * * *

§ 1980.46 [Removed and reserved]

10. § 1980.46 is removed and reserved.

§ 1980.60 [Amended]

11. Amend § 1980.60 as follows:

- a. In the heading, remove the phrase "or Contract of Guarantee";
 - b. In the introductory text of paragraph (a), in the second sentence, remove the phrase "For all other loans, Form FmHA or its successor agency under Public Law 103-354" to read and in its place add "Form";
 - c. In paragraph (a)(1), remove the phrases "or line of credit" and "or Conditional Commitment for Contract of Guarantee" and revise the phrase "FmHA or its successor agency under Public Law 103-354" to read "the Agency";
 - d. In paragraphs (a)(6) and (a)(7), remove the phrases "or line of credit";
 - e. In paragraph (a)(9), remove the phrase "Joint operation, (for Farmer Program loans only)";
 - f. In paragraphs (a)(10) and (a)(11), remove the phrases "or Conditional Commitment for Contract of Guarantee";
 - g. In paragraph (a)(12), remove the second sentence;
 - h. In paragraph (b), remove the phrase "or Contract of Guarantee"; and
 - i. In paragraph (c), remove the phrase "or Form FmHA or its successor agency under Public Law 103-354 1980-38" at the end.
- § 1980.61 [Amended]
12. Amend § 1980.61 as follows:
- a. In the heading, remove the phrase "Contract of Guarantee";
 - b. In the first sentence of paragraph (a)(1), remove the phrase "Except for Farmer Programs loans, the" and add in its place "The";
 - c. Remove paragraph (a)(2) and redesignate paragraph (a)(3) as paragraph (a)(2);
 - d. In newly redesignated paragraph (a)(2), remove the phrase "or Contract of Guarantee";
 - e. In paragraph (b)(1) remove the phrase "or Form FmHA or its successor agency under Public Law 103-354 1980-38";
 - f. In paragraphs (b)(3) and (4), remove the phrases "or § 1980.119 of subpart B of this part";
 - g. Remove paragraph (c) and redesignate paragraphs (d) through (h) as paragraphs (c) through (g), respectively;
 - h. In newly redesignated paragraph (c), remove the last sentence;
 - i. In newly redesignated paragraph (d), remove the phrase "or Contract of Guarantee" from the first sentence;

j. In newly redesignated paragraph (f), remove the phrase "or Contract of Guarantee".

k. In newly redesignated paragraph (g), remove the phrases "or Form FmHA or its successor agency under Public Law 103-354 1980-38" and "the Contract of Guarantee," from the last sentence.

§ 1980.62 [Amended]

13. Amend § 1980.62 as follows:
a. In the first and third sentences, remove the phrase "or § 1980.119 of subpart B of this part"; and
b. Remove the last sentence.

§ 1980.63 [Amended]

14. Amend § 1980.63(a) to remove the phrase "or I.D.6. of Form FmHA or its successor agency under Public Law 103-354 1980-38".

§ 1980.64 [Amended]

15. Amend § 1980.64 as follows:
a. In paragraph (a), remove the phrase "or paragraph I.D.6. of Form FmHA or its successor agency under Public Law 103-354 1980-38"; and
b. In paragraph (b), remove the phrase "or line of credit" wherever it occurs in the first sentence.

§ 1980.65 [Amended]

16. Amend § 1980.65 to remove the phrase ", or for Farmer Programs Loans, § 1980.136 of subpart B of this part".

§ 1980.66 [Amended]

17. Amend § 1980.66 to remove the phrase ", or paragraph I.D.6.(b) of Form FmHA or its successor agency under Public Law 103-354 1980-38".

§ 1980.67 [Amended]

18. Amend § 1980.67 as follows:
a. In paragraph (a), remove the first sentence; and
b. In paragraph (b), remove the phrase "or line of credit".

§ 1980.68 [Amended]

19. Amend § 1980.68 as follows:
a. In the heading, remove the phrase "or Contract of Guarantee";
b. In the first sentence, remove the phrase "or Contract(s) of Guarantee";
c. In the second sentence in the parentheticals, remove the phrase ", or paragraph 8 of Form FmHA or its successor agency under Public Law 103-354 1980-27";
d. In the third sentence, remove the phrases "or line(s) of credit," "or Contract(s) of Guarantee," and "or Form FmHA or its successor agency under Public Law 103-354 1980-27"; and
e. Remove the last two sentences.

§ 1980.83 [Amended]

20. Amend § 1980.83 (a) to remove the second sentence.

§ 1980.84 [Amended]

21. Amend § 1980.84 as follows:

a. In the heading, remove the phrase "or line of credit";

b. Remove the phrases "Contract of Guarantee" and "or Contract of Guarantee" from the first sentence of paragraph (b)(1)(iv);

b. Remove the phrase "Contract of Guarantee" from paragraph (b)(1)(v); and

c. Remove the phrase "or § 1980.119 of subpart B of this part" from the first and fourth sentences in paragraph (b)(4).

Appendices D-L to Subpart A [Removed]

22. Amend part 1980, subpart A by removing Appendices D through L.

Subpart B [Removed and reserved]

23. Subpart B (§§ 1980.101-1980.200 and Exhibits A through G) is removed and reserved.

Signed in Washington, D.C., on January 19, 1999.

James W. Schroeder,
Acting Under Secretary for Farm and Foreign Agricultural Services.

Jill Long-Thompson,
Under Secretary for Rural Development.
[FR Doc. 99-3256 Filed 2-8-99; 4:57 pm]
BILLING CODE 3410-08-P

Mr. Skeen: What are the expected costs and benefits of this new rule?

Response: The improvements to the program will increase the demand for FSA's guaranteed farm loan funds. Also, some changes could result in slight increases in loss claims paid by the Agency; however, these increases are more than offset by savings in other areas. In general, the changes will result in a more efficient program, benefitting lenders and ultimately farmers seeking credit. The Agency is not projecting any change in its loan subsidy rate as a result of these changes.

USER FEE PROPOSALS

Mr. Skeen: Mr. Secretary, I would like to present you with an "Honesty in Budgeting" award for the way the Department is presenting user fee proposals this year. For many painful years we had to do the hard work to find the money that was not requested. This year, it looks like the budget request supports current law requirements in all instances where user fees are proposed. Is that correct?

Response: Yes, the budget request supports current law requirements in all instances.

Mr. Skeen: Please submit a copy of section 754 of Public Law 105-277 at this point in the record.

Response: Section 754 of Public Law 105-277 reads as follows: "None of the funds appropriated by this Act or any other Act shall be used to pay the salaries and expenses of personnel who prepare or submit appropriations language as part of the President's Budget submission to the Congress of the United States for programs under the jurisdiction of the Appropriations Subcommittees on Agriculture, Rural Development, and Related Agencies that assumes revenues or reflects a reduction from the previous year due to user fees proposals that have not been enacted into law prior to the submission of the Budget unless such Budget submission identifies which additional spending reductions should occur in the event the users fees proposals are not enacted prior to the date of the convening of a committee of conference for the fiscal year 2000 Appropriations Act."

Mr. Skeen: Did this provision help to convince OMB that this was the proper way to budget for user fees?

Response: While the Department was not involved in all of OMB's deliberations on this issue, USDA did strongly support the presentation of these requests on a current law basis. In addition, the President's statement when he signed the bill said, "Section 754 of the Agriculture/Rural Development appropriations section constrains my ability to make a particular type of budget recommendation to the Congress. This provision would interfere with my constitutional duty under the Recommendation Clause, and I will treat it as advisory."

ANIMAL FEEDING OPERATION STRATEGY

Mr. Skeen: The USDA and the EPA have been working on an Animal Feeding Operation Strategy for the last several months. Has your office been directly involved with this process?

Response: USDA transmitted the draft Strategy to the Vice President on September 16, 1998. Deputy Secretary Rominger participated in the California listening session, and either Natural Resources and Environment Undersecretary Jim Lyons or Deputy Undersecretary Glenda Humiston participated in all 11 listening sessions.

Mr. Skeen: Now that the Draft Animal Feeding Operation strategy comment period has ended, provide the Committee with a sense of what those comments have been and how you would see those get implemented into a final strategy.

Response: The major categories of comments on the strategy related to the resources (human, technical, and financial) needed by USDA to develop and implement nutrient management plans for the nearly 450,000 animal feeding operations (AFO's) and the perceived regulatory focus of the strategy. Another area of concern was whether USDA would have the resources to provide adequate technical and financial assistance that would be needed to complete

the work by 2008.

Other comments expressed concerns regarding functionally equivalent state programs, EPA's authority under the Clean Water Act, EPA's proposed regulatory changes, lack of valid water quality data, lack of emphasis on sustainable agriculture, lack of clarity of terms, the need for more research, the continued use of lagoon and sprayfield technology, and the implementation of a moratorium on new animal feeding operations. These concerns, where appropriate, will be addressed in the final strategy. For example, a new section titled "Coordination with State and Tribal Programs" will likely be added. A new guiding principal regarding sustainable agriculture and many references to supporting sustainable agricultural practices and systems will be added. A glossary will be added to define many of the terms. Additional references will be included regarding the need for more research.

Mr. Skeen: Provide a detailed record of all meetings, including attendees, meeting locations, agendas, meeting dates, and any memoranda between EPA and USDA or within USDA regarding the draft AFO Strategy.

Response: USDA and EPA sponsored 11 national listening sessions at the following locations: Tulsa, OK on November 16, 1998; Harrisburg, PA on November 17, 1998; Ontario, CA on November 23, 1998; Madison, WI on November 30, 1998; Seattle, WA on December 3, 1998; Des Moines, IA on December 4, 1998; Chattanooga, TN on December 10, 1998; Denver, CO on December 14, 1998 and Annapolis, MD on December 15, 1998. The Department was represented at all of these meetings by either Deputy Secretary Rominger, Under Secretary Jim Lyons, or Deputy Under Secretary Glenda Humiston. The EPA Administrator was represented by Chuck Fox, Fred Lindsay or Dana Minerva. USDA and EPA also conducted briefings of interested groups and organizations.

Throughout the process of finalizing the Strategy, meetings were held between USDA and EPA staff on a regular basis, sometimes daily. The USDA Natural Resources and Environment Deputy Under Secretary met on a regular basis with EPA officials during the period when public comments were analyzed and the strategy was being finalized. Due to the short timeframe within which the agencies were working, memoranda were not exchanged between the agencies, and minutes were not kept of the discussions. The decisions made during the meetings were immediately translated into changes to the draft Strategy. The following list is a compilation of the listening sessions, briefings that were conducted by USDA staff at the national level, and the policy decisions-making meetings which involved the USDA Natural Resources and Environment Under Secretary or Deputy Under Secretary:

Dates	Meeting/Briefing:	Discussion Leader:	Attendees/Agenda:
6/2/98	ASINPCA, Kansas City. "Agricultural Nonpoint Source Control: Building Effective Partnerships"	Hiram Boone	125 Attendees. Agenda attached.
7/16/98	NACD Conservation Partner Forum	Carole Jett	
7/19/98	NACD Regional Meeting, San Juan, PR	Gary Nordstrom	
7/20/98	Annual Conference of National Association of Counties, Portland, OR	Hiram Boone	135 Attendees. 20 min. presentation during a session titled, "CAFO: What Can Counties Do?"
7/28/98	So. Central Regional NACD Meeting, Padre Island, TX	Gary Nordstrom	
7/28 - 7/30/98	East Region State Conservationist Meeting	Carole Jett	

8/3 - 11/9/98	NRCS weekly teleconference updates	Joe DelVecchio	NRCS State Personnel
8/9/98	NACD	Carole Jett	
8/18/98	SE State Conservationist Meeting	Carole Jett	
8/26 - 8/27/98	Tri Regional Non Point Source Watershed Conference - Kansas City	Denis Nickel	
9/1 - 9/3/98	Northern Plains/ Midwest State Conservationist Meeting	Carole Jett	
9/9/98	National Center for Small Communities, Washington, DC.	Hiram Boone	80 Attendees. CAFO Workshop from 3:30 - 5:00.
9/9 - 9/11/98	South West Regional NACD Meeting, Prescott, AZ		
9/13 - 9/16/98	Pacific Regional NACD Meeting, Santa Rosa, CA		
9/16/98	Senate Briefings	Joe DelVecchio and Jeff Lape (EPA)	Glenda Humiston
9/16/98	House Briefings	Joe DelVecchio and Jeff Lape (EPA)	Glenda Humiston
9/16/98	Briefing with USFS Deputy Chiefs	Carole Jett	
9/16/98	Soil Erosion and Sediment Control Opportunities for the Great Lakes Basin, Toledo, OH	Hiram Boone	130 Attendees. Agenda attached.
9/17/98	Environmental Groups Briefing	Joe DelVecchio, Kevin Brown	
9/17/98	Ag/Commodity Groups Briefing	Joe DelVecchio, Kevin Brown	
9/17/98	House Transportation & Infrastructure Briefing	Joe DelVecchio, Kevin Brown	
9/17 - 9/18/98	Rollout meetings		
9/18/98	EPA Region 5/NRCS STC and State Ag. Directors		
9/18/98	Senate Environmental & Public Works Briefing	Kevin Brown and Wil Hall (EPA)	Glenda Humiston
9/22/98	USDA Principals Group - Briefing	Carole Jett	Representatives from NRCS, ERS, OGC, FS, CSREES, ARS
9/23 - 9/25/98	Mid Atlantic Resource Conservation & Development Meeting	Joe DelVecchio	

9/27 - 9/29/98	NYACD Meeting	Joe DelVecchio	
10/22/98	AFO list	Dana Minerva, Carole Jett	
11/5/98	CWAP Departments - Asst. Secretaries Meeting		
11/5/98	NACD Briefing, DC - 2 hours. Review draft Strategy	Joe DelVecchio, Kevin Brown	
11/16/98	Tulsa, OK Listening Session	Kevin Brown	Agenda attached.
11/17/98	West Agronomy, Boise, ID	Obie Ashford	
11/17/98	Harrisburg, PA Listening Session,	Joe DelVecchio	Agenda attached.
11/23/98	Chino, CA Listening Session	Joe DelVecchio	
11/24/98	Visalia, CA Listening Session	Joe DelVecchio	
11/24/98	DC Bar	John Stierna	
11/30/98	Madison, WI Listening Session	Joe DelVecchio	Agenda attached.
12/3/98	Seattle, WA Listening Session	Kevin Brown	Draft Agenda attached.
12/4/98	Des Moines, IA Listening Session	Joe DelVecchio	Agenda Attached.
12/5 - 12/6/98	Council of State Government, San Antonio, TX. 1 hr briefing to Environmental Committee - resolution to support strategy	Kevin Brown	
12/9/98	Chattanooga, TN Listening Session	Joe DelVecchio	Agenda attached.
12/10/98	Indianapolis, IN Listening Session	Joe DelVecchio	Agenda attached.
12/10/98	Fort Worth, TX Listening Session	Kevin Brown	
12/14/98	Denver, CO Listening Session	Kevin Brown	Agenda attached.
12/15/98	Annapolis, MD Listening Session	Joe DelVecchio	Agenda attached.
1/26/99	USDA/EPA Meeting	Glenda Humiston, Dana Minerva	Joe DelVecchio, Kevin Brown, Jeff Lape, Wil Hall
1/26/99	USDA Principals Group	Kevin Brown	Representatives from ERS, ARS, FSA, CSREES, AMS, OGC, NRCS
1/28/99		Carole Jett, Dana Minerva	
1/28/99	NRCS CWAB	Obie Oshford	Status report given to NRCS Division Directors.
2/8/99	USDA/EPA Meeting		Glenda Humiston, Dana Minerva, Joe DelVecchio, Kevin Brown, Jeff Lape,

			Wil Hall
2/12/99	USDA/EPA Meeting	Glenda Humiston, Dana Minerva	Joe DelVecchio, Kevin Brown, Jeff Lape, Wil Hall
2/18/99	USDA/EPA Meeting	Glenda Humiston, Dana Minerva	Joe DelVecchio, Kevin Brown, Jeff Lape, Wil Hall
3/4/99	CWAB	Kevin Brown	Briefing given to NRCS Division Directors
3/9/99	Strategy Release - White House	Vice President Al Gore	Senator Harkin, Carol Browner, Dan Glickman, Jim Lyons, Carole Jett, Joe DelVecchio, Kevin Brown, Tom Christensen, Chuck Fox, Jeff Lape, Wil Hall, Dana Minerva

[CLERK'S NOTE.---- The detailed materials provided regarding the AFO draft strategy were too lengthy to print and are being retained in Committee files.]

ANIMAL FEEDING OPERATION STRATEGY

Mr. Skeen: Provide any Executive Office of the President or other Administrative guidance regarding the draft AFO Strategy.

Response: No formal guidance was provided by the Executive Office of the President. However, guidance in the form of pen and ink comments from OMB was provided. These comments were received via fax and were incorporated into the Strategy as appropriate after reviewing with OMB. If desired, a copy could be provided for the record.

DEBT FOR NATURE

Mr. Skeen: The budget proposes funding a Debt for Nature Program. How much will the program cost? Who are you trying to reach by implementing this program? Is there current authority in place to carry out this program?

Response: It is difficult to estimate out-year program costs because program interest may greatly exceed expectations as a result of the current financial farm crisis. However, we estimate that \$5 million will be needed for fiscal year 2000.

USDA is trying to reach minority, limited resource and other financially stressed borrowers. Since the program is available to all borrowers with debt secured by real estate, the number of eligible borrowers may increase steadily if the current farm crisis continues.

There is authority to administer the Debt for Nature program as a program that provides debt relief in exchange for conservation, recreation and wildlife benefits. There is no authority to provide financial assistance in the form of cost-share payments. USDA has proposed authorizing language to provide funding for cost-share and technical assistance to plan and implement measures necessary to meet the objectives of the program.

ADMINISTRATIVE CONVERSION

Mr. Skeen: Does the administrative convergence proposal require any changes in current legislation?

Response: The Secretary has approved the transfer of the support functions to the new Support Services Bureau (SSB) under his existing authority. However, we have proposed appropriation language to establish a new SSB account in the Fiscal Year 2000 President's Budget. This proposed SSB account would provide an efficient mechanism to effect the necessary fund transfers to support the administrative support services common to each of the rural and county-based agencies.

Mr. Skeen: The Support Services Bureau calls for an Executive Director and a Deputy Director. What is the timeframe for filling these positions?

Response: These two key leadership positions will be filled competitively through nationwide advertisements. We anticipated that selections will be made by the end of June.

Mr. Skeen: According to a prepared response you submitted in last year's hearing record, you reported that a single administrative support unit would be in place in headquarters and state offices by October 1, 1998. How realistic are USDA's plans to have a single administrative support unit in place during Fiscal Year 1999?

Response: Secretary Glickman approved the organizational structure for a single administrative support unit, the Support Services Bureau (SSB), on February 3, 1999. The SSB organizational structure is scheduled to be in place by October 1, 1999, with employees identified and assigned to the organization. However, to accomplish this, several activities need to be successfully completed including: impact and implementation bargaining with the unions; finalizing short-term funding and staffing issues; and defining the responsibilities of the national, state, and other Boards of Directors. Major differences between administrative systems, most notably in the information technology and financial management systems, will take several years to merge into single, streamlined, and compatible systems. The Bureau is not scheduled to be fully implemented until the end of Fiscal Year 2002.

Mr. Skeen: What would be the consequence, within the Administration, if a single administrative support unit does not get established?

Response: The Farm Service Agency, Natural Resources Conservation Service and Rural Development currently have three separate administrative support structures. The new Support Services Bureau (SSB) will combine the three structures into one, while delegating authority to conduct administrative functions to the level closest to the customer. This consolidated structure will deliver better services to local customers and employees, provide for consistent administrative policy, eliminate redundant organizational structures, reduce staff, and make better use of limited administrative resources. These benefits will not be achieved if the consolidation does not occur.

NUTRITION EDUCATION

Mr. Skeen: Provide total USDA nutrition education spending, by agency, from all accounts, to include fiscal year 1998 actuals, and fiscal years 1999 and 2000 estimates.

Response: USDA requests \$386 million for nutrition education, evaluation and demonstration projects. WIC will use about \$210 million of this for nutrition education; food stamps uses \$54 million for nutrition education, although with State match food stamps spends over \$100 for nutrition education; and Extension activities come in at about \$76 million. I will provide additional details.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE

Nutrition Education, Evaluation and Demonstrations
(Dollars in Millions)

	1998 Actual	1999 Estimate	2000 Budget
AGRICULTURAL RESEARCH SERVICE:			
Library & Electronic Access to Information ..	50.7	50.7	50.7
TOTAL	0.7	0.7	0.7
COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE:			
CSREES-Community Food Projects a/.....	2.5	2.5	2.5
CSREES-Extension Activities: b/			
Extension (Formula est.)	16.1	16.6	15.5
Expanded Food and Nutrition Education Program (EFNEP)	56.7	56.7	61.0
Total, Extension	74.8	75.3	76.5
TOTAL	77.3	77.8	79.0
ECONOMIC RESEARCH SERVICE:			
Food Program Studies.....	18.5	10.2	0.0 c/
FOOD AND NUTRITION SERVICE:			
Center for Nutrition Policy & Promotion	2.2	2.5	2.5
WIC Nutrition Studies and Evaluations	0.0	0.0	3.5 c/
WIC (State nutrition education estimate)	178.0	174.9	182.3 d/
WIC Breastfeeding Promotion	27.5	29.0	29.7
Child Nutrition Studies and Surveys	0.0	0.0	3.0 c/
Team Nutrition (formerly School Meals Init) ..	8.0	10.0	10.0 e/
Kentucky/Iowa Demonstration	3.2	3.7 f/	3.7 f/
Nutrition Education & Training Prg. (NET) ...	3.7	0.0	2.0 g/
Food Service Management Institute	2.0	3.0	3.0 h/
Food Safety Education	0.0	2.0	2.0
Food Stamp SAE Nutrition Education	40.0	46.0	50.0 i/
FSP Research Demos and Evaluation	0.0	0.5	10.7 c/
FSP State Exchange Project	0.4	0.4	0.4
FSP Nutrition Education and Program Info.....	0.0	0.0	3.5
FDPNR Nutrition Aides Demos (Indian Prg.) ...	0.2	0.2	0.2
Food Program Studies.....	c/	2.0	c/
TOTAL	265.2	274.2	306.5
FOOD SAFETY AND INSPECTION SERVICE:			
Nutrition Labeling and Poultry Hotline	j/	j/	j/
Nutrition Information Verification.....	0.2	0.2	0.2
TOTAL	0.2	0.2	0.2
TOTAL, USDA Nutrition Education, Evaluation, and Demonstrations.....	361.9	363.1	386.4

UNITED STATES DEPARTMENT OF AGRICULTURE

Nutrition Education, Evaluation and Demonstrations

Footnotes:

-
- a/ Funding for the community food project grants is provided to FNS and transferred from FNS to CSREES, which administers the grants program. These funds are used to support community-based projects requiring one-time Federal assistance to become self-sustaining, to: 1) meet the food needs of low-income people; 2) increase the self-reliance of communities in providing their own food needs; and, 3) promote comprehensive responses to local food, farm, and nutrition issues.
 - b/ Estimates for 2000 include effects of a 6.8 percent reduction proposed in the CSREES budget in the Extension formula program and a 4 percent increase for EFNEP.
 - c/ Reflects \$17.2 million in FNS for Nutrition Assistance Program studies in 2000, which were funded in ERS in 1998. In 1999, \$2 million was transferred from ERS to the FNS, Food Program Administration for studies and evaluations, as required by the 1999 appropriations Act.
 - d/ Statute requires that 1/6 of the funds appropriated for WIC Nutrition Services and Administration be allocated for State Nutrition Education.
 - e/ Funds are needed to continue and expand training, technical assistance and nutrition education efforts.
 - f/ Funded under the Child and Adult Care Food Program.
 - g/ Funded from permanent appropriation in 1996. These funds are used for upgrading school food service workers' skills and knowledge, as well as teaching children proper nutrition.
 - h/ Funded from permanent appropriation.
 - i/ Increase of \$4 million reflects change in State Plans and inflation costs.
 - j/ Less than \$50,000.

/u/pal/lo/crosscuts/Nutrition.wk3

UNSPENT FUNDS

Mr. Skeen: P.L. 104-377 directed the Secretary to provide \$7,500,000 for a Service Center Implementation Team with the funds to remain available until expended. According to the explanatory notes, \$4,675,344 remains unexpended. Do the unobligated funds remain in the Office of the Secretary account or some other USDA account? If the funds are in another account, what account are they in?

Response: The unobligated funds remain in the Office of the Secretary account for the use of the Service Center Implementation Team.

Mr. Skeen: The Department has already taken major steps toward service center implementation, why is there still such a large (62 percent) unobligated balance?

Response: The original implementation strategy for the Service Center Initiative (SCI) ran through fiscal year 2002. However, agency budget reductions during the past 2 fiscal years forced a revision of the implementation strategy. The revised completion fiscal year is 2004, if the planned budget levels are approved. Since the 1996 appropriated funds do not have fiscal year limitation, we had planned to spend the \$7,500,000 by fiscal year 2002, the original completion year. These funds are currently used to coordinate the SCI activities and to supplement shortcomings of funding from the participating agencies. Since program inception, the participating agencies have been providing most of the funding for all SCI activities as mandated by Congress.

Mr. Skeen: When do you expect to obligate the remaining funds?

Response: It is important to maintain a small balance in this account to meet the unanticipated needs of the participating agencies. It is hoped that most of the remaining funds will be obligated before the end of the fiscal year.

ORGANIC STANDARDS

Mr. Skeen: At last year's hearing, on February 12, 1998, the comment period on organic standards had just been extended by 45 days. The announcement by your office indicated that the new comment period would close by April 30, 1998 and then a rule would be proposed. Has a rule been proposed on organic standard?

Response: At this time USDA has not reissued a proposed rule for organic standards. We plan on releasing such a proposal by the end of the summer.

CCC SECTION 11 CAP

Mr. Skeen: According to your testimony, you indicate that the Commodity Credit Corporation (CCC) Section 11 cap for administrative support services imposes significant restrictions on the availability of CCC funds for transfers and reimbursable agreements used to fund conservation technical assistance and other support services for the conservation, commodity, and export programs. Provide for the record, the 1995 expenditure level and the total allotments and transfers that have been made under Section 11, to date, against the cap.

Response: Section 161 of the 1996 Act amended Section 11 of the CCC Charter Act, limiting the uses of CCC funds, effective in FY 1997, for reimbursable agreements and transfers and allotments of funds to State and Federal Agencies. The chart below identifies the cap amount and the obligations per fiscal year, including estimates for FY 1999.

(Dollars in Thousands)

Fiscal Year	Section 11 Cap Amount	Obligations
1995	\$46,188.0	46,188.0
1996		51,233.4
1997		39,282.5

1998		37,860.8
1999	\$36,208.7*	33,261.2

* Section 11 cap was revised effective FY 1999 to exclude Emerging Markets Program per direction of OGC.

Mr. Skeen: How has the restriction affected your ability to transfer CCC funds for conservation, commodity, and export programs?

Response: Except for the Environmental Quality Incentives Program (EQIP), CCC funding of conservation technical assistance is subject to limitations imposed by Section 161 of the 1996 Act. While the Farm Bill did not mandate the use of CCC funds for technical assistance necessary for the CCC-funded conservation programs, it effectively limited the amount of funds available for such use through the limitation imposed by Section 161. Since many of the activities subject to the cap on reimbursable agreements present in the 1995 base period are still necessary and important, the level of CCC funds available for conservation technical assistance is not sufficient.

Total estimated technical assistance needs for CRP are \$68.4 million in 1999 and \$18.1 million in 2000. Of these amounts, \$20.9 million is funded in 1999 from remaining unobligated balances of CRP appropriated funds. We are examining different alternatives to fund the remaining Conservation Reserve Program technical assistance as there is no room within the cap to fund technical assistance provided by NRCS or other government agencies for CRP.

SECTION 11 EXPENDITURES

Mr. Skeen: Provide for the record, a table showing total Section 11 expenditures by agency.

Response: Attached is a table showing the total Section 11 obligations and outlays. The Agency involved is identified for each agreement.

[The information follows].

FY 2000 PRESIDENT'S BUDGET FOR REIMBURSABLE AGREEMENTS
(in thousands of dollars)

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AGENCY	DESCRIPTION OF AGREEMENT	FY 1996 ACTUAL		FY 1997 ACTUAL		FY 1998 ACTUAL	
		Obligations	Outlays	Obligations	Outlays	Obligations	Outlays
FAS	Operation of the CCC Computer and FAS IIRM activities.	11,826.9	19,284.4	11,768.0	7,415.5	10,590.0	12,546.8
FAS	Provide FSA with FAS-contracted remote sensing imagery.	2,250.0	3,665.0	2,250.0	1,000.0	2,250.0	3,250.5
FAS	Support the activities for the emerging markets	9,990.4	4,773.2	9,992.1	12,604.1	9,830.2	7,648.3
FAS	Support the activities Office of the General Sales Manager.	5,176.0	7,633.0	0.0	0.0	0.0	0.0
DOE	Provide technical support of hazardous waste assessments for operation and maintenance in Kansas and Nebraska.	4,367.0	4,759.3	3,900.0	2,792.4	3,865.0	3,987.4
OSEC	Support the operating costs of the Board of Contract Appeals.	49.0	49.0	55.0	55.0	40.0	40.0
AMS	Carry out the milk marketing deduction provision of Section 204(h) of the Agricultural Act of 1949, as amended.	400.0	464.8	250.0	284.8	100.0	138.5
OIG	Perform audits of the CCC financial statements.	795.0	857.0	842.0	785.0	842.0	842.0
TOTAL AMOUNT ABOVE		34,854.3	41,485.5	29,067.1	24,946.9	27,317.2	28,463.3
OTHER AGREEMENTS							
GIPSA	Perform contamination testing on processed grain commodities.	95.0	48.4	113.6	33.5	67.0	59.7
NASS	Provide selected data for the wheat and feed grain program.	100.0	200.0	100.0	100.0	100.0	100.0
AMS	Provide transmissions of electronic class card data for the 1995 crop year of cotton.	60.0	55.4	125.0	120.0	125.0	91.4
ERS	Determine the estimated cost for transporting U.S. Cotton to northern Europe for AWP calculations.	8.5	0.0	0.0	10.1	5.0	0.0
AMS	Provide FSA with sub-licensing of statistical software products.	6.8	18.8	7.2	0.0	6.4	7.2
GSA	Provide FSA with FEDSIM program support services.	0.0	405.4	0.0	1,219.7	0.0	433.2
GSA	Provide peripheral equipment for the FSA Fax Center within the CCC Computer Facility.	149.5	143.4	0.0	31.5	0.0	0.0

FY 2000 PRESIDENT'S BUDGET FOR REIMBURSABLE AGREEMENTS
(in thousands of dollars)

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AGENCY	DESCRIPTION OF AGREEMENT	FY 1996 ACTUAL		FY 1997 ACTUAL		FY 1998 ACTUAL	
		Obligations	Outlays	Obligations	Outlays	Obligations	Outlays
CSREES	Conduct an Options Pilot Program for the 1995 crops of corn, wheat, and soybeans.	0.0	27.6	0.0	0.0	0.0	0.0
U.S. Geological Survey	Develop and support the acquisition of Digital Orthophotos in the states of Kansas and Texas.	0.0	150.0	0.0	0.0	0.0	153.9
U.S. Geological Survey	To complete a 10-year study evaluation of CRP wildlife habitats in Midwestern and Southern Plains states.	0.0	0.0	23.1	0.0	77.5	23.1
FAS	Provide System 36 program support in the CCC Computer Facility.	235.2	482.5	0.0	0.0	0.0	0.0
OIG	Conduct audits of six domestic tobacco manufacturers to determine if they are in compliance with a domestic tobacco content requirement.	140.0	0.0	0.0	323.0	0.0	0.0
NASS	Provide CCC's share of the costs of the initial report on wool and mohair stocks beginning January 1, 1995	0.0	0.0	0.0	2.8	0.0	0.0
NASS	Conduct a survey as part of an evaluation of USDA farmer assistance and rural development program to comply with requirement of the Endangered Species Act.	0.0	0.0	0.0	40.0	0.0	0.0
U.S. Air Force (Software Engineering Institute - SEI)	Provide infrastructure assistance, independent review of current practices, and educational programs	300.0	145.6	150.0	154.4	200.0	96.7
ERS	Perform analyses of contracts and services related to FSA's commodity procurement practices and alternatives	116.0	0.0	71.0	116.0	0.0	71.0
Office of Communications	Support the cost of upgrading a FAX on Demand and Broadcasting System	30.5	0.0	0.0	0.0	0.0	30.5
NRCS	Provide a biological evaluation to determine the effects of USDA farmer assistance and rural development programs	114.0	114.0	0.0	0.0	0.0	0.0
NRCS	To provide technical assistance related to the Farmland Protection Program.	0.0	0.0	80.0	80.0	720.0	720.0
GIPSA	Produce an educational video for recipients of U.S. commodities under the foreign food assistance programs.	22.0	0.0	0.0	13.7	0.0	0.0
Michigan State University	Conduct research on packaging systems for commodities purchased by FSA and purchased or donated for P L 480.	225.5	189.0	0.0	93.7	0.0	0.0
Clemson University	Conduct a pilot study on the feasibility of a tobacco information handling data system	0.0	21.1	0.0	0.0	0.0	19.8

FY 2000 PRESIDENT'S BUDGET FOR REIMBURSABLE AGREEMENTS
(In thousands of dollars)

3-72

AGENCY	DESCRIPTION OF AGREEMENT	FY 1996 ACTUAL		FY 1997 ACTUAL		FY 1998 ACTUAL	
		Obligations	Outlays	Obligations	Outlays	Obligations	Outlays
Clemson University	Conduct a statistical analysis on historical laboratory data of corn soy blend and other commodities.	0.0	0.0	0.0	0.0	15.9	12.2
FAS	To provide an expert to attend a series of logistical emergencies related to the delivery to Armenia of U.S. supplied food.	0.0	0.0	0.0	19.8	0.0	0.0
FAS	To provide funds to enable ICD to enter into a cooperative agreement with Michigan State in order to continue developing efforts to reduce packaging costs for processed grain products and other commodities.	0.0	0.0	118.0	0.0	158.2	0.0
AMS	To provide expert technical support services necessary to implement a Total Quality Systems Audit (TQSA) pilot-test program.	0.0	0.0	10.0	0.0	0.0	8.5
GSA	To provide support services in connection with reengineering commodity office debt.	0.0	0.0	200.0	0.0	70.0	0.0
GSA	Provide support services related to analyzing connectivity and maximizing the share of resources of the USDA Service Center.	2,000.0	0.0	0.0	0.0	0.0	0.0
GSA	Provide support services related to the development of FSA's technical architecture and FSA roles in USDA Service Center implementation.	2,000.0	0.0	3,000.0	0.0	2,170.0	2,391.2
GSA	Evaluate the Agency for International Development's (AID) Washington Area Accounting and Control System to determine the feasibility of using the package as the basis for a new General Sales Manager Program System	650.0	0.0	0.0	16.3	586.0	152.7
OTHER AGREEMENTS AMOUNT		8,283.1	1,981.2	3,987.9	2,374.6	4,399.9	4,371.1
TOTAL AGREEMENTS AMOUNT		41,107.4	43,468.7	33,088.0	27,321.5	31,716.2	32,924.4
Other Section 11 Activities:							
FSA Warehouse Examination and Licensing Activities	User-fee supported activity provides for the examination of warehouses licensed under the U.S. Warehouse Act and non-licensed warehouses storing CCC-owned or pledged commodities.	5,864.4	5,864.4	5,489.3	5,489.3	4,363.1	4,363.1
State Options Contract (SOC) Program	Allows the use of CCC-funds to pay for all or a portion of the cost of food or the processing or packaging of food on behalf of a State distribution agency.	3,761.5	3,761.5	238.2	238.2	1,281.5	1,281.5

FY 2000 PRESIDENT'S BUDGET FOR REIMBURSABLE AGREEMENTS
(in thousands of dollars)

8-72

AGENCY	DESCRIPTION OF AGREEMENT	FY 1996 ACTUAL		FY 1997 ACTUAL		FY 1998 ACTUAL	
		Obligations	Outlays	Obligations	Outlays	Obligations	Outlays
National Aerial Photography Program and Activities	Promotes the coordinated development, use, sharing, and dissemination of surveying, mapping, and related aerial photographic data among Federal and State agencies.	500.0	0.0	500.0	1,000.0	500.0	500.0
TOTAL OTHER SECTION 11 CHARTER ACT ACTIVITIES		10,126.9	9,625.9	8,227.5	6,727.6	6,144.6	6,144.6
GRAND TOTAL		61,233.4	53,092.6	39,282.6	34,049.0	37,660.8	38,968.0
FY 1998 CAP (Original)		48,188.0					
Less Emerging Markets Program Agreement		9,979.3					
FY 1998 CAP (Revised- Effective in FY 1999)		38,208.7					

COMPUTER CAP IMPACT ON SERVICE CENTER INITIATIVES

Mr. Skeen: How does the amount under the computer cap affect your ability to invest in the Service Center initiatives?

Response: In April 1996, a cap of \$275 million for CCC-funded ADP obligations for FY 1997-2002 was established by P.L. 104-127, the Federal Agriculture Improvement and Reform Act of 1996. Subsequently, the Agricultural Research, Extension, and Education Reform Act of 1998 reduced the CCC ADP cap to \$193 million. Finally, the FY 1999 Appropriations Act (P.L. 105-277) again reduced the CCC ADP cap to \$188 million, and limited CCC funds for ADP obligations to \$65 million in FY 1999.

Since the CCC ADP cap was initially established, FSA has severely reduced and constrained its planned IT spending in order to stretch funds and support on-going program delivery. Successful implementation of the Service Center initiatives and concepts requires sufficient and stable fund availability extending several fiscal years. The reduced CCC ADP fund availability has impaired FSA's and USDA's Service Center initiatives to modernize, standardize and improve automation support necessary to sustain critical program delivery.

FSA has treated the Service Center initiatives (SCIT) as a high priority. In fiscal years 1996 through 1998, FSA invested nearly \$149 million of CCC ADP funds towards SCIT initiatives. Of that amount only \$48.7 million has been invested since FY 1997, the initial fiscal year of the CCC computer cap. Only a very limited amount of CCC ADP funds remain available for FY 1999 and future Service Center initiatives. While USDA has expended significant personnel and financial resources, more funding is needed to allow connectivity of existing systems to the Service Center network and to make the Common Computing Environment and Shared Information Systems a reality.

Mr. Skeen: How are these two related?

Response: CCC funds are used for information technology activities, including Service Center technology activities, which support the delivery of CCC farm programs and CCC-funded conservation programs. Outlays and related program receipts for these programs average several billion dollars annually.

Separate funding for the Service Center initiatives has not been secured. FSA and other county-based agencies, the Natural Resources Conservation Service and the Rural Development agencies have funded the bulk of Service Center initiatives. The FY 2000 President's Budget does propose the establishment of a new Support Services Bureau (SSB) account to centrally fund the administrative support services common to each of the county-based agencies. This account will directly support the ongoing Service Center and Common computing Environment (CCE) initiatives. The SSB will reflect the combined costs of the agencies' administrative functions and will allow common services such as information technology, financial management, and human resources to be shared among the Farm Service Agency, the Rural Development mission area, and the Natural Resources Conservation Service (NRCS). The FY 2000 budget requests \$74,050,000 for the Service Center Modernization Initiative. In addition \$16,231,000 will be made available from the Commodity Credit Corporation.

COMPUTER CAP LEGISLATION

Mr. Skeen: What would be the impact if the legislation is not enacted?

Response: It is estimated that after FY 1999 about \$16 million of the CCC ADP cap will remain. Unless the legislation to increase the CCC ADP cap is enacted, CCC ADP fund availability after FY 1999 will only be about \$16 million. However, this \$16 million is proposed to be transferred to the Support Services Bureau in FY 2000 to support Service Center initiatives, which will leave no funding available. This funding level is insufficient for FSA to even meet its existing legacy equipment maintenance and day-to-day ADP operational costs in FY 2000. If equipment and/or automated systems malfunction and there are no funds for repair, automation support for delivery of payments and other customer services could virtually shut down.

This funding level will hinder FSA from implementing subsequent farm-related legislation; halt all automation modernization and standardization efforts including automated improvements in fund controls, debt collection and

other financial initiatives; allow no funding of USDA Service Center initiatives; prevent legacy equipment connectivity to the Service Center wide and local area network; and prohibit FSA from funding its share of the planned tri-agency processed commodities inventory management reengineering effort.

Mr. Skeen: Would the USDA have to undergo a reduction-in-force?

Response: If the CCC ADP cap is not increased, the critical need to maintain ongoing automated operating systems to deliver programs could lead to use of unbudgeted Salaries and Expenses funding. FSA could be forced to RIF additional personnel in FY 2000 and perhaps beyond because of this forced use of Salaries and Expenses funds. This could further exacerbate FSA's field staffing and significantly disrupt delivery of legislated programs to FSA customers.

CROP INSURANCE

Mr. Skeen: Your prepared statement, your press release on the budget, and various news articles, have cited \$400 million as a down payment this year in helping farmers meet their crop insurance needs. As I understand it, you are planning to use emergency appropriations provided by congress in the fiscal year 1999 Omnibus Bill to reduce crop insurance premiums by 30 percent. Please tell the Committee how you arrived at the \$400 million figure.

Response: The amount of \$400 million was intended to be a down payment -- or first step in strengthening the safety net and providing meaningful reductions in the total cost of insurance. The Administration believes that a small reduction -- say 10 percent or so -- would not have been large enough to convince producers to look closely at the benefits of buying higher coverage levels. A small reduction probably would only have been placed in the producer's pocket with no measurable impact on choices of coverage levels or insurance plans. The goal is to convince farmers to look seriously at the alternatives to what they tend to buy today. The amount of \$400 million is believed to be adequate to cause this to happen.

Mr. Skeen: How does the \$400 million translate to a 30 percent reduction in premiums?

Response: In 1998, producers paid approximately \$930 million to buy nearly \$21 billion of insurance protection. The Treasury paid an additional \$590 million for premium subsidies for these producers. Price elections are lower in 1999 as a result of lowered market expectations regarding prices. After considering these factors, and after allowing for the desired increase in business, 30 percent was deemed a reasonable percentage to use. The Administration anticipates that the ultimate percentage may be slightly larger than 30 percent. However, \$400 million was set as a ceiling that cannot be exceeded.

Mr. Skeen: What account will the \$400 million be taken from. Is there a sign up period involved? When will the signup occur? When is the deadline?

Response: Congress authorized emergency financial assistance in two categories: 1998 single year loss and multiple year losses. It authorized \$1.5 billion for the single year and \$875 million for the multiple year assistance. The \$400 million is expected to come from either of these two categories and will be funded through Commodity Credit Corporation Borrowing Authority.

The signup period is the normal sales period for most crops with the exception of winter wheat, most orchard crops, and several vegetable crops. Producers may purchase crop insurance until February 28 or April 9, 1999 depending on section of the country. In the case of crops whose normal sales closing dates have past (such as winter wheat), producers are being afforded a special opportunity to buy higher coverage levels or to change their insurance plan (such as from Group Risk Protection to individual yield coverage).

Mr. Skeen: What are your plans if, when the signup ends, the demand is greater than the \$400 million you have identified?

Response: As is the case with all the emergency funds, it must be allocated prorata to the claimants.

CROP INSURANCE

Mr. Skeen: It sounds like there's a lot of rhetoric floating out of the other end of Pennsylvania Avenue on the farm safety net issue, but no specific plan. I read where you have already announced the Administration's principles and preliminary proposals for reforming crop insurance - - though I might add that nothing we have seen contains a price tag - - what do you expect to gain by going around the country and holding forums?

Response: Mr. Chairman, last August, we began our process by asking farmers and others what needed to be done to strengthen the farm safety net. We analyzed the situation, reflected on their requests, and began our conversation with Congress, culminating in the passage of the Emergency Supplemental bill last year - - while acknowledging that more needed to be done.

USDA has continued to follow up with farmers, farm groups, Members of Congress, the agriculture industry and other stakeholders to make sure that we all remain on the same page. The Secretary has directed USDA to continue to hold discussions with farmers and include, wherever possible, Members of Congress as we move forward with this process. It is vital that farmers remain part of this process as proposals are considered by Congress. That is why the Secretary considers it so important to hold public forums to provide input for developing these proposals.

As you are aware, recent economic projections indicate a worsening of the farm economy this year. The Secretary and the Administration are in agreement with Members of Congress who believe it is necessary to speed up the timetable and move expeditiously to address the farm safety net crisis.

Just as you have moved up your deadlines to address this issue, we are releasing more information on USDA's proposed action. We remain committed to working with you to address both the immediate concerns of the farm crisis and to provide for the long-term stability of the farm safety net.

TRADE

Mr. Skeen: How are you responding to the technical barriers to trade such as sanitary and phytosanitary standards that are not scientifically based?

Response: USDA, working with the Office of the U.S. Trade Representative (USTR), the Department of State, and other U.S. governmental agencies, actively monitors our trading partners' technical standards to assure that they comply with international agreements. Technical issues, such as sanitary and phytosanitary (SPS) standards, are discussed in bilateral and multilateral fora and, depending on the issue, are resolved at either the technical or political level.

The Department's SPS Technical Working Group meets weekly to document new issues and to update progress being made on outstanding issues that either threaten or are currently impeding U.S. agricultural exports. Most of the issues addressed by the group are highly technical and require follow-up by subject experts from various regulatory agencies. For example, the group was actively involved in resolving Egypt's proposed mandatory pre-shipment testing and certification program for apples that would have slowed U.S. apple exports to this small, but growing market. In contrast, high profile and time-sensitive technical issues that can have a significant impact on trade, such as Mexico's proposed rule on avian influenza, are normally elevated to higher levels within the Department.

USDA maintains consistent government-wide positions by coordinating actions through the Trade Policy Staff Committee, chaired by USTR. The Committee is responsible for clearing all U.S. government positions prior to meetings of the World Trade Organization's SPS and Technical Barriers to Trade Committees. For example, the U.S. government's decision to request a WTO Panel to address Japan's non-scientifically based risk assessment requirements for unapproved apple varieties was cleared through this committee.

NATIONAL COMMISSION ON SMALL FARMS

Mr. Skeen: According to the budget summary, the National Commission on Small Farms issued a report last January that included 8 policy goals and 146

recommendations to improve USDA service to small and beginning farmers, and that USDA has already implemented many of the goals and recommendations. Provide a list of those policy goals and recommendations; how many and which of the recommendations and policy goals have been carried out; when will the remaining be carried out; how much has been spent, to date, to carry these out; and how much is included in the budget for small farm programs, and in which accounts?

Response: As noted, many of the Commission's recommendations contained in the report, *A Time to Act*, have been implemented by USDA, including the establishment of the Office of Sustainable Development and Small Farms at USDA and the formation of the Council on Small Farms chaired by the Deputy Secretary.

The Department has also restructured responsibilities of the FSA county committees, forcefully addressed long-standing civil rights issues, and streamlined loan processing. Legislation has removed restrictions on subsequent lending to borrowers approved for debt restructuring. USDA has supported producer-friendly tobacco settlement proposals, and expanded small farm research, extension and cooperative development programs in response to commission recommendations. Small farm training and outreach programs throughout the Department have been strengthened. USDA has also supported mandatory price reporting and country-of-origin labeling for beef and lamb, and has reorganized GIPSA to protect producers from unfair trade practices.

The USDA budget for fiscal year 2000 includes funding of \$60 million for the Fund for Rural America, and proposes full funding for FSA direct ownership and operating loans, although at lower levels than appropriated with emergency funding in 1999. The budget also provides for an increase in funding for the Sustainable Agriculture Research and Extension Program (SARE), the Appropriate Technology Transfer for Rural America program (ATTRA), Rural Cooperative Development Grants (RCDG), and outreach initiatives under the Section 2501 program.

Sustainable Agriculture Extension, Renewable Resources Extension, and CSREES 1962/1990 formula funding for small farm programs would continue at current levels. The CSREES small farm initiative proposed in the budget for 1999 is proposed again for funding in 2000, and an increase in small farm program funding is projected under the National Research Initiative.

Small farm marketing efforts are supported with continued funding for the Federal State Market Improvement Program (FSMIP), increased funding for the WIC Farmers Market Program, National Organic Standards, Wholesale Market Development, and strengthened livestock and poultry industry analysis. Small farm conservation initiatives include increased funding for the Stewardship Incentives Program (SIP).

A copy of the report by the National Commission on Small Farms, entitled *A Time to Act*, is submitted for the record. The report contains the recommendations of the Commission and background information supporting the recommendations. We are also providing summary material showing the status of implementation by the Department of each of these recommendations. The following table summarizes current funding and the levels of funding requested in fiscal year 2000 for small farm programs identified in policy goal seven of the Commission's report.

Programs Recommended for an Increase in Funding
by the National Commission on Small Farms

Program Level
(Dollars in Millions)

1999 Programs and Mission Area	Current Estimate	2000 Budget
Research, Education and Economics		
Sustainable Agriculture Research and Extension (SARE)	\$8.0	\$8.5
Sustainable Agriculture Extension	3.3	3.3
1962/1990 Formula Funding for Small Farm Programs	2.2	2.2

Renewable Resources Extension	3.2	3.2
Small Farm Initiative	0.0	4.0
National Research Initiative . .	5.0	7.0
Subtotal	21.7	28.2
Rural Development		
Fund for Rural America	0.0	60.0
Appropriate Technology Transfer for Rural America (ATTRA)	1.3	2.0
Rural Cooperative Development Grants	2.0	5.0
Farmworker Housing Loans and Grants	31.4	40.0
Subtotal	34.7	107.0
Marketing and Regulatory Programs		
Federal State Market Improvement Program (FSMIP)	1.2	1.2
GIPSA Poultry and Livestock Market Industry Analysis	1.2	2.6
Wholesale Market Development	2.2	2.6
National Organic Standards . .	0.9	1.7
Subtotal	5.5	8.1
Other		
Outreach and Technical Assistance (Section 2501)	3.0	10.0
WIC Farmers Market Program . .	15.0	20.0
NRE Stewardship and Incentives Programs a/	45.1	33.8
Direct Ownership Loans	85.6	128.0
Direct Operating Loans	733.8	500.0
Subtotal	882.5	691.8
Total	944.4	835.1

a/ Includes Forestry Incentives Program, Forest Stewardship Program, and Stewardship Incentives Program.

INDEPENDENT STUDY ON COUNTY-BASED AGENCIES

Mr. Skeen: In your testimony, you report that an independent study of county-based agencies was conducted by PricewaterhouseCoopers. What was the impetus for the PricewaterhouseCoopers study?

Response: The study was motivated by the need to explore opportunities to improve the efficiency and coordination of operations of the county based agencies program delivery in view of budget reductions and the changing nature of farm and other rural programs delivery workload in recent years. The Administration's intentions to conduct the study using an independent entity were first announced in the President's budget for fiscal year 1998 which also proposed significant field office staff reductions based, in part, on expected workload reductions in response to the 1996 Farm Bill in addition to continually tightening budget limitations. Since the scope of the study was broad enough to cover structural or organizational alternatives as well as operational alternatives, it was felt it would be appropriate to utilize a credible independent contractors to assess both ongoing operations and planned initiatives, as well as alternatives.

Mr. Skeen: Please summarize the findings of the PricewaterhouseCoopers study.

Response: The study provided findings on a wide range of topics concerning the organization, operation, workload, clientele demands and purposes of the county based agencies. While the detailed findings are too voluminous to adequately summarize, highlights include the following. The study concludes there are some imbalances between program authorities or legislative mandates, funding limitations, and agency business strategies which constrain the agencies' ability to deliver programs and meet customer demands. The study also found that recent changes in legislation and reduced funding and staffing have led to some structural problems impeding efficient and effective service delivery. It noted that USDA cannot effectively respond to trend changes in customer demand when constrained to locating offices according to political boundaries.

The study noted opportunities to improve efficiency by minimizing "back-office" activities. The findings were supportive of the administrative convergence initiatives. Likewise, the study concluded that the Department's

Service Center Initiatives will succeed in achieving some efficiencies. However, the report concludes that further efficiencies from administrative convergence and service center initiatives could be gained by removing the current "smoke stack" structure in the county based agency delivery system. Another finding was that there is a critical need for information technology improvements. FSA county offices were found to probably be somewhat more disadvantaged than NRCS and RD although IT capabilities varied. Few substantive findings were reported about agency workload, although FSA was cited as the only county based agency with a formal work measurement system at the time of the study. The report recommended development of workload measurement system for all the county based agencies. (And NRCS is putting a system in place this year.)

The Department is still reviewing the study findings and recommendations and while not all of the recommendations appear feasible or well founded, the Committee should be aware that important elements of the FY 2000 budget are consistent with the contractor's findings. These include the proposed Support Services Bureau to implement administrative convergence for these agencies and the proposal to increase the limitation on CCC spending for ADP which was one of the imbalances cited by the study which has contributed to inadequate resources for IT.

COPY OF INDEPENDENT STUDY ON COUNTY-BASED AGENCIES

Mr. Skeen: Provide a copy of the PricewaterhouseCoopers study for the record.

Response: The completed study consists of several volumes. We will provide a copy to the Committee.

[Clerk's note: A copy of the study is on file with the Committee.]

COST OF INDEPENDENT STUDY ON COUNTY-BASED AGENCIES

Mr. Skeen: How much did the PricewaterhouseCoopers study cost and who paid for the study?

Response: The total cost of the study was \$783,011. The Farm Service Agency, the Natural Resource Conservation Service, and Rural Development each contributed \$104,000. The Commodity Credit Corporation's portion of the costs amounted to \$471,011.

IMPACT OF DECLINES IN FARM PRICES

Mr. Skeen: Has your office conducted any analysis on the impact of recent declines in farm prices and income on repayments of past debts and the willingness of private lenders to make new loans?

Response: No formal analysis has been conducted on this subject due to lack of personnel resources.

RISK MANAGEMENT AGENCY INCREASE

Mr. Skeen: Provide an object class breakout of the \$7 million increase requested for Risk Management Agency.

Response: The major portion of the increase - \$5.7 million - falls under object class 25 - Other Services. This funding would be used to: (1) develop, expand, and maintain crop insurance programs, which is accomplished through the use of contracts/agreements with CSREES, ERS, and ARS to consolidate costs and make better use of funding provided (+\$1,785,000); (2) further the Risk Management Education program through cooperative agreements with other USDA agencies, in particular CSREES, and farmer service-oriented groups and provide up-to-date information for producers on risk management tools (+2,773,000); (3) extend civil rights activities to more of the nation's significant minority population through a variety of vehicles including community-based organizations and Bringing Rural America Venture Opportunities (BRAVO), which creates technology-based jobs on Indian lands and surrounding economically disadvantaged rural areas (+\$715,000); and (4) continue public outreach activities that provide information on changes to the crop insurance program for the nation's producers using all forms of media exposure (+\$450,000).

The following estimated object class breakout is based on past costs of these activities:

Object Class 11 Salaries (pay costs)	\$595,000
Object Class 12 Benefits (based on pay costs)	121,000
Object Class 21 Travel	20,000
Object Class 22 Freight for printed materials	12,000
Object Class 24 Printing & Reproduction	220,000
Object Class 25 Contracts/Agreements/Training	5,723,000
Object Class 26 Software upgrades for Internet Site	12,000
Object Class 31 Hardware upgrades for Internet Site	<u>13,000</u>
Total, Increase Requested	\$6,716,000

Mr. Skeen: How much of the \$7 million would be spent on the four areas outlined in your prepared statement including strengthening research and development, extending risk management education, enhancing civil rights, and providing public outreach?

Response: We are estimating that \$1.8 million will be spent on research and development of new products and the maintenance of current crop programs; \$3.0 million will be used to expand the Risk Management Education program to include (a) the development, publication and distribution of printed and electronic educational materials; (b) the fostering of educational partnerships at the regional, state, and county levels through train-the-trainer conferences; and (c) the delivery of educational programs to producers through local conferences and workshops; \$715,000 would be spent on the enhancement of the civil rights program. Efforts would include outreach activities aimed at increasing the participation of women and minorities. RMA would also assure that underserved and socially disadvantaged producers and ranchers have full access to all RMA programs; and \$500,000 for public outreach activities to help achieve the goal of increasing agricultural producers' awareness of risk management tools and alternative programs. This initiative may include paid advertisement through radio, television, print and direct mailings to producers.

Mr. Skeen: How much was spent on each of these four areas in fiscal year 1998 and estimated for fiscal year 1999?

Response: for fiscal year 1998, Risk Management obligated \$5,173,882 for expanding the educational program to the nation's farmers; obligated \$1,229,013 for public outreach, which included the enhancement of the civil rights activities to minority and small and limited resource farmers and public outreach activities through the media, and obligated \$910,016 for the research and development activities for strengthening crop insurance programs reached.

Due to the lack of funding for these programs for FY 1999 except for the cap of \$3,500,000 in the FCIC Fund, it is difficult to estimate what activities can be funded, but at this point \$1.0 million of those funds will be set aside for risk management education activities, including educational programs and proposed training sessions, and research and development activities will utilize the remaining funds to strengthen and enhance crop insurance programs. Civil rights would receive about \$207,000 and Public Outreach would receive about \$590,000. If those funds can be found between the A&O account and the FCIC Fund account.

SCHOOL BREAKFAST PILOT STUDY COSTS

Mr. Skeen: The budget includes a \$13 million school breakfast pilot project. Why does the request for the meal costs pale in comparison to the evaluation?

Response: The relative size of the meal cost and evaluation components of the project reflect the need to do a rigorous, authoritative three-year evaluation of a universal free breakfast program. The evaluation will look at standardized test results, attendance and tardiness records, measures of behavior, student demographic data and student dietary intakes over the study period. Collection and analysis of this data for thousands of students in study and control locations will cost \$10.0 million over the three years. Since all children will receive free meals, additional meal funds of \$1 million a year are needed to cover meal costs for children who would normally pay full price, including an anticipated increase in participation. This cost

reflects that the authorizing legislation limits the pilot operation to relatively few sites - only those needed to support the evaluation.

Mr. Skeen: Does this seem a little out of line to you?

Response: Congress' intent was that USDA conduct a rigorous and authoritative evaluation. The request is necessary because this requires a complex, longitudinal evaluation, an evaluation that will have implications for the \$1.4 billion School Breakfast Program. We need to be able to show the extent to which the all free meal program affects absenteeism and tardiness, behavior, and most importantly short- and long-term performance of students. The cost of this evaluation is a necessary and appropriate investment at this time.

GRANTS TO LOCAL CONSERVATION GROUPS

Mr. Skeen: The budget proposes to spend \$20 million in grants to locally-led conservation organizations. How can you justify spending \$20 million on a new grant program when it seems that USDA is having a difficult time meeting its current conservation technical and financial assistance obligations?

Response: The demand for both technical and financial conservation assistance is presently larger than USDA can provide. USDA believes that by providing grants to locally led conservation organizations, we will be able to expand partnerships and leverage additional technical and financial assistance from these organizations.

MONITORING WORK

Mr. Skeen: Is USDA-NRCS currently spending funds for monitoring work to help target resources and document baseline conditions and performance? If so, how much?

Response: During 1998 and 1999, USDA-NRCS is implementing a new integrated accountability system for monitoring its work in order to help target resources and document baseline conditions and performance. Much of the development and initial implementation costs for this system were accomplished with internal agency staff, with \$370,000 used for hardware, software, and contract support during FY 1998. The agency also projects a cost of 5 cents per minute for telecommunications through the USDA LAN/WAN/Voice system, which will support these accountability efforts.

PACKERS AND STOCKYARDS RESTRUCTURING

Mr. Skeen: The fiscal year 1999 appropriations bill included \$2.5 million for restructuring the Packers and Stockyards Administration. Has the restructuring occurred?

Response: Yes. Three regional offices have been established near the centers of production for cattle, hogs and poultry. The \$2.5 million in the FY appropriations will allow Packers and Stockyards Programs to staff the remaining field positions and to fill the resident agent positions that will provide routine services to areas away from the main offices.

Mr. Skeen: Where do the Packers and Stockyards regional offices now exist?

Response: Packers and Stockyards Programs is now operating from three field offices. The Denver, Colorado office has national responsibility for cattle and sheep; Des Moines, Iowa office has national responsibility for pork; and the Atlanta, Georgia office has national responsibility for poultry.

Mr. Skeen: How has the restructuring affected USDA's ability to investigate anti-competitive practices?

Response: The restructuring has strengthened GIPSA's capability to investigate possible unfair and anti-competitive practices and provides greater flexibility and efficiency in enforcing the trade practice and payment protection provisions of the P&S Act. Additional economic, statistical, and legal expertise have been added to the field offices, thereby increasing the efficiency and effectiveness of P&S staff in investigating anti-competitive practices. The larger field offices will give GIPSA the critical mass of personnel needed to address complex anti-competitive issues.

USER FEES

Mr. Skeen: Mr. Secretary, on the issue of user fees, I want to thank you for your efforts in providing us with a meat and poultry inspection budget that does not assume the enactment of user fees. This was the case with last year's budget, as you know, and it caused considerable trouble for all of us.

But your budget request proposes something like 30 legislative initiatives, including user fees. In past years this type of legislation has been sent to the Hill and never gone any further. One year, no legislation was ever sent up.

Do you have sponsors for this legislation this year and is there an Administration plan to lobby for its passage?

Response: At this time we do not have sponsors for this legislation. We will work cooperatively with Congress to ensure thorough consideration of this proposal.

DISCRIMINATION CASE BACKLOG

Mr. Skeen: Mr. Secretary, the GAO reported last month that several deadlines have passed for resolving the backlog of employment and program discrimination complaints. Where are you now on these backlogs?

Response: There were 1,088 program discrimination complaints in the backlog. All of those cases have been resolved with the exception of ten cases where complainants did not accept a resolution offer, eight cases that are being resolved through further investigation, and the class member cases.

There were 2,142 cases in the employment backlog. Of those over 1,500 have been resolved.

CIVIL RIGHTS SETTLEMENT

Mr. Skeen: How much will the civil rights settlement cost the Department in Fiscal Years 1999 and 2000 in management and other activities and from which accounts will this money be paid?

Response: All settlements under the Consent Decree are to be paid from the Judgement Fund described in 31 USC Sec 1304. However, there will be additional costs including management, administrative, contract obligations, debt relief and in some instances other forms of programmatic relief, e.g. farm ownership and operating loans. At this time we do not know the number of farmers who will choose to participate in the Consent Decree nor can we determine the number of farmers who will choose to opt out of the Consent Decree and engage in negotiated settlements. Given the above it is difficult to estimate what the cost will be. Since the Farm Service Agency (FSA) administers all of the programs covered by the class action suit, FSA will incur most of the costs. The costs will be incurred during FY 1999 and FY 2000, and it is anticipated that they will be taken from budget allocations.

SALARIES AND EXPENSES

Mr. Skeen: On page 6 of your testimony, it appears FSA Federal and County staffing is going down to about 15,800 staff years next year. You also talk about expanding and improving programs and you are asking for an \$80 million increase in salaries and expenses. How much will the workload increase be next year and do you have the staff year equivalent in the office to do the job?

Response: Although the FY 2000 budget request is an \$80.0 million increase from the FY 1999 President's Budget request, it is a \$40.5 million increase from the enacted FY 1999 appropriation. The emergency funding of \$40.0 million included in the FY 1999 Appropriations Act allowed FSA to avoid a budgeted staffing reduction and allowed us to maintain approximately the same staffing level in FY 1999 as FY 1998. It did not provide for any additional staff to handle the large workload increases associated with the new emergency disaster assistance programs or the increased activity in loan deficiency payments, marketing loan assistance and other producer assistance activities stemming from low prices. Future workload increases and necessary staffing for FY 2000 are difficult to predict at this time. However, current economic

analysis suggests a continuing downturn in the agricultural economy for the next year or two. Workload demands will likely exceed the budget estimate as field offices strive to keep up with a growing backlog of previous year workload and to meet new workload demands stemming from current re-estimates of LDP activity and marketing assistance loans. Additionally, because of previous departmental streamlining and rightsizing in county offices, many of our experienced county office employees have either retired or taken buyouts in order to achieve the downsizing goals.

P.L. 480

Mr. Skeen: Mr. Secretary, the budget proposes cuts in the P.L. 480 food aid titles next year, particularly in Title I. At the same time, you are putting together a food aid package for Russia with a Title I component paid for by CCC. What is the logic in cutting the Title I discretionary program while spending more from CCC for the same purpose?

Response: It should be noted that the reduction in P.L. 480 programming proposed for 2000 is exaggerated because of the Title I assistance being programmed to Russia this year. If the assistance to Russia, which results from some extraordinary circumstances, is excluded from this year's P.L. 480 program level, the reduction is considerably less. Nevertheless, as noted, the President's budget does include a reduction in funding for P.L. 480 for 2000. This is due to the very constrained targets that have been established for discretionary spending government-wide in conjunction with efforts to balance the Federal budget. A higher program level for P.L. 480 might have been preferred, but it was not possible given the spending targets that must be complied with.

As mentioned, the food assistance program for Russia is the result of unique and rather dire circumstances Russia is facing this year. The transfer of CCC funds to P.L. 480 Title I to support the Russian program was based on a Secretarial determination of an extraordinary emergency. That authority is rarely used and is certainly not expected to become a permanent means of funding P.L. 480 activities.

CCC PROJECTIONS

Mr. Skeen: On page 8 of your testimony, you project a decline in CCC outlays of about \$6 billion next year. Some of your legislative proposals call for increased CCC spending. What are the principal reasons for the projected decline?

Response: The major reasons for projected decline include the: (1) Expiration of \$5.7 billion of 1999 emergency and market loss assistance (2) a decrease of \$1.2 billion in the costs of the Section 416(b) Food Aid initiative announced by the President on July 18, 1998 and, (3) a decrease in production flexibility payments of \$502 million partially offset by an increase in commodity net lending of \$1.2 billion (including \$400 million in Dairy Recourse Loans), and a projected increase of \$909 million in loan deficiency payments.

RURAL RENTAL HOUSING

Mr. Skeen: The budget request proposes spending \$440 million for the Rural rental Assistance programs this year. We appropriated more money than that for rental assistance in 1994 with the amount going up every year at the Administration's request. Every year, rural development staff tells us all of that money is necessary. How is it possible to get along with \$140 million less than this year.

Response: The budget request is for \$640 million with the provision that \$200 million of that amount be made available on the first day of FY 2001. The funding is for five year contracts which facilitates spreading out the budget authority over a two year period. We do not envision that this will impede the flow of funds to the borrowers, nor impair the level of service to the tenants of these units.

CONTRACTING OUT

Mr. Skeen: Mr. Secretary, you mention in several places reductions in personnel from previous years. How much contracting out are you doing to

maintain or increase the level of programs and services after these reductions?

Response: Pursuant to the Federal Workforce Restructuring Act, we have been monitoring our overall service contracting levels as reported in our automated Procurement Reporting System. This data, which excludes construction and architect/engineering services, indicates that USDA is decreasing its use of service contractors. In effect, we have been "doing more with less" and are not relying on an increased level of contractor support in support of mission delivery.

Mr. Skeen: Secretary Glickman, before you became the Secretary of Agriculture, you represented Wichita, Kansas and the fourth Congressional district very ably for 18 years. You may recall that a tornado caused severe damage to McConnell Air Force Base in your district on April 26, 1991. Our Committee, and Congress, responded by appropriating \$43.15 million in supplemental funding for repair and replacement of facilities that were damaged and destroyed -- and this funding was essential to the continued operation of McConnell Air Force Base.

I mention this because the President's budget request now pending before us includes no supplemental funding for the Department of Agriculture. Our Committee will probably act on a supplemental bill in the near future, and we need the best information available for our action.

Does USDA have any additional funding requirements for fiscal year 1999? Does USDA have any supplemental budget requests currently pending at OMB? Can you tell us when and if we can expect to receive any official Administration supplemental request for USDA?

Response: The Department is currently considering some additional funding needs to help farmers during fiscal year 1999. We have been discussing the items with OMB.

[Clerk's note: Subsequent to the hearing, the Administration submitted a request to the Congress for \$152.4 million to provide urgently needed funds. The request includes \$109.6 million in budget authority to support \$1.1 billion in additional lending to farmers and ranchers for emergency, operating, and ownership loans. Also, \$42.8 million is requested for the Farm Service Agency to support greater than projected workload required to implement emergency farms programs for the remainder of the year. There are still some pending items that are under discussion with OMB for additional funding for FY 1999.]

CITRUS CANCKER

Mr. Skeen: Secretary Glickman, I have several questions regarding citrus canker in the State of Florida, for which I will ask you to provide responses for the record. I would appreciate your consideration in providing this information as quickly as possible. Where does citrus canker exist in Florida?

Response: Citrus Canker has been confirmed in three locations; a large 500 square mile area in Dade and Broward counties; a 60 square mile area in Manatee county; and a very limited infestation in 2 groves in Collier county.

Mr. Skeen: What is the actual impact of the disease today?

Response: There is little actual impact today because most of the infestation has been found in non commercial trees in residential neighborhoods.

Mr. Skeen: What is the potential future impact of the disease if it is not eliminated?

Response: The potential impact is devastating. The added production costs and market restrictions is estimated at \$200 million annually if the disease continues to spread and affect Florida's major citrus production areas.

Mr. Skeen: What methods are used to eradicate the disease?

Response: Once the survey and detection efforts identify an infestation, the infected trees should be removed quickly to prevent further spread.

Mr. Skeen: Describe any current eradication efforts, as well as the nature and extent of USDA's involvement in such efforts.

Response: We have a number of eradication efforts such as boll weevil, brucellosis, medfly, witchweed, Karnal bunt, tuberculosis and pseudorabies. APHIS provides National leadership and technical assistance for all of these efforts. Producers and States cooperate and often pay some or all of the program operating costs at the field level.

Mr. Skeen: What research opportunities exist regarding citrus canker eradication?

Response: The Agricultural Research Service (ARS) has allocated \$272,000 for citrus canker research in FY 1999 and 2000. The research focuses on the development of improved detection and identification of canker bacteria strains that cause lesions in the fruit of the infested plants.

The Cooperative State Research Education and Extension Service (CSREES) has provided \$16,559 in Hatch formula funds in FY 1998 for citrus canker research carried out by land-grant universities. In FY 1999 and 2000, Hatch funding is again used to support canker research, totalling \$17,718 and \$15,082 respectively.

Mr. Skeen: What are the plans and major challenges to successful eradication?

Response: In 1998, APHIS, State of Florida and citrus industry representatives developed a revised strategic plan to address eradication of the current infestation. This plan is now being peer reviewed by a Science Panel consisting of ARS, various universities and several State agencies. The challenge will be to develop a set of recommended actions based upon sound science and capable of being implemented on residential trees without imposing too many restrictions on the public's ease of movement.

Mr. Skeen: What additional work could be performed beyond that currently programmed for fiscal years 1999 and 2000, and at what additional cost?

Response: It has been estimated that \$167 million would be needed for the first four years of the program.

CONSERVATION RESERVE PROGRAM

Mr. Skeen: Mr. Secretary, we note from your testimony that nearly 6 million acres are expected to be enrolled in the Conservation Reserve Program during fiscal year 1999. What are the estimated technical assistance costs for enrolling the anticipated acreage?

Response: It is estimated that NRCS and FS technical assistance costs associated with the most recent CRP signup that ended December 11, 1998 and the continuous signup ending September 30, 1999 will be approximately \$68.4 million. The estimate for technical assistance is based on a general signup of 5.8 million acres and about 1 million acres during the continuous signup.

Mr. Skeen: How will the technical assistance costs be funded in fiscal year 1999?

Response: We are currently reviewing all potential options to provide adequate funds for technical assistance to reimburse the NRCS for services related to CRP during FY 1999. Funding is needed to support the development of conservation plans for the acreage likely to be accepted during signup 18. In addition, it will support the continuous signup and CREP activities planned for FY 1999.

Failure to locate additional funding to support the CRP technical assistance costs related to enrolling the anticipated 6.8 million acres in CRP during FY 1999, will result in a cessation of conservation planning on the 18th signup enrollment, continuous signup and CREP, according to NRCS. To date, USDA has utilized carryover unobligated funds previously appropriated for CRP to reimburse NRCS and Forest Service (FS) for these necessary

technical assistance expenses. However, only \$20,930,959 in unobligated CRP funds remains available for use in FY 1999. The current estimate indicates total costs for NRCS and FS technical assistance are \$68,418,168. Funds necessary for NRCS services in FY 1999 are estimated to be \$65,143,168.

Mr. Skeen: For the record, please provide the estimated acreage anticipated for fiscal year 2000, the estimated technical assistance costs and an explanation of how these costs will be funded.

Response: During FY 2000, it is estimated that there will be approximately 1.8 million acres accepted for enrollment in the program. However, the contracts will not be effective until FY 2001. The technical assistance costs to reimburse NRCS and FS are estimated to be \$18.1 million. It is unclear at this time how these funds will be obtained.

CCC SECTION 11 TRANSFERS AND REIMBURSEMENTS

Mr. Skeen: Please provide for the record a detailed listing of the CCC Section 11 transfers and reimbursements reflected in the fiscal year 2000 budget.

Response: We will provided a detailed listing for the record.

[The information follows:]

[illegible]

FY 2000 PRESIDENT'S BUDGET FOR REIMBURSABLE AGREEMENTS
(in thousands of dollars)

AGENCY	DESCRIPTION OF AGREEMENT	FY 1999 ESTIMATE		FY 2000 ESTIMATE		FY 2001 ESTIMATE		FY 2002 ESTIMATE		FY 2003 ESTIMATE		FY 2004 ESTIMATE	
		Obligations	Outlays	Obligations	Outlays	Obligations	Outlays	Obligations	Outlays	Obligations	Outlays	Obligations	Outlays
U.S. Air Force	Provide infrastructure, independent review of current practices, and educational programs.	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
ERS	Determine the estimated cost for transporting U.S. Cotton to northern Europe for AWP calculations.	5.0	5.0	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AMS	Provide PSA with sub-licensing of statistical software products.	8.4	8.4	8.4	8.4	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
GSA	Provide support services.	1,200.0	3,484.4	1,200.0	4,543.0	1,200.0	2,800.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
Clemson University	Conduct a statistical analysis on historical laboratory data of corn soy blend and other commodities purchased by CCC.	15.9	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prior Year Agreements	Outlays from FY 1995, FY 1996 and FY 1997 agreements.	0.0	223.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve	Reserve for unanticipated increase of new agreements under \$150,000.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
OTHER AGREEMENTS AMOUNT		1,904.3	4,414.9	1,886.4	6,231.4	1,889.0	3,487.0	1,795.0	1,792.0	1,703.0	1,796.0	1,703.0	1,703.0
CONSERVATION PROGRAMS													
NRCS	Provide technical assistance for Conservation Farm Option Program	0.0	0.0	2,822.4	2,822.4	8,466.5	8,088.7	8,088.7	8,088.7	7,958.7	7,958.7	7,983.7	7,983.7
NRCS	Provide technical assistance for Farmland Protection Program.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRCS	Provide technical assistance for Wetlands Reserve Program	9,800.0	9,800.0	9,800.0	9,800.0	3,800.0	3,800.0	4,300.0	4,300.0	4,800.0	4,800.0	4,875.0	4,875.0
CONSERVATION PROGRAMS AMOUNT		9,800.0	9,800.0	12,622.4	12,622.4	12,266.5	12,266.5	12,398.7	12,398.7	12,758.7	12,758.7	12,858.7	12,858.7
IRMA	Provide administrative support for the Dairy Options Pilot Program	250.0	225.0	250.0	250.0	250.0	250.0	250.0	250.0	100.0	125.0	0.0	0.0
TOTAL AGREEMENTS AMOUNT		28,905.2	31,422.1	31,713.7	34,930.7	31,713.7	33,174.4	31,713.7	31,748.9	31,713.7	31,948.7	31,713.7	31,713.7

FY 2000 PRESIDENT'S BUDGET FOR REIMBURSABLE AGREEMENTS
(in thousands of dollars)

AGENCY	DESCRIPTION OF AGREEMENT	FY 1999 ESTIMATE		FY 2000 ESTIMATE		FY 2001 ESTIMATE		FY 2002 ESTIMATE		FY 2003 ESTIMATE		FY 2004 ESTIMATE	
		Obligations	Outlays	Obligations	Outlays	Obligations	Outlays	Obligations	Outlays	Obligations	Outlays	Obligations	Outlays
Other Section 11 Activities:													
FSA Warehouse Examination and Licensing Activities	User-fee supported activity provides for the examination of warehouses licensed under the U.S. Warehouse Act and non-licensed warehouses storing CCC-owned or pledged commodities.	3,656.0	3,656.0	3,695.0	3,695.0	3,695.0	3,695.0	3,695.0	3,695.0	3,695.0	3,695.0	3,695.0	3,695.0
National Aerial Photography Program and Activities	Promotes the coordinated development, use, sharing, and dissemination of surveying, mapping, and related aerial photographic data among Federal and State agencies.	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
TOTAL OTHER SECTION 11 CHARTER ACT ACTIVITIES													
GRAND TOTAL		4,156.0	4,156.0	4,195.0	4,195.0	4,195.0	4,195.0	4,195.0	4,195.0	4,195.0	4,195.0	4,195.0	4,195.0
FY 1998 CAP 1/		33,261.2	34,778.1	36,208.7	38,415.7	36,208.7	37,689.4	36,208.7	36,243.9	36,208.7	36,443.7	36,208.7	36,208.7
REMAINING FISCAL YEAR BALANCES		36,208.7	36,208.7	36,208.7	36,208.7	36,208.7	36,208.7	36,208.7	36,208.7	36,208.7	36,208.7	36,208.7	36,208.7
		2,947.5	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1/ The size of the FY 1998 CAP was revised effective in FY 1999 to exclude the Emerging Markets Program from the base per Office of General Counsel opinion

CCC SECTION 11 FUNDED ACTIVITIES

Mr. Skeen: What activities, if any, are not being funded through CCC Section 11 that under current law would fall within that funding authority?

Response: CCC has authority under Section 11 of the CCC Charter Act to provide funds necessary for the implementation of CCC funded programs. This authority permits CCC funding of the technical services provided by NRCS and other government agencies. However, Section 161 of the 1996 Act limited Section 11 funding for any fiscal year to no more than the amount of such allotments and transfers made under Section 11 in FY 1995. Unfortunately, since CRP and other conservation programs were not funded by CCC in FY 1995 and the primary uses of Section 11 funds were not altered by the 1996 Act, there is no room within the cap to fund technical assistance provided by NRCS or other government agencies. The FY 2000 Budget reflects unfunded technical assistance of \$48 million for the CRP due to the CCC Section 11 restriction. The inability to provide funding to support technical assistance for conservation programs does not end in FY 1999. This problem will continue as long as the cap on reimbursable agreements restricts funding available for conservation technical assistance.

Mr. Skeen: How does the budget propose funding these activities?

Response: The budget does not propose any solution for the activities that are not covered by Section 11 funding. Section 161 of the Farm Bill amended Section 11 of the CCC Charter Act to limit annual reimbursements to government agencies for services supporting CCC programs to the level allotted for this purpose in 1995. Budget projections comply with these restrictions.

SUPPORT SERVICES BUREAU

Mr. Skeen: The fiscal year 2000 budget proposes funding for the Service Center Modernization Initiative to come from the individual agencies that are supported by the Support Services Bureau. How will the fiscal year 2000 funding decisions be made as they relate back to the ongoing work on individual agencies?

Response: The fiscal year 2000 budget includes a \$74,050,000 direct appropriation and \$16,231,000 from CCC funds for the Service Center Modernization Initiative (SCMI). No additional funding in support of the SCMI is requested in the individual agency budgets. The fiscal year 2000 budget also requests transfer authority in support of the consolidated administrative functions under the Support Services Bureau (SSB). To make all funding and managerial decisions under SSB, the Secretary has approved an organization which will establish a National Board of Directors. This Board is made up of the Administrator of the Farm Service Agency, the Deputy Under Secretary of Operations and Management of Rural Development, and the Chief of the Natural Resources Conservation Services. The SSB will be led by an Executive Director who reports to the Board. In support of the national structure, each state will have a Board of Directors and a single Administrative Support Unit. In addition to the State units, four unique program units have been identified. These entities will also have a Board of Directors and a single Administrative Support Unit. To ensure a single point of accountability for the SSB, the National Board of Directors will allocate administrative funds and delegate administrative authorities to the SSB Executive Director. The Executive Director and other senior leaders of the SSB will be fully responsible to the National Board for ensuring that the needs and requirements of the serviced agencies are met.

Mr. Skeen: What will happen to the ongoing activities that are currently funded by the individual agencies?

Response: The requested funding for the Service Center Modernization Initiative will support the ongoing change management, customer service, business process reengineering, and enabling technology projects. For the past several years, this effort has been funded by individual appropriations to the partner agencies, however, fiscal year 2000 agencies budgets do not include funding for this initiative. This account will replace those individual funding sources and provide for improved management and accountability as this initiative moves forward with major activities to reengineer business processes, acquire a common computing environment, and create "one-stop service" for customers.

QUESTIONS SUBMITTED BY MR. DICKEY

USDA's coordination with the EPA concerning the implementation of FQPA is of serious concern to me and many of my agriculture constituents. Agriculture comprises the largest industry within my district and the entire state of Arkansas. Many individuals, including myself, are concerned that EPA is more interested in using FQPA as a means to push an extreme environmental agenda, instead of using the Act to increase the competitiveness of the agricultural industry. I am particularly concerned with EPA's willingness to use unsound and unscientific data in their implementation. It is my opinion that unreliable data will delay the development of new and improved pesticides as well as facilitate hasty and unwarranted elimination of many critical pesticides.

FOOD QUALITY PROTECTION ACT

Mr. Dickey: Have you recently discussed with EPA Administrator Browner the need for science-based data when implementing FQPA?

Response: EPA Administrator Browner and I met on February 5, 1999, to discuss several aspects of FQPA implementation including the need for science-based data. We agreed that it was critical for all risk assessments and regulatory decisions to make full use of sound science and the best possible data. USDA data concerning pesticide use patterns, residue levels, and food consumption constitute critical information.

Mr. Dickey: Is USDA willing to intervene in the process if it is determined that unsound data is being used by EPA or if FQPA is being interpreted in a way which was not intended by the Congress?

Response: EPA and USDA have agreed upon processes to ensure USDA involvement in risk assessment, risk mitigation, and other aspects of FQPA implementation. USDA has major responsibilities under FQPA to provide sound data, and analysis for tolerance reassessment. Budget proposals for the Pesticide Data Program (\$13.1 million), pesticide use surveys (\$7.3 million) and pesticide impact assessment programs (\$6.5 million) are all focused on bringing sound data and analysis to bear on registration decisions. In addition, both EPA and USDA are committed to bringing transparency to the decision-making process so, all affected parties - registrants, growers, and consumers - are fully informed as decisions are ultimately made by EPA officials.

Mr. Dickey: Have you encountered any difficulties working with the EPA on FQPA implementation, and have they inhibited your ability to participate in its implementation?

Response: We have established a close working relationship with EPA. While it has been difficult to establish workable procedures to deal with the many complex requirements of the FQPA, EPA has not inhibited or encumbered our ability to work through the issues and develop what we now believe to be workable strategies.

Mr. Dickey: FQPA will most likely result in the elimination of certain or even many pesticides depending on the implementation and what the science tells us. At the present time, I am concerned that implementation is being unnecessarily focused on elimination of chemicals and little attention is being placed on chemical development and approval. How do you intend to ensure the competitiveness and viability of the agriculture industry if necessary chemicals are eliminated and the process to develop and replace these chemicals is delayed?

Response: One of the most important procedures that we have established with EPA involves the development of Transition Strategies. When final risk assessments indicate that a chemical or a use of a chemical must be canceled to meet the stringent new standards of the FQPA, USDA will take the lead in the development of Transition Strategies. These strategies will be developed in partnership with EPA and with broad stakeholder involvement. They will consider the pest management needs of growers in the competitive global market and utilize a wide variety of regulatory options to ensure adequate time for growers to move to alternative pest management schemes. EPA has committed to work with us to expedite the approval of critical new pest management and establish pesticide product registration priorities to meet FQPA driven needs.

FOOD QUALITY PROTECTION ACT

Mr. Dickey: Are you confident in the availability of replacement chemicals for farmers that are of equal or superior quality?

Response: Currently, farmers who produce the major feed and grain crops such as corn, soybeans, wheat, and cotton enjoy a wide range of cost-competitive alternative pest management tools. Of greatest concern are the producers of fruit and vegetable crops typically referred to as minor or specialty crops. Because of limited markets and the great cost of developing new pest management chemicals, producers of these minor crops have limited options and are likely to face more serious challenges in shifting from current chemicals and practices to new lower risk production methods. The Department's Minor Crop Pest Management Program (IR-4), for many years, has assisted the minor crop producers by developing the data needed to expand the registration of basic chemicals to include minor crops. This program is now aggressively pursuing the research and data development needed to bring new chemistry on line and made available. We cannot now say that these new controls will be as efficacious as existing products; but we can say that our research programs are committed to finding cost-effective solutions to the problems. In FY 1999, we are planning to place an IR-4 employee in the EPA Office of Pesticide Programs to help identify priorities and to assist in expediting the tolerance review process. In FY 2000, we are seeking an additional \$1.7 million for the IR-4 program to develop additional data needed for the registration of minor-use pesticides.

Mr. Dickey: How active is the USDA's role in overseeing the implementation and data collection for FQPA?

Response: As I have already mentioned, several USDA programs provide data that are important in the risk assessment process. In many cases, these data have been available for years but may not have been fully utilized. Since the implementation of the FQPA began, we are exercising greater stewardship over our data to ensure it is used both appropriately and to the fullest extent possible. We have also initiated the development of new data bases such as the Crop Profiles and the "pipeline" data base. Crop profiles are currently available on the internet. We are also working closely with EPA to identify additional data needs. The USDA Pesticide Data Program now is collecting data on "single serving" commodities to assist in the acute risk assessments and, under the FY 2000 budget which proposes an increase of \$2.4 million for PDP to develop a program that includes sampling for pesticide residues in drinking water, meat, poultry, and eggs.

Mr. Dickey: Do you feel that implementation of FQPA and the subsequent loss of pesticides has the potential to shift portions of the industry to areas with less restrictive policies?

Response: It is difficult to predict the impact of FQPA on geo-political shifts in production. Numerous factors including costs of labor, land, and water costs as well as climate and innovations in shipping and handling have already produced such shifts. Pesticide cost and availability could be contributing factors to any future dislocations. However, these forces are already at work where products are registered in other parts of the world but not in the U.S. We are working with EPA and the pesticide manufacturers toward greater harmonization.

Mr. Dickey: It is extremely important that this process be completely transparent to the agriculture industry as a whole. It is my opinion that the best way to implement FQPA is to make the industry a partner and not an outsider. It is my fear that if the industry is not provided oversight of FQPA implementation the industry will not find EPA's decisions as credible or informed. Do you feel that this process has provided the agriculture industry the ability to oversee implementation?

Response: The process that is evolving has provided the agricultural industry with much greater involvement in the regulatory process. One of the first accomplishments of the Tolerance Reassessment Advisory Committee (TRAC) which is co-chaired by Deputy Secretary Rominger and the EPA Deputy Administrator was to establish a pilot program to open the process to the public. Prior to this time, negotiations on pesticide risk reduction were conducted by EPA and the registrants while others were not involved.

FOOD QUALITY PROTECTION ACT

Mr. Dickey: What are you doing to actively ensure that the industry has the ability to oversee the implementation process?

Response: At appropriate times throughout the process, we will consult with the agricultural industry and bring them into the process. We are also relying on the Land Grant Universities for much of the data and first-hand information. We are encouraging our cooperators at the Land Grant Universities to improve communications with growers and become even more active partners in the process.

COTTON INDUSTRY

Mr. Dickey: On July 15, 1998, I was one of many members to sign a letter to you requesting your assistance and cooperation in making the Department's analytical and financial resources available to address the serious condition facing the U.S. cotton industry. As we witness the troubling financial situations across the world combined with low yield production in our domestic markets, the cotton industry faces dire financial straits. Can you assess the domestic cotton situation in terms of financial viability for the coming year.

Response: There is no doubt that cotton farmers have suffered declining prospects along with producers of grains, oilseeds and livestock. Despite reduced cotton production in 1998, projected prices remain depressed and incentives this spring for cotton seem to be negative. However, despite poor price prospects, cotton may be one of the less unattractive planting options for farmers in 1999. Though USDA has not yet released the first report on planted acreage intentions, indications from the industry are that cotton acreage in 1999 could be higher than it was in 1998.

Additional information on cotton prices and prospects will be provided for the record

[The information follows:].

In looking at various cotton price series during this marketing year, since August 1, 1998, it is easy to understand farmers' pessimism. The most widely recognized measure of world cotton prices, the "A" Index, has declined steadily from 68 cents per pound in August to 56 cents at the end of February, a drop of about 12 cents. Similarly, the U.S. northern Europe quotation has lost about 7 cents since August. The fact that the U.S. quote did not fall as far as the "A" Index is an indicator of the deteriorating competitive position of U.S. cotton that has resulted from large foreign crops and a poor U.S. crop in 1998.

However, the decline in the New York December 1999 futures contract indicates more difficult times ahead in cotton growing. That price has plummeted from around 71 cents last August to only 58 cents at the end of February. The December futures price offers farmers a clear idea of what their prices may be at harvest. Based on recent December futures prices, cash prices at harvest may not be appreciably above the loan rate of about 52 cents.

USDA estimates the national average variable cost of production for the 1999 crop at around 50 cents per pound. But, these are just the out-of-pocket costs for inputs. Our estimate of the national average total cash expense to grow cotton is around 60 cents per pound. These costs are more inclusive and encompass taxes, interest, and mortgage payments as well as input costs. One cannot remain in farming in the long run without paying these costs.

Based only on recent December futures prices, the profit margin on cotton in 1999 would appear to be thin to non-existent. However, program benefits may make the difference again in 1999 between a small profit and a loss. Producers who sold ahead when futures were higher will be in a better profit position. Producers are factoring in government payments for the 1999 flexibility contracts, about 7.7 cents, and they are expecting marketing loan benefits, in the form of either loan deficiency payments or gains from the lower repayment prices, of another few cents. Thus, the 1999 season begins to look more like most past seasons. With luck, producers can expect at least to break even, but they will need average or

better weather and average or lower insect pressure.

COTTON INDUSTRY

Mr. Dickey: The cotton industry uses a three step competitiveness plan designed to make U.S. cotton competitive, for both domestic textile mills and for export markets. Each step was designed so as not to be mutually exclusive of another and so that one step would work in conjunction with another. Unfortunately, step two of the program has exhausted the \$701 million allocation which was to remain available throughout the 7 year life of the farm bill. This is of serious concern to me and the cotton farmers within my district. Is it your opinion that the three step program can operate and remain effective without the assistance of step 2?

Response: The competitiveness program should be adequate for the immediate future. Step 3 import quotas will provide U.S. mills with the cotton they need in the current period to continue struggling for their share of the world textile trade. After next harvest, Step 3 should shut down as U.S. supplies become adequate and the U.S. price moves back into line with world prices. However, as the 1999 marketing year progresses and U.S. supplies become less abundant, both exporters and domestic mills may begin to feel the pressure of competition that, if it were available, Step 2 could help address. This could start occurring late next fall, assuming a normal U.S. crop, or earlier if the crop is below normal.

Mr. Dickey: If yes, can you please explain how you intend to use steps 1 and 3 in a way that would address current and future problems?

Respondent: Step 3 is functioning as intended to help domestic mills maintain market share. With regard to step 1, with a current loan deficiency payment rate for cotton of about 10 cents per pound, we do not anticipate making use of these authorities in the immediate future.

Additional information on the use of the competitiveness program authorities will be provided for the record.

[The information follows:].

By its design, Step 3 is supposed to start and stop automatically with no action required of --or permitted to-- USDA. It has started this year at a time when it was needed. The actual importation of cotton likely will stop when the cotton is no longer needed. We cannot stop the continual announcements of new, unneeded import quotas. Since the adjustment of the U.S. northern Europe quote will be zero in the absence of Step 2, only the market can stop those superfluous announcements.

Under Step 1, USDA has authority to reduce the marketing loan repayment price, also known as the "adjusted world price" or AWP, whenever the U.S. northern Europe quotation exceeds the northern Europe price, as long as the calculated AWP is less than 115 percent of the loan rate. (We use the "A" Index to represent the northern Europe price.) Factors to be considered in determining whether a Step 1 adjustment should be made are specified in the law. They are: (1) the U.S. share of world exports, (2) the current level of cotton export sales and cotton export shipments, and (3) other relevant data, as available. Under that last category, we have considered the volume of loan activity to be very important.

The theory behind the adjustment of the AWP under Step 1 is that the authority can be used when it becomes clear that cotton is being maintained in the loan program and is not flowing into the market. The competitive position of U.S. cotton is being hurt as a result of the impediment to flow. With larger loan deficiency payments or gains from the lower loan repayment price, farmers are believed likely to forgo loans or redeem loans. Cotton will become available to the market. Competitiveness will be served.

We have no experience that would tell us if this theory is valid. The few instances in which Step 1 was invoked in the 1991 crop year did not appear to affect loan activity. However, the provision had just recently been enacted, and it is possible that it was not used aggressively enough. It does increase budget exposure, and that always has been an important consideration. Between January 1994 and December 1997, Step 1 adjustments

were not possible because the AWP was too high.

There are two schools of thought on the implementation of Step 1 adjustments: (1) Step 1 adjustments to the AWP should be used sparingly and intermittently to entice farmers to redeem loans or forgo loans as needed to relieve temporary constrictions in market flow; or (2) Step 1 should be incorporated into a larger pricing strategy designed to enhance U.S. competitiveness in world cotton trade.

Under the first approach, if heavy loan placements appear imminent, it is argued that a reduced AWP could help move cotton into the market instead of to the loan. These results are predicted because farmers will perceive either that they will earn a larger marketing loan gain if they redeem loan cotton or that they will earn a larger LDP by deciding not to place the cotton in the loan. Under this line of reasoning, the key ingredient for Step 1 to work properly is **uncertainty**. Farmers should never be sure whether USDA will again announce a Step 1 adjustment in the following week. Therefore, to take advantage of the increased benefit, they must move in the current week. One thing we have learned recently concerning this approach is that, once farmers become cognizant of the mere **possibility** that Step 1 might be invoked, they tend to hold their cotton off the market so they do not "miss" the extra benefit. This defeats the purpose of Step 1.

Under the second approach, Step 1 should be operated during a specific period to provide "carry-plus" so that U.S. cotton can be offered in world trade at more competitive prices. The AWP would float at some level under where it would regularly be. The loan deficiency payment rate or gain from marketing loan redemptions would be constant from week to week, while the AWP would fluctuate from week to week, as it does now. This approach would, in effect, move the pricing structure downward and should contribute to competitiveness. It would not encourage speculative holding, as the first approach appears to do. Under this approach, Step 1 could function in the same general manner as Step 2 had functioned before the funding went dry, i.e., as a means of reducing the U.S. price level in both domestic and international trade.

Mr. Dickey: If no, what should be done to address the situation? For example, would the best solution simply be to reinstate step 2, or would it be more expedient to authorize a new competitiveness program.

Response: We are not prepared at this time to suggest that a complete overhaul of the three-step competitiveness process be undertaken. Both Step 1 and Step 3 are valuable.

It appears that Step 2 did contribute to the export sales of U.S. cotton, particularly in the 1998 marketing year. For a clear indication of that, we have only to look at the record during the ten weeks since Step 2 ended. Over that time, we have had sales of upland cotton totaling about 315,000 bales, but we have had cancellations of existing sales totaling about 220,000 bales. That is a net plus of only 95,000 bales, or less than 10,000 bales sold per week, on average, compared to an average of about 195,000 bales sold per week while Step 2 was operating.

As to whether Step 2 should be reinstated, the principal issue would be where to find the money, a question with which the congressional budgeting process must deal.

COTTON INDUSTRY

Mr. Dickey: How much funding would it require to make step 2 solvent throughout the remaining years of the farm bill?

Response: My understanding is that in excess of \$1 billion might well be required to keep an open-ended program running until July 31, 2003. Additional information on factors affecting program costs will be provided for the record.

[The information follows:].

The amount of money that might be needed to operate a Step 2 program without interruption through the end of the 2002/03 marketing year can only

be roughly estimated, based on forecasts of the U.S. and foreign cotton supply and demand situation. Such variables as the U.S. price, the "A" Index, and the production abroad are impossible to forecast with accuracy. Even the psychology of the key player in the market would be important and could be influenced by whether there is an annual cap on the money or an open-ended provision of funds. In excess of \$1 billion might well be required to keep an open-ended program running until July 31, 2003.

QUESTIONS SUBMITTED BY MR. BONILLA

CHILDREN'S FOOD PYRAMID

Mr. Bonilla: I understand the office of Food, Nutrition, and Consumer Services is developing a new food pyramid for children, ages 2-6 due to be released next month. Meanwhile, I understand the Dietary Guidelines are being revised and are due for publication early next year. If the food pyramid is designed to be a pictorial representation of the guidelines, why release the pyramid before the guidelines are finalized and all the best available science is in?

Response: The Food Guide Pyramid is a pictorial representation of the Dietary Guidelines. The Pyramid illustrates key Guideline concepts like variety and proportionality. But the graphic does not provide many details. We anticipate that the Guidelines will be refined in details. So the refinements are not likely to affect the presentation needed for the target group, children 2-6. We used the best available science for the Pyramid for young children and are confident that it will be well received and will help parents and caregivers.

PEER REVIEW OF PYRAMID AND OTHER FOOD GUIDES

Mr. Bonilla: How and by whom are the documents like the food pyramid peer reviewed?

Response: The new child pyramid has been reviewed by USDA nutritionists, by dietitians, other nutrition professionals, by focus groups of parents and caregivers of children from the target groups, by food manufacturers and commodity groups, and by other interested parties. This has been completed over the 2-year development process. In addition to confirming that the pyramid is an excellent graphic for presenting this information, we have made a number of refinements in presentation to make sure children and their care providers properly understand the pyramid. Since you may seek more specific details on the review process, I will ask for those details and provide them later.

[The information follows:]

Throughout the process of developing the adaptation of the Food Guide Pyramid for Young Children, input was provided from an Interagency Working Group, formed to facilitate information exchange throughout the project. The group included representatives from the Agricultural Research Service; the Cooperative State Research, Education and Extension Service; the Food and Nutrition Service; the Office of Disease Prevention and Health Promotion in the Department of Health and Human Services (HHS); the Maternal and Child Health Bureau at HHS; and the Centers for Disease Control at HHS. The materials were also reviewed by USDA's Dietary Guidance Working Group and HHS' Nutrition Policy Board Committee on Dietary Guidance. Also, comments were received from staff at the Beltsville Human Nutrition Research Center, the Children's Human Nutrition Research Center at Baylor University in Houston, and the Children's Human Nutrition Research Center at the University of Arkansas in Little Rock.

Further, comments were received from a number of food manufacturers and commodities groups expressing various concerns, largely about items portrayed in the pyramid. Based on these comments, most of which we viewed as reasonable and valid, changes were made in the pyramid.

QUESTIONS SUBMITTED BY MR. LATHAM

46 PERCENT OF INFANTS RECEIVE WIC

Mr. Latham: On page 25 of your testimony, you state that over 46 percent of the infants born in America are WIC participants. However, I think the child poverty rate is around the 20 to 23 percent range. Will means testing reduce the 46 percent participation level?

Response: Concerns about the accuracy of WIC applicant income reporting led the Administration to request and Congress to include in last year's WIC reauthorization, language requiring households seeking certification or recertification to provide documentation of family income. While means testing has been the rule for the program for years, not all States required documentation of applicant income. While we anticipate that some families will be determined to have incomes above the allowable levels, this will is not expected to much affect the proportion of America's infants that WIC will help.

The high proportion of infants who participate in WIC reflect the relatively high rates of eligibility among infants. Younger women, with very young children, are typically less well off than those with older children or adult households. For example, 1997 data from the Census Bureau show about 20 percent of infants and children under 5 were in households in poverty, while 10 percent of adults 18-59 were. Similarly, the proportion of infants below 185 percent of poverty, the WIC means-testing threshold, is nearly twice as high as the proportion of adults in households with incomes at that level.

NATIONAL RESEARCH INITIATIVE

Mr. Latham: The National Research Initiative (NRI) receives a considerable boost, over \$100 million. Does the Department intend to favor competitive research grants as long as the proposals share the research priorities of the Administration?

Response: The USDA believes that competitive grants provide an avenue to encourage a large segment of the scientific community to participate in research important to agriculture. The NRI, like other USDA competitive programs are designed to support research in Administrative priority areas such as agricultural genomics, food safety, and small farms. A significant portion of the proposed NRI increase is targeted toward top priority areas.

Mr. Latham: Will the Department give preference to those NRI proposals that focus on food safety, climate change, and sustainable ecosystems?

Response: The Department has proposed major increases for the NRI in food safety, and for programs that encompass climate change issues. Sustainable ecosystems is supported through a number of NRI programs including the Ecosystem Sciences and Agricultural Systems programs. Both programs have been designated for increases in FY 2000.

POSTED COUNTY PRICE

Mr. Latham: I have heard a large number of complaints about the Posted County Price and the wide discrepancies that were witnessed among counties. In fact, in Iowa we had producers going out of their way to get the best County Price. How is the PCP being determined and do you feel there needs to be a change in the way the PCP is calculated?

Response: A discussion of the PCP system will be provided for the record.

[The information follows:].

The purpose of the PCP system, which was established in the early 1980's and remains virtually unchanged today, was to determine a value as close to the market price as possible in any given area, thereby providing producers with equitable, but not necessarily equal value for their commodity.

The three following key components make up the PCP pricing system.

Terminal markets. Generally, for each commodity, each county is assigned two terminal markets, which are selected because they are the predominant markets that most often influence local pricing. Normally one of the terminal markets represents a domestic market and other represents an export market.

Differentials which were developed based upon the seasonal average relationship between local cash prices and the assigned terminal market prices. This relationship reflects the actual cash prices obtained from local merchants during a specified time period, and are based on yearly averages rather than daily absolutes. While transportation is an integral part of a differential, the degree of its influence is dependant on the type of grain. For example, feed grain prices are generally influenced by local feeding demand, and when that is the case, the cost of transportation to the terminal market location is not the predominant factor in determining the differential.

Terminal Market Prices which are based on actual sales and bids, both "spot" and "to arrive" at the 19 terminal markets. Terminal markets are used to establish daily prices because they have actual cash trades on most trading days, are less subject to nominal quotes, and reflect some actual volume of trading.

One of the imperfections of this system is that it does not adjust to quick changes in basis (county average differentials) or certain other short-term, day-to-day swings, and some people erroneously believe that the relationship of LDP payments between the neighboring States and counties is a measure of the accuracy of PCP's. Because PCP's are designed to follow market conditions, the only measure of accuracy of the PCP is the comparison of the local cash prices to the PCP.

While this pricing system has served its purpose well throughout the years and is generally accepted by the warehouse industry and farmers, we will analyze various options to change the calculation methods for marketing assistance loan repayments and Loan Deficiency Payments (LDP's) to provide a more uniform distribution of benefits over wider geographic areas so as to alleviate the type of market distortions that were seen during the 1998 marketing year.

FOOD QUALITY PROTECTION ACT

Mr. Latham: As the EPA works to implement the Food Quality Protection Act, many questions are arising concerning the prospects of retaining pesticides for crop uses and public health uses, like mosquito control. What effort is the USDA making with EPA to protect and preserve important pesticide uses?

Response: Throughout the process, the Department will identify high priority uses for agriculture and ensure that due consideration is given to these uses. The Department of Health and Human Services is involved, with EPA, in issue involving the control of public health pests. Should any high priority agricultural use appear in jeopardy, it will become a priority for the development and implementation of a Transition Strategy as well as research for effective pest management.

TRADE NEGOTIATIONS

Mr. Latham: Trade is critical to the success or failure of the farm economy. What role will agriculture play during upcoming WTO talks this December? Will agriculture take a back seat to the technology sector?

Response: The upcoming WTO negotiations will be of great benefit to U.S. agriculture, as these talks will provide the opportunity to press ahead toward the goal of opening world agricultural markets and bringing greater discipline to international agricultural trade. Agriculture and Services form the "built-in" or mandatory agenda for the upcoming WTO negotiations in the year 2000. Therefore, agriculture has been the focus of much of the preparatory work of the United States and other countries that seek further substantial liberalization. There is also an international recognition of the work left to be done to bring agriculture trade in line with other industry sectors under the WTO rules, which should contribute to an early and positive outcome for agriculture.

QUESTIONS SUBMITTED BY MRS. EMERSON

TRADE SANCTIONS

Mrs. Emerson: There is some question as to how many trade sanctions are currently in place and how much this costs U.S. agriculture. One estimate that I have from the Farm Bureau is that there are 120 unilateral trade sanctions in place and more than half of those have been implemented in the last 4 years. Does the Department know or have estimates as to how much these sanctions cost American farmers in lost sales? I would like to request from the Department a list of countries that are currently subject to U.S. trade sanctions. I would also like an assessment of how much these sanctions cost American farmers in lost sales.

Response: The countries where unilateral economic sanctions are currently having a significant effect on U.S. agricultural exports include Cuba, Iran, North Korea, Libya, and Sudan. At present, the United States has unilaterally prohibited the export of food and medicine to only those five countries. Multilateral sanctions in compliance with U.N. mandates where agriculture is affected are in place for Iraq. According to a recent USDA analysis, the overall impact of the sanctions in place for the six countries -- Cuba, Iran, North Korea, Libya, Sudan, and Iraq -- is a worldwide reduction in U.S. agricultural exports of approximately \$500 million per year. Wheat is the commodity most affected by the sanctions, costing U.S. wheat producers roughly one million tons in lost exports this year. For 1999, this would translate into 3.3 percent of total U.S. wheat exports or approximately 1.4 percent of U.S. wheat production.

There have been many exaggerated claims about the impact of economic sanctions. The large numbers of countries supposedly affected -- upward of 80 countries by some accounts -- includes countries where, for example, Defense Department aid is prohibited due to the countries supporting terrorism or where imports made by prison slave labor are not allowed. Those sorts of sanctions are not economic sanctions that affect agriculture.

Mrs. Emerson: What is the Department doing to remove these damaging sanction?

Response: USDA has been working within the Administration to support the policy that food and agricultural products -- including commercial sales -- should be exempt from unilateral sanctions, absent some compelling circumstances. The Administration has been working with Congress on a broad sanctions reform solution, and that general principle is part of the reform proposals.

In the specific case of Cuba, on January 5, 1999, the President announced an initiative to enhance U.S. support of the Cuban people and to promote a peaceful transition to democracy. As part of the initiative, the United States is implementing certain "new measures" including allowing exports of food and certain agricultural commodities to Cuba. Exports are limited to non-governmental entities in Cuba so that eligible recipients are effectively small "mom and pop" shops, private farmers and restaurants. While this represents an important first step, the immediate impact on the level of U.S. agricultural exports to Cuba is likely not to be great. USDA will continue to work with the Commerce Department in drafting the regulations that will govern these sales.

With respect to Iran, last December, the Treasury Department received a request for approval of a license to broker a sale of approximately \$500 million in agriculture exports to Iran. While a sale of this kind is currently prohibited under the terms of the comprehensive embargo against Iran, the request is being given serious consideration by the Administration. USDA is working to ensure that all points of view are represented in the decision-making process.

Mrs. Emerson: Is there anything in your budget request which would address this situation?

Response: There is nothing specific with respect to sanctions in the USDA budget request.

TRADE SANCTIONS

Mrs. Emerson: Would you commit today to being an advocate within the administration to removing these sanctions and to working with Congress toward the same end?

Response: Yes, USDA will continue to work within the Administration to ensure that the views of agriculture are represented vigorously in the interagency process and in working with Congress.

STATUS OF COTTON FARMERS APPEALS

Mrs. Emerson: What is the status of the appeals made to your Department by cotton farmers in my Congressional District regarding cotton loan deficiency payments?

Response: The appeals are currently being reviewed by the Agency.

Mrs. Emerson: When do you expect to rule on these appeals and will you agree to notifying my office as soon as any action is taken on one or more of these appeals?

Response: We expect to rule on these appeals soon and will notify your office when we make a ruling.

Mrs. Emerson: If the Department denies these appeals, how much money, in total, would farmers in my Congressional District be denied?

Response: This cannot be determined as the farmers will receive some monies.

RISK MANAGEMENT EDUCATION

COTTON COVERAGE

Mrs. Emerson: Many people in the agriculture community agree that crop insurance must be strengthened. Buy-up coverage must be made more affordable, to levels higher than 65 percent of yield, and should include price as well as production.

I am very concerned about how some commodities are treated in the current crop insurance program. For example, only 0.4% of cotton acreage in my Congressional district is insured with buy-up coverage. How would you explain this? Does this not indicate a serious flaw in the program?

Response: Such a small percentage of buy-up participation generally indicates that many producers believe that the cost of insurance exceeds the probable benefits. The cost of insurance is based on the losses paid to producers in each county with some pooling of losses at the state level. Thus, high premium rates and low participation indicate that losses have not been distributed proportionately among producers in each county, but instead have overwhelmingly been paid to a few for some reason. The few that have benefitted have caused much higher costs for the remainder.

One might question whether this outcome is the result of a serious flaw in the program or potential program abuse by individual producers; i.e., a few collecting a lot. Presumably, a flaw in the program that permitted inappropriate collections of losses but that was legal would have enticed many persons to participate. High losses among few participants would be more indicative of potential program abuse. Low participation is a concern regardless of its cause, and the administration wants to resolve the reasons for it and develop strategies to improve participation.

Mrs. Emerson: Will the Department work to reform the crop insurance program so that all commodities are treated fairly? Are you aware, for example, that cotton producers receive about \$4 in coverage for every \$1 in premium compared to a \$14 to \$1 ratio for corn? Can I have a commitment from you that you will work to help farmers, such as those growing cotton and rice, who have been shortchanged by the crop insurance program?

Response: The administration will work with interested groups to resolve issues that result in high premium costs and low participation for producers of some crops in some areas. Because premium rates are based on losses

collected by producers in each county and state, they can be reduced only if the causes of the high losses paid to those producers can be corrected. In the past several months, RMA has worked with cotton growers to analyze reasons for high premium rates and low participation that occurs in some states for that crop. A report of that analysis will be submitted to the Congress by April 30. Recommendations for changes will be included in that report.

GLOBAL CHANGE RESEARCH

Ms. Emerson: In releasing your budget request, you indicated that you were increasing funding for climate change research by \$34 million. What is this money being spent on particularly in view of the fact the Kyoto Treaty has not been approved by the Senate?

Response: USDA-sponsored research focuses on understanding terrestrial systems and the effects of global change (including water balance, atmospheric deposition, and UV-B radiation) on food, fiber, and forestry production in agricultural, forest, and range ecosystems and examines how agricultural and forestry activities can contribute to a reduction in greenhouse gases. USDA research provides policy-makers and agricultural producers with useful, scientific data and information. This research is integral to USDA's critical mission—ensuring an adequate and affordable supply of food and fiber while protecting the natural resource base for future generations. For example:

- *Interactions between terrestrial ecosystems and the atmosphere:* Understanding the controls on gaseous exchanges (e.g., water, carbon dioxide, nitrous oxide, nitric oxide, and sulfur dioxide) between plants and the atmosphere will improve our ability to manage crop production and yield.
- *Methane generation and nitrous oxide release:* An improved understanding of processes controlling the uptake and release of these radiatively active trace gases is also of benefit in other sectors of the agricultural enterprise.
- *Soil properties:* Although much emphasis is being placed on the potential for forest, range and agricultural soils to serve as carbon sinks, this very characteristic of soils has always been a critical consideration in agricultural practice.
- *The relationship of climate and agricultural production:* Our global change research enhances our ability to both predict weather events at the local and regional scales and to develop response strategies that will balance agricultural demands with those of other sectors. This research also enhances our capacity to develop agricultural, range and forest management systems that are less sensitive to environmental variations, thus stabilizing rural economies and food and fiber production.
- *Contributions of agricultural sources of methyl bromide to stratospheric ozone depletion (and possible alternatives and substitutes for this fumigant):* Our research in this arena is necessary to diversify our options for environmentally-friendly pathogen control.

In FY 2000, USDA is requesting a \$34.1 million increase for global change research and soil carbon studies. Of this increase \$23.7 million is focused on increasing our carbon cycle research programs and carbon data collection. (\$5.0 million, ARS; \$0.7 million, ERS; \$12.0 million NRCS; \$6.0 million FS). This increase will be used to better understand how agricultural and forestry practices affect the net carbon balance and develop methods which will assist farmers, ranchers, and forest landowners to increase carbon sequestration and improve soil quality. USDA will also catalog and provide Internet access to carbon sequestration research data and information.

Additional increases in USDA global change research include:

- *Mitigating Climate Change Impacts on Food Availability* (\$2.0 million increase, ARS). ARS will expand research to determine how elevated temperatures reduce seed production in certain crops.
- *Impacts of Atmospheric and Climatic Change on Alaskan Agro-Ecosystems* (\$1.0 million increase, ARS). Predictions that climate change will

significantly affect high latitudes have been underscored by recent evidence of warming in Alaska.

- *UV-B Monitoring (\$0.6 million increase, CSREES)*. The Network provides data necessary for research on the effects on UV-B radiation on plant growth and ecosystem health and research on the factors controlling UV-B irradiance. The Network also provides ground truth for satellite based measurements of UV-B irradiance. The requested increase restores funding to the FY 1997 level and is essential for the continuation of the USDA UV-B Monitoring Program.
- *Improved Response Models, National Research Initiative (\$6.0 million, increase, CSREES)*. The NRI is a competitive grants program that supports fundamental and mission-linked research. The USGCRP component of the NRI will increase our understanding of the possible impacts of global environmental change on the sustainability of agriculture and forestry.
- *Regional/Sectoral/National Assessment (\$0.8 million increase, total, ARS, ERS, NRCS)*. Assessments play an integrative role across the USGCRP program by assembling and synthesizing scientific results, increasing interaction among scientists and the public, and identifying gaps in knowledge. The current National Assessment of the Consequences of Climate Variability and Change satisfies the mandate of the Global Change Research Act of 1990 to prepare and submit to the President and the Congress "an assessment which integrates, evaluates, and interprets the findings of the Program..."

GLOBAL GLOBAL CHANGE RESEARCH

Ms. Emerson: I have a very difficult time believing that limited agricultural research dollars should be spent on global climate change. What does this research do for farmers?

Response: Research conducted at USDA will improve our overall understanding of how agriculture and forestry can be affected by climate change. Our basic research provides the ground work for developing and demonstrating cost-effective strategies to reduce agriculture and forestry sources of greenhouse gases and the development and demonstration of management strategies and tools to adapt to climate change. Our research and technology programs also focus on demonstrating to farmers, ranchers and private forest landowners opportunities for sequestering carbon — a potentially economically valuable commodity. We also provide easy access to data and information on carbon sequestration.

In FY 1998 and 1999 USDA's global change research programs accounted for about 3% of the total USDA research and development budget. In FY 2000, the requested amount accounts for about 6% of the total USDA research and development budget. Our global change research provides spill-overs that address other USDA research and policy goals. For example our carbon sequestration programs focus on soil organic matter to improve water quality, reduce erosion and the amount of fertilizer inputs required to produce a crop and increase resistance to drought. Conservation practices including tillage, crop rotation, and planting of trees and grasses in buffer strips on highly erodible cropland, improves forage production and the availability on grazing lands. There are several reasons for requesting increases in for global change research:

The linkages between agriculture, forestry and climate are not fully understood. Temperature increases can have both positive and negative effects on crop and forest yields, with the difference depending on location and on the magnitude of the increase. While climate change is not expected to threaten the U.S. ability to produce enough food to feed itself through the next century, regional production patterns are likely to change. Better tools and greater access to research data are needed to explain and predict how agriculture and forestry will be affected by climate change.

Agricultural and forestry systems are most sensitive to extreme climatic events such as floods, wind storms, and droughts, and to seasonal variability. Climate change could alter the frequency and magnitude of extreme events and change seasonal patterns. Increases in rainfall intensity pose a threat to agriculture and forestry and the environment because heavy rainfall is primarily responsible for soil erosion, leaching

of agricultural chemicals, and runoff that carries livestock waste and nutrients into water bodies. Adjustment costs are likely to be higher with greater rates of change. Improved understanding of how extreme events could affect agriculture and forestry is needed to develop appropriate management systems.

Farmers, ranchers, and private forest landowners will require a number of adaptation options to mitigate the effects of climate change. Strategies such as changing planting and harvest dates, rotating crops, selecting varieties for cultivation, changing irrigation practices, fertilizers and pesticide use, and choosing cultivation and forest management practices can lessen potential yield losses from climate change and improve yields in regions where climate change has beneficial effects. Additional research on the adaptation of appropriate strategies is needed to gain a better understanding of the factors that affect enterprise level adoption such as information flow, access to capital, and the role of public programs and policies.

Agriculture and forestry activities can help sequester carbon and reduce greenhouse gas emissions. Agriculture and forestry activities can reduce atmospheric CO₂ through tree-planting and adoption of a wide range of management practices that sequester significant amounts of carbon and through increased development of biofuel cropping systems that could help replace fossil fuels. Further research is needed to measure the extent of carbon that can be sequestered; assess the economic opportunity for sequestration; and analyze the potential (both technical and economic) for bio-based fuels.

CATTLE IMPORTS FROM MEXICO AND CANADA

Mrs. Emerson: Many beef producers are concerned about cattle imports from Mexico and Canada. Do you believe that Mexico and Canada are abiding by trade laws?

Response: Following the U.S.-Canada Free Trade Agreement and the North American Free Trade Agreement (NAFTA), the North American cattle and beef markets have become increasingly integrated, as cattle and beef trade and cross-border investments have grown rapidly. As a result, Canada became the largest supplier of imported beef to the U.S. market in 1996, displacing Australia after many years.

In 1998, as a result of this surge of imports, the Ranchers-Cattlemen Actions Legal Foundation (R-CALF) was organized to investigate how and under what circumstances imports of live cattle are entering the United States, and to pursue appropriate legal remedies. R-CALF filed antidumping and countervailing duty complaints against Canada and an antidumping complaint against Mexico in October. The Department of Commerce and the International Trade Commission are pursuing an investigation based on these complaints. In January, the ITC determined that imports of cattle from Mexico were not causing injury to the domestic industry and discontinued the investigation on Mexico. The investigations on Canadian imports are not expected to be completed until spring of this year.

There is considerable trade in cattle and beef between the United States and Mexico. On balance, the U.S. has a positive trade balance in beef and cattle with Mexico of more than \$200 million. On October 21st Mexican authorities agreed to investigate an antidumping complaint by the Mexican cattlemen against U.S. cattle, beef, and offals. We will continue to urge Mexico to adhere to their agreements under NAFTA and the WTO in the determination of this antidumping case.

Mrs. Emerson: Do you believe that the situation highlights the importance of country-of-origin labeling?

Response: As directed by the Omnibus Consolidated and Emergency Supplemental Appropriations Act for Fiscal Year 1999, we are conducting a study on the potential effects of country-of-origin labeling on imported beef and lamb muscle cuts. As part of this study we will also review the regulations and policies governing the use of the U.S. grade stamp on meat from animals imported into the U.S. The report will be submitted to Congress in April, as directed.

QUESTIONS SUBMITTED BY MRS. EMERSON

BIODIESEL

Mrs. Emerson: As you know, Congress passed as part of the omnibus package last year a provision that qualifies Biodiesel as an alternative fuel under the Energy Policy Act. Ultimately, this could raise the farm price of a bushel of soybeans by 7 to 14 cents. Is there anything in your budget which encourages the Department of Agriculture to use Biodiesel-powered vehicles in its fleets? Is the Department leading by example?

Response: The Department of Agriculture is leading by example to carry out the intent of Congress on this issue. Now that biodiesel qualifies as an alternative fuel under the Energy Policy Act, we are better positioned to promote its use in our own fleet as one way to meet requirements of EPAct and Executive Order 13031, "Federal Alternative Fueled Vehicle Leadership." To that end, we are in the process of identifying by specific location the diesel vehicles in our fleet that could utilize the biodiesel alternative fuel. We are working with the American Soybean Association and others to address the fueling infrastructure issues and the commercial availability of biodiesel in specified localities and will strongly encourage our field fleet managers to use this alternative fuel. Also, we have recommended that biodiesel be included in the language as Executive Order 13031 is being revised.

In addition, we have focused on biodiesel in our development of a Biobased Products List under Executive Order 13101, "Greening the Government Through Waste Prevention, Recycling, and Federal Acquisition."

TIMBER SALES ON THE MARK TWAIN NATIONAL FOREST

Mrs. Emerson: In the Mark Twain National Forest, 90 percent of which is in my Congressional District, the harvest level has dropped more than 40 percent in the past five years and is continuing to do so today. This has occurred despite the fact that the Mark Twain has been a profitable forest and despite the fact that Congress increased the budget for the timber sale program last year. Because of internal USDA budget decisions, sawmills are closing, loggers are out of work, and an industry that traditionally generates an income of \$30 million annually is in serious trouble. What does your budget request do to prevent further damage to the timber industry in Southern Missouri, not just in dollars, but in administering the timber sale program and ensuring that harvest levels in the Mark Twain are consistent with harvest capability?

Response: It is certainly true that the volume of timber sold by the Forest Service has declined significantly from the 1980's. On a national basis this has been due to conflicts with other resource needs, particularly the preservation of habitat for threatened and endangered wildlife species. There is also a recognition of the need to use some of the timber program to deal with serious forest health problems through salvage sales to forestall cataclysmic wildfires, and this has limited the resources available for timber sales developed for purely commodity purposes. Finally, both the Administration and the Congress have recognized the importance of watershed restoration, outdoor recreation and other Forest Service programs which compete with timber sales for resources. I am not personally familiar with the situation on the Mark Twain National Forest and have asked the Forest Service to provide specific information.

[The information follows:]

Between 1994 and 1998 the timber volume in the Forest Service Eastern Region, which includes the Mark Twain National Forest, has remained fairly level, averaging about 580 Million Board Feet (MBF). However, the capability for 1999 has decreased to 515 MBF. The main reason for this decrease is that several forests, including the Mark Twain, are in formal consultation with the US Fish and Wildlife Service on the Indiana Bat, an endangered species. While in formal consultation, forests are unable to process any timber sales in the endangered species habitat area.

Timber funding to the Eastern Region has increased each year since 1994. However, these funding increases covered the continuing increases in unit cost. In 1994 the regional average unit cost was \$36.97 per thousand board feet, today the average regional unit cost is \$66.90 per thousand

board feet. Unit costs have increased primarily because of increased appeals and litigation regionwide.

Timber sale funding on the Mark Twain National Forest has been steady over the past five years. However, timber sale volume sold over the past 5-6 years has dropped because unit costs have increased due to more appeals and litigation over the Endangered Species Act, the National Environmental Policy Act, the formal consultation process with US Fish and Wildlife Service (related to the Indiana Bat), and the increased workload of project level analysis associated with those appeals and court cases and the second level review after projects are appealed.

The timber volume sold by the Mark Twain over the past few years has corresponded with the forest's requested capability for those same years. The requested capability has been decreasing, for the same reasons that the timber sold volume has decreased.

The Mark Twain's requested timber volume capability for FY 2000 remains at a decreased level of 32 MBF because of appeals and court cases concerning the Indiana Bat, a need to amend the Forest Plan following the formal consultation with the US Fish and Wildlife Service, and the need to rebuild the forest timber pipeline. Once these problems have been dealt with, it would be possible to increase the timber sale volume on the forest to 45 MBF, assuming continued funding.

Timber volume sold on the Mark Twain National Forest in the past 6 years dropped about 37%.

1994 Sale Volume - 54.4 MBF
1999 Sale Volume - 34.5 MBF

QUESTIONS SUBMITTED BY MS. DELAURO

KEY INDICATORS OF WIC'S SUCCESS

Ms. DeLauro: Secretary Glickman, the WIC program currently serves approximately 7.5 million mothers and children. In your testimony, you state that the program is widely credited with reducing anemia and improving other key indicators of early childhood health. What are some of these key improvements?

Response: WIC is credited with being key to reductions in anemia. WIC also improves birth weight, immunization rates, breastfeeding rates, and reduces infant mortality. These achievements result in significant, near and long-term savings in health care costs for recipient families as well as for the Federal Government.

[The information follows:]

Over the past 25 years, many studies have documented the success of the WIC Program in improving the health and nutritional status of women, infants, and children. In addition to reducing the incidence of iron deficiency anemia, the WIC Program has demonstrated effects on the following:

- Significantly improves children's diets.
- Improves the growth of at-risk infants and children.
- Increases the likelihood that children have a regular source of medical care.
- Increases the likelihood that children receive proper immunization.
- Improves participant children's cognitive development.
- Reduces infant mortality and neonatal mortality rates.
- Increases breastfeeding rates.

WIC ESTABLISHES DIETARY HABITS

Ms. DeLauro: How does the WIC program help children establish patterns of diet and nutrition that will benefit them as they grow up?

Response: The WIC program achieves dietary improvements in child recipients through nutrition education to the mothers, as well as directly to the children. Nutrition education to small WIC children is delivered through puppet shows, videos, games and more. About a quarter of a billion dollars a year are invested in WIC nutrition education and breastfeeding promotion and it has lasting effects for the recipients. The food package reinforces the nutritional messages. Also, of particular interest is the WIC farmers' market program. This program provides additional vouchers to WIC participants to encourage them to provide fresh fruits and vegetables to their family, both providing immediate nutritional benefits and setting a good example.

Ms. DeLauro: As you know, the USDA Inspector General completed an evaluation of the Office of Civil Rights in September 1998. According to this report, "the backlog of complaints of civil rights violations, although reduced, still stands at 615 cases as of September 11, 1998" and the office had made virtually no progress in addressing this issue. Forty of the cases actually could not be found. Furthermore, many of the adjudicators in charge of determining whether discrimination occurred were student interns. I commend the Administration for its dedication in addressing this critical issue. Specifically, what management changes are you planning and how many additional staffers is the USDA planning to hire to address this problem? Once these changes are in place, how long should it take to eliminate the backlog of cases?

Response: The backlog of civil rights program discrimination cases has been virtually eliminated. Elimination of the backlog was expedited by the Secretary establishing a Resolution Taskforce in the Fall of 1998 which prevented further delay in the resolution of backlog cases and ensured that cases previously closed were done in accordance with the Office of Civil

Rights policies and regulations. The Taskforce reviewed 694 backlog cases of which 232 were open and 462 had been closed. To assure new cases are resolved in a timely manner, we have developed new program discrimination complaint processing procedures and issued them as Departmental Regulations 4330-2 and 4330-3. Under these procedures program discrimination complaints will be resolved generally within 180 days. The Office of Civil Rights has been authorized 30 additional staff to help achieve this goal.

FOOD SAFETY

Ms. DeLauro: In the coming weeks, Representative Lowey and I will drop the Safe Food Act of 1999 to consolidate the Federal Government's food safety responsibilities under a single independent agency. From your experience of coordinating the USDA food safety efforts with other parts of the Federal Government, what suggestions would you give to ensure the creation of a strong and efficient food safety agency?

Response: The President's Council on Food Safety of which I am a co-chairperson is currently assessing the National Academy of Science (NAS) report *Ensuring Safe Food from Production to Consumption*. The NAS report provided the Council with valuable insight into the strengths and weaknesses of the current Federal food safety system. The assessment will address recommendations regarding the creation of a strong and efficient food safety system. I will be pleased to provide you with the Council's assessment of the NAS report upon its completion, which should be within the next month.

QUESTION SUBMITTED BY MR. OBEY

CO-LOCATION - CLOSING THE STEVENS POINT OFFICE OF RURAL DEVELOPMENT

Mr. Obey: In your testimony you refer to efficiencies from co-location of state and county USDA offices. You rightly point to the success of your efforts to streamline USDA offices and the reduction of 6,000 staff since 1963.

However, I am concerned about the possible relocation of the current Rural Development office from Stevens Point in my district to Madison. I am told that it will cost \$2.25 million to \$2.5 million to pay for the relocation, and that there will be an additional \$100,000 staff costs annually.

Now, keep in mind that most Rural Development programs are based upon median household income. The area with the lowest median household income in Wisconsin are in the northern counties. The highest median incomes are in the south and southeast. If you move that office from Stevens Point to Madison you will be taking it away from the very people it is intended to serve. I don't see how that will improve service.

If you are to close the Stevens Point office and move it to Madison then I think that you are going to demonstrate that it is cost effective to do so. I would ask for your assurance that you will not close that office unless you can demonstrate that it is cost effective.

Response: I can assure that, if approved, the closure of the Stevens Point office and move to Madison will be cost-effective. The Department does not approve any office closures and/or moves prior to developing a cost/benefit analysis that demonstrates without a doubt that the proposed office closure is cost-effective.

QUESTIONS SUBMITTED FOR MR. GILMAN

CROP INSURANCE PROGRAM

Mr. Gilman: In recent years, a number of producers who have suffered substantial crop losses have found themselves frustrated by a crop insurance program that does not provide them with adequate aid. It has become increasingly clear that the current crop insurance program is not working. In fact, there are numerous growers in my district facing bankruptcy due to a series of disastrous weather conditions during both the 1996 and 1998 growing seasons. It is clear that the current program needs to be changed as USDA prepares its FY 2000 budget. What provisions have been included to enact these changes and what kind of changes can be expected?

Response: On February 1, 1999, the Department released a white paper entitled "Strengthening the Farm Safety Net: The Administration's Principles and Preliminary Proposals for Reforming Crop Insurance." A copy of this paper is submitted for the record. The Administration proposes a dialogue with the Congress with regard to strengthening crop insurance in several key areas. Briefly, these are:

- Speed new, more flexible risk management tools to market by providing incentives to commercial insurers to develop insurance policies that meet the needs of producers.
- Make the level of protection under the catastrophic insurance coverage and the Non-insured Assistance Program (NAP) more meaningful in terms of replacing farm income in disaster years.
- Increase the incentives for producers to purchase higher levels of insurance protection.
- Cover multi-year disasters so that the cumulative effects of several disasters within a short number of years are mitigated.
- Extend insurance protection to livestock.
- Improve the NAP program by making the determinations more flexible than is possible with the current area trigger.
- Provide better information and services to farmers and ranchers so that they will better understand and manage the risks that confront them.

Mr. Gilman: Faced with substantial crop losses last year, many producers found themselves having no considerable yields resulting in a lack of revenue to enable them to prepare for this year's growing season. If direct aid is not provided, many will soon find themselves out of business. What measures can USDA take to provide this desperately needed aid?

Response: The Congress provided \$1.5 billion for 1998 crop losses and \$875 million for multiple year crop losses. Producers must apply for this assistance no later than March 12, 1999. USDA intends to process the applications as rapidly as possible so that the funds may be disbursed to producers with the least possible delay.

QUESTIONS SUBMITTED BY MRS. ROYBAL-ALLARD

PROCUREMENT DIVERSITY

Mrs. Roybal-Allard: What percentage of the Department's prime and subcontracting dollars go to socially disadvantaged businesses--SDB's? Please provide figures for the past five years if available. In addition, please provide a regional and ethnic breakdown if available.

Response: We will provide the information for the record.

[The information follows:]

Percentage of the Department's Prime and Subcontracting Dollars for Socially Disadvantaged Businesses:

<u>Fiscal Year</u>	<u>% of Contracts</u>	<u>% of Subcontracts</u>
1994	6.51	Records Unavailable
1995	5.48	2.23
1996	7.74	5.10
1997	4.47	5.30
1998	6.41	3.10

The U.S. Department of Agriculture--USDA--uses the Federal Procurement Data System maintained by the General Services Administration to track small business achievements. Currently, this system does not allow the input of contract award data by ethnicity or regional breakdowns.

Mrs. Roybal-Allard: Describe the Department's outreach efforts to SDB's to increase their participation in procurement opportunities.

Response: For fiscal year 1999, USDA's Office of Small and Disadvantaged Business Utilization--OSDBU--has implemented an aggressive outreach program that targets the small disadvantaged business community. To target specific under-represented small business communities, OSDBU has established Memorandums of Understanding--MOU's--with the following Professional Organizations and Associations: the Nation Black Chamber of Commerce, the National Indian Business Association, the League of United Latin American Citizens, and the Business Women's Network.

Additionally, OSDBU is negotiating an MOU with the National Hispanic Chamber of Commerce. OSDBU has established guidance for monitoring agencies' support for small, disadvantaged and women-owned businesses within the civil rights performance element of Senior Executives. In 1997, OSDBU issued guidance outlining specific core criteria for establishing small business outreach plans and established a quarterly monitoring process to evaluate progress.

Mrs. Roybal-Allard: What kind of guidance, if any, is given to prime contractors to increase their use of SDB's? Describe how the Department monitors contractors with regard to SDB's.

Response: OSDBU established a 5 percent Departmental SDB subcontracting goal in fiscal year 1997. To assist USDA contracting officers in evaluating the adequacy of subcontracting plans, OSDBU developed and issued a Subcontracting Evaluation Guide Book. To supplement these guidelines, Departmental policy was established requiring all subcontracting plans to be evaluated by OSDBU staff. Additionally, OSDBU sponsors an annual subcontracting forum that brings USDA prime contractors and small businesses together to discuss changes in subcontracting regulations and provide network opportunities for small businesses.

USDA contracting officers monitor all aspects of USDA contracts. This includes fulfilling goals established in subcontracting plans.

EMPLOYMENT DIVERSITY

Mrs. Roybal-Allard: What kind of recruitment strategies is the Department implementing in order to diversify the Department's workforce?

Response: USDA has supported the President's Welfare to Work initiative by hiring 374 welfare recipients by the end of December 1998. This represents 100 percent of our goal. USDA worked closely with community-based organizations to accomplish this goal.

Through the USDA's Demonstration Project in the Agricultural Research Service and Forest Service, USDA has experienced enhanced recruitment assistance from the State Employment Offices--SEO. All sites in these agencies are using the simplified hiring system of the project which replaces the Office of Personnel Management's--OPM's--delegated examining authorities. Each demonstration project vacancy must be forwarded to OPM's Federal Job Opportunities Listing as well as local SEO.

The USDA Student Intern Programs for 1998 were the most diverse programs in USDA and extremely successful. USDA employed a total of 4,201 students. This is more than a 35 percent increase from the 1997 total of 3,170. USDA's students include both able bodied individuals and persons with disabilities. Additionally, USDA's students are 51.5 percent male; 48.5 percent female; 16 percent African American; 9.6 percent Hispanic; 4.1 percent Asian; 4 percent Native American; and 66.2 percent white. The 4,201 total includes 99 Hispanic students who were recruited from the 225 Hispanic Association of Colleges and Universities--HACU--institutions as part of the HACU Intern Program, and 27 students with severe disabilities.

USDA continues its partnership with the Prince George's County Public School System. The partnership, named the Government Connection, moves the classroom into the Department to facilitate the training of students to fill apprenticeship positions in the clerical and technical support fields. Since the program's inception in 1993, USDA has hired 142 students from High Point High School. The Government Connection is providing challenging work for students as well as income, and will provide an opportunity for conversion to permanent employment after graduation, or will allow students to pursue their goals for higher education.

This year, eight USDA Mission Areas had 224 employees participating in the Career Enhancement Program--CEP. CEP is USDA's program which allows motivated and high potential employees who possess limited formal education to receive accelerated training which will allow them to advance through the ranks. The program places emphasis on persons who are in dead-end jobs at grades GS-1 to GS-10.

In cooperation with the 1890 Historically Black Land-Grant Institutions, USDA continues to recruit students interested in careers in agriculture through our National Scholars Program. During fiscal year 1998, 32 students were selected for the program. Additionally, USDA continues its Woodrow Wilson Fellows Program, a partnership with the Woodrow Wilson Foundation designed to assist students in achieving their higher education goals at the seventeen 1890 Historically Black Land-Grant Institutions. Graduate fellows are selected from USDA's 1890 National Scholars Program enrolled in one of the seventeen 1890 Historically Black Land Grant Institutions. During the past year, three graduate fellows were selected to meet immediate and long-term staffing needs.

Mrs. Roybal-Allard: Describe the Department's efforts in complying with the Office of Personnel Management's recommendation to open up vacancies to individuals outside your Department and the Federal workforce. For example, has the Department allocated funds for recruitment literature, travel to conferences or other recruitment strategies to diversify your workforce?

Response: This year, as well as, last year, budget and staff-year reductions continued to create a definite employment barrier in appointing qualified employees to permanent positions. We are continuing to explore creative ways to increase minority representation in the workforce. We monitor all Departmentwide recruitment initiatives to ensure that USDA continues to demonstrate exemplary outreach practices, achieve long-term objectives, and chart new territory for diversifying our workforce. All Mission Areas are strengthening local outreach and recruitment programs to

increase the representation of minority groups and women in all of our occupations. USDA continues its "pioneering" reputation of instituting programs that other Federal Departments and agencies emulate.

USDA Mission Areas continue to develop and implement several exciting and comprehensive recruitment programs to achieve the Department's workforce diversity objectives. I will provide you with some examples of USDA mission area activities.

[The information follows:]

Farm and Foreign Agricultural Services

The Kansas City Management Office and Kansas City Commodity Office provided more than 40 mentors to the J.S. Chick and Sanford B. Ladd Elementary Schools, which have a predominant African American enrollment. The Kansas City complex also provided several tutors to the Alta Vista Education Center, an alternative high school with predominantly Hispanic students. Tutoring services were also provided to East High School in Kansas City which is a multi-cultural school with emphasis on agri-business. In Headquarters, employees provide mentoring to students at the Van Ness Elementary School in the areas of reading and math.

Natural Resources and Environment

The Natural Resources Conservation Service--NRCS. In fiscal year 1998, NRCS continued working with the American Indian Science and Engineering Society--AISES--to develop and encourage American Indian students to consider careers and obtain work experience with NRCS and USDA. NRCS developed an agreement with AISES to hire student summer interns to work in various disciplines. The purpose of the program is to encourage students to pursue careers relevant to NRCS' mission as well as to expand and strengthen ties among AISES, NRCS, and the minority community.

The Forest Service is continuing several strategies for diversifying its work force. In particular, emphasis has been placed on recruiting minorities into natural resources occupations and people with disabilities into professional and administrative occupations at the entry levels of the organization through 11 Multicultural Workforce Strategic Initiatives--MWSI. Several years ago, FS recognized that minorities were greatly underrepresented among the students available for entry hiring in natural resources occupations and adopted financial assistance initiatives at various targeted educational institutions with high minority enrollment and natural resources curriculums. The 11 MWSI include initiatives with primarily Hispanic institutions, African American institutions, American Indian institutions, an institution with a large Asian/Pacific Islander population, the DOD-led Persons with Disabilities initiative at numerous educational institutions, a Job Corps Center with a disadvantaged youth population, and several other multi-ethnic institutions in California. During fiscal year 1998, the FS hired about 175 students from these institutions and converted eight students who graduated into permanent positions. During fiscal year 1999, the FS plans to have about 250 students on board in these MWSI's.

Marketing and Regulatory Programs

The Animal and Plant Health Inspection Service, continued working with a number of Universities. Including Lincoln University, Missouri, in support of the university's Center of Excellence in Wildlife Management; Southern University, an 1890 Land-Grant Institution in Baton Rouge, Louisiana by providing scholarships, exchange faculty and conduct property transfers; the University of Arkansas at Pine Bluff's Regulatory Sciences and Risk Assessment Center by providing and coordinating 10-week exploratory internship for students enrolled in the Regulatory Science Program at the University of Arkansas at Pine Bluff.

The Agricultural Marketing Service--AMS--participated in numerous career fairs, including California State polytechnic University Pomona and San Luis Obispo, Mississippi State University, North Carolina A&T University, Texas A&M University, Prairie A&M University, and the University of Puerto Rico. The Livestock and Seed Program participated in the Native American

Outreach Conference in Tahlequah, Oklahoma. AMS serves as the lead Agency in implementing the World Food Distribution Center of Excellence at Prairie View University and has sponsored many high school and university outreach efforts.

Office of the Chief Financial Officer--OCFO

The National Finance Center--NFC, an OCFO subordinate unit in New Orleans, Louisiana, hosted three Community Outreach Programs for students and faculty advisors of three local high schools. NFC continues Cooperative Education Working Agreements with Southern University and Xavier University. NFC entered into a Memorandum of Understanding in fiscal year 1993 with Historically Black Colleges and Universities in the area. As a result, NFC offers employment opportunities for students and faculty, provides trainers, allows for transfer of surplus/excess property, and provide a variety of other activities to assist the universities and their students. NFC utilizes special employment programs and participates in career day activities at high schools and universities in the greater New Orleans area.

Mrs. Roybal-Allard: Describe the Department's efforts to comply with OPM's recommendation that agencies sponsor federal employment information "touch screens" at university campuses. Provide a list of the sites that have been selected and note those that are located in colleges and universities with high minority populations. How does the department select sites for touch screens?

Response: The Hispanic Advisory Council and the Office of Human Resources Management have been working together to participate in the Federal Employment Information Touchscreen Computer Kiosks Initiative to provide "touch screen kiosks" at HACU institutions in order to provide student and faculty members with federal job listings, information on the Presidential Management Intern program, and summer employment program. The Department of Agriculture has two excess "touch screen kiosks" which will be utilized for this initiative. The HAC has selected the two educational institutions based on affiliations with the Department of Agriculture and their acceptance of the kiosks. The educational institutions selected are Modesto Junior College in Modesto, California and San Diego State Junior College in San Diego, California.

OFFICE OF THE CHIEF ECONOMIST

Mr. Skeen: Please provide a list of the Congressional hearings where the Chief Economist testified in fiscal year 1998.

Response: The Chief Economist testified during fiscal year 1998 at the following hearings:

- Principal USDA witness, October 9, 1997, Outlook for U.S. Agricultural Markets, Before the House Agriculture Subcommittee on General Farm Commodities;
- Principal USDA witness, June 10, 1998, Issues Facing the Red Meat Industry, Before the Senate Committee on Agriculture, Nutrition, and Forestry.
- Panel witness supporting Secretary Glickman, February 10, 1998, USDA Appropriations, Before the Senate Committee on Appropriations, Subcommittee on Agriculture, Rural Development, and Related Agencies;
- Panel witness supporting Secretary Glickman, February 12, 1998, FY 1999 USDA Appropriations, Before the House Committee on Appropriations, Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies;
- Panel witness supporting Secretary Glickman, April 30, 1998, Long-term Transportation Strategy, Before the Senate Committee on Agriculture, Nutrition, and Forestry;
- Panel witness supporting Secretary Glickman, July 30, 1998, State of the Agricultural Economy, Before the House Committee on Agriculture; and
- Panel witness supporting Deputy Secretary Rominger, March 5, 1998, Global Climate Change, Before the Senate Committee on Agriculture, Nutrition, and Forestry.

USDA ACTIVITIES ASSOCIATED WITH SUSTAINABLE AGRICULTURE

Mr. Skeen: Please provide the committee with a status report on USDA activities associated with sustainable agriculture.

Response: Sustainable agriculture is one of three policy and program arenas identified by Secretary Glickman in September 1996 in Secretary's Memorandum 9500-6 on Sustainable Development requiring coordination. USDA's Director of Sustainable Development works with other USDA and Federal agencies and many others in coordinating policies, programs, activities, and education in the arenas of sustainable agriculture, sustainable forest management, and sustainable rural community development. Activities underway in these three related policy and program arenas are being carried out to advance the principles and goals of sustainable development through partnerships, collaboration, and outreach. The Director of Sustainable Development coordinates activities among USDA agencies to integrate sustainable development concepts into USDA policies and programs, ensures USDA participation in Federal interagency efforts, ensures USDA and the Secretary is represented in key international efforts, and works externally with a variety of organizations to deliver USDA policy and programs to better serve constituents. Examples of key USDA activities in these four major work areas follows.

USDA Coordination-Within USDA, interagency coordination efforts are being accomplished through a number of teams and workgroups. The Director of Sustainable Development chairs USDA's Council on Sustainable Development, staffs the USDA Council on Small Farms, and is a member of the Resource Conservation and Development Policy Advisory Board and the Biotechnology Internal Advisory Group.

Currently, the Director is working with others throughout USDA to link efforts to assist small farmers, ranchers, and woodlot owners with sustainable development efforts underway, and vice versa. For example, USDA is launching a new education campaign to help small farmers and ranchers be better stewards of the land and increase their profitability through the Sustainable Agriculture Research and Education-SARE-Program, as recommended by the National Small Farms Commission in its report, *A Time to Act*, to Secretary Glickman in January 1998. The goal of the education campaign, geared toward small producers plus field employees, is to get information into the hands of 50 percent of the producers and to reach 75 percent of USDA front line staff in the fundamentals of sustainable agriculture.

The USDA Council on Sustainable Development has implemented a Sustainable Agriculture Learning Initiative to bring together sustainable agriculture farmers with bankers and insurance specialists. The first pilot project will be delivered through the CSREES SARE professional development program in the California region. The USDA Council on Sustainable Development is also launching an education campaign on sustainable development for USDA employees.

Federal Interagency Efforts-USDA participation in interagency efforts relevant to sustainable development includes assisting the White House Council on Environmental Quality and Community Empowerment Board on shaping and implementing Federal interagency efforts. Current interagency efforts related to sustainable development involving a USDA focus include advancing work of the Sustainable Development Extension Network through pilots, such as in Burlington, Vermont, implementing the American Heritage Rivers Initiative through existing programs, serving on a Sustainable Development Indicators Work Group, which is launching an effort to test its indicator work through a series of regional workshops, and developing a Livable Communities effort which includes farm and forest land protection, urban sprawl, and direct marketing through food systems.

The Federal interagency effort to foster Livable Communities, for instance, focuses on helping states and communities maintain green space, including farm and forest land. Through USDA involvement, conservation-related work and programs which provide financial and technical assistance to landowners and communities are included in the Lands Legacy part of the Livability Agenda. These include the Urban and Community Forestry Program administered by the Forest Service, the Farmland Protection Program-FPP-of the Natural Resources Conservation Service, and the Forest Service's Forest Legacy Program-FLP. The FPP and FLP are two distinct but complementary programs which help farmers and forest landowners protect working lands from conversion to non-agricultural and non-forest uses through permanent conservation easements. USDA is working with the Bureau of Land Management, the Federal Highway Administration, and many others, including the American Farmland Trust, to help communities focus on ways to address the competition for land through a national conference titled "Keep America Growing: Balancing Working Lands and Development" being held in June 1999.

International Efforts-The Director of Sustainable Development continues to serve as the lead USDA member of the US delegation to the United Nations Commission on Sustainable Development-UNCSD-meetings in New York. The informal consultations between USDA and agriculture non-governmental organizations interested in sustainable development continue, specifically on sustainable agriculture, and have served as a model for participation in UNCSD by non-governmental organizations. As part of the 1998 UNCSD meetings which focused on sustainable business and industry, USDA participated in sponsoring numerous activities, including a panel of sustainable agriculture businesses to showcase several successful sustainable businesses and industries.

An intersessional meeting on sustainable agriculture and rural development to lead into the UNCSO meeting focused on the land based resources, which includes agriculture and forestry, in 2000 was established to take place in the Netherlands in September 1999, with the UN Food and Agriculture Organization-FAO, the task manager, as a technical cosponsor. As part of the scoping process being used by FAO to prepare for the Netherlands/FAO meeting, USDA and Agency for International Development cosponsored a public briefing and dialogue session at USDA to provide a forum for non-governmental organization participation in the development of the plan for the Netherlands meeting and identification of success stories that can be showcased at the meeting, as well as issues that need to be part of the discussion agenda. USDA and the Agency for International Development will partner, through USDA's Foreign Agricultural Service, to fund a staff person at FAO to assist in the development and management of the intersessional meeting in the Netherlands and the UNCSO meeting in the year 2000. In addition, the Director of Sustainable Development also works with FAS on other related FAO efforts and in developing USDA and U.S. government positions on related topics.

To help make progress towards the Presidential goal of achieving sustainable U.S. forest management by the year 2000, USDA has partnered with a broad base of environmental, state, academic, industry, and professional organizations to establish a sustainable forestry roundtable. The roundtable will work to implement over 100 recommendations of the UNCSO Intergovernmental Panel on Forests and the Criteria and Indicators for Sustainable Forest Management.

External Dialogue and Partnerships-USDA's Director of Sustainable Development, with the help of others throughout the Department, fosters and maintains dialogue with a variety of organizations about sustainable development including the Campaign for Sustainable Agriculture, the National Rural Development Partnership, farm and industry organizations, and national associations of state, tribal, and local governments.

Priority has been given to working with the President's Council on Sustainable Development-PCSD-as it completes its work. As USDA's liaison to the PCSD, the Director of Sustainable Development worked with task forces on developing recommendations and actions associated with reducing greenhouse gas emissions, building an environmental management system, strengthening communities, and fostering international sustainable development policy. USDA through the Director, took a lead role in directing the work of the PCSD's Metropolitan and Rural Strategies Task Force. The PCSD released its recommendations and actions for public comment and interagency review in January 1999. USDA is also taking a lead role in developing the PCSD sponsored National Town Meeting for a Sustainable America in Detroit, Michigan, on May 2-5, 1999. In addition, USDA is working with the Joint Center for Sustainable Communities, which is a partnership of the National Association of Counties and the U.S. Conference of Mayors, to maintain focus on rural communities and the linkages between rural and urban places. Thirdly, since September 1998, the Director has helped shape the work of a Roundtable on Sustainable Forests which has the goal of sustainable forests in the U.S. and serves as a forum to share information and perspectives. The Roundtable is initially focusing on implementing and promoting use of the Criteria and Indicators contained in the Santiago Declaration of the Montreal Process as a means for measuring national progress.

RISK ASSESSMENT RULE MAKING

Mr. Skeen: Please provide the Committee with examples of how risk assessment has improved rule making at USDA and update the information on the Office of Risk Assessment and Cost Benefit Analysis-ORACBA-activities from last year's testimony.

Response: First, key rules that benefitted from risk assessment are listed. Note that the assessments and the rules often extend beyond a single fiscal year. Second, the activities of ORACBA are updated in more detail.

Irradiation of beef-Since the Food and Drug Administration-FDA-had performed significant risk assessment for their approval of irradiation as an additive, the Food Safety and Inspection Service-FSIS-evaluated current information on the risks to human health, safety, and the environment to support the USDA rule.

E. coli O157:H7-FSIS began a farm-to-table risk assessment of *E. coli* O157:H7 in hamburger in September 1998, with completion scheduled for July 1999. The results of this risk assessment will give scientific support for developing future regulations as FSIS continues the change from command and control to food safety performance standards.

Listeria monocytogenes-FSIS and FDA have begun a risk analysis for this pathogen which has been in the news recently associated with the outbreak of Listeriosis spread by contaminated hot dogs and luncheon meats. This risk assessment will help both agencies to develop regulatory response to this potentially lethal bacteria.

Salmonella enteritidis-The results of the *Salmonella enteritidis* risk assessment were released in June 1998. This was the first major risk assessment of a food safety issue which looked at the entire farm-to-table food chain. FSIS and FDA both worked on this project; both agencies are using the results to develop better regulations to cover eggs and egg products.

Classical Swine Fever in the European Union-The Animal and Plant Health Inspection Service-APHIS-has prepared an extensive risk assessment and economic analysis for this rule which will apply the APHIS regionalization standards to the EU. A preliminary draft has been sent out for internal and external review but may need extensive revisions as APHIS is still seeking to implement the regionalization standards without violating the WTO Sanitary and Phytosanitary agreement.

Classical Swine Fever in several Mexican States-APHIS used a qualitative risk analysis of specific situations in each of the states, Sonora and Yucatan, to provide a clear evaluation of the risk of classical swine fever, also called hog cholera, outbreaks in the U.S. from allowing importation of pork and pork products from these regions. This was the first application of APHIS regionalization rules, on a small and non-controversial rule.

Exotic Newcastle Disease in several Mexican States-Similar to the previous paragraph, Mexico has asked for permission to ship poultry and poultry products from the states of Sinaloa and Sonora. A qualitative risk analysis of the conditions in these two states showed that the risk of outbreaks of exotic Newcastle disease-END-into the U.S. was very small. Another rule is currently being developed that will allow for importation of poultry products from Mexico as long as they originated in a recognized END-free region. This rule would allow U.S.-produced chickens to be processed in certain Mexican states. The risk analysis for this rule also shows the risk of an END outbreak to be very small.

The activities of ORACBA over the past year have been focused in the areas of environment, food safety and other areas. In the environment area, ORACBA has been involved in activities that improve pest and disease risk assessment as well as ecological risk assessment and risk management for farmlands.

The general overall risk assessments for the Conservation Reserve Program-CRP-and the Environmental Quality Incentives Program-EQIP-were completed and reviewed externally by the close of FY 1998. In developing the risk assessments, it became apparent that further analyses could provide insight into improving the programs for both EQIP and CRP. This work is being carried out through case studies managed cooperatively among the Natural Resources Conservation Service-NRCS, the Farm Service Agency-FSA, the Agricultural Research Service-ARS, several universities, and ORACBA.

The first NRCS case study seeks to model alternate conservation strategies for five watersheds, each in different regions. Soil and nutrient data for

each of these watersheds is being collected to allow comparisons and contrasts among the alternative conservation strategies. The other case history for NRCS concerns the flow of nutrients and microbial pathogens from farm animal hosts through the environment. The outcome of this study will provide USDA with information needed to better advise farmers on manure management.

The FSA case study considers one goal of the CRP, that of providing wildlife habitat. Currently all identified wildlife are vertebrates such as quail or pheasant; there are no invertebrates, animals without backbones, considered for conservation on CRP lands. ORACBA has identified native wild bees as wildlife which could add value to the CRP-enrolled lands. By selecting plants and bee habitat shelters carefully, bees can be attracted that would pollinate nearby crops. ORACBA is working with ARS and EPA on the development of this case study.

ORACBA has worked closely with APHIS in developing risk assessments for the interim rule on solid wood packing material-SWPM-from China. We are continuing active work with APHIS on the proposed rule for SWPM to the United States from any where in the world. A strong risk assessment will be necessary to convince foreign governments of the seriousness of the risks from SWPM and the necessity of any proposed mitigating activities.

Karnal bunt, a disease of wheat caused by an alien species, continues to be a regulatory concern for the United States. APHIS regulations for Karnal bunt, which are based on risk assessments, are reviewed regularly by ORACBA.

ORACBA is reviewing the APHIS rule on import of swine, genetics, and pork from the European Union based on concerns about Classical Swine Fever which is present in the several European Union countries. APHIS has prepared an extensive risk assessment and economic analysis for this rule which will apply the APHIS regionalization standards to the European Union. A preliminary draft has been sent out for internal and external review. APHIS is seeking to implement the regionalization standards, balancing the requirements of the World Trade Organization with sanitary and phytosanitary safety of United States producers.

To encourage risk-based thinking and improve utilization of analytic resources, ORACBA has encouraged USDA agencies to use qualitative screening risk evaluations for small and non-controversial rules. APHIS used a qualitative risk analysis of specific situations in each of several Mexican states to provide an evaluation of the risk of CSF outbreaks in the United States from allowing importation of pork and pork products from these regions. The rule that developed allows trade while ensuring producer safety from unwanted disease.

Mexico has asked for permission to ship poultry and poultry products from Sinaloa and Sonora to the United States though END has recently existed there. A qualitative, screening risk evaluation showed that the risk of outbreaks of END in the United States from this trade was very small. ORACBA has reviewed and commented on a related rule, currently being developed, which will allow for importation of poultry products from Mexico as long as they originated in a recognized END-free region. This rule would allow chickens from the United States to be processed in certain Mexican states and shipped back into the United States. The risk analysis for this rule also shows the risk of an END outbreak to be very small.

In the area of food safety, ORACBA has contributed to analyses that help ensure that maximizes food safety while minimizing costs. FSIS developed a rule permitting the irradiation of beef. In consultation, ORACBA recommended that all pertinent Food and Drug Administration--FDA--risk assessments be incorporated. FSIS then evaluated all current information on the risks to human health, safety, and the environment to support the USDA rule. Working closely with FSIS on this analysis ensured that the risk assessment identifies and analyzes the alternate risks, that is, new hazards introduced by the irradiation rule. Awareness of these alternate risks allows policy makers to

The Animal and Plant Health Inspection Service--APHIS--has risk assessment centers for plant health and animal health, for both import and domestic programs. These include an active risk assessment group in headquarters in Riverdale as well as staffs in Raleigh, N.C. and Ft. Collins, CO. The Natural Resources Conservation Service has a small group of technical personnel who carry out risk assessment. They lean heavily on ORACBA and ORACBA-recommended university support in their risk assessment development.

RISK AND BENEFIT-COST ANALYSES DIFFERENCES

Mr. Skeen: In addition to risk analyses for rule making, agencies are required to perform cost-benefit analyses. Please describe for the Committee how risk and cost-benefit analyses differ and how each contributes to rule making.

Response: Practitioners of the Natural Sciences and Economics work together to assure that USDA regulations are both effective and efficient. Risk assessment in the USDA is a derivative of the natural sciences with the primary purpose of evaluating biological or agricultural agents or systems which may present a hazard to human health, safety, or the environment. Risk assessment asks three questions: (1) what can go wrong; (2) how likely is it to happen; and (3) how widespread and serious are the effects if the hazard does occur. If the risk is considered too large, the ways to reduce it are evaluated. The analysis must address how much each mitigation reduces the risk, and how much each mitigation measure costs. The decision maker chooses among mitigation measures and their costs to assure that the hazard is reduced and that it is done as inexpensively as possible. This cost-effective analysis becomes a baseline for the complete cost-benefit analysis in which other benefits and other costs of the proposed regulatory activity are evaluated. The decision maker must also take into account other concerns, such as legal, moral, or cultural issues.

This explanation is a simplified one. Ideally there is active interchange of ideas among the analysts for risk assessment and cost-benefit analysis throughout the process. Risk assessment and cost-benefit analysis together can assure that a chosen mitigation measure will reduce the risk and do so as cost effective as possible. This assures that our rules are both effective and efficient.

COMMISSION ON 21ST CENTURY PRODUCTION AGRICULTURE

Mr. Skeen: Has the President made any appointments to the Commission on 21st Century Production Agriculture?

Response: The President has appointed James O. DuPree of Newport, Arkansas, Ralph Paige of LaGrange, Georgia, and Leland H. Swenson of Oldham, South Dakota to the Commission. James DuPree is the managing operator and partner of DuPree Planting Co., a general Arkansas farming operation. Ralph Paige is the Executive Director of the Federation of Southern Cooperatives/Land Assistance Fund serving black and low-income family farmers across the rural south. Leland Swenson is the President of the National Farmers Union representing 300,000 farm families nationwide.

OBJECT CLASS TABLE FOR COMMISSION

Mr. Skeen: Please provide a separate object class table for the Commission.

[The information follows:]

Commission on 21st Century Agriculture
Object Class Table
(Dollars in Thousand)

Object Class	Fiscal Year 1999	Fiscal Year 2000
Salaries	\$129	\$165
Benefits	36	47
Travel	65	55
Rent, Communications, and Utilities	10	15
Printing and Reproduction	20	38
Other Services	15	50
Total	275	350

SALARY COSTS FOR COMMISSION AND STAFF

Mr. Skeen: Please provide a breakdown of the total salary costs for Commissioners and staff.

Response: The Commissioners do not receive a salary. However, in Fiscal Year 1999, \$40,000 will be used to contract a staff assistant, and the remainder will be used to hire a staff director. In Fiscal Year 2000, approximately \$40,000, will be used to contract a staff assistant and the remainder will be used to contract a staff director.

IMPACTS OF WELFARE REFORM ON FARM LABOR

Mr. Skeen: Has OCE studied the impacts of welfare reform on the availability of farm labor?

Response: OCE staff monitor continuously the availability of workers to perform agricultural labor and the circumstances and intervention strategies that may affect the available labor supply. OCE staff participated in the CAL-WORKS welfare-to-work project in five California counties, and serve on the inter-Departmental Work Investment Act Implementation Team. To the extent that welfare reform has been implemented, OCE has not been able to discern any effect on the availability of farm labor. Efforts to direct welfare recipients to farm work have achieved little success and, while programs are readily available to train farm workers to leave farm work, there is a dearth of programs to assist workers in upgrading agricultural skills.

EXPORTS TO ASIA AND LATIN AMERICA

Mr. Skeen: What is OCE's assessment of the market for American agricultural exports to Asia and Latin America for the next two years?

Response: The current official forecast by region is for FY 1999, released on February 22, 1999. U.S. export prospects in both Asia and Latin America remain subdued, although some encouraging signs are emerging in Asia. The export forecast for FY 1999 for Asia, including Japan and China, is \$16.8 billion, down about 15 percent from last year. Economic growth in Japan, the largest market for U.S. agricultural exports, remains very weak but somewhat improved from the dismal performance in 1998. The Japanese yen has been strengthening against the U.S. dollar since August 1998, which will help U.S. export competitiveness. Economic growth in other parts of Asia is forecast to generally improve over the next two years compared to 1998, but many countries, including Indonesia, Malaysia, Philippines, and Thailand, are

expected to continue in recession. Prospects for economic growth in Korea and Taiwan are better than in Southeast Asia, but will remain low by historical standards. Thus, import demand in the Asian region for both domestic and imported goods will remain weak but could begin to recover over the next year.

For Latin America, exports are running very strong to Mexico and a 12 percent increase to \$6.7 billion is expected in FY 1999. The effect of Brazil's devaluation in January remains the wild card. Brazil is a small market for U.S. agricultural exports but the larger concern is whether Brazil's weakened financial and economic situation spreads to other countries in the region. Brazil is a significant importer from its Latin American neighbors; any reduction in import demand would affect the region and U.S. export prospects. Brazil could also become a stronger competitor in world markets for soybeans, poultry, orange juice, and tobacco, key U.S. export commodities as well. With Brazil forecast to be in recession in 1999, and lower oil prices affecting export earnings for other markets like Venezuela, U.S. exports to Latin America are forecast to be \$11.4 billion in FY 1999, about the same as FY 1998, despite the stronger expected sales to Mexico. Growth prospects for FY 2000 appear better but the Brazilian financial situation makes any forecasts tenuous.

EXPORTS TO SOUTHERN AFRICA

Mr. Skeen: What is OCE's assessment of the market for American agricultural exports to Southern Africa for the next two years?

Response: Southern Africa, which is defined here as all of Africa minus the North African countries and South Africa, has not experienced the sharp drops in economic growth seen in Asia but economic growth slowed considerably in 1998. Some upturn in the region is forecast for 1999 and 2000 but economic growth will remain low. The region is not a large importer from the United States; agricultural exports to sub-Saharan Africa are forecast at \$600 million in FY 1999, down over 10 percent from FY 1998. Most U.S. exports to sub-Saharan Africa are bulk grains and oilseeds, and exports are supported by food aid. Future U.S. exports also depend on local harvests, which are uncertain. In general, no large changes are expected for U.S. exports to this region.

RESPONSIBILITY FOR CLIMATE ISSUES

Mr. Skeen: Given OCE's responsibility for climate issues, is it involved in Rural Development's proposal to place hazardous weather early warnings systems in rural areas?

Response: The Early Warning System is the responsibility of the Rural Utilities Service-RUS. OCE is not an active participant but has reviewed parts of the RUS proposal and discussed possible involvement. The Chief Meteorologist has a strong background in weather warning activities and OCE supports the acquisition and provision of weather and climate data in rural America. While the focus of the proposal at this point is on hardware, OCE has the potential to provide data and information on rural weather and vulnerabilities to assist in the project and would be pleased to cooperate with RUS in implementation.

BIOFUELS AND NEW USES

Mr. Skeen: What policy direction for biofuels and new uses has OCE provided in FY 1998?

Response: The Office of Energy Policy and New Uses-OEPNU-provided analysis for policy direction on energy and biofuels, electricity deregulation, climate change, biomass, and biodiesel program and policy issues. OEPNU initiated and coordinated research in each of the above areas that Department, White House, and congressional policy officials relied upon for policy development, hearings, and proposed legislation.

Electricity deregulation that will change power rates in rural America presents the Department was an important policy issue and potential program concerns for the Rural Utilities Service, especially with respect to the cooperative utilities in its loan portfolio. OEPNU initiated preliminary analysis that enabled Secretary Glickman to argue effectively for a rural "place holder," a fund to ease rural transition costs, in the Administration's legislation submitted to Congress.

In response to a White House directive that USDA and Department of Energy (DOE) provide analysis on the net climate change benefits of corn ethanol to environmental groups, OEPNU developed a coordinated research plan with DOE and Argonne Labs leading to the completion and publication of the research. This research was cited by Vice President Gore in a radio address and by four Cabinet Secretaries in a letter to Congress as part of the Administration's successful effort to extend the ethanol excise tax exemption.

The Administration continues to expect USDA to play a significant role in the forthcoming Presidential Biomass Initiative. OEPNU coordinated and designed the biomass research component of the Climate Change Technology Initiative. To support the Initiative, preliminary biomass economic analysis coordinated with the Department of Energy, Oak Ridge Labs, and the University of Tennessee was completed at the request of the White House. OEPNU briefed both the White House and Senate Agriculture Committee staff on the analysis. OEPNU has since expanded this work to look at agricultural residues with Iowa State University.

OEPNU's work on biodiesel has produced a redirection of research resources, several publications, and citations of the work in congressional hearings. The work influenced significant resource allocation in the joint USDA, Department of Energy, and American Soybean Association/United Soybean Board's program toward more coproduct development and the use of biodiesel as an additive. Three publications have been produced by OEPNU to examine the feasibility of biodiesel mandated under the Energy Policy Act of 1992. Results from this work were cited at Senate and House hearings to examine the feasibility of biodiesel as an alternative fuel.

ACTIVITIES IN STONEVILLE, MISSISSIPPI

Mr. Skeen: What are the main activities of the OCE office in Stoneville, Mississippi?

Response: The OCE field observational site in Stoneville, Mississippi, is hosted by the Delta Research and Extension Center, and works in cooperation with other USDA agencies. The principal duty of the staff is to collect weather and climate observations in rural areas where data networks are limited and reporting of agricultural observations such as soil temperature and soil moisture has been inconsistent or ceased. Data acquisition includes interacting with other Federal, state, and local agencies to collect, collate, store, and quality assure observations not regularly or routinely available to USDA. The staff collects local and regional data, filling in areas where weather and climate data voids could result in misinterpretation of weather and climate stress on crop yields. The data are provided to the local extension and experiment station staff, are included in the *Weekly Weather and Crop Bulletin* jointly published by the Department of Commerce and USDA, and are available to all other USDA agencies and the National Weather Service. USDA agencies use these weather and climate data in research and operations, such as pest management, application of fertilizers, herbicides, and insecticides, crop development models, and for analyses of recent weather events such as frosts and freeze.

TRANSFER OF POSITIONS

Mr. Skeen: How many positions transferred to OCE with the Office of Energy Policy and New Uses?

Response: There were six positions that transferred to OCE with the Office of Energy Policy and New Uses.

AVAILABILITY OF MILK POWDER

Mr. Skeen: USDA is including non-fat dry milk in food aid shipments to Russia and other countries. There was a time several years ago when milk powder was not in surplus. What reason or reasons does OCE see for the availability of milk powder now?

Response: In 1999, USDA net removals of nonfat dry milk from the market, including exports under the Dairy Export Incentive Program, exceeded 324 million pounds, up from 298 million pounds in 1997 and 57 million pounds in 1996. The surplus of the past year is expected to continue in 1999, as higher milk production and historically strong butter prices in 1998 lead to increased production of nonfat dry milk. Producers are to last year's record-high milk prices and low feed costs by expanding milk production. Over the past three months, November through January, milk production has risen at an annual rate of 3.5 percent, compared with less than a 1-percent increase for all of 1998. Strong wholesale butter prices can also lead to more nonfat dry milk production by increasing the relative profitability of processing milk into butter and nonfat dry milk versus cheese and other dairy products. In 1998, the wholesale price of nonfat dry averaged \$1.78 per pound, compared with \$1.16 in 1997 and \$1.08 two years ago.

RAILCAR SITUATION

Mr. Skeen: From your monitoring of the railcar situation (7g-2), please summarize the principal reasons for the problem and your estimate of a similar situation happening again.

Response: The rail service problems that emerged in the summer of 1997 were the result of the inability of the largest grain handling railroads to position and move equipment. Difficulties in the key rail node at Houston, Texas led to a deterioration of service on western rail systems. The difficulties in Houston have been attributed to a combination of inadequate infrastructure and management failures related to the merger of the Union Pacific and Southern Pacific railroads. The large grain and oilseed harvests in 1997 and the relatively large carryover stocks put additional pressure on the railroad system.

The problems that plagued western rail service continued through much of 1998, appear to be resolved. Prospects for continued adequate railcar service for agriculture appear good for the near term. Rail carriers have committed to providing better service and are cooperating in a voluntary reporting program on key performance indicators. USDA and the Surface Transportation Board have entered into a Memorandum of Understanding to address shipper and railroad information needs related to problems that affect the transportation of grain and grain products. A joint task force has been formed between USDA and the Department of Transportation to address the broad range of transportation issues for agriculture and rural areas, and the Chief Economist is a member. In addition, the Agricultural Marketing Service of USDA, with information provided by the Surface Transportation Board and clearance by OCE's World Board, has started publication of the periodical Grain Transportation Prospects to provide better market information to grain shippers, receivers, and railroads concerning rail transportation supply and demand.

THE ASIAN AND RUSSIAN FINANCIAL SITUATIONS AND BAD WEATHER

Mr. Skeen: Given the sudden appearance of crises such as bad weather and the Asian and Russian financial situations, what benefits do your long-term projections (7g-4) provide to farmers and ranchers?

Response: The long-term baseline issued by the Department is valuable to policy makers, farmers, and other agribusinesses precisely because it excludes the impact of anomalous one-time, unpredictable events. This feature enables the baseline to be used to assess the probable impact of unpredictable events, such as weather or the Asian crisis, when they do occur. Equally as

important, the baseline provides an analytical tool or benchmark for both public and private sector analysts. The baseline maybe shocked with various analytical assumptions to assess the probable impacts, i.e., costs and benefits, associated with alternative policies, weather and economic scenarios. The baseline is also useful for understanding the longer term consequences of underlying structural and technology trends as we perceive them today.

USDA FOOD SAFETY INITIATIVE FUNDS

Mr. Skeen: For FY 1999 and 2000, has the Department budgeted any USDA Food Safety Initiative funds for ORACBA activities and, if so, how much has been budgeted?

Response: For FY 1999 and FY 2000, the Department has budgeted \$98,000 for the USDA Food Safety Initiative for ORACBA activities.

ORACBA NEWSLETTER

Mr. Skeen: Please provide the Subcommittee with a copy of the "widely-distributed" ORACBA newsletter.

Response: The ORACBA newsletter is published quarterly. We are submitting a copy of the latest copy.

[The requested material was deemed too lengthy for printing and has been retained in committee files.]

OFFICE OF BUDGET AND PROGRAM ANALYSIS

BREAKOUT OF RESOURCES FOR OBPA'S RESPONSIBILITY

Mr. Skeen. Please update the table that appears on page 130 of last year's hearing record showing a breakout of resources for the areas of OBPA responsibility to include fiscal year 1998 actuals and fiscal year 1999 estimates.

[The information follows:]

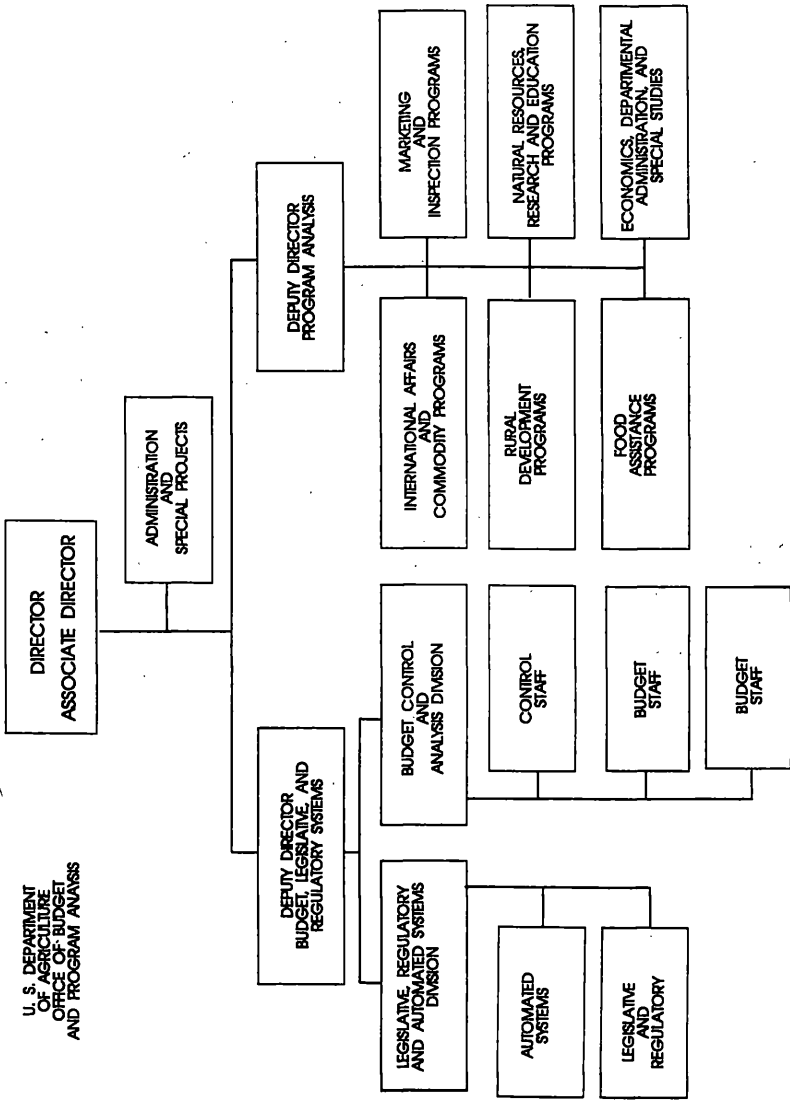
U. S. DEPARTMENT OF AGRICULTURE--OFFICE OF BUDGET AND PROGRAM ANALYSIS
(Dollars in Thousands)

Key Areas	SY	FY 1998	SY	FY 1999	SY	FY 2000
Program review/policy analysis.....	27	\$2,258	25	\$2,326	25	\$2,502
Budget preparation, presentation and execution.....	24	2,050	22	2,112	23	2,304
Legislative reporting and regulatory analysis.....	9	713	9	734	9	790
Administrative management.....	6	553	6	569	6	592
Automated systems.....	4	368	4	379	4	395
Total.....	70	\$5,942	66	\$6,120	67	\$6,583

ORGANIZATION

Mr. Skeen. Provide a tree chart that shows the organization of the office.

[The information follows:]



ORGANIZATION

Mr. Skeen. Has the tree grown since FY 1998?

Response. OBPA's organization chart has not changed since February 1990. Further, in recent years, the staff year ceiling has decreased. The ceiling decreased from 76 in FY 1993, to 70 in FY 1998, to 66 staff years in FY 1999. The FY 2000 ceiling will restore one staff year. The intent is to stabilize OBPA employment at the minimum level necessary to carry out the agency's responsibilities.

LEGISLATIVE PROPOSALS

Mr. Skeen. How many legislative proposals were sent to Congress in fiscal years 1997 and 1998? How many were enacted into law?

Response. The Department of Agriculture (excluding the Forest Service) sent 27 legislative proposals to Congress during fiscal years 1997 and 1998. Provisions enacted into law included: Census of Agriculture, P.L. 105-113; and Agricultural Research Extension, and Education Reform Act of 1998, P.L. 105-185. In addition, two provisions were included in the Omnibus Consolidated and Emergency Supplemental Appropriations Act, P.L. 105-825: Waiver of Statute of Limitations and Establishment of Under Secretary of Agriculture for Marketing and Regulatory Programs.

CODE OF FEDERAL REGULATIONS

Mr. Skeen. Did you complete work on the Code of Federal Regulations?

Response. The Department of Agriculture has completed three-fourths of the regulatory reform commitment to eliminate or reinvent approximately 11,700 pages in the Code of Federal Regulations (CFR).

1998 BUYOUTS

Mr. Skeen. What is the status of buyouts at the Department for fiscal year 1999?

Response. The Department is not making use of buyouts during fiscal year 1999.

USDA BUDGET SUMMARY

Mr. Skeen. What is the cost to print and distribute the USDA budget summary document? How much of these costs are recovered through fees?

Response. The cost to print the FY 2000 USDA Budget Summary was approximately \$9,250. None of the costs are recovered through fees.

BUDGET RELATED LEGISLATIVE PROPOSALS

Mr. Skeen. Please list all the legislative proposals to be submitted in support of the fiscal year 2000 budget. Please indicate the costs of each and whether that cost is derived from mandatory or discretionary funding or from user fees.

[The information follows:]

AGENCY	PROPOSAL	BUDGET AUTHORITY (MILLIONS OF DOLLARS)
FY 2000 User Fee Proposals Which Impact Discretionary Spending		
Food Safety and Inspection Service	Salaries and Expenses. This proposal would charge fees for the full cost of providing Federal inspection of meat, poultry, and egg products. The user fees exclude Grants to States and Special Assistance to State Programs.	-\$504
Animal and Plant Health Inspection Service	Salaries and Expenses. This proposal would establish user fees for costs for animal welfare inspections and issuance of biotechnology certificates.	-9
Grain Inspection, Packers and Stockyards Administration	Salaries and Expenses. This proposal would establish a fee for grain standardization and a licensing fee to cover the costs of administering the provisions of the Packers and Stockyards Act relating to meat packing and stockyards activities.	-19
FY 2000 Proposed Budget-Related Legislative Proposals Which Impact Discretionary Spending		
Rural Utilities Service	Rural Electrification Loans. This proposal would add a new Treasury rate electric loan program, in the amount of \$400 million. Borrowers would apply for direct (Treasury rate) loans at an interest rate that is tied to the Government's cost of money. This type of loan is similar to the successful telecommunication Treasury rate loan program.	Less than \$500 thousand
Rural Housing Service	Section 538 Guaranteed Multi-Family Housing Loans. This proposal would eliminate the statutory requirement that 20 percent of the loans guaranteed must receive interest assistance.	0

AGENCY	PROPOSAL	BUDGET AUTHORITY (MILLIONS OF DOLLARS)
FY 2000 Proposed Budget-Related Legislative Proposals Which Impact Mandatory Spending		
Commodity Credit Corporation	Legislation is proposed to increase the CCC limit on computer expenditures by \$105 million over 2000 through 2002. This would provide a total cap of \$293 million over 1997 through 2002.	35
	The budget includes proposed legislation to modify the Export Enhancement Program (EEP) levels for 2000 to 2004. Under this proposal, total funding of about \$1.9 billion will be available for EEP during the 2000 to 2004 period, with a \$494 million limitation for EEP in 2000.	-85
	The budget proposes to fund the Foreign Market Development Cooperator Program as a mandatory program in CCC. Previously, it was funded as a discretionary program from FAS Salaries and Expenses. This will ensure a stable source of funding for the program.	28
	The Administration will propose legislation to increase CCC funding for EQIP by \$100 million in 2000 and by a total of \$500 million for the period 2000 to 2004.	100
	The budget includes a new Quality Samples Program which will be used to apprise potential buyers overseas of the high quality of U.S. agricultural products. Mandatory funding for this program is proposed from CCC.	2
	The budget proposes to offset funding for Wildlife Habitat Incentives Program and Farmland Protection Program by reduction in funds for the Conservation Farm Option Program.	-38
Rural Development	Rural Empowerment Zone/Enterprise Community Grants. This proposal provides mandatory funding for 10 years for Empowerment Zones and Enterprise Communities. Authority for a second round of EZ/EC was included in the Tax Payer Relief Act of 1997. The 1999 Appropriations Act provided \$15 million in discretionary funding for the first year grants.	15

AGENCY	PROPOSAL	BUDGET AUTHORITY (MILLIONS OF DOLLARS)
Food and Nutrition Service	Food Stamp Program. The Administration is proposing to restore benefits to qualified legal immigrants with lawful permanent resident status on August 22, 1996, who subsequently reach the age of 65 made ineligible by restrictions in the Welfare Reform legislation passed in 1996.	10
	Child Nutrition Programs. The Administration is proposing legislation to count the value of bonus commodities towards the statutory requirement that at least 12 percent of Federal school lunch support be in the form of commodities.	-57
Natural Resources Conservation Service	Debt for Nature. This proposal would provide technical and financial assistance to USDA borrowers with serious cash flow problems who also have lands that require conservation treatment. In order to help borrowers who face foreclosure as a result of the declining farm economy, these funds will be directed to provide expanded technical and cost-share assistance.	5
	Wildlife Habitat Incentives Program (WHIP). This proposal would authorize additional funds to continue the program. The 1996 Farm Bill authorized \$50 million for the program and these funds will be fully exhausted in 1999.	10
	Farmland Protection Program. This proposal would authorize new funding for 2000. The current funding authorization was reached in 1998.	28
Cooperative State Research, Education, and Extension Service	Initiative for Future Agriculture and Food Systems. Mandatory funding of \$120 million per year is authorized for this program beginning in 2000. The 1999 appropriations bill blocked the use of these funds in 1999. Legislation is proposed to restore the \$120 million authorized for 1999 in \$30 million annual increments beginning in 2001.	0
Fund for Rural America	Fund for Rural America. Mandatory funding of \$60 million per year is authorized for the Fund for Rural America for FY 1999 through 2003. The 1999 Appropriations Act blocked the use of these funds in 1999. Legislation is proposed to restore the \$60 million authorized for 1999 in \$15 million increments beginning in 2001.	0

STAFF YEAR REDUCTIONS AND THE 1996 FARM BILL

Mr. Skeen. In last year's hearing record you reported that provisions of the farm bill "have substantially reduced workload requirements of the Farm Service Agency at the field office level." Please update the table on page 133 of last year's hearing record showing FSA work-days by program function in county offices from 1997 to include 2000.

Response. I would be pleased to provide that, while noting that the reduction from 1996, which was 1,255 staff years and not included in your question, is the largest reduction stemming from the Farm Bill. It should be noted that the farm crisis has caused the Administration to reconsider FSA's workload and staffing needs. On February 26, 1999, the President requested a fiscal year 1999 supplemental appropriation of \$42.8 million to finance over 1,500 staff years of temporary employment. FY 2000 staff year needs are also under review.

[The information follows:]

FSA County Office Work-Days by Program/Function
Fiscal Years 1997 to 2000

Program/Function	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate
Conservation and related programs	398,093	337,821	329,962	309,137
Commodity Loan Activity.....	118,666	120,394	183,825	172,224
Compliance.....	389,440	330,365	332,413	311,433
Yield and Base Establishment.....	18,362	36,523	0	0
Commodity Program Payments.....	316,006	344,975	460,669	431,593
Basic Farm Records.....	305,077	340,201	359,453	337,025
Peanut Quotas and Marketings.....	24,418	23,082	21,110	19,778
Tobacco Allotment and Marketings.	66,009	65,367	58,171	54,499
Referenda.....	347	3,137	141	133
Administration.....	709,335	730,733	635,123	595,039
Committee Elections.....	22,034	19,983	17,415	16,315
Miscellaneous.....	160,610	97,908	77,619	72,720
County Automation Activities.....	174,185	169,193	130,564	122,323
Re-insured Companies and Non Insured Assistance Program.1/	91,004	18,842	30,821	28,876
Measurement Services.....	62,262	95,420	75,172	71,182
Catastrophic Insurance.....	86,320	4,994	0	0
Farm Loan Activity.....	583,173	599,543	633,092	634,093
Total, County level work-days...	3,525,341	3,338,481	3,345,550	3,176,370
Staff year equivalent of above workdays:				
Federal staff years.....	2,160	2,107	2,168	2,168
Non-federal staff years.....	11,399	10,733	10,700	10,048
Total county level staff-years	13,559	12,840	12,868	12,216
Change From Previous Year (staff year equivalent):	-1,255	-719	+28	-652

1/ Includes re-insured companies in 1997 only.

INTERNET AVAILABILITY OF BUDGET MATERIALS

Mr. Skeen. OBPA makes the annual Budget Summary available through the Internet (p. 7g-9). Does OBPA or any other agency intend to make testimony or Explanatory Notes available through the Internet?

Response. Agencies will make testimony available on the Internet after the date of the hearing. At this time, the Department does not plan to make the Explanatory Notes available on the Internet.

INFORMATION TECHNOLOGY

Mr. Skeen. Legislation has been proposed to set aside certain amounts of budget authority for information technology or other computer-related activities for the Office of the Chief Information Officer (CIO). This would give the CIO direct control over information technology spending by the agencies. Does the Department support such legislation?

Response. It is important that the CIO, working in concert with the USDA Executive Information Technology Investment Review Board, have appropriate authority to guide information technology management spending to assure that resources are managed effectively and efficiently. USDA supported, with some modifications, the legislative proposal to clarify and expand the responsibilities of the CIO in order to meet that challenge. The Department did not object to the proposal that would allow the Secretary to transfer a limited amount of agency information technology funds to OCIO to support department-wide information technology management. However, USDA believes that the Secretary should be afforded maximum flexibility in deciding how and where departmental resources should be used in order to meet the strategic goals of the Department.

LEGISLATIVE REPORT

Mr. Skeen. What is a "legislative report" (p. 7g-10)?

Response. A legislative report is a written expression of official position on pending or proposed legislation for transmittal to a Congressional committee, committee member, an officer or employee of Congress, staff of any committee or member, or OMB.

[The justifications of the budget estimates follow:]

2000 Explanatory Notes
Office of the Secretary

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OFFICE OF THE SECRETARY

Purpose Statement

The general authority of the Secretary to supervise and control the work of the Department is contained in the Organic Act (7 U.S.C. 2201-2202). The delegation of regulatory functions to the Department employees and authorization of appropriations to carry out these functions are contained in 7 U.S.C. 450c-450g. The authority of the Secretary to streamline and reorganize the Department is contained in the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354.

The Secretary of Agriculture, assisted by the Deputy Secretary, Under Secretaries and Assistant Secretaries, and members of their immediate staffs, directs and coordinates the work of the Department. This involves providing policy direction for all areas of the Department's responsibilities including research, educational and regulatory activities, nutrition, conservation and farm programs, and forestry and international agriculture. It also involves maintaining relationships with organizations and others in the development of programs and maintaining liaison with the Executive Office of the President and members of Congress on all matters pertaining to Departmental policy.

The Secretary has direct authority over the USDA Service Center implementation effort which has incorporated the former InfoShare activity. This activity is a partnership among the agricultural, rural development, and natural resource agencies of the Department to improve communication, information resources management, and data sharing, thereby providing improved and more efficient services to customers at the USDA Service Centers.

The Office of the Secretary also oversees special projects that are conducted at the behest of the Congress. These projects include short-term studies, investigations, and research on matters affecting agriculture or the agricultural community. Usually, specific appropriations are provided to carry out these projects. Project results are reported to the appropriate Congressional committees.

The Secretary's staffs financed from this appropriation are all located in Washington, D. C. As of September 30, 1998, there were 67 employees.

The Office of the Secretary did not have any Office of the Inspector General or General Accounting Office evaluation reports during the past year.

OFFICE OF THE SECRETARY

Available Funds and Staff Years1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Office of the Secretary.	\$11,128,000	64	\$11,378,000	82	\$13,058,000	82
<u>Obligations under other USDA appropriations:</u>						
Assistant to the Secretary for Western Affairs	73,786	--	--	--	--	--
Transfer to other USDA agencies.....	-2,241,000	--	-2,241,000	--	-2,325,000	--
Total, Office of the Secretary.....	8,960,786	64	9,137,000	82	10,733,000	82

OFFICE OF THE SECRETARY

Permanent Positions by Grade and Staff Year Summary1998 Actual and Estimated 1999 and 2000

Grade	1998	1999	2000
	Washington, DC	Washington, DC	Washington, DC
Executive Level I	1	1	1
Executive Level II	1	1	1
Executive Level III	5	5	5
Executive Level IV	4	4	4
ES-6	5	5	5
ES-5	2	2	2
ES-4	1	3	3
ES-3	5	4	4
ES-2	2	4	4
ES-1	5	2	2
GS-15	8	10	10
GS-14	6	5	4
GS-13	3	3	4
GS-12	4	6	6
GS-11	6	4	4
GS-10	5	5	5
GS-9	4	5	5
GS-8	2	--	--
GS-7	3	3	3
GS-6	--	--	--
GS-5	5	5	5
GS-4	1	1	1
GS-3	1	1	1
Ungraded Positions.....	3	3	3
Total, Permanent Positions.....	82	82	82
Unfilled Positions end-of-year.....	-15	--	--
Total, Permanent Full-Time Employment, end-of-year.....	67	82	82
Staff Year Ceiling.....	64	82	82

OFFICE OF THE SECRETARY
CLASSIFICATION BY OBJECTS
1998 Actual and Estimated 1999 and 2000

	1998	1999	2000
Personnel Compensation:			
Washington, D.C.....	\$5,848,234	\$6,118,000	\$6,396,000
11 Total personnel compensation.....	5,848,234	6,118,000	6,396,000
12 Personnel benefits.....	1,184,113	1,493,000	1,561,000
13 Benefits for former personnel.....	5,286	--	--
Total pers. comp. & benefits.....	7,037,633	7,611,000	7,957,000
Other Objects:			
21 Travel.....	224,781	149,000	149,000
22 Transportation of things.....	11,118	--	--
23.3 Communications, utilities, and misc. charges.....	452,143	381,000	381,000
24 Printing and reproduction.....	220,797	229,000	229,000
25.2 Other services.....	217,428	348,000	1,598,000
25.3 Purchases of goods and services from Government Accounts	294,298	264,000	264,000
26 Supplies and materials.....	153,425	143,000	143,000
31 Equipment.....	118,049	12,000	12,000
Total other objects.....	1,692,039	1,526,000	2,776,000
Total direct obligations.....	8,729,672	9,137,000	10,733,000
Position Data:			
Average Salary, ES positions.....	\$118,665	\$119,704	\$123,773
Average Salary, GS positions.....	\$53,200	\$49,105	\$52,863
Average Grade, GS positions.....	11.97	10.63	10.83

OFFICE OF THE SECRETARY
(Including Transfers of Funds)

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

For necessary expenses of the Office of the Secretary of Agriculture, and not to exceed \$75,000 for employment under 5 U.S.C. 3109, [~~\$2,836,000~~] \$2,942,000: Provided, That not to exceed \$11,000 of this amount, along with any unobligated balances of representation funds in the Foreign Agricultural Service, shall be available for official reception and representation expenses, not otherwise provided for, as determined by the Secretary: Provided further, That none of the funds appropriated or otherwise made available by this Act may be used to pay the salaries and expenses of personnel of the Department of Agriculture to carry out section 793(c)(1)(C) of Public Law 104-127: Provided further, That none of the funds made available by this Act may be used to enforce section 793(d) of Public Law 104-127.

SEC. 1127 of General Provisions. Mandatory Domestic Reporting Pilot Investigation

- 1 [(c) Funding – An amount of \$250,000 is hereby appropriated to carry out this section of the Act.]

Office of the Assistant Secretary for Administration

For necessary salaries and expenses of the Office of the Assistant Secretary for Administration to carry out the programs funded in this Act, [~~\$613,000~~] \$636,000.

Office of the Assistant Secretary for Congressional Relations
(Including Transfers of Funds)

For necessary salaries and expenses of the Office of the Assistant Secretary for Congressional Relations to carry out the programs funded in this Act, including programs involving intergovernmental affairs and liaison within the executive branch, [~~\$3,668,000~~] \$3,805,000: Provided, That no other funds appropriated to the Department by this Act shall be available to the Department for support of activities of congressional relations: Provided further, That not less than [~~\$2,241,000~~] \$2,325,000 shall be transferred to agencies funded by this Act to maintain personnel at the agency level.

Office of the Under Secretary for Research, Education and Economics

For necessary salaries and expenses of the Office of the Under Secretary for Research, Education and Economics to administer the laws enacted by the Congress for the Economic Research Service, the National Agricultural Statistics Service, the Agricultural Research Service, and the Cooperative State Research, Education, and Extension Service, [~~\$540,000~~] \$2,061,000.

Office of the [Assistant] Under Secretary for Marketing and Regulatory Programs

- 2 For necessary salaries and expenses of the Office of the [Assistant] Under Secretary for Marketing and Regulatory Programs to administer programs under the laws enacted by the Congress for the Animal and Plant Health Inspection Service, the Agricultural Marketing Service, and the Grain Inspection, Packers and Stockyards Administration, [~~\$618,000~~] \$641,000.

Office of the Under Secretary for Food Safety

For necessary salaries and expenses of the Office of the Under Secretary for Food Safety to administer the laws enacted by the Congress for the Food Safety and Inspection Service, [\$446,000] \$469,000.

Office of the Under Secretary for Farm and Foreign Agricultural Services

For necessary salaries and expenses of the Office of the Under Secretary for Farm and Foreign Agricultural Services to administer the laws enacted by the Congress for the Farm Service Agency, the Foreign Agricultural Service, the Risk Management Agency, and the Commodity Credit Corporation, [\$572,000] \$595,000.

Office of the Under Secretary for Natural Resources and Environment

For necessary salaries and expenses of the Office of the Under Secretary for Natural Resources and Environment to administer the laws enacted by the Congress for the Forest Service and the Natural Resources Conservation Service, [\$693,000] \$721,000.

Office of the Under Secretary for Rural Development

For necessary salaries and expenses of the Office of the Under Secretary for Rural Development to administer programs under the laws enacted by the Congress for the Rural Housing Service, the Rural Business-Cooperative Service, and the Rural Utilities Service of the Department of Agriculture, [\$588,000] \$612,000.

Office of the Under Secretary for Food, Nutrition and Consumer Services

For necessary salaries and expenses of the Office of the Under Secretary for Food, Nutrition and Consumer Services to administer the laws enacted by the Congress for the Food and Nutrition Service, [\$554,000] \$576,000.

The first change deletes language for the Mandatory Domestic Reporting Pilot Investigation program under Section 416 of the Act. This pilot investigation program was a one-time increase for fiscal year 1999 and is not required in fiscal year 2000.

The second change adds the language to reflect the establishment within the Department of Agriculture the position of Under Secretary of Agriculture for Marketing and Regulatory Programs and the abolishment of the position of Assistant Secretary of Agriculture for Marketing and Regulatory Programs on October 27, 1998, Secretary's Memorandum 1030-40. The Secretary was authorized to take this action by Section 1901 of Title X of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999, Public Law 105-277, Division A, Section 101(a), which amended the Department of Agriculture Reorganization Act of 1994, Public Law 103-354, Title II, by adding a new section 285.

OFFICE OF THE SECRETARY

Appropriations Act, 1999.....	\$11,378,000
Budget Estimate, 2000.....	<u>13,058,000</u>
Increase in Appropriation.....	<u>+1,680,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

Item of Change	1999 Estimated	Pay Costs	Program Changes	2000 Estimated
Immediate Office of the Secretary.....	\$2,836,000	\$106,000	--	\$2,942,000
Mandatory Domestic Reporting Pilot Investigation.....	250,000	--	-\$250,000	--
Assistant Secretary for Administration.....	613,000	23,000	--	636,000
Assistant Secretary for Congressional Relations.....	1,427,000	53,000	--	1,480,000
Transfer to Agencies.....	2,241,000	84,000	--	2,325,000
Under Secretary for Research, Education, and Economics.....	540,000	21,000	1,500,000	2,061,000
Under Secretary for Marketing and Regulatory Programs.....	618,000	23,000	--	641,000
Under Secretary for Food Safety.....	446,000	23,000	--	469,000
Under Secretary for Farm and Foreign Agricultural Services.....	572,000	23,000	--	595,000
Under Secretary for Natural Resources and Environment.....	693,000	28,000	--	721,000
Under Secretary for Rural Development.....	588,000	24,000	--	612,000
Under Secretary for Food, Nutrition and Consumer Services.....	554,000	22,000	--	576,000
Total Appropriation.....	11,378,000	430,000	+1,250,000	13,058,000
Transfer to USDA Agencies from Congressional Relations.....	-2,241,000	-84,000	--	-2,325,000
Total Available.....	<u>9,137,000</u>	<u>346,000</u>	<u>+1,250,000</u>	<u>10,733,000</u>

OFFICE OF THE SECRETARY

Project Statement
(On basis of appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease</u>	<u>2000 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
1. Secretary.....	\$2,798,606	21	\$2,836,000	24	\$106,000	\$2,942,000	24
Mandatory Domestic Reporting Pilot Investigation.	—	—	250,000	—	-250,000	—	—
2. Under/Asst. Secretaries:							
ADM.....	602,375	3	613,000	5	23,000	636,000	5
CR.....	1,402,582	13	1,427,000	17	53,000	1,480,000	17
REE.....	527,548	4	540,000	5	1,521,000	2,061,000	5
MRP.....	604,678	5	618,000	5	23,000	641,000	5
FSFT.....	435,215	3	446,000	5	23,000	469,000	5
FFAS.....	561,304	4	572,000	5	23,000	595,000	5
NRE.....	682,780	3	693,000	6	28,000	721,000	6
RD.....	575,513	4	588,000	5	24,000	612,000	5
FNCS.....	539,071	4	554,000	5	22,000	576,000	5
Unobligated Balance.....	157,328	—	—	—	—	—	—
Total available or estimate.....	8,887,000	64	9,137,000	82	+1,596,000	10,733,000	82
Transferred to other USDA agencies from CR.....	+2,241,000	—	+2,241,000	—	+84,000	+2,325,000	—
Total, Appropriation....	11,128,000	64	11,378,000	82	+1,680,000(1)	13,058,000	82

NOTE: In the fiscal year 1996 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, P.L. 104-37, the Secretary was directed to provide out of the Secretary's account of \$10,227,000 total funding of \$7,500,000 for Service Center Implementation Team (SCIT). The Act also directed that these funds shall remain available until expended. In 1998, \$224,951 were obligated with \$4,675,344 remaining in the account.

Justification of Increases and Decreases

- (1) A net increase of \$1,680,000 for the Office of the Secretary (\$11,378,000 available in fiscal year 1999) consisting of:

- (a) An increase of \$430,000 for pay costs which includes \$85,000 for annualization of fiscal year 1999 pay raise and \$345,000 for the anticipated fiscal year 2000 pay raise.

Over 85 percent of the Office of the Secretary's obligations are for salaries and benefits. This leaves little flexibility for absorbing increased costs. OSEC cannot absorb these additional salary costs without placing severe constraints on its daily operations.

- (b) An increase of \$1,500,000 to develop a list of biobased products.

The Biobased Coordinating Council of the Department of Agriculture is responsible for developing a list of biobased products to be considered for environmental preferability. To support the activities of the Council, \$1.5 million should be allocated to the Under Secretary for Research, Education and Economics, who serves as Chair of the Council. Funds would be used to promote acquisition of biobased products and to help develop a biobased products list, including the development of standards, as well as for facilitating technology transfer to new products and for other purposes.

- (c) A decrease of \$250,000 for the Mandatory Domestic Reporting Pilot Investigation.

The fiscal year 1999 Appropriations Act included a one time funding of \$250,000 to support the Mandatory Domestic Reporting Pilot Investigation.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
District of Columbia.....	\$8,729,672	64	\$9,137,000	82	\$10,733,000	82
Unobligated balance.....	157,328	—	—	—	—	—
Total, Available or Estimate...	8,887,000	64	9,137,000	82	10,733,000	82

FUND FOR RURAL AMERICA

The 1996 Farm Bill established the Fund for Rural America to provide support to rural communities across the United States and provided that \$100 million be made available on January 1, 1997, October 1, 1998, and October 1, 1999 (fiscal years 1997, 1999 and 2000). The 1997 Emergency Supplemental Appropriations Act for Recovery from Natural Disasters (P.L. 105-18) limited the available funding in fiscal year 1997 to \$80 million. The Secretary of Agriculture allocated the \$80 million in accordance with the 1996 Farm Bill specifications that at least one-third of the funds be allocated to rural development activities and one-third to research activities. No more than two-thirds of the available funds could be made available for rural development activities.

The Department's 1998 budget included a proposal to shift the \$100 million available in 2000 to 1998 in order to facilitate more consistent and efficient program delivery. Since this proposal was not accepted, no funding was authorized for the Fund in fiscal year 1998.

The Agricultural Research, Extension, and Education Reform Act of 1998, P.L. 105-185 extended authorization for the Fund for Rural America through October 1, 2002, but reduced the amount to be available annually for the Fund to \$60 million beginning in FY 1999. These funds are available for two years. The FY 1999 appropriations language blocked the use of the available funds in FY 1999. The FY 2000 budget blocks the second year's availability of the FY 1999 funds, but allows the authorized \$60 million for FY 2000 to be expended. Legislation is proposed to restore in the outyears the \$60 million authorized for FY 1999 in \$15 million annual increments beginning in FY 2001.

The following table shows how the FY 1997 funding was allocated.

FUND FOR RURAL AMERICA
FY 1997 Funding

<u>Program</u>	<u>Budget Authority</u>	<u>Program Level</u>
Rural Development Activities:		
Rural Housing Service		
Section 502 Housing Loans	\$15,500,000	\$109,309,000
Farm Labor Housing Loans	569,000	1,191,000
Farm Labor Housing Grants	<u>1,431,000</u>	<u>1,431,000</u>
Total, Rural Housing Service	17,500,000	111,931,000
Rural Utilities Service:		
Direct Water and Waste Disposal Loans	381,000	4,224,000
Direct Water and Waste Disposal Grants	4,219,000	4,219,000
Distance Learning and Medical Link Grants	<u>6,500,000</u>	<u>6,500,000</u>
Total, Rural Utilities Service	11,100,000	14,943,000
Rural Business-Cooperative Service:		
Rural Business Enterprise Grants	6,600,000	6,600,000
Cooperative Development Services	1,100,000	1,100,000
EZ/EC Technical Assistance	<u>600,000</u>	<u>600,000</u>
Total, Rural Business-Cooperative Service	8,300,000	8,300,000

<u>Program</u>	<u>Budget Authority</u>	<u>Program Level</u>
Alternative Agricultural Research and Commercialization Corporation	500,000	500,000
Office of Outreach: Outreach for Socially Disadvantaged Farmers	4,500,000	4,500,000
Farm Service Agency: Beginning Farmer Loan Program	<u>2,000,000</u>	<u>2,510,000</u>
Total, Rural Development Activities	\$43,900,000	\$149,684,000
Research, Extension and Education Grants:		
Core Initiative	26,100,000	26,100,000
Secretary's Initiative	7,800,000	7,800,000
Telecommunications Infrastructure Research	<u>2,200,000</u>	<u>2,200,000</u>
Total, Research, Extension and Education Grants	<u>36,100,000</u>	<u>36,100,000</u>
TOTAL	<u>\$80,000,000</u>	<u>\$185,784,000</u>

Of the funding provided in 1997, \$44 million was allocated to support on-going rural development activities. A portion of this funding was used to reduce the existing backlogs in high priority rural development programs including the Water and Waste Disposal Loans and Grants, Section 502 Single Family Housing Loans, and the Distance Learning/Medical Link programs. Another portion was used to bolster current operations of the Alternative Agricultural Research and Commercialization Corporation, and fund additional Rural Business Enterprise Grants, Farm Labor Loans/Grants, and technical assistance to the Enterprise Communities and Empowerment Zones.

The funding allocated to the Rural Housing Service provided homes for about 2,000 families, over 500 of which were homes for farm laborers. Funds made available to the Rural Utilities Service improved water service for over 6,000 people and created almost 200 jobs. The funding made available to the Rural Business-Cooperative Service saved or created over 200 jobs and over 1,000 businesses benefitted.

Fund for Rural America funding also provided for over 100 additional direct ownership loans as part of FSA's Beginning Farmer Loan program.

In addition, the funding also supported the Section 2501 program for Outreach for Socially Disadvantaged Producers. The funds were used to make grants and enter into contracts and other agreements with community-based organizations and educational institutions, such as the 1890/1862/1994 Land-Grant Colleges, Hispanic serving post secondary educational institutions, to provide outreach, training and technical assistance. The assistance provided included such things as developing farm plans, improving production and marketing skills, implementing accounting and record keeping systems, and helping farmers better understand USDA programs. The goal of the program is to stem the reduction in the number of minority farmers and ranchers by helping them run solvent enterprises.

Research, extension, and education grants were funded with the remaining \$36 million of the FY 1997 funding. Authorized grant recipients included Federal research agencies, national laboratories, colleges and universities, and private research organizations. Of the \$36 million, \$26 million was allocated to projects designed to: 1) increase international competitiveness, profitability and efficiency; 2) enhance the economic standing of rural communities; and 3) improve environmental stewardship. All grants were awarded on a competitive basis with

priority being given to those projects which address all three objectives simultaneously. An additional \$8 million was allocated to research activities which focus specifically on the development of methods to counter increasing concentration within the livestock and poultry industries, improvement in the food safety arena with specific emphasis on assisting small business establishments to achieve the new HACCP/Pathogen reductions, identification of the disease prevention potential of various foods, and the promotion of gleaning and food recovery efforts. Within this area, four grants concerning food recovery were selected. The remaining \$2 million was used to fund a new research initiative to address barriers to the full implementation of cutting edge telecommunications technology in rural America. Within the telecommunications area, twelve grants were selected. The Competitive Grants Program of Fund for Rural America program (the Fund) provides a unique, multi-disciplinary, integrated approach to research aimed at addressing the most pressing needs in rural America and improving the quality of life for the people who live there. Following are more specific examples of some of the projects that were funded.

Center Grants:

Cooperators at the Thomas Jefferson Center for Crop Diversification will, over a four year period, conduct on-farm research, economic analysis and marketing, and comprehensive education programs that will help farmers return to the constructive practices of diversification. Activities to enhance rural development include developing teams of farmers conducting on-farm research on new crop options; supporting the farmer teams with technical, management, and marketing assistance; and building local support through workshops, on-farm tours, information exchange, and leadership development. Additional objectives include: providing facilities; serving as a central information resource; and reducing institutional barriers to diversification. Partners include farmers, non-profit organizations, and land-grant universities including the University of Missouri, Jefferson Institute, Purdue University, Iowa State University, University of Nebraska, Colorado State University, and Oregon State University.

Standard Grants:

Cooperators from Tuskegee University, the Federation of Southern Cooperatives/Land Assistance Fund, Alabama A&M University, Alabama State University, and Alcorn State University will be working to improve the income of socially disadvantaged forestland owners in the South. Though Alabama is endowed with rich forest resources, forests have not contributed significantly to the household income of the landowners. Further, inappropriate management of forest resources has intensified environmental degradation in the region. This project will (1) identify the characteristics of socially disadvantaged forest land owners and their forest lands and (2) develop a pilot technical assistance program in forest management and marketing for these landowners.

Researchers from the University of Arizona, the Yulex Corporation, the University of California-Riverside, Texas A&M University, New Mexico State University, the University of Akron, and the USDA Agricultural Research Service will develop the semi-arid lands shrub, guayule, as an industrial feedstock. Because guayule is on the edge of commercialization, information from this project will help increase international competitiveness and farm profitability, reduce economic and health risks, conserve and enhance natural resources, and increase economic opportunities in farming and rural communities.

A collaboration between the University of California, Davis, the Community Alliance with Family Farmers, and the Lodi-Woodbridge Winegrape Commission will work to expand the adoption of biologically-based farming systems and strengthen their positive influences on the social and economic health of rural communities in California. This will be done by identifying farmer goals and management styles and their connections to key community stakeholders, and by strengthening the social and economic linkages between farmers and their communities through local leadership development and public education strategies.

A partnership between the University of Minnesota, the State of Minnesota Office of Technology, and private local Internet service providers will build on the work of the United Nations Trade Point Initiative and the Minnesota Secure Electronic Authentication Link laboratory to provide consulting, build community capacity, and develop connectivity needed to enable small- to mid-sized rural businesses to trade globally through electronic commerce.

A project combining the unique resources of Montana State University, the American Cancer Society, the National Multiple Sclerosis Society, the American Diabetes Association, and the Arthritis Foundation will take advantage of computer and Internet services to: (1) provide information and mutual and professional support to middle-aged isolated rural women living with chronic illness, and (2) evaluate the impact of participation in these support groups on the women's psycho social health. This project will bring opportunities for effective nursing intervention to an under-served rural population.

Collaborators from Washington State University, the University of Washington; and the USDA Animal and Plant Health Inspection Service will study the ecology of *Salmonella typhimurium* DT104, a serious emerging infectious agent that is resistant to most antibiotics and can infect humans, wildlife, and farm animals. Work will focus on the cycle of infection on the farm and in the rural community to learn the best ways to control contamination of food products and to prevent human exposure at all points in the system.

SUMMARY OF PROPOSED LEGISLATION**FUND FOR RURAL AMERICA****SUMMARY OF INCREASES AND DECREASES - PROPOSED LEGISLATION**

<u>Mandatory Funding</u>	<u>Current Law</u>	<u>Program Changes</u>	<u>President's Request</u>
FY 2000	\$60,000,000		\$60,000,000
FY 2001	\$60,000,000	+\$15,000,000	\$75,000,000
FY 2002	\$60,000,000	+\$15,000,000	\$75,000,000
FY 2003	\$60,000,000	+\$15,000,000	\$75,000,000
FY 2004	\$60,000,000	+\$15,000,000	\$75,000,000

Explanation of Proposed Legislation:

This proposal would restore the \$60 million in mandatory funding authorized for the Fund for Rural America for FY 1999. The use of this funding was blocked by the FY 1999 Appropriations Bill. The legislation proposes that the \$60 million be restored in \$15 million annual increments beginning in FY 2001.

EXECUTIVE OPERATIONS

OFFICE OF THE CHIEF ECONOMIST

Purpose Statement

The Office of the Chief Economist (OCE) was created by the Secretary of Agriculture on October 20, 1994, under the authority of the Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354.

The mission of OCE is to advise the Secretary of Agriculture on the economic implications of Department policies, programs and proposed legislation. The OCE serves as the focal point for the Nation's agricultural economic intelligence and projections, risk analysis, and cost-benefit analysis related to domestic and international food and agriculture, provides policy direction for biofuels and new uses, and is responsible for coordination, review and clearance of all commodity and aggregate agricultural and food-related data used to develop outlook and situation material within the Department.

Activities include policy and program analysis; regulatory reviews; information dissemination; market surveillance; coordination of assessments of international and domestic agricultural developments; improvement of forecasting techniques; coordination of weather, climate and remote sensing activities; coordination of sustainable development activities; energy uses; and development and implementation of regulations affecting agricultural labor.

The Office of the Chief Economist uses regularly scheduled information releases to advise the Secretary and the public on developments affecting agricultural markets and the rural economy. Feedback from users is solicited through formal periodic user meetings. The Office coordinates interagency development of forecasts and projections by drawing together a variety of experts to assure objective and sound analysis. The Office uses memos and briefings to advise the Secretary of the consequences of market developments, program changes, and legislative proposals. The Office provides economic analysis of Department policy positions to the Congress and the public. The Office participates in the development of reviews, and clears all regulatory impact and risk analyses of Departmental significant, economically significant, and major rules to ensure they are based on objective, appropriate, and required economic and risk analyses.

Headquarters for the Office of the Chief Economist is located in Washington, D.C. OCE has one field unit located in Stoneville, Mississippi. As of September 30, 1998, there were 41 employees of which 40 were full-time permanent employees, and one other than permanent full-time. These employees were assigned as follows:

<u>Location</u>	<u>Full-time Permanent</u>	<u>Other</u>
Washington, D.C.	39	1
Field Unit	1	=
Total	40	1

The Office of the Chief Economist did not have any Office of the Inspector General or General Accounting Office evaluation reports during the past year.

EXECUTIVE OPERATIONS

OFFICE OF THE CHIEF ECONOMIST

AVAILABLE FUNDS AND STAFF YEARS1998 Actual and Estimated, 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Office of the Chief Economist	\$5,826,000	43	\$6,411,000	56	\$6,622,000	56
<u>Obligations under other USDA appropriations:</u>						
Global Climate Change Program ..	465,000	2	666,000	4	666,000	4
Annual Outlook Forum	70,000	--	70,000	--	70,000	--
Total, Other USDA Appropriations.	535,000	--	736,000	4	736,000	4
Total, Agriculture Appropriations...	6,361,000	45	7,147,000	60	7,358,000	60
<u>Non-Federal Funds:</u>						
Subscription Services	18,000	--	18,000	--	18,000	--
Total, Office of the Chief Economist	6,379,000	45	7,165,000	60	7,376,000	60

EXECUTIVE OPERATIONS

OFFICE OF THE CHIEF ECONOMIST

PERMANENT POSITIONS BY GRADE AND STAFF YEAR SUMMARY1998 Actual and Estimated 1999 and 2000

Grade	1998			1999			2000		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
ES-6	1	—	1	1	—	1	1	—	1
ES-5	1	—	1	1	—	1	1	—	1
ES-3	2	—	2	2	—	2	2	—	2
ES-1	1	—	1	1	—	1	1	—	1
SL	2	—	2	2	—	2	2	—	2
GS-15	15	—	15	15	—	15	15	—	15
GS-14	12	—	12	12	—	12	12	—	12
GS-13	4	—	4	4	—	4	4	—	4
GS-12	3	—	3	3	—	3	3	—	3
GS-11	2	—	2	2	—	2	2	—	2
GS-10	1	—	1	1	—	1	1	—	1
GS-9	6	—	6	6	—	6	6	—	6
GS-8	3	—	3	3	—	3	3	—	3
GS-7	2	1	3	2	1	3	2	1	3
GS-6	1	—	1	1	—	1	1	—	1
GS-5	2	—	2	2	—	2	2	—	2
GS-3	1	—	1	1	—	1	1	—	1
Total Permanent Positions	59	1	60	59	1	60	59	1	60
Unfilled Positions end-of-year	-19	-1	-20	—	—	—	—	—	—
Total, Permanent Full-Time Employment, end- of-year	40	—	40	59	1	60	59	1	60
Staff Year Ceiling	45	—	45	59	1	60	59	1	60

EXECUTIVE OPERATIONS

OFFICE OF THE CHIEF ECONOMIST

CLASSIFICATION BY OBJECTS1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, D.C.	\$3,425,310	\$3,920,492	\$4,088,282
Field	242	27,508	28,718
11 Total personnel compensation	3,425,552	3,948,000	4,117,000
12 Personnel benefits	643,102	750,000	792,000
Total pers. comp. & benefits	4,068,654	4,698,000	4,909,000
Other Objects:			
21 Travel	252,663	220,000	220,000
22 Transportation of things	57,022	25,000	25,000
23.3 Communications, utilities, and misc. charges	84,578	90,000	90,000
24.0 Printing and reproduction	34,712	35,000	35,000
25.2 Other services	581,305	724,000	724,000
25.3 Purchases of goods and services from Government Accounts	21,096	30,000	30,000
25.5 Agreements	200,000	200,000	200,000
26 Supplies and materials	172,202	114,000	114,000
31 Equipment	350,239	275,000	275,000
Total other objects	1,753,817	1,713,000	1,713,000
Total direct obligations	5,822,471	6,411,000	6,622,000
<u>Position Data:</u>			
Average Salary, ES positions	\$120,199	\$122,817	\$123,692
Average Salary, GS positions	\$56,729	\$59,638	\$62,570
Average Grade, GS positions	11.86	11.90	11.92

OFFICE OF THE CHIEF ECONOMIST

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

- 1 For necessary expenses of the Chief Economist, including economic analysis, risk assessment, cost-benefit analysis, energy and new uses, and the functions of the World Agricultural Outlook Board, as authorized by the Agricultural Marketing Act of 1946 (7 U.S.C. 1622g), and including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), of which not to exceed \$5,000 is for employment under 5 U.S.C. 3109, [~~\$5,620,000~~] \$6,622,000.

This change in the language is for the purpose of including the Office of Energy Policy and New Uses which was transferred to the Office of the Chief Economist pursuant to the Title VI, Section 602 of the Agricultural Research, Extension, and Education Reform Act of 1998, P.L. 105-185, 112 Stat. 585, and under the authority given to the Secretary under the Reorganization Plan No. 2, 1953, 7 U.S.C. 2201.

EXECUTIVE OPERATIONS
OFFICE OF THE CHIEF ECONOMIST

Appropriations Act, 1999	\$5,620,000
Budget Estimate, 2000	<u>6,622,000</u>
Increase in Appropriation	<u>+1,002,000</u>

Adjustments in 1999:

Appropriations Act, 1999	\$5,620,000
Activities transferred from Economic Research Service g/	<u>+791,000</u>

Adjusted base for 1999	\$6,411,000
Budget Estimate, 2000	<u>6,622,000</u>
Increase over adjusted 1999	<u>+211,000</u>

g/ Pursuant to the Title VI, Section 602 of the Agricultural Research, Extension, and Education Reform Act of 1998, P.L. 105-185, 112 Stat. 585, and under the authority given to the Secretary under the Reorganization Plan No. 2, 1953, 7 U.S.C. 2201, the Office of Energy Policy and New Uses functions were transferred to this account from the Economic Research Service.

SUMMARY OF INCREASES AND DECREASES

(On basis of adjusted appropriation)

<u>Item of Change</u>	1999 <u>Estimated</u>	<u>Pav Costs</u>	2000 <u>Estimated</u>
Office of the Chief Economist	<u>\$6,411,000</u>	<u>+211,000</u>	<u>\$6,622,000</u>

PROJECT STATEMENT
(On basis of adjusted appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease</u>	<u>2000 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Office of the Chief Economist.....	\$5,822,471	45	\$6,411,000	60	+\$211,000	\$6,622,000	60
Unobligated Balance.....	3,529	--	--	--	--	--	--
Total available or estimate.....	5,826,000	45	6,411,000	60	+211,000(1)	6,622,000	60
Transfer of Office of Energy from the Economic Research Service.....	-778,000	-6	-791,000	-6			
Total, Appropriation.....	5,048,000	39	5,620,000	54			

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of \$211,000 for the Chief Economist (\$6,411,000 available in 1999) consisting of:

- (a) An increase of \$211,000 for pay costs which includes \$45,000 for the annualization of the fiscal year 1999 pay raise and \$166,000 for the anticipated fiscal year 2000 pay raise.

OCE is a small office with little flexibility to bear pay cost increases. Salaries and benefits plus required obligations amount to 90 percent of OCE's budget, with necessary travel, equipment and contracts accounting for the remainder. Funds to cover pay costs are needed to prevent a decline in weather and market analyses. These areas received increased appropriations in recent year in order to address emerging deficiencies in the collection and reporting of global weather and economic intelligence to farmers and the public. Without pay costs, the improvements in analysis, dissemination, and timeliness now underway would be reversed.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS**1998 Actual and Estimated 1999 and 2000**

	<u>1998</u>		<u>1999</u>		<u>2000</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>
District of Columbia.....	\$5,822,229	45	\$6,373,492	59	\$6,583,282	59
Stoneville, Mississippi..	242	-	37,508	1	38,718	1
Subtotal, Available or Estimate.....	5,822,471	45	6,411,000	60	6,622,000	60
Unobligated balance....	3,529					
Total, Available or Estimate.....	<u>5,826,000</u>	<u>45</u>	<u>6,411,000</u>	<u>60</u>	<u>6,622,000</u>	<u>60</u>

EXECUTIVE OPERATIONS

OFFICE OF THE CHIEF ECONOMIST

STATUS OF PROGRAM

The Office of the Chief Economist (OCE) advises the Secretary of Agriculture on the economic implications of Department policies, programs and proposed legislation. It serves as the focal point for the Nation's agricultural economic intelligence and projections related to agricultural commodity markets; risk analysis and cost-benefit analysis related to international food and agriculture; sustainable development; agricultural labor; and global climate change. OCE is responsible for coordination, review and clearance of commodity and aggregate agricultural and food-related data used to develop outlook and situation material within the Department. During fiscal year 1999, OCE will also be responsible for advising the Secretary on energy issues in agriculture.

Current activities, progress, and current programs under the OCE's strategic goals are outlined below:

Goal 1: Assure the Secretary of Agriculture receives timely, independent and objective economic advice and analysis on critical Departmental programs and policy issues.

Current Activities:

The Immediate Office (IO) of the Chief Economist provides policy and program analyses and advice for the Secretary on major issues affecting agriculture and rural America. IO is addressing issues on trade agreements and disputes, developments in agricultural commodity markets such as low hog prices, milk marketing order reform, karnal bunt compensation, crop insurance improvements, sustainable development in agriculture and rural communities, global climate change and agriculture, market concentration, the Conservation Reservation Program, agricultural labor, and regulatory review to ensure cost-effective, less burdensome regulations.

Selected Examples of Recent Progress:

Standard Reinsurance Agreement. IO analyzed models of the Standard Reinsurance Agreement (SRA) to assist the Risk Management Agency (RMA) in their 1999 SRA negotiations with the crop insurance industry. The models were used to analyze the budget implications and industry rates of return of various reinsurance proposals, including reinsurance for catastrophic and revenue products. In addition to various presentations to RMA officials, industry members and Congressional staff were briefed on numerous occasions.

Global Climate Change. IO was an active member of the U.S. interagency group on climate change and was part of the country delegation attending meetings of the United Nations Framework Convention on Climate Change (FCCC) in Buenos Aires, Argentina and Bonn, Germany. IO was instrumental in elevating the issue of carbon sequestration in the UN Intergovernmental Panel on Climate Change and the FCCC Subsidiary Body for Scientific and Technical Advice. IO also took the lead to coordinate an interagency group to assess the potential of sequestering carbon through forest management and cropland practices. Working with the White House Climate Change Task Force, IO arranged and participated in several outreach meetings with members of Congress, agriculture and forestry industries, and environmental groups.

Small Farms. In July 1997, the Secretary appointed a 30-member National Commission on Small Farms (Commission) to examine the status of small farms and to determine a course of action for USDA to respond to their needs. In January 1998, the Commission sent over 100 recommendations to the Secretary for consideration. The IO participated in a Departmental interagency task force established to review and provide advice on implementation of the Commission's recommendations.

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Tobacco Settlement. IO coordinated Departmental analysis of proposed settlement between tobacco companies and State Attorneys' General and buyout proposals for tobacco producers. The analysis examined the effects of the settlement on tobacco leaf production and producer income. IO briefed White House staff on results of the analysis as part of White House review of the settlement proposal.

Karnal Bunt. IO led Departmental efforts on compensating producers and handlers adversely affected by karnal bunt regulations and assisted in drafting regulations, cost-benefit analyses, and decision memoranda dealing with Karnal bunt. IO met with affected industry representatives on numerous occasions on behalf of the Secretary and the Animal and Plant Health Inspection Service (APHIS) Administrator and met with Congressional members to discuss proposed legislation to aid producers and handlers affected by regulatory actions in the Southeast.

Stevens Report on Federal Regulatory Process. IO represented the Department at White House-led interagency review of significant and economically significant rules. Presentations were made to the interagency review team on how to incorporate probability distributions into cost-benefit analysis and how to value wetland benefits.

Regulatory Review. IO reviewed analyses supporting some 40 Significant and Economically Significant regulations issued by the Department during fiscal year 1998. For example, IO provided critical review and guidance in the Department's regulatory analyses for regulation of retained water in poultry and meat, storage temperature for eggs and meat imports. In addition, IO has assisted the Forest Service in developing the supporting analyses for revisions of timber sale contracts regulations and the proposed road construction moratorium.

Railcar Situation. IO participated in the Secretary's Transportation Summit and on a special task force created to monitor and improve the performance of the western rail system. This task force initiated a new report, which is produced collaboratively with Surface Transportation Board, that provides an early warning of potential railcar shortages and bottlenecks in the movement of grain and grain products.

United Nations Ozone Committee. IO served on the Economic Options Committee of the United Nations Technical and Economic Assessment Panel for the Montreal Protocol. The Committee prepared a report on economic issues pertaining to implementation of the scheduled phase out of ozone depleting substances. Included in the report are analyses of various alternatives for reducing production and consumption of ozone depleting substances.

Agricultural Labor. IO worked cooperatively with Department of Labor, National Economic Council, and the Immigration and Naturalization Service to streamline and improve for farm employers and employees the H-2A temporary agricultural worker program. OCE staff helped to develop a new program to assist farm employers in California to meet their labor needs and prospective workers to find work under California's welfare reform effort. OCE staff maintained an internet web page to provide the public information on farm employment rules and regulations, farm safety, and worker protection from pesticides.

Dairy Analysis and Monitoring. IO coordinated an interagency team of analysts to provide analysis and information on dairy policy and Federal milk order consolidation and reform options and on the Northeast Interstate Dairy Compact. The 1996 Farm Bill phases out the dairy price support program, mandates that the Secretary reform and consolidate Federal Milk Marketing Orders, and authorizes the Compact until implementation of Federal order reform. The Interagency team is responsible for monitoring the effects of the Compact, estimating the effects of alternative Federal order reform and consolidation proposals and evaluating alternative dairy policy options.

Conservation Reserve Program Analysis (CRP). IO participated in an interagency team to provide analysis and information for the 16th CRP enrollment. In the 16th CRP enrollment, producers submitted bids on 9.5 million acres of which 5.9 million were accepted into the CRP. IO assisted in evaluating the environmental benefits of bids made and developing selection criteria for determining which bids to accept. IO also responded to numerous inquiries regarding eligibility and selection criteria used in the 16th CRP signup.

Farm Income and Crop Loss Assistance. IO participated in an interagency team to provide analysis and information on the economic situation in agriculture resulting from low farm prices and adverse weather and to develop policy options to help stabilize farm income. In 1998, low farm prices caused by record global production and the Asian currency crisis coupled with reduced crop production due to adverse weather in some sections of the country sharply reduced the incomes for many producers. IO responded to numerous inquiries regarding the effects of sharply lower commodity prices and adverse weather on farm income and assisted in evaluating various proposals to assist crop and livestock producers.

Sustainable Development. The Director of Sustainable Development served as liaison to the President's Council on sustainable development and the USDA coordinator for the Interagency Working Group on Sustainable Communities, sponsored by the Council on Environmental Quality. The Director served as the lead USDA member of the U.S. delegation to the UN meetings on sustainable development. The Director also co-chaired USDA's Council on Sustainable Development, which implemented a Sustainable Agriculture Learning Initiative to bring together sustainable agriculture farmers with bankers and insurance specialists.

Congressional Testimony. The Chief Economist advised Congress through testimony on the effects of the 1996 Farm Bill on markets, price and profit prospects for livestock and global climate change.

Goal 2: Improve the U.S. agricultural economy by facilitating efficient price discovery in agricultural markets by coordinating the release of comprehensive, consistent, reliable, timely and objective USDA estimates, forecasts, and projections of commodity supply, demand, and prices.

Current Activities:

The World Agricultural Outlook Board (WAOB) coordinates and reviews for clearance all commodity and aggregate agricultural and food related data used to develop outlook material within USDA. Prior to the creation of WAOB, agricultural outlook data were collected, analyzed, and reported by several agencies in USDA. The Board also ensures that essential information quickly reaches policymakers and the public, especially U.S. farmers. WAOB functions include: coordinating USDA forecasts of domestic and international agriculture, monitoring markets and agricultural weather; coordinating weather, climate, and remote sensing activities; and disseminating information.

Selected Examples of Recent Progress:

Supply and Demand Monitoring and Reporting. As a part of USDA's ongoing economic information program, WAOB published the monthly World Agricultural Supply and Demand Estimates (WASDE) report, which provides projections of world and U.S. supply and utilization estimates and forecasts for grains, soybeans, and cotton; and U.S. estimates and forecasts for sugar, red meat, poultry, eggs, and milk. The report also includes forecast reliability tables for selected commodities. WAOB also cleared more than 150 USDA economic outlook reports in fiscal year 1998. In addition, daily market highlights and weekly briefing reports were prepared for the Secretary and top staff, weekly weather and economics briefings were presented to the Under Secretary for Farm and Foreign Agricultural Services, and international weather highlights were published in the Weekly Weather and Crop Bulletin.

U.S. and World Crop Developments. Over the past year, the Joint Agricultural Weather Facility (JAWF) of the World Agricultural Outlook Board monitored and analyzed potentially crop-damaging weather events in the United States and across the globe and the WASDE report published by WAOB estimated the likely impact on world commodity supplies and demand. WAOB's Chairperson and Chief Meteorologist briefed government officials and news media frequently on changing crop conditions.

Grain Transportation Outlook Initiated. WAOB assembled an interagency committee for the purpose of reviewing and publishing the Department's first *Grain Transportation Prospects* report. This report addressed the need to provide the transportation industry with timely information on crop supplies in an effort to avoid railcar shortages at the expense of agriculture, and to provide farmers with information on pressures facing the rail industry.

Long-term Projections Issued. WAOB took the lead in developing and coordinating USDA's 10-year baseline projections for release at the Agricultural Outlook Forum, held in February 1998. These projections are used extensively within and outside USDA as a common starting point for the analysis of alternative budget, program, and policy scenarios. This year's baseline was particularly useful in analyzing the impact of the Asian and Russian financial crises on U.S. agriculture.

Public Access to Information Enhanced. WAOB improved electronic access to the monthly WASDE report. The WASDE report is now posted instantly on the WAOB home page as well as forwarded to the USDA "Economics and Statistics" web site at Cornell University. In addition, WAOB took the lead in upgrading the usefulness of the Cornell University site for USDA information by overseeing a redesign and expansion of the help section.

Drought Initiative. WAOB continued to play an active role in the Western Drought Coordination Council activities. WAOB collaboration will continue as the Farm Service Agency assumes leadership of a new National Drought Policy Committee.

Ag Weather Field Office Opened. WAOB continued to work with the National Weather Service to assure that agriculture's essential data needs can be supplied following the closing of NWS agricultural weather service offices and other cuts in specialized weather services. A cooperative national agricultural weather observing network is being assembled. The network's first field meteorologist has been stationed at the Agricultural Experiment Station in Stoneville, Mississippi, to re-establish the defunct site for the purpose of collecting meteorological data in the Southeast.

Coordination with National Oceanic and Atmospheric Administration (NOAA) Strengthened. WAOB increased cooperation and dialogue with the Office of the Federal Coordinator for Meteorology of the National Oceanographic and Atmospheric Administration. This interchange has renewed cooperation in support of USDA weather needs. NOAA's National Weather Service recently announced that the agency will adopt USDA National Agricultural Weather Information System (NAWIS) language and accept it as the Administration's position with respect to authorizing this activity.

Weather Data Receiver Operational. WAOB established a satellite downlink for National Weather Service (NWS) data at the USDA's Kansas City computer center. This downlink gives access to more reliable and comprehensive data, helping to improve crop-weather analysis in support of USDA forecasts. It also will make it possible to share timely weather data with other agencies such as the Forest Service and with field offices in USDA's new agricultural weather observing network.

Understanding TCK Smut. Support provided by the Joint Agricultural Weather Facility (JAWF) of WAOB was instrumental in helping to dispute non-tariff barriers to wheat trade with China and Brazil. USDA used JAWF's extensive weather and climate data base to show that neither China or Brazil have climatic conditions which would support the growth of TCK smut or karnal bunt. This evidence has weakened the justification by both countries for restricting imports of U.S. wheat.

Remote Sensing Coordination. At WAOB's request, the Defense Intelligence Agency (DIA) opened its archive of more than 10,000 satellite images to USDA and has agreed to provide scenes requested by the Department at no cost. Normally, such images would cost USDA \$400 to \$4,400 each. DIA now provides USDA with a list of new imagery acquisitions every two weeks. In addition, WAOB successfully negotiated an agreement with a private vendor to provide radar imagery to the Foreign Agricultural Service, Farm Service Agency (FSA), Forest Service, and the Natural Resources Conservation Service (NRCS) at no cost. In return, USDA will provide with evaluations of the usefulness of radar imagery in fulfilling agency missions.

Information Exchange with South Africa. WAOB continued an initiative with South Africa to share meteorological technologies and data, under the auspices of the United States/South Africa Bi-National Commission. WAOB arranged for a technical exchange between the developers of the "Oklahoma Mesonet" and scientists representing South Africa's Agricultural Research Council, and is now receiving real-time weather data collected by South African counterparts.

Technical Cooperation with China. WAOB continued an information exchange with China that has yielded substantial analytical benefits to the Department. The Chairperson traveled to Beijing, Guangxi Province, and Sichuan Province with specialists from the National Agricultural Statistics Service and the Economic Research Service. Through participation in this project, USDA has substantially improved its information base with respect to the present and future of China's agricultural sector.

USDA Agricultural Outlook Forum. WAOB orchestrated USDA's seventy-fourth Agricultural Outlook Forum in February 1998. Over 1,000 people attended the event which was covered by an unprecedented 85 journalists. The 1998 Forum was the first to reflect the participation of five additional USDA agencies, who joined the traditional four sponsoring agencies. Their input resulted in a program that covered a range of issues affecting the business of agriculture and well-being of producers and consumers.

1890 Institution Partnership. For the third consecutive year, WAOB supported an ongoing partnership with the University of Maryland Eastern Shore (UMES), an 1890 Institution. The goal of this partnership has been to introduce UMES faculty and students to agriculture-related occupations.

Goal 3: Ensure regulations affecting the public are based on sound, objective and appropriate risk assessments and economic analyses.

Current Activities:

The Office of Risk Assessment and Cost-Benefit Analysis (ORACBA) exercises the responsibility for reviewing and approving statutorily required risk analyses for all major USDA regulations. The Office serves as a focal point for Departmental Activities related to risk analysis, including interdepartmental activities, risk communication, and education and training on risk analysis methods.

Selected Examples of Recent Process:

Risk Assessment Education and Training. ORACBA, in cooperation with the Food and Drug Administration (FDA) initiated a series of courses on risk assessment and cost-benefit analysis. The courses, offered by the USDA Graduate School, are designed to introduce basic risk assessment methods and concepts for the novice, as well as challenge the experienced risk assessor in ecological and human health risk assessment issues and cost-benefit analysis. The training program is improving regulatory risk assessments in USDA and FDA. The monthly ORACBA Risk Forum continued to provide USDA personnel with a forum for discussion of technical, scientific and policy issues relating to food safety, human health and ecological/environmental risk assessment.

USDA Conservation Program Risk Assessment Guidance. ORACBA continued to provide guidance and technical support to USDA agencies responsible for conducting risk assessments supporting the Environmental Quality Incentives Program and the Conservation Reserve Program. The guidance was focused on several case studies that allow NRCS and FSA to examine the effectiveness of the conservation programs. An interagency team of environmental and ecological risk assessors led by ORACBA has worked closely with the agencies in developing these case studies.

Regulatory Review. ORACBA reviewed or coordinated interagency reviews of risk assessments that support significant regulatory proposals and reports. These reviews included work on *Salmonella* in eggs and irradiation of beef. ORACBA also reviewed a variety of documents concerning importation of organisms or commodities into the U.S. These included the risk assessment for the interim rule on solid wood packing material, Foot and Mouth Disease (FMD) in Argentine beef, FMD in South African beef, Hog Cholera (HC) in Yucatan and Sonora (Mexico), and regionalization of the European Union for HC occurrence.

Risk Analysis Coordination. ORACBA coordinated the development of risk analysis procedures for interagency use. For example, the Interagency Food Safety Risk Group (I-FRAG) developed conceptual models for farm to table risk assessment for *Escherichia coli* O157:H7. ORACBA participated in the National Environmental Policy Institute to develop and share materials on identifying good science and the good use of science in risk assessment. ORACBA continues to serve on the Presidential Initiatives on Food Safety, on Food Safety Research, and on Fruits and Vegetables, and the Risk Assessment Consortium.

Risk Consultation. ORACBA worked with rule-making agencies on potential risk analysis protocols. In cooperation with the Cooperative State Research, Education and Extension Service and APHIS, ORACBA conducted a two day workshop to examine the role of risk assessment and other regulatory analyses related to pest risks and international trade agreements. ORACBA continued to take the lead on the two year cooperative agreement that will produce the BSE risk analysis. ORACBA was requested by the Forest Service to review the Environmental Protection Agency's (EPA) risk assessments for the transfer of land from the Department Of Defense to the FS. ORACBA staff members provided input to a project on invasive plant species with the Forest Service. The Office of Pest Management Policy asked for ORACBA's expertise in review of EPA pesticide risk assessments.

Risk Communication. ORACBA continues to improve risk communication among USDA analysts concerning developments in risk assessment and economic analysis. The widely-distributed ORACBA Newsletter provides information on the experience of USDA risk assessors, practical issues in risk assessment and other developments. ORACBA arranged and implemented risk communication training for 40 individuals in USDA relating to Bovine Spongiform Encephalopathy (E) and the related risk analysis for this disease. ORACBA conducted numerous seminars, workshops, and consultations on risk analysis to government groups and land-grant universities.

EXECUTIVE OPERATIONS

OFFICE OF BUDGET AND PROGRAM ANALYSIS

Purpose Statement

The Office of Budget and Program Analysis (OBPA) was established in June 1981. Its predecessor organization was established on July 8, 1922, (Secretary's Memorandum No. 389), under the provisions of the Budget and Accounting Act of 1921, which designated that a Budget Officer was to have charge of the preparation of estimates and other appropriations for the Department.

The mission of OBPA is to provide analyses and information to the Office of the Secretary and other policy officials to support informed decisionmaking regarding the Department's programs and policies, budget, legislative, and regulatory actions.

The Office of Budget and Program Analysis is located in Washington, D.C. As of September 30, 1998, there were 65 full-time permanent employees.

The Office of Budget and Program Analysis did not have any Office of the Inspector General or General Accounting Office evaluation reports during the past year.

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EXECUTIVE OPERATIONS

OFFICE OF BUDGET AND PROGRAM ANALYSIS

Available Funds and Staff Years1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation.....	\$5,986,000	70	\$6,120,000	66	\$6,583,000	67

Permanent Positions by Grade and Staff Year Summary1998 Actual and Estimated 1999 and 2000

Grade	1998 Washington, D.C.	1999 Washington, D.C.	2000 Washington, D.C.
ES-6	3	3	3
ES-5	1	1	1
GS-15	8	8	8
GS-14	13	16	16
GS-13	21	16	16
GS-12	7	6	6
GS-11	2	2	2
GS-10	2	2	2
GS-9	4	4	4
GS-8	2	2	2
GS-7	7	6	7
Total Permanent Positions	70	66	67
Unfilled Positions end-of-year	-5	—	—
Total, Permanent Full - Time Employment, end-of-year.....	65	—	—
Staff Year Ceiling	70	66	67

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EXECUTIVE OPERATIONS

OFFICE OF BUDGET AND PROGRAM ANALYSIS
CLASSIFICATION BY OBJECTS
1998 Actual and Estimated 1999 and 2000

	1998	1999	2000
Personnel Compensation:			
Washington, D.C.	\$4,706,481	\$4,705,000	\$4,965,000
11 Total personnel compensation	4,706,481	4,705,000	4,965,000
12 Personnel benefits	812,958	847,000	900,000
Total pers. comp. & benefits	5,519,439	5,552,000	5,865,000
Other Objects:			
21 Travel	15,078	16,000	16,000
22 Transportation of things	180	--	--
23.3 Communications, utilities, and misc. charges	85,609	87,000	87,000
24 Printing and reproduction	73,190	81,000	81,000
25.2 Other services	106,445	95,000	115,000
25.3 Purchases of goods and services from Government Accounts	91,110	104,000	104,000
26 Supplies and materials	50,390	57,000	102,000
31 Equipment	757	128,000	213,000
Total other objects	422,759	568,000	718,000
Total direct obligations	5,942,198	6,120,000	6,583,000
Position Data:			
Average Salary, ES positions	\$125,200	\$125,900	\$125,900
Average Salary, GS positions	\$63,722	\$67,765	\$70,816
Average Grade, GS positions	12.15	12.26	12.17

OFFICE OF BUDGET AND PROGRAM ANALYSIS

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

For necessary expenses of the Office of Budget and Program Analysis, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), of which not to exceed \$5,000 is for employment under 5 U.S.C. 3109, [~~\$6,120,000~~] \$6,583,000.

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EXECUTIVE OPERATIONS

OFFICE OF BUDGET AND PROGRAM ANALYSIS

Appropriations Act, 1999	\$6,120,000
Budget Estimate, 2000	<u>6,583,000</u>
Increase in Appropriation	<u>+463,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2000 Estimated</u>
Budget and Program Analysis	\$6,120,000	+\$238,000	+\$225,000	<u>\$6,583,000</u>

PROJECT STATEMENT

(On basis of appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease</u>	<u>2000 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Budget and Program Analysis.....	\$5,942,198	70	\$6,120,000	66	+\$463,000	\$6,583,000	67
Unobligated Balance.....	43,802	--	--	--	--	--	--
Total, Appropriation.....	<u>5,986,000</u>	<u>70</u>	<u>6,120,000</u>	<u>66</u>	<u>+\$463,000(1)</u>	<u>6,583,000</u>	<u>67</u>

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of \$463,000 for the Office of Budget and Program Analysis (\$6,120,000 available in 1999) consisting of:(a) An increase of \$150,000 to support information technology needs.

This initiative is related to OBPA's Goal 1 to assist the Office of the Secretary and other policy officials in decisionmaking and policy implementation by providing objective information and analyses regarding the Department's programs and policies; Goal 2 to ensure the Department's budget is consistent with policy decisions and that resources are allocated to agencies consistent with priorities and applicable laws, and Goal 3 to ensure the Department's legislative proposals and regulatory actions are analytically adequate and consistent with Departmental and Administration policy.

OBPA's information technology system was acquired in 1992. The original design of the system provides the ability to update the technology through periodic upgrades rather than total replacement. Given the age of the system, there is an urgent need in FY 2000 for funding to begin the process of replacing various components due to failure of hardware and advancing technology which renders portions of the system obsolete. Based on the age of the system, replacement of hardware rather than repair is more cost effective. Significant needs to be addressed include:

- Replacement of unreliable and functionally obsolete equipment. Funds are needed for phased replacement of terminals, printers, and other equipment which is failing due to age and is becoming obsolete. Replacement provides a more cost effective approach than repair. A phased replacement of equipment will ensure system reliability and will provide the capability to use up-to-date software. This will allow OBPA to communicate effectively with a wide range of agencies through the use of software compatible with that used by other agencies.
- Software upgrades. Funds are needed to purchase up-to-date versions of word processing and other software to provide additional analytical capabilities and allow OBPA to more efficiently communicate directly with the other agencies.
- Training and maintenance. A modest increase is proposed to provide training for ADP and other staff to remain current with changing technology and to provide an adequate level of maintenance for equipment.

(b) An increase of \$75,000 and one staff year to strengthen budget and program analysis capabilities.

This initiative is related to Goals 1 and 2, stated in (1) (a) above.

Legislation enacted in recent years has increased the complexity of the budget formulation and execution process requiring an enhanced level of strategic planning and monitoring of implementation and overall performance. Further, given constrained and declining levels of discretionary funding, there are additional demands for in-depth analyses of budget proposals and ongoing activities for efficiencies. At the same time, staffing levels in OBPA have

declined. Since FY 1993, OBPA staffing has declined by 9 staff years, or about 12 percent, making it difficult to meet the additional demands for analytical support to Department policy officials. There is a need for resources to support 1 staff year above the 1999 level to allow OBPA to provide Department policy staff the analytical support to meet significant new or enhanced activities including:

- **Strategic planning and performance planning and reporting under the Government Performance and Results Act (GPRA).** Under GPRA, agencies have developed strategic plans and annual performance plans.

Beginning in FY 2000, performance reports will be provided. It is critical that budget proposals fully reflect strategic plans and include performance goals and indicators consistent with GPRA plans and requirements. Additional staff will ensure the ability of OBPA to meet increasing demands for analyses, including the need to integrate products of the GPRA process into budget development and reporting.

- **Departmental Streamlining.** Declining funding levels, changes in major farm and conservation programs and new opportunities to employ technology have led to decreasing staffing levels and organizational changes, particularly in the Department's major field service agencies. Given the magnitude of the changes, including office closures and consolidations, and the level of investment in information technology, there is an increasing need for coordination and in depth analysis of program, organizational, and budget plans at the Department level. Additional resources in OBPA are needed to provide an appropriate level of assistance to policymakers considering a wide range of options as consolidation and downsizing proceeds in the future.

- (c) **An increase of \$238,000 for pay costs which includes \$51,000 for annualization of the fiscal year 1999 pay raise and \$187,000 for the anticipated fiscal year 2000 pay raise.**

More than 95 percent of the OBPA budget is needed to pay salaries, employee benefits and mandated central charges, leaving essentially no flexibility to cover additional pay costs. Without funds to cover the pay increase, OBPA would need to further reduce staffing, continuing the staffing decline of recent years. A further decline in staffing would limit the agency's ability to provide thoughtful, timely analytical support to Department policymakers and to provide accurate, timely responses to inquiries from a wide range of sources for information on the Department's budget and program proposals.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
District of Columbia.....	\$5,942,198	70	\$6,120,000	66	\$6,583,000	67
Unobligated balance.....	43,802					
Total, Available or Estimate.....	5,986,000	70	6,120,000	66	6,583,000	67

EXECUTIVE OPERATIONS

OFFICE OF BUDGET AND PROGRAM ANALYSIS

STATUS OF PROGRAM

The Office of Budget and Program Analysis (OBPA) coordinates the preparation of Departmental budget estimates and legislative reports; administers systems for the allotment and apportionment of funds; provides policy, program and budgetary analysis of United States Department of Agriculture (USDA) programs and proposals; and provides staff assistance to USDA agencies in meeting their responsibilities for the development and review of regulations.

In carrying out these responsibilities, OBPA assists the Secretary, Deputy Secretary, and other policy officials of the Department in the development, presentation, execution, and monitoring of the Department's budget. OBPA provides general oversight, review, and analysis related to alternative policies and resource levels. OBPA represents the Department at meetings and hearings with Congressional Committees, the Office of Management and Budget (OMB), the General Accounting Office, the Department of Treasury and others on matters related to the Department's budget, legislative and regulatory programs.

Goal 1: Assist the Office of the Secretary and other policy officials in decisionmaking and policy implementation by providing objective information and analyses regarding the Department's programs and policies.

Current Activities:Development, Presentation, Execution, and Monitoring of the USDA Budget

- Reviews and analyzes agency budget estimates and performance plans and develops alternatives and supporting data for the Secretary.
- Consolidates materials for the budget submitted to OMB. Serves as liaison with OMB staff during their review of the budget estimates.
- Prepares Departmentwide budgetary statements and summaries.
- Coordinates and prepares supporting justifications for budget requests to be presented to the Appropriations Committees.
- Serves as liaison with the Appropriations Committees and their staffs for the purpose of scheduling hearings, reviewing transcripts, and answering questions concerning USDA programs.
- Prepares and consolidates information requested by the appropriations, authorizing, and budget committees, and the Congressional Budget Office, including special budgetary analyses, reports, and appropriations hearings materials.
- Issues allotments and apportionments which allocate funds in accordance with laws, regulations, and the requirements of the Executive Branch and the Congress.
- Monitors and analyzes the Department's use of staff year resources.
- Analyzes outlay projections and prepares a coordinated Departmental outlay plan.

Selected Examples of Recent Progress:

Government Performance and Results Act (GPRA). OBPA worked with the Office of the Chief Financial Officer on the implementation of GPRA in the Department. OBPA assisted in the review of agency performance plans prior to their submission to OMB and the Congress.

Goal 2: Ensure the Department's Budget is consistent with policy decisions and that resources are allocated to agencies consistent with priorities and applicable laws.

Current Activities:Program Analysis

- Coordinates and/or conducts policy and program analyses and other reviews to assist agency and senior policy officials in formulating and implementing USDA policies and programs.
- Reviews and analyzes legislation, regulations, and policy options to determine their impact on USDA programs and policy objectives and on the Department's budget.
- Prepares cost estimates for legislation affecting the Department's programs.
- Monitors ongoing studies with significant program or policy implications and periodically updates the USDA Study Agenda which provides the current status of each study.

Selected Examples of Recent Progress:

Budget Summary. OBPA presented a series of technical, non-policy budget briefings for Congressional staff, the news media, special interest groups, and the general public when the Administration issued its fiscal year 1999 budget proposals. These briefings were attended by over 100 Congressional staff and members of the media. OBPA also distributed about 2,000 copies of the Budget Summary document to Congressional Committees, the media, State governments, farm groups, and others interested in USDA programs. OBPA made the fiscal year 1999 Budget Summary available through the Internet.

Goal 3: Ensure the Department's legislative proposals and regulatory actions are analytically adequate and consistent with Departmental and Administration policy.

Current Activities:Coordination of Legislative Proposals and Reports

- Coordinates and assists in the preparation of bills, resolutions, reports, studies and analyses and other legislative material for submission to the Congress.
- Compiles and produces the USDA Legislative Program which lists pending Administration proposals by subject areas.
- Maintains the Legislative Reports Tracking System to inform senior policy officials of the status of legislative proposals and reports.

Coordination of Regulatory Decisions

- Develops and implements procedures for the development, review and clearance of departmental regulations.
- Reviews and assists in development of regulations and impact analyses used in regulatory decision making.
- Maintains the Regulatory Tracking System to inform senior policy officials of the status of proposed regulations.
- Coordinates and assists in preparation of the USDA portion of OMB's Regulatory Program and the Regulatory Agenda.
- Maintains liaison with OMB, other Federal agencies and the Congress on the review and clearance of rules.

Selected Examples of Recent Progress:

Legislative Reports Tracking System. The Legislative Reports Tracking System continues to be a key element in OBPA's efforts to coordinate, monitor and provide information on the large volume of legislative reports, proposals, bills, and resolutions received by the Department. During fiscal year 1998, OBPA assisted in the preparation of 565 legislative reports.

Major Legislation. During fiscal year 1998, several legislative initiatives were transmitted to the Congress, including: initiatives related to the farm crisis; Child Nutrition Reauthorization; Farm Credit; Statute of Limitations; Agricultural Research Reauthorization; Crop Insurance; Food Stamp Provisions, and Food Safety. During the year, Congress enacted the Child Nutrition Reauthorization, Agricultural Research Reauthorization, Statute of Limitations, Food Stamps and Crop Insurance initiatives. This legislation will have major impacts on the Department's programs. OBPA prepared budget impact analyses, issue and background papers for use both within the Executive Branch and by the Congress in dealing with all this legislation.

Regulatory Reform. The Department continues to pursue its regulatory reform commitment to eliminate or reinvent about 11,700 pages in the Code of Federal Regulations (CFR). Action has been taken on over 8,600 CFR pages, of which over 3,100 pages are eliminations and almost 5,500 pages are reinventions. These totals represent 74 percent of the Department's original target. OBPA was actively involved in review and clearance of Department regulations including, among others: food safety; crop insurance; and, food program regulations.

FLORIDA FOREIGN PLANT, ANIMAL PEST AND DISEASE COSTS

[CLERK'S NOTE. --- The following table was inserted for the record by Mr. Boyd to emphasize the state and industry costs of foreign plants, animal pests and diseases in Florida. These costs exclude expenditures by USDA.]

State of Florida
Four-Year Impact by Foreign Plant/Animal Pests/Diseases

Plant/Animal Pest/Disease	State Costs For Control/ Eradication	University Of Florida Cost for Research	Industry Costs For Control	4-Year Industry Sales Loss	Annual Potential Sales Loss With Statewide Spread
Citrus Canker	\$11,500,000	\$2,420,178			
Medfly	\$17,500,000			\$620,000,000	\$375-750 million
Citrus			\$1,000,000	\$2,000,000	\$108-216 million
Tomatoes				\$5,000,000*	\$110-200 million
Other Crops					
Thrips Palmi **					
Bell Peppers		\$1,767,186	\$14,000,000		\$3.5 million
Brown Citrus Aphid **	\$173,572	\$1,081,386	\$21,000,000		\$5.2 million
Citrus Leafminer**		\$395,235	\$22,000,000		\$5.5 million
Oriental Fruit Fly	\$69,873		***		
Sweet Potato White Fly**		\$2,299,852	\$12-15 million		
Pine Shoot Beetle	\$10,076		***		
Leather Leaf Fern Anthracnose **	\$475,000	\$316,308	\$24,000,000	\$45,000,000	\$15-20 million
Equine Piroplasmosis	\$40,000				\$120 million
Heartwater Disease	\$1,115,200	\$5,300,214			\$195 million
Tropical Soda Apple **	\$1,080,440	\$1,683,062	***		
Port Inspection	\$97,056				
Totals	\$32,061,217	\$15,263,421	\$94-97,000,000	\$672,000,000	\$937 million-\$1.186billion
Four-Year Total Costs Eradication, Control, Research	\$141,359,518				

USDA/Federal Costs Not Included

* Sales Loss and Cost of Control; ** No Eradication Possible After Introduction; *** To Be Inserted Later

Compiled by Florida Department of Agriculture and Consumer Services

Source: Florida Department of Agriculture and Consumer Service, Florida Citrus Commission, Florida Tomato Exchange, Florida Fresh Fruit and Vegetable Association, University of Florida Institute of Food and Agriculture Sciences

8/06/98

THURSDAY, MARCH 18, 1999.

DEPARTMENTAL ADMINISTRATION

WITNESSES

SALLY THOMPSON, ACTING ASSISTANT SECRETARY FOR ADMINISTRATION AND CHIEF FINANCIAL OFFICER
ANNE F. THOMSON REED, CHIEF INFORMATION OFFICER
ROSALIND GRAY, DIRECTOR, OFFICE OF CIVIL RIGHTS
CONSTANCE D. GILLAM, BUDGET OFFICER, OFFICE OF THE CHIEF FINANCIAL OFFICER
STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF WITNESSES

Mr. SKEEN [presiding]. I want to say good morning to you. Today we take up the Fiscal Year 2000 budget request for the Departmental Administration, the Chief Financial Officer, the Chief Information Officer, and the Office of Civil Rights. That is an awful lot of offices.

Ms. Sally Thompson is here as both the Acting Assistant Secretary for Administration and Chief Financial Officer and Ms. Anne Reed is the Chief Information Officer and Ms. Rosalind Gray is the Director of the Office of Civil Rights. I understand that all three witnesses have separate summaries to present but before that, I will ask Ms. Kaptur if she has an opening statement.

Ms. KAPTUR. No, Mr. Chairman. I just want to welcome our witnesses today. This is our last panel from the Department and we have had quite a set of hearings this year. They have been very cordial and very informative and we look forward to—

Mr. SKEEN. We are good listeners.

Ms. KAPTUR. We are. We are good questioners, too. And we look forward to your testimony today. Thank you for coming.

Mr. SKEEN. I think Ms. Thompson is going to lead off.

OPENING REMARKS OF THE ACTING ASA

Ms. THOMPSON. Thank you, Mr. Chairman.

Mr. SKEEN. You are welcome, Ms. Thompson.

Ms. THOMPSON. Thank you, Mr. Chairman.

I have submitted for the record and for the Committee members my written testimony. I realize that this is your last of the hearings in this session and it has been six long weeks so I am going to be very brief.

When I appeared before you last year, Mr. Chairman, I had been CFO for three days. So, I am back today to tell you what I have accomplished.

Let me back up for just a minute and say that when I came here to Washington, I had been State Treasurer of Kansas for seven

years, and before that I came out of the private sector—banking executive and a CPA with two hats for many years. This is part of why I came into Government, to bring effectiveness and efficiency of sound business practices and principles into the Federal Government. And so, I would like to tell you today as CFO what I have accomplished and to request the tools I need to complete the job I need to get done and then secondly to discuss with you—or probably firstly—my new role as the Acting Assistant Secretary of Administration.

As you probably know, the Department of Administration is kind of the centralized function for the Department. We have human resources there, government ethics, policies and procedures for procurement, property management, facilities construction and operation. In addition to that, we have the Small and Disadvantaged Business program. We have Program and Administration Outreach programs as well as administrative law and hazardous waste management. We also have the civil rights program but I brought with us today our Director of Civil Rights, and she is going to cover that area for you.

CENTRALIZATION

As the centralized administration function for the Department, we provide leadership, policy, oversight and operations. We appreciate this committee's support of all of the things that we have been able to accomplish this past year.

We have implemented an Office of Ethics that is monitoring the ethics throughout the Department and putting integrity into that. We have had successes in Welfare To Work programs. We have set up a conflict prevention and resolution staff to try to prevent some of our equal employment opportunity issues that we have been addressing. This morning, I just came from the National Black Business Council in town of which we are providing one-on-one counseling to them through our Small and Disadvantaged Business Utilization Program.

CONTINUITY OF OPERATIONS

Now, we are working on some other things. We are working on our continuity of operations programs, which is an emergency preparedness program, both in looking at the front end on prevention and tightening up our security and at the back end on how we would be able to respond instantly if a disaster hit the Department.

RESOURCE REQUIREMENTS

What I would like to talk to you today about is resource needs in four different areas in Departmental Administration. In the Departmental Administration, direct appropriations, we are requesting about \$3.9 million—a million of that in mandatory pay increases. We have 650 employees in the offices that are managing all of the things that I just mentioned in the leadership policy role as well as oversight and operations.

In that increase of \$3.9 million, I will talk to you about a request for \$900,000 in the administration of our outreach program and

then Ms. Rosalind Gray will talk to you about \$1.6 million in civil rights.

OUTREACH EFFORTS

As you probably know, the history of USDA has been a very decentralized organization. In this day and age, that just doesn't work and so the Secretary this past year has centralized the administration and the oversight of outreach programs. As you probably know, most other programs that the USDA provides serve the underprivileged and the underserved, whether it is in the food and nutrition area, in a rural development area, or in farm service areas and on down the line. But what we needed as a Department is an administration of pulling all this together—centralizing it—and then having a Department that would negotiate the cooperative agreements and then provide the compliance and oversight to make sure that these programs that are being carried out are reaching the people that they were intended to reach.

Now, this was just a little different than the program itself. What it does is identify those people that are falling through the cracks in the way that we are administering the program and how we can do something about that. Of course, we have worked with a lot of that on a centralized basis but we have also worked on an individualized basis, where we have partnered with community-based organizations. The Secretary has given me the job as the new Acting Assistant Secretary to put together that Department-wide plan, and I am asking today for additional resources of \$900,000 for staff to be able to carry out that whole program.

In addition to that, we are requesting \$7 million in grant money that would go out throughout all of the States and counties. We have \$3 million this year. We have been able to touch the lives of over 100,000 disadvantaged people, giving them technical assistance and training and it goes from very uniqueness of helping a 68-year-old farmer in Kentucky keep the land that had been in his family for generations down to helping young farmers in Florida test out their skills. We have also helped farmers find a market for the new seedless watermelon. And so, there are success stories all over about 347 counties, I believe, and 22 States that we have reached with the \$3 million that you gave us last year. We certainly would like an additional \$7 million to expand that program significantly.

SOUTH BUILDING RENOVATION

The other major area that I need to talk to you today about is the request for additional funding for a program, Mr. Chairman, that I believe you were involved with about four years ago when you approved the renovation of our South Building on Independence Avenue, about 2 million square feet that was built with WPA money in the 1930's.

I probably don't need to tell you about the health and safety issues of that building, whether we are talking about the air quality, the heating, the lighting, the plumbing, or the electricity. It doesn't meet code, it is not accessible, and that project is a 10-year project.

I am pleased to tell you in our list of accomplishments that, by the end of this fiscal year, we will have nearly completed phase one of an eight-phase project. In other words, we have broken down the building into eight phases which pretty much relate to the wings of the building, and we will have nearly completed one of those wings by this October.

We had funds leftover from prior years that we have used this year to finish the construction of that first wing which is going to cost us about \$26 million this year. What we are requesting for next year is an additional \$21 million. You gave us \$5 million for Fiscal Year 1999. We are requesting another \$21 million because the planning is all done, and we would like to continue the construction on the next wing. Again, that will cost us about \$26 million.

As you know, with any kind of a construction project, if you stop in the middle of it, it costs you more money and so this is very important that the Department continue with this project. So, we would again request the additional monies to continue on that project, and we would love to have you come over and see the construction project, if you have time later on in the year when things slow down a little bit.

HAZARDOUS WASTE MANAGEMENT

In the fourth area, before I start to wrap up my remarks, we have the Hazardous Waste Management Program in Departmental Administration. We are requesting an additional \$7 million in funding, bringing it up to \$22.7 million in fiscal year 2000.

We are under a statute, of course, to complete the cleanup, and we are subject to liability under the natural resource conservation and recovery laws. We have finished the inventory, and we are now ready to start into what is the more complex and more costly responsibility in the area of cleanup. This last year, we have been able to leverage funding from responsible parties to take the \$15 million that you gave us this last year and leverage another \$30 million out of responsible parties.

Of course, as you would know, that would take additional legal resources to be able to go after the responsible parties and to make them also help pay for the cleanup. This is one of those "you either pay now or you are going to pay more later" situations. I would request the \$7 million in additional funding for that.

CFO REMARKS

And with that, I am going to end my remarks on the Departmental Administration, but certainly would be available for any questions later. And I think my next remarks are as CFO, if I could next talk about the CFO. Is that on your schedule today?

Mr. SKEEN. Just go ahead and finish with the CFO.

Ms. THOMPSON. Okay. Thank you very much.

When I was here last year, as I said, I had been onboard for three days but I made some promises to you.

Mr. SKEEN. You are a very versatile woman. [Laughter.]

Y2K COMPLIANT

Ms. THOMPSON. I can wear many hats, you know. Pink ones, purple ones, red ones, whatever.

I told you, for one thing, that I would make sure that our National Finance Center—that is in New Orleans and has an employee base of about 1,800 employees, processes the payroll for a fifth of the Federal Government, and also processes the Thrift Savings Plan for 2.3 million Federal employees, as well as doing other services for 60 other Federal agencies—would be Y2K compliant.

I am very pleased to be able to come back to you today to say that we have accomplished that. We set a self-imposed deadline of June 30 to have 23 million lines of code reviewed and make them compliant. We did that and then we set the next deadline of December 31 to make sure that we put all of those changes in those systems through a time machine that forced the dates forward to test out not only the year 2000 but 2001, 2002, 2003, and 2004. They are all compliant, they are all working, and we are ready for the next millennium. So, I am very pleased with the Center for having accomplished that.

COMPUTER SYSTEM IMPLEMENTATION

In addition to that, I promised you that I would also bring in an experienced project team to take over the computer system implementation to get us compliant with standard general ledger in the CFO Act.

I did that. I brought in a team of five people that had not only the systems experience of having brought it up in another Federal agency just like our system but also had very strong skills in financial management as well. They are onboard, and have put a new project plan together. We are in the middle of the implementation, and it is working well. We will bring up the rest of the Forest Service—the other two-thirds—on October 1. We will also bring up another major agency—our Food Safety and Inspection Service. We have a 5-year plan to get everything done, and to get the old systems out of there. Everything is moving along very nicely, and I am very pleased with that.

But, as we went through the plan, we found out that it isn't just bringing up a new system that solves the problem of data integrity and credibility of our financial information. It also involves changing the business processes within the agencies. And so, today, I am here to ask you for about \$2 million of additional resources for CFO. We have not had an increase in the CFO's office since 1990 when it was first born. These resources are needed not to bring the new system up but, again, to provide that leadership, that policy, that oversight in the Department in working with all of the other program managers and the other agencies to review their business processes—to clean up their data—so that clean data in means clean data coming out of a system.

In addition to that, I can promise you that that will move us along to getting a clean audit opinion for the Department which means more credibility and more reliance that you can have on the data that is coming out of the USDA and, probably most importantly, will give our program managers better information in which

to make decisions and use the tax dollars that you allocate to us more efficiently and more effectively.

We need that, as well, to help guide that project through the Department, as well as the accountability reports, as well as making sure that the data—that we are going to use to measure the performance goals and the results of what we are doing—is credible and that you can rely upon that.

RESOURCES TO PROVIDE LEADERSHIP AND OVERSIGHT

We have, as you know, \$100 billion loan portfolio, which is the largest of all the Federal agencies put together. That is one that is mostly of use in rural America. People think a lot of it is the farm loans but we have housing loans—a bigger portfolio than HUD because they are direct loans—we have utility loans, and we have communication loans, community development loans, small business loans in that area. USDA is charged with the development of rural America.

Again, we need the leadership and the resources to provide that leadership because that is one of the biggest issues, keeping the Department from getting a clean opinion. I have made a promise to the Vice President to whom I am giving quarterly reports through OMB on what we are going to do to assure that we can get a clean opinion on our loan portfolio because that issue of loans could keep the Federal Government from getting a clean opinion.

CLOSING REMARKS OF THE CFO

So, there, again, it is my office that leads the charge, if you would, and provides the leadership, guidance, policies, and the oversight function to make sure that all of this gets done. And that is why I am requesting the funding for the CFO's office. I would certainly appreciate it, if I can thank you for all the help that you have given. I appreciate my five plus five minutes in the sun here. I made promises to you last year and I kept those promises. I can make this promise again this year—that if you give me the resources that I have asked for to be used for the good of the Department, I will come back and tell you next year, that I have again kept my promises. Thank you very much.

[The prepared statements and biography of Sally Thompson follow:]

DEPARTMENTAL ADMINISTRATION

**Statement of Sally Thompson, Acting Assistant Secretary for Administration
Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration,
and Related Agencies**

Mr. Chairman and members of the Subcommittee, it is a pleasure to appear before you today to present the President's budget proposal for FY 2000 for USDA Departmental Administration. I am currently filling a dual role as the Acting Assistant Secretary for Administration and as the Chief Financial Officer. As Acting Assistant Secretary for Administration, I will be discussing the central administrative functions of the Department including: human resource management, government ethics, procurement policy and property management, facilities construction and operations, small and disadvantaged business utilization, program and administrative outreach, administrative law and Hazardous Waste Management. Ms. Rosalind Gray, Director of the Office of Civil Rights, will present a separate statement on the civil rights progress and activities at the Department of Agriculture. I will also provide the Subcommittee with a separate statement covering the Office of the Chief Financial Officer.

We appreciate the support provided by this Subcommittee in recent years that has allowed us to continue critical administrative operations and the additional funding to continue essential support to the Department's civil rights effort.

Departmental Administration conducts varied and diverse oversight and support to provide quality leadership and service to the USDA agencies that deliver programs and services to the public.

To give some idea of the wide range of these responsibilities, here are just a few examples of our on-going activities.

GOVERNMENT ETHICS

During FY 1998, the Department established the Office of Ethics to oversee a vigorous government ethics program in USDA. With close coordination with the Office of the General Counsel and the U.S. Office of Government Ethics, this staff office is reviewing the ethics programs throughout the Department to assure that an effective ethics program is maintained within each of the Department's mission areas. An ethics Web site which provides training information and financial disclosure forms has already been established.

WELFARE TO WORK

The Office of Human Resource Management has coordinated the Department's implementation of the President's Welfare to Work Initiative. As of December 1, 1998, USDA had hired 374 employees from the welfare rolls. As a result, we have already achieved the Department's goal for the year 2000.

WORKPLACE CONFLICT MANAGEMENT

During FY 1998, we established a Conflict Prevention and Resolution Center in USDA headquarters. Through this office, we are working with the agencies to identify potential areas of employee conflict and to train employees and management personnel to recognize and deal with potentially dangerous situations. We are actively engaged in the President's Interagency Working

Group on Alternative Dispute Resolution, and in December 1998, we issued the USDA Handbook on Workplace Violence which was distributed to all employees.

BRINGING RURAL AMERICA VENTURE OPPORTUNITIES – BRAVO

The Office of Small and Disadvantaged Business Utilization has initiated the Bringing Rural America Venture Opportunities program to increase the participation of American Indian owned businesses with USDA. The BRAVO initiative establishes partnerships among rural communities, Indian nations, 1890 institutions, The Hispanic Association of Colleges and Universities, Native American educational institutions, small disadvantaged companies, private companies, and government organizations. Large technology companies currently doing business with USDA provide mentoring and support. Initial projects are focusing on establishing businesses to provide software development, maintenance and technical support to USDA. Employees are being recruited/trained from Indian Reservations and economically disadvantaged surrounding areas. Participating USDA agencies will direct a small percentage of already budgeted and approved software development contracts to support this initiative. The President has endorsed this program as a way of addressing equal employment opportunity for American Indians.

CONTINUITY OF OPERATIONS PLANNING

Last year the President assigned the Cabinet officers the responsibility for developing a comprehensive plan to assure that the capability exists to continue essential government functions in the event of localized or general disaster. We are developing the Continuity of Operations Plan which includes: emergency delegations of authority—where permissible and in accordance with law;

safekeeping of vital resources, facilities and records; emergency acquisition of resources necessary to reestablish essential functions; and alternative work sites.

DEPARTMENTAL ADMINISTRATION BUDGET REQUEST

The FY 2000 Budget request for Departmental Administration is \$36,117,000 which is \$3,949,000 more than the FY 1999 appropriation. The primary elements of this increase are: \$931,000 to strengthen and expand the leadership and coordination capabilities for the Office of Outreach and expand outreach activities to minority and limited resource customers; \$1,639,000 for the Office of Civil Rights to continue efforts to correct past weaknesses and strengthen USDA civil rights activities; and \$1,050,000 for mandatory pay costs including the Office of Civil Rights. Absorbing these pay increases would require cuts in the program areas put in place with the FY 1999 appropriation.

OUTREACH FOR SOCIALLY DISADVANTAGED FARMERS

For FY 2000, we are requesting \$10,000,000 for grants and contracts to community based organizations and certain educational institutions to provide outreach and technical assistance to socially disadvantaged farmers. This is an increase of \$7,000,000 over the amount provided in FY 1999. The current program supports 27 community based organizations and land-grant colleges that provide technical assistance and training to approximately 8,700 participants, primarily low-income farmers and ranchers, with a service area of 394 counties in 21 states. Our outreach efforts included town-hall meetings, workshops, and farmer field day activities that reached more than 107,000 people. Where the program is available, it has been successful in reducing the rate of land loss

among small, limited-resource farmers. The budget increase will allow eight additional entities and double the number of counties to provide technical assistance and training that will help reverse the decline in the number of minority farmers and ranchers. This increase would also fulfill the Civil Rights Action Team Report recommendation to fully fund this program.

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS

The FY 2000 Budget requests \$166,364,000 for Agriculture Buildings and Facilities and Rental Payments. This is an increase of \$29,180,00 including \$21,000,000 for South Building modernization, \$7,485,000 for increased rental payments to GSA, and a net increase of \$695,000 for building operations and maintenance.

USDA STRATEGIC SPACE PLAN

In our efforts to help reduce costs associated with housing our Washington area employees, USDA is implementing a long term plan to consolidate USDA Headquarters into two government-owned locations which will provide modern and safe facilities as well as enhance program operations. The Plan includes the new USDA Office Facility at the Beltsville Agricultural Center in Prince George's County, Maryland, and the modernization of the South Building in downtown Washington, D.C. Construction of the Beltsville Facility is complete and occupancy began in January 1998. We anticipate full occupancy by the end of FY 1999. The new complex is an award winning facility for energy savings. In addition, we are pleased to note that USDA will be receiving the 1998 Government Award from the National Industries for the Severely Handicapped, due in great part to our contract with Melwood, a community rehabilitation program, to operate this facility.

The contract provides employment for over 60 people and is the first of its kind. It will provide new opportunities for the disabled in non-traditional careers such as building engineering.

The South Building is over 60 years old, eligible for listing on the National Register of Historic Places, and in dire need of repair and renovation to make it safe, efficient, and functional. The required renovation work includes fire protection systems; abatement of hazardous materials such as asbestos, PCB light fixtures, and lead paint; replacement of old, inefficient heating, ventilation and air conditioning systems for improved energy conservation and air quality; upgrade of electrical and plumbing systems; improved accommodations for disabled persons; and accommodation of modern office telecommunications systems. Construction of Phase 1 - interior reconstruction of Wing 3 - began in September 1998. The FY 2000 funds are requested for the construction of Phase 2 - interior reconstruction of Wing 4. The design for Phase 2 has been substantially completed so that a construction contract can be awarded as soon as funds become available.

HAZARDOUS WASTE MANAGEMENT

The Department requests \$22,700,000 for the Hazardous Waste Management Program, an increase of \$7,000,000 over the FY 1999 level, to meet the minimum needs of the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and related state and local laws. We must meet the challenge of cleaning up contaminated lands under USDA's jurisdiction. Our prior year activities generally concentrated on identifying contaminated sites, assessing the problems, and developing cleanup strategies. We are moving out of the investigation phase of these sites and conducting more complex and costly response actions.

We have more than 2,000 contaminated sites remaining to clean up and restore. These remaining sites tend to be the most costly. For example, the cost of cleanup of problems caused by other responsible parties on facilities and lands that we manage, including abandoned mines and landfills, is estimated to exceed \$2 billion. If we do not ensure that these sites are cleaned up in a timely manner, the potential for fines, penalties and law suits could rapidly exceed the cleanup.

CONCLUSION

Mr. Chairman and members of the Subcommittee, this concludes my statement on the Departmental Administration budget for FY 2000. I want to reiterate our appreciation for the strong support which this Subcommittee has given us.

OFFICE OF THE CHIEF FINANCIAL OFFICER

Statement of Sally Thompson
Chief Financial Officer

Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration,
and Related Agencies

Mr. Chairman and members of the Committee, when I appeared before you last year, I had been on the job as the Department's Chief Financial Officer for only three days. At that time, I told you that my top three priorities were: (1) getting an integrated financial management system up and running for all USDA agencies; (2) streamlining reporting functions, improving performance measurements, and increasing accountability; and (3) fulfilling other responsibilities authorized by the CFO Act. I also pledged that all of the systems at the National Finance Center--NFC--in New Orleans would be Year 2000 compliant.

If I may start with the last item, I am pleased to report that the NFC met two self-imposed deadlines, one on June 30, 1998, to make all its systems Year 2000 compliant and another on December 31, 1998, to ensure that all systems were certified as Y2K compliant. The NFC provides payroll/personnel services to 435,000 employees from USDA and 100 other Federal agencies, accounting for one-fifth of the entire Federal workforce. NFC's systems support the Federal Government's Thrift Savings Plan--TSP, which is the \$74 billion 401(k) retirement plan with 2.3 million participants. All of us in the Office of the Chief Financial Officer--OCFO-- and across USDA are proud of this achievement.

Mr. Chairman, during the past year, I have consulted with OCFO's managers; its customers, both inside and outside USDA, our budget reviewers, members of the Congress, staff from the Office of the Inspector General, the Office of Management and Budget--OMB, and the General Accounting Office--GAO, and our counterparts in other Federal agencies about general and specific financial management problems facing USDA. I have taken seriously the USDA's Inspector General's statement that "...a stronger CFO oversight process is needed to assure...longstanding problems are resolved on a coordinated department-wide basis." I can assure you and your colleagues that the Secretary and the Department's senior-level management share my commitment to improving financial management. I would like to thank Secretary Glickman for his support and leadership. I also want to thank you and your colleagues for placing such an emphasis on financial management issues. This budget request reflects Congress' quest for more efficient, effective Government.

OCFO is playing a pivotal role in enhancing the Department's fiscal reputation. We have shouldered a lot of responsibilities in the last few years. As we have managed the Departmentwide implementation of Congressional mandates and executive orders, our budget continued to shrink.

Mr. Chairman, if the Congress approves our request for an increase of \$2,005,000 over our FY 1999 appropriation, it will mark the first time since passage of the CFO Act of 1990 that the Department's financial management office has received a program increase in resources. We have done much to position ourselves to improve the financial health of USDA. I ask for this Committee's support for additional resources to fully implement the plans that we have developed.

This budget request will be used to lead, direct, and oversee financial management activities across USDA. This increase in our budget will fund 14 positions to work with the agencies to improve their business practices and to help us accomplish the following objectives:

- Ensure that USDA's information includes accurate, complete, and credible data that are useful and used;
- Provide the Congress and the Administration reliable information when making decisions affecting USDA programs;
- Resolve long outstanding Inspector General's recommendations included in the audit reports;
- Develop a USDA accountability report that complies with new reporting requirements and streamlines existing reports, making it easier for the public and Congress to access information about our financial activities;
- And, perhaps most important, lead USDA to a clean unqualified audit opinion for FY 2000.

In a July 1998 report to the Vice President, we identified the plans of action that we are implementing to correct these deficiencies, which were outlined in the Inspector General's audit of our financial statements. This plan reflects a Departmentwide commitment to putting in place standard business processes that restore our credibility and correct the problems necessary for us to achieve an unqualified audit opinion.

An unqualified audit opinion assures everyone--policymakers, managers, the Congress, program recipients, and the American taxpayer--that USDA's financial management practices

produce credible, reliable information that complies with laws, regulations, and accepted authoritative requirements.

These efforts are directly linked to the implementation over the next five years of an integrated financial management system that Congress mandated in the CFO Act. However, while we can get a clean opinion using the system, the system alone, absent changes in financial management practices, will not get USDA a clean audit opinion.

We need these budgeted resources not to do more of the same, Mr. Chairman. We need these staff resources to assist USDA's agencies to ensure that their business practices result in useful, reliable information going into this system.

I place the highest priority on an integrated financial management system for USDA, the cornerstone of which is the Foundation Financial Information System--FFIS. FFIS is funded through the Working Capital Fund--WCF, but I want to make clear that the different funding sources do not separate the interdependence of these efforts. The successful implementation of FFIS rests on good business practices, procedures and a well-trained staff at the agency level. These additional appropriated funds will ensure that this implementation becomes a reality.

In last year's testimony, I made a commitment to you to restructure the FFIS management organization. I am happy to report, Mr. Chairman, that the current FFIS project office is not the FFIS of previous years. With the Secretary's support and guidance, I obtained a waiver in June 1998 from the Office of Personnel Management--OPM--to bring an experienced project management team from another Federal agency. This team successfully implemented a system

identical to the package that USDA is using and led its agency to an unqualified opinion on its administrative financial statements for FY 1997.

The project director reports directly to me and submits monthly updates to the Secretary's FFIS Executive Oversight Committee. The team, which started July 6, 1998, is putting in place an FFIS implementation plan that includes a schedule for full USDA implementation of FFIS by October 1, 2002.

Since the new project structure's inception, we have conducted numerous meetings with Congressional groups. On September 23, for example, we joined senior-level GAO officials on a panel that briefed staff members from four House committees and two Senate committees on the Department's efforts to implement FFIS in our largest agency, the Forest Service. Both GAO and OMB support this new management structure.

Implementing FFIS will enable USDA to provide useful, consistent, timely, reliable and accurate information to management, achieve conformance with legislative mandates, such as the Chief Financial Officers Act, and meet other Governmentwide requirements for financial management systems, processes and internal controls, including the U.S. Standard General Ledger. FFIS will also provide a platform for agencies and NFC to streamline current financial processes and systems. As part of the FFIS effort, we are developing the financial systems architecture and operating models necessary for the integrated financial management information system.

As I said last year, my second priority is to fulfill responsibilities of accountability and performance measurement associated with implementing the Government Performance and Results Act. The Congress gave USDA a low score on its Strategic and Annual Performance

plans because your colleagues did not consider USDA's information to be accurate, complete, and credible. We will use these additional resources to establish a staff dedicated to restoring accountability at USDA. We will assist the agencies in linking accountability with program delivery.

Working Capital Fund

Mr. Chairman, I would like to conclude my remarks by providing you with a brief update on our Working Capital Fund-WCF, which is entirely funded by fees for services. This Fund supports 20 distinct activity centers across five Department-level organizations. It also supports a number of projects and initiatives to modernize administrative and financial systems.

In WCF, we develop our budgets in partnership with agencies. The Executive Committee comprised of agency representatives advises me on its funding level and use. This arrangement ensures that the Committee's recommendations reflect a "customer" voice in the operation and oversight of WCF activities and finances. Thus, the WCF budget reflects our partnership with our customers.

For the current and next fiscal years, WCF spending consists of three categories: basic services, TSP, and modernization efforts.

In the first category, our customers are paying in FY 1999 the same inflation-adjusted dollars for basic services, such as accounting services, payroll, and computer processing. It is our intent to achieve the same outcome in FY 2000.

In the second category, TSP, the costs of delivering services to TSP shareholders will increase, but the Thrift Investment Board will absorb these costs through investment earnings. Among TSP's enhancements is a new system scheduled to start in April 2000 that will provide

daily valuation assessments and allow participants to modify their investments through the Internet.

In the third category, the new FFIS management team's first task was to complete a new implementation plan and timetable for FFIS. This plan calls for full implementation of FFIS for USDA and cross-serviced agencies by October 1, 2002, with a post-implementation and close-out of the current Central Accounting System occurring in FY 2003. Costs through FY 2003 are expected to be \$136.1 million, with the bulk of the expenditures occurring during the height of the implementation in FY 2000 and 2001. The FY 1999 budget for FFIS is \$23.7 million. The FY 2000 and 2001 budgets are \$32.5 million and \$32.3 million, respectively. While these one-time implementation costs are straining agencies' budgets because additional funding has not been appropriated for this major project, the Department must continue to implement this new system to be compliant with Federal financial management laws.

Our FY 2000 WCF budget includes \$4.2 million to upgrade our payroll/personnel system at NFC for our customers at USDA and in other federal agencies. As I mentioned earlier, NFC provides payroll/personnel cross-servicing to a significant portion of the Federal sector, a practice that reduces overall user costs.

We want to improve on our successes in the payroll arena, which will require us to upgrade or modernize existing systems to meet users' needs and maintain low costs. We must adequately invest in modernization efforts, so we do not jeopardize our service to existing customers or hinder our ability to attract new clients.

This committee has recognized the cost-saving benefits associated with NFC's cross-servicing and has encouraged the expansion of this service at the center. To expand, however,

we must produce a product that can compete in both price and quality of services. We have been investing in this area over the last two to three years and will have products available to our customers this spring.

I pledge to you that, in addition to leading the effort to put USDA's financial house in order, I will give our effort to strengthen NFC's role in human resource systems and infrastructure a priority level equal to that which my office gave to achieving Y2K compliance.

Mr. Chairman, Congress has given us the challenge of improving our performance, accounting for our financial resources, and managing our operations more effectively and efficiently. The budget that I am presenting to you is our commitment to achieving these shared goals.

Thank you, Mr. Chairman. I welcome any questions the Committee might have.

USDA Biographical Sketch

Sally Thompson
Chief Financial Officer

THOMPSON SWORN IN AS CHIEF FINANCIAL OFFICER

WASHINGTON, March 2, 1998--Agriculture Secretary Dan Glickman today formally swore in Sally Thompson as the chief financial officer for the U.S. Department of Agriculture.

"I am thrilled to have a fellow Kansan, Sally Thompson, on my team here at USDA," Glickman said. "She has done an outstanding job as state treasurer of Kansas and I know that she will make her mark here in Washington."



As chief financial officer, Thompson reports directly to the Secretary on all financial management activities relating to the programs and operations of USDA. She is also responsible for maintaining an integrated agency accounting and financial management system.

Prior to her appointment, she served as the Kansas state treasurer since 1991. While in that position she reformed the state's investment laws, earning Kansas \$700 million in interest income, and updated the state's unclaimed property laws, returning more than \$12 million in abandoned assets to the rightful owners.

Thompson was the president and chief operating officer of Shawnee Federal Savings in Topeka, Kan., from 1985 to 1990. She served as the vice president and manager of business planning and financial analysis at the United Bank of Denver from 1982 to 1985 and was a certified public accountant, audit manager, and management consultant for Touche Ross from 1975 to 1982.

A native of Spokane, Wash., Thompson graduated magna cum laude from the University of Colorado at Boulder with a B.S. degree in business, accounting, and finance in 1975.

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March 1998

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Mr. SKEEN. I appreciate it.
Ms. Reed.

OPENING REMARKS OF CIO

Ms. REED. Thank you. And, with your permission, I also will submit remarks for the record but I do have a few comments that I would like to make here.

Mr. SKEEN. That is fine. You can just go right ahead.

Ms. REED. Good. Thank you.

It is indeed an honor to serve as the Department's Chief Information Officer, to work with Secretary Dan Glickman and Deputy Secretary Richard Rominger—who continue to be extremely supportive of the work we are doing in the information management arena of the Department.

YEAR 2000 CONVERSION

As you know, our top priority for the last several years has been preparing ourselves for the Year 2000. We now have about 288 days left before January 1, and 13 days left before our compliance deadline set by the President for our mission critical systems. As of March 12 we were over 80 percent compliant. It is my expectation that we will be well over 90 percent compliant by the end of March. Most of those systems are well into testing now.

We will, however, continue testing right up until January 1. We want to make sure that everything is connected and we will continue to be able to deliver programs. Whether or not our systems work, we know we have many partners that we have to work with. The Food and Nutrition Service is working with the States on food stamps, on women, infants and children, on child nutrition programs, and the Rural Utilities Service is working with the rural utilities to assure that there is a continuity of service there. So, we have extensive outreach.

YEAR 2000 IMPACT ON NATION'S FOOD SUPPLY

We have also begun to, over the last months, assess the impact of Year 2000 on the food supply. As part of the President's Council on Year 2000 Conversion, we established a committee to look at the Y2K impact on the food supply. We published a report fairly recently on that, and I believe we provided a copy to you. The bottom line is that all the information that we have today indicates that we should not expect any major disruption to the Nation's food supply as a result of the Year 2000.

YEAR 2000 AWARENESS

There are issues that we continue to watch very closely, most particularly small companies—this plays out, whether it is food sector or any other sector. Small organizations have been less engaged in Y2K preparedness than the large companies. So, we will be actively participating in a Y2K small business action week at the end of this month. The Department is playing a leadership role in drawing upon our resources in rural America to bring people to a satellite video conference where we can share with them tools and techniques, make sure that they understand what the issue is,

and try to generally raise the level of awareness in small businesses in rural America.

YEAR 2000 INTERNATIONAL IMPACT

The other area that we will continue to watch very closely is in the international arena—what the impact is of other countries' preparedness on our abilities to import and export food. So, I assure you that those things will continue to command a significant amount of attention, not just from myself but from the entire leadership of the Department.

FARMER AND LOW INCOME SAFETY NET

Turning to the information technology budget at the Department, the President's budget seeks to strengthen the safety net for farmers and low-income populations, to provide economic opportunities for rural Americans, and to protect our natural resources, and further improve the safety of the food supply. Our current farm prices have given us some significant challenges in this arena. I know that has been a subject of much conversation. But we are firmly of the belief that our information technology infrastructure is critical to our long-term ability to help serve the customer in a better way. We do believe that we have made progress. We know we have a significant way to go.

INTERNET PROGRAM DELIVERY

In the last year, various parts of the Department have really begun to use the Internet in very wonderful ways to reach out—agricultural marketing service disseminates commodity information to markets within hours of collection via the Internet. The Farm Service Agency has a new electronic bid system so that \$1.2 billion in purchases of food for humanitarian assistance can be opened and awarded in a matter of hours. So, there are areas where we have made progress. It gives us a glimpse of what we can do in the future. The Common Computing Environment for the farm service community is a critical initiative for us to help us to provide that service in the future.

USDA INFORMATION TECHNOLOGY BUDGET

Our overall budget request for information technology in the Department is just over \$1.2 billion this year. We requested in the past year just a little less than \$1.2 billion, but have received also almost \$40 million in Y2K supplemental money to help that. About 30 percent of the resources that we are requesting across the Department for information technology is for modernization and enhancement initiatives. About 70 percent is for the operations and support of our existing ongoing systems. It also includes the salaries of employees that we have working on information technology.

FOOD AND NUTRITION PASS THROUGH

I should point out, again, that of that \$1.2 billion, about \$280 million is money that is passed from Food and Nutrition Service to the States to support their efforts in the technical infrastructure for food stamps. So, that is part of our budget.

COMMON COMPUTING ENVIRONMENT

Again, probably the most significant increase that we are requesting within the total information technology budget is for the Common Computing Environment—an additional \$40 million. The total program value that we are projecting is about \$90 million but much of that is covered through reallocations that we have made internal to the Department, as well as some request of use of CCC funds. So, that leaves about a \$40 million increase.

ROLE OF CIO

As Chief Information Officer, my job is much like that of the Assistant Secretary's and the CFO's in that we assure that we are approaching our programs in a way that is most efficient and most effective. Information technology, as you can tell, is a very significant investment for the Department so it is important to me that we use that investment in the wisest way possible.

OCIO FY 2000 INCREASE

For my own office, I am requesting an increase of \$2,447,000 over our Fiscal Year 1999 appropriation. The total request, just under \$8 million, is really two-thirds of a percent of the Department's total IT budget. So, for really a fairly nominal sum compared to what our overall investment is, we believe that we can be far more effective and more efficient in using our information technology.

COMMON COMPUTING OVERSIGHT

We have made some real strides in the last year. A portion of my increase is requested to pursue my oversight responsibilities with respect to the Common Computing Environment. Over the last year, we have just about completed a nationwide telecommunications infrastructure for the service center community and, within a matter of weeks, we will for the first time be deploying computers to the service centers which are common. They will have the same word processing packages. Each one will be loaded with core information that could be used for Rural Development, NRCS, and the Farm Service Agency. This is the first time that they will actually have equipment that is interchangeable, so that will improve their ability to deliver service. It also is more effective from a maintenance perspective.

CLINGER-COHEN ACT IMPLEMENTATION

To implement the Clinger-Cohen Act, also known as the Information Technology Management Reform Act, I have a number of requirements that are placed upon me. I am requesting from you some additional resources to help me in that effort: \$500,000 to help develop our information technology capital investment planning process; \$500,000 for our information technology architecture, which helps us to be able to share information across the agencies; \$300,000 to improve our project management capacity.

IT PROJECT MANAGEMENT

So often when we make these investments, we forget that what is critical is the people who are managing the project, and it is absolutely imperative that they have appropriate skills. You heard earlier of our success in bringing in an experienced project management team for the financial system. We need to further develop that capability within the Department to avoid any likelihood that projects will be ill-managed because the people aren't well-trained.

IT WORKFORCE PLANNING

And, we have requested \$200,000 to support our workforce planning. We in the Federal Government, are in a workforce crisis in information technology. We are competing with the private sector for talent. With just a little bit of resources I believe that we develop programs that will increase the likelihood that we can attract and retain talent within the Department. But it is a very, very competitive environment.

NEW ASSOCIATE CIO FOR TELECOMMUNICATIONS

Also, I am pleased to tell you we have recently hired a new Associate Chief Information Officer for Telecommunications Services and Operation. Keith Jackson will be focusing on an enterprise network for the entire Department. He also is playing a leadership role as we transition the Department to the FTS 2001 telecommunications contract.

INFORMATION SECURITY

I seek also your support in information security. It is no secret that, as we move more and more into an information society, we are increasingly vulnerable to the abuse and misuse of that information. We need to strengthen our security management within the Department. I have requested \$500,000 to aid in that effort.

One of my concerns is that when we look at how much we have invested in security across the Department in the past, it is less than one-half of one percent of our information technology investment. The industry standard now is five to eight percent. We desperately need to put more focus and attention on securing our information and assuring the privacy of that information. So that the people we serve are respected, and the information is managed in a way that we are cognizant of its security.

CLOSING REMARKS OF CIO

As you can tell, we have a very full plate. I want to close by just thanking you for the support that I have had from you and from your staff in the past and I look forward to working with you on accomplishing these important initiatives. Thank you.

[The prepared statement and biography of Anne F. Thomson Reed follows:]

OFFICE OF THE CHIEF INFORMATION OFFICER
Statement of Anne F. Thomson Reed, Chief Information Officer
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

INTRODUCTION

Mr. Chairman, members of the Subcommittee, thank you for inviting me here today. I will submit my testimony for the record and also offer a few remarks.

As I stated last year, I am honored to have the opportunity to serve as the Chief Information Officer (CIO) of the United States Department of Agriculture (USDA). I greatly appreciate the opportunity to serve with Secretary Dan Glickman, Deputy Secretary Richard Rominger, my sub cabinet colleagues, and all of the employees of the USDA as we work too more effectively and efficiently deliver USDA's programs, which are vital to the health, safety, and economic prosperity of the American people, as well as people the world over.

With the support and cooperation of the Congress, USDA is now stronger, abler, leaner, and more cohesive, and better able to serve our nation. Yet, as we all know, the Department faces significant challenges as we work to achieve the strategic goals which are reflected in the President's FY 2000 Budget. The Department's strategic goals are to:

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

As you are well aware, the current farm crisis made achieving some of these strategic goals more difficult. The drop in agricultural commodity prices, the Asian economic crisis, and stiffer global competition for the American farmer have all resulted in increased demands on USDA programs. In the face of these demands and another year of tight funding, our challenge is to strategically harness new and existing technologies across USDA to vastly improve service delivery to our customers and help farmers weather the storm.

Implementing IT solutions are complex tasks which all Federal Agencies - including the USDA - have historically had problems accomplishing. However, I believe our progress this past year shows that we are on the right path and, with your support, we can successfully meet the challenges before us. At USDA, our agencies demonstrate daily the cost savings, improved customer service, and other efficiencies to be gained when information technology is effectively utilized. For example, since I met with you last year, three USDA agencies have received Leadership Awards for setting examples of how government agencies get results - for taxpayers and constituents - from technology investment.

- The Agricultural Marketing Service (AMS) now disseminates, via the Internet, information on prices, volume, quality, and other market data on domestic and international farm products within hours of collection.

- The Agricultural Research Service (ARS) allows dairy farmers to pass on \$60 million in savings to consumers as a result of improvements in its genetic evaluations of the U.S. milking herd, and the creation of electronic transfer access so breeders can quickly access the data.
- The Farm Service Agency (FSA) instituted a new Electronic Bid Entry System so that bids for some \$1.2 billion in food for farm aid can be opened and contracts awarded in two hours. Up to the minute market prices improve competition; the result is that more people can be fed for each dollar in aid.
- Using the Internet, the AMS conducted the first fully electronic rule-making for a major regulation in the history of the federal government. More than one quarter of a million comments for the National Organic Program proposed rule were received by fax, e-mail, and regular mail, and placed online. The ease of submitting comments encouraged more people to participate - you can call it an example of electronic democracy - making the process the most open, publicly accessible rule-making ever.

Mr. Chairman, we are proud of these accomplishments which provide a glimpse into the way our programs and services will be delivered in the future. Information technology today is radically transforming the way we live and work. In our personal lives, the Internet is rapidly changing the way we are accustomed to making transactions - everything from buying stocks, books, cars and homes, to applying for licenses and loans. At the USDA, it is changing the way we collect, analyze, and deliver information, making possible efficiencies that we could not have dreamed of just a few years ago. Yet, we have only begun to transform the way USDA does business.

USDA FY 2000 INFORMATION TECHNOLOGY BUDGET SUMMARY

The Department's overall budget request for information technology in FY 2000 totals \$1.211 billion in budgetary authority. This compares with \$1.198 billion in budgetary authority for information technology plus \$37,789,000 for Year 2000 emergency supplemental funding in FY 1999. Approximately 30 percent, or \$379 million, of the FY 2000 request is for development, modernization, and enhancement of USDA information technology resources, while almost 69 percent, or \$832 million, is required for maintaining current systems, including the operation and support of existing information technology systems.

This budget reflects our priority that USDA IT solutions are aligned with program goals. For example:

- By creating a uniform and shared information technology infrastructure with the Service Center Initiative Common Computing Environment (CCE), we are laying the foundation for implementing reengineered programs. In FY 2000, we are proposing a total program level of \$90 million for this purpose, including about \$16 million from the Commodity Credit Corporation.
- As the Forest Service continues to address changing notions of how to use and protect our public land, Project 615 is integrating the information necessary to manage our National Forests in a more accessible environment. In FY 2000, \$102 million is proposed for this effort.
- A significant portion of the Department's IT funding, approximately \$280 million or twenty-three percent, is distributed to states to support the information technology resources necessary to run the Food and Nutrition Service Food Stamp Program. This includes \$43 million to expand and maintain the use of Electronic Benefits Transfer (EBT) technology.

Over the past year we have improved the Department's ability to properly manage these significant expenditures. However, we still have much work to do before we are managing our IT resources as envisioned by the passage of the Clinger-Cohen Act of 1996.

OFFICE OF THE CHIEF INFORMATION OFFICER FY 2000 BUDGET REQUEST

The USDA Office of the Chief Information Officer (OCIO) was established pursuant to the Clinger-Cohen Act. We have primary responsibility for supervision and coordination of the design, acquisition, maintenance, use, and disposal of information technology resources by USDA agencies. Our mission is to strategically acquire and use information technology resources to improve the quality, timeliness, and cost effectiveness of USDA's service delivery to its customers, and, increasingly, to ensure the security of the critical information that we manage.

To carry out this mission, we are facilitating the alignment of our information technology investments with USDA's mission goals. We have developed performance measurements to monitor our progress and, more recently, we have begun developing a tactical plan to help us better manage our major initiatives. These initiatives include:

- Overseeing implementation of a single information technology infrastructure and supporting organization for the Farm and Foreign Agricultural Services, the Rural Development agencies, and the Natural Resources Conservation Service;
- Developing policies and procedures to implement the Clinger-Cohen Act through expanding the

implementation of our enterprise-wide architecture, strengthening our capital planning process, implementing a formal IT project management training program, and further developing our workforce planning strategies to recruit and retain IT professionals;

- Developing a USDA critical infrastructure assurance plan to secure Department information and IT systems; and protect them against cyber-terrorism and other threats;
- Improving the Department-wide management of telecommunications; and
- Assuring that our mission-critical information systems are Year 2000 compliant; an effort that will leave a lasting imprint on OCIO well beyond January 1, 2000.

We began our Year 2000 effort by enlisting the support of senior executive sponsors and staff in each agency to ensure we moved forward together, as a Department. Leveraging the USDA Information Systems Technology Architecture (ISTA) and the Telecommunications Enterprise Network Program, we jump-started the identification of all USDA mission critical systems - feeding this information back into the ISTA. We then refocused and strengthened our existing IT moratorium and capital planning processes to ensure all IT acquisitions were centered on Year 2000 compliance. And now, we are coordinating our Year 2000 Business Contingency Planning with similar efforts to create a USDA Critical Infrastructure Assurance Plan.

In a moment, I will discuss the initiatives mentioned above in greater detail. However, my office also manages the USDA National Information Technology Center (NITC) headquartered in Kansas City, Missouri. The NITC provides innovative, cost effective, and secure information technology solutions to support the missions of the USDA and its thirty-two agencies, the Federal Aviation Administration, the

National Weather Service, and other government clients.

My office oversees implementation of the Paperwork Reduction Act of 1995 to reduce the paperwork burden for the public from the collection of information. Also, we coordinate the Department's records management functions to ensure that USDA's policies and transactions are adequately documented and archived.

Fully implementing the initiatives we have begun will radically transform the way information technology is managed at USDA. To fully implement the Clinger-Cohen Act without unnecessary and costly delay, the USDA Office of the Chief Information Officer requests \$7,998,000 for FY 2000, an increase of \$2,447,000 and five staff years over the FY 1999 appropriation of \$5,551,000.

PAY COSTS

More than eighty percent of the OCIO's fiscal year 1999 obligations are for salaries and benefits. This leaves little flexibility for absorbing increased costs. For the past several years, we have received no added resources for pay cost increases. As a result, critical positions have been left vacant for extended periods. Despite our progress, which I will discuss, the inability to fill critical staff positions has adversely affected our ability to fully implement the Clinger-Cohen requirements and expeditiously achieve the goals we have identified. For these reasons, my office's budget includes a \$197,000 increase for pay costs, consisting of \$35,000 for annualization of fiscal year 1999 and \$162,000 for the anticipated fiscal year 2000 pay raise.

USDA SERVICE CENTER IMPLEMENTATION

I am also pleased to report that, even though significant challenges remain, we are making progress in our efforts to permanently transform the way USDA provides service to farmers and rural America through our Service Center Modernization Initiative (SCMI). At the same time, the current farm crisis makes it clear that we must accelerate our efforts if we expect our reduced staff to respond to cyclical emergency workloads of this type or natural disasters, without disrupting all of our other program delivery.

The goal of reducing the number of county office locations from over 3,700 to under 2,600 is close to realization and should be complete this year. This represents the first step toward true "one stop service" for our customers.

Another critical step is our progress toward creating a shared or Common Computing Environment (CCE) to replace the archaic "stove pipe" information technology systems of the past. The CCE will allow agency computers to talk to one another, utilize the Internet to improve service delivery, and reduce the burden on our customers. In FY 1998, USDA obligated funds for more than 16,500 workstations, at deeply discounted prices. This will allow us to install Y2K compliant computers while also moving forward with limited CCE investments to field already reengineered processes. These workstations will provide a set of common office automation tools; they will also be fully interchangeable: every new field office computer will be loaded with business applications from all of the partner agencies. An additional 5,500 computers will be purchased in FY 1999 to complete the Y2K replacements. The remaining work stations will be addressed in FY 2000 and 2001.

Business Process Reengineering (BPR) is being used to analyze, streamline, and integrate like Service Center processes. The Service Center Modernization Initiative now has 17 active BPR projects dealing with customer management, program delivery, consolidated administrative processes, lending programs, and other critical processes. Fully 60 percent of the Service Center business processes are in some stage of review. An Interagency Business Integration Center has been established at Beltsville, Maryland, to fully test the reengineered processes in a laboratory environment before sending them to one or more of the nine field pilot sites that were established last year. Early results indicate that the reengineered processes, coupled with enabling technology, are yielding significantly higher benefits than we originally estimated on some processes; staff time savings in excess of 80 percent are being recorded.

The LAN/WAN/Voice Project, which provides integrated voice and telecommunications networks to the Service Centers, is also nearing completion. At the end of FY 1998, nearly 85% of the Service Centers were installed with the remainder to be finished in FY 1999. This infrastructure will provide a set of "electronic railroad" tracks for all future technology improvements to run on.

Other technology components will also change the way these agencies do business. The technical infrastructure that has been developed is based on open, interoperable systems that are flexible and able to respond to changing programs, staffing, office and organizational structure. The infrastructure includes network servers to fully connect agencies to the network and provide common e-mail and other support; powerful business applications; public access servers; and Geographic Information System (GIS) servers, which support the business activities of these agencies that are associated with land and water characteristics, capabilities, and ownership. The FY 2000 Budget includes funds to begin acquiring these items. It is anticipated that, depending upon funding levels, the completion of the infrastructure will take place over three years. At that point, the full benefits of the Service Center Modernization Initiative can be achieved.

Administrative Convergence and the creation in the 2000 Budget of a consolidated account for funding the Service Center Modernization Initiative are also essential for success, particularly with the Information Technology (IT) aspects. A consolidated IT staff will be able to take advantage of the efficiencies that a common architecture brings and will ensure that we do not revert to three stove pipes in the future. The consolidated account will facilitate decision making and priority setting on an enterprise basis and will help to improve tracking and accountability.

In addition to the appropriations request, it is estimated that \$16.2 million will be transferred from the Commodity Credit Corporation (CCC) to the Support Services Bureau to help support the new shared Common Computing Environment (CCE). These funds will be the remainder available under the current CCC cap for ADP expenses. Legislation is proposed to increase the cap by \$105 million, to \$293 million for the period through FY 2002. This increase will enable CCC to meet the basic FSA ADP needs while supporting the investment in CCE.

My office provides oversight to ensure that the business processes are appropriately reengineered and drive the technology decisions and that the Service Center technology is consistent with the USDA technical architecture. We have a two-person oversight staff currently financed by reimbursement from the FY 1996 Appropriation to the Secretary for implementation of "InfoShare," which was the predecessor to the SCMI, to carry out this function. We anticipate the reimbursement for this activity to end by FY 2000. Therefore, an increase of \$250,000 is requested to continue these positions with appropriated funds and to ensure that the USDA Service Center Modernization Implementation initiative achieves the Secretary's goals of better integrating services and modernizing delivery of programs administered by the Farm Service Agency, the Natural Resources Conservation Service, and the Rural Development mission area.

CLINGER-COHEN COMPLIANCE

Since the creation of OCIO, we have been working to implement both the guidelines and spirit of the Clinger-Cohen Act of 1996. Given the inherent complexity of the task, I am happy to report that we made progress this past year expanding the USDA Information Systems Technology Architecture, improving the Department-wide and Agency Capital Planning Processes, and developing our IT workforce planning initiative. Together these efforts are improving the way the Department acquires and uses IT, and reducing costs while increasing the productivity of USDA programs.

USDA INFORMATION SYSTEMS TECHNOLOGY ARCHITECTURE

USDA actually began designing its ISTA prior to passage of the Clinger-Cohen Act. Our first version of the ISTA was a multi agency collaboration, which served as an essential guide for the LAN/WAN/Voice and CCE IT investments for the Service Center Modernization Initiative. However, to assure that the Department's overall technical infrastructure is interoperable, efficient, and provides effective support to achieve USDA's business goals, the ISTA requires further development and integration into Department-wide planning processes.

The Service Center agencies' use of the ISTA provides an example of the important role of an information technology architecture in successful project implementation. With varying perspectives on what were the best information technology solutions among the Service Center Agencies, the technical portion of the ISTA provided a framework for the agencies to build on and begin establishing a consensus on what to purchase and implement. The purchase of the 16,500 CCE workstations would have been impossible without the development of the ISTA technical standards. Similarly, the technical architecture has facilitated the CCE

consolidation of software licensing, improving our users' ability to share applications and data while reducing costs.

Additionally, my office continues to expand and apply the initial version of the ISTA. Our update of the baseline architecture has focused on Agency business processes, information exchange requirements, the application portfolio, and identification of USDA functions and technology platforms. Thus the ISTA is a dynamic tool, which we are using in the selection phase of the Capital Planning and Investment Control and IT waiver processes to avoid duplication and ensure interoperability of all USDA IT investments.

The ISTA will ultimately modernize and transform the way we all think about delivering programs and services to our customers. With the FY 2000 funding, a web-based repository to house the ISTA combined with inter-agency ISTA training will inform programs and IT staff about existing processes, applications, and standards at the initial stages of a project. Further integration of the ISTA into the Capital Planning and Budget Processes will help guide investment decisions, continue to reduce duplication across agencies, and eventually result in greater interoperability of USDA's IT systems. The FY 2000 funding request includes \$500,000 to meet Clinger-Cohen Act of 1996 requirements that Executive Agencies develop an information technology architecture.

CAPITAL PLANNING AND INVESTMENT CONTROL

We have also made progress implementing an Information Technology Capital Planning and Investment Control (CPIC) process, another Clinger-Cohen requirement. We are following OMB and GAO guidelines to ensure that IT investments are made in direct support of business objectives, while maximizing the value and assessing and managing the associated risks. This is not an easy task, as economic, environmental, and

policy changes require the Department to find new and flexible solutions which often involve significant investments in information technology. My office requires additional resources to implement the CPIC process consistently across USDA agencies and, most important, to ensure that these investments are properly managed.

I am pleased to report that in 1998, USDA became the first large Federal Department to implement the Information Technology Portfolio System (I-TIPS), a scalable web-based software tool used to track IT projects as investments through the selection, control, and evaluation phases of the Capital Planning and Investment Control Process. Thirteen USDA agencies now use the I-TIPS selection module, exceeding our original performance goal of five. We developed I-TIPS in conjunction with the Department of Energy and the National Performance review. We are proud that in addition to USDA, I-TIPS is now being used in seven other Federal Departments.

The use of I-TIPS as a tool to provide USDA decision-makers with a better picture of our IT investment portfolio is already producing results - allowing the Executive Information Technology Investment Review Board (EITIRB), which is chaired by the Deputy Secretary, to make more informed decisions in its review and approval of the Department's IT investment portfolio.

In addition, my office has produced a USDA CPIC guide for senior decision-makers and agency planning staff. The guide explains the fundamentals of capital planning and how we are integrating the OMB guidelines and GAO model for CPIC into the USDA IT investment process.

Still, the design and implementation of a USDA-wide CPIC program and support system is a multi year effort which requires a permanent, ongoing program management staff. Skilled staff is needed to perform

and review cost-benefit, return on investment, and other detailed analyses of IT investments in order to reduce as far as practical the risk of failure in the development, deployment, and operation of USDA information technology systems. The funding we have requested would be used to train the agencies in the process and the I-TIPS tool to ensure that capital planning is applied consistently throughout our organization.

The benefits of a successful CPIC program are clear: IT investments by USDA agencies that meet their program objectives on time and within cost projections, and which support business objectives. I am requesting \$500,000 in fiscal year 2000 to meet the capital planning requirements of the Clinger-Cohen Act of 1996 and the OMB Circular A-11 Part 3 requirement that Federal agencies intensify their review and analysis of information technology systems as capital assets.

PROJECT MANAGEMENT

We are also taking steps to address deficiencies in USDA's management of major information technology projects, an area cited by oversight agencies in recent years. In order to reduce risk in the development, deployment, and operation of information technology systems, my office is creating a formal project management certification program. This program will establish a standardized methodology for project management: projects will be managed consistently, resulting in increased success rates, and avoidance of cost overruns and delays. At the same time, managers will be provided with sound performance measurement tools. This initiative will also help meet the project management requirements of OMB Circular A-11 Part 3, Planning, Budgeting, and Acquisition of Capital Assets, by establishing and providing the means to track cost, schedule, and performance goals. In FY 2000, I am requesting an increase of \$300,000 and 2 staff-years to strengthen USDA's project management capacity.

INDEPENDENT VERIFICATION AND VALIDATION

Mr. Chairman, we have also made progress with respect to two other very important management tools which I would like to mention: Independent Validation and Verification (IV&V) and our Acquisition Moratorium.

Independent Validation and Verification (IV&V) is now a standard policy tool that my office uses to manage all large-scale USDA IT investments. At critical points in a project's life-cycle, independent experts review the issues surrounding project design, development, acquisition, and implementation.

For example, this past year an IV&V conducted by my office validated the Service Center Modernization Initiative's Common Computing Environment's cost/benefit analysis and technical alternative plans. This ensured that all appropriate business and technical details were included in the plans before any further steps were taken. Another IV&V on the Department's Foundation Financial Information System refocused the project in a new and sound direction, improving the value of the resources being allocated and the probability of the project's success.

In the coming year, we will continue to apply the lessons learned from previous IV&Vs in order ensure all significant IT investments cost effectively serve USDA program goals.

IT ACQUISITION MORATORIUM

In compliance with our FY 1999 appropriation (Public Law 105-86), my office, together with the Executive Information Technology Investment Review Board, continues to review all USDA information technology

investments to ensure new purchases are directed at bringing the Department into Year 2000 compliance. Any Departmental or Agency information technology acquisition over \$25,000 requires a waiver from my office. These waivers are granted for emergencies and Year 2000 remediation efforts only.

The USDA IT investment moratorium is a success. Since Deputy Secretary Rominger originally issued the moratorium in November of 1996 to improve the Department's IT management, we have been better able to monitor agencies' use of funds while improving our IT decision-making processes. And, since Secretary Glickman modified the IT acquisition moratorium in August 1997, agencies have redirected a great deal of attention and dollars to Year 2000 compliance.

The IT acquisition moratorium, together with IV&V reviews have greatly improved our ability to ensure that USDA's IT projects meet USDA's business objectives and are effectively and efficiently managed.

INFORMATION TECHNOLOGY WORKFORCE PLANNING AND DEVELOPMENT

My office is also actively working on a professional development strategy to ensure that USDA's IT staffs possess the technology skills necessary to effectively deliver USDA's programs and services. In light of the current worldwide shortage of IT professionals, there is a clear urgency in our efforts to attract and retain qualified technical staff to support the Department's modernization efforts.

As competition for IT professionals grows more intense, we face the growing challenge of keeping our skilled IT professionals. USDA is experiencing a loss of skilled IT professionals from increased competition with the private sector, and through buyouts and retirements. Since 1994, we have lost more than 11 percent of the IT professionals within the Department.

My office is collaborating with the Office of Human Resources Management and the USDA IT Workforce Planning and Development Working Group, a group composed of HR and IT specialists from several of the Department's agencies, to address this problem by providing USDA managers with recruitment and retention alternatives and flexibilities. IT employees within government know that they will not receive salaries comparable to the private sector; however, we can provide more flexibility in their work schedules, greater opportunities for career development, and management that is more sensitive to all of their work place concerns.

We are also working to implement a set of core competencies for USDA IT professionals which were developed by the CIO Council. In this effort, the Deputy Chief Information Officer, Ira Hobbs, as co-chair of the CIO Council's Education and Training Committee, is playing a leadership role in the adoption of these competencies across government. Together, these efforts support my office's management initiative to implement a professional development strategy to ensure that USDA's program and IT staffs possess the skills necessary to meet the challenges of effectively delivering programs and services with information technology. For FY 2000, I am requesting an increase of \$200,000 and 1 staff year to improve USDA's information technology workforce planning and development effort and to expedite the implementation of the component of the Clinger-Cohen Act of 1996 dealing with workforce development.

TELECOMMUNICATIONS

USDA also faces significant challenges with respect to improving the management of our telecommunications infrastructure. This past year, we have made progress analyzing and optimizing our telecommunications network while preparing for the Year 2000 date-change and the upcoming transition to the new GSA FTS2001 telecommunications contract. As the telecommunications industry moves from older

voice to more advanced data technologies, it is crucial that the Department continue to put in place a USDA corporate telecommunications network that includes management processes and the infrastructure necessary to efficiently meet the needs of our programs today while planning for the services our customers will demand tomorrow.

The work we have done this past year on the Telecommunications Enterprise Network (TEN) Design and the Telecommunications Ordering, Billing, and Inventory System (TOBI) projects are vital steps to establishing a USDA enterprise-wide network. The TEN Design project captured the current network baseline physical description along with usage, cost, and performance statistics. The TOBI pilot project combines a revised administrative process with an off-the-shelf software application to improve the control and accounting of USDA telecommunications acquisition. These design initiatives together with our recent implementation successes represent the first steps toward a cost effective enterprise network plan.

As I mentioned earlier, the Service Center LAN/WAN/Voice project is providing the shared voice and data telecommunications infrastructure necessary to present one-face to our customers at reduced costs. Similarly, the Washington Metropolitan Area Optimization Project (WMAO) has successfully optimized our headquarters network, generating \$1.3 million in cost avoidance since February 1998, allowing agencies to redirect these dollars toward their program activities. In the short-term, the WMAO project is reducing USDA costs in the Washington Metropolitan Area (WMA) while expending minimal expense and time. The long-term objectives are to implement a cost effective and centralized Configuration Management capability and provide enhanced Network Services for all USDA offices in the WMA.

Over the next year, we face significant challenges transitioning to the FTS2001 contract while continuing to reform our telecommunication management process and infrastructure. Through strong management

processes we will integrate, optimize, and modernize current services. The FTS2001 transition also provides us a tremendous opportunity to refine and improve the Department-wide telecommunications network design, security, management, and standards development. The challenges associated with administratively managing two networks will be significant while simultaneously managing the implementation, operation, and disconnection of services.

Greater emphasis is being placed on aligning program delivery with appropriate IT solutions. More efficient use of telecommunications personnel, equipment and services will be achieved through institutionalizing structured processes in which IT activity within USDA and its agencies is directed toward building a common information infrastructure for the greater agriculture community of interest.

To meet these challenges, I am happy to report the addition of a new Associate Chief Information Officer of Telecommunications Services and Operations to my senior management team. Filling this position has already significantly enhanced our ability to provide day to day leadership while assuming long term strategic planning responsibilities for the network.

INFORMATION TECHNOLOGY SECURITY

Information technology officials across the Federal government today agree that information security will be the next priority IT issue following Year 2000. Every day, the information that USDA agencies manage affects the financial markets and lives of individuals. We must exercise due diligence in its protection. As we achieve greater ease in the dissemination of information, the Department must walk a fine line between information exchange and information protection: this is especially important in an age of instant access and global exchange. As networks expand and connect, security concerns will expand exponentially.

In May 1998, President Clinton signed Presidential Decision Directives (PDD) 62, "Combating Terrorism," and PDD 63, "Protecting America's Critical Infrastructure." These directives lay out a dramatically new approach to protecting the nation against unconventional threats and assign new responsibilities to agencies for protecting their critical infrastructures, especially their cyber-based systems.

To meet these new requirements, we established a USDA Critical Infrastructure Assurance Task Force, consisting of security and telecommunications specialists. The task force is charged with developing a plan to heighten awareness about risks to our information systems and strategies, and cost-effectively and efficiently protect USDA's critical infrastructure.

Plans, policies, and procedures must also be centrally developed and managed to afford the greatest protection to the Department as a whole. Without them, it is reasonable to assume that unauthorized intrusions will continue and probably increase in both frequency and severity. Currently, my office provides Department-wide guidance and training on information security issues. Departmental policies either issued or currently under review focus on software piracy, e-mail security and privacy, and Internet firewall and network incident responses. My office also participates with leading government security organizations to ensure the Department's security policies and practices are up-to-date.

The additional staff year and funding that I have requested are necessary to thoroughly examine our critical infrastructures, identify vulnerabilities, develop strategies to mitigate unacceptable risk, and fully meet requirements of PDD 62 and PDD 63. The staff-year will serve as the Contracting Officer Technical Representative and administer the contracts required for this initiative and related critical infrastructure protection projects which address continuity of government and disaster recovery requirements.

Current USDA spending on information technology security as a percentage of total IT spending is about ten times below the industry average. Thus, coordination by my office is essential to leverage agency and Departmental Administration resources and ensure USDA's Critical Infrastructure Assurance plan is thorough, effective, and economical. For this purpose, I am requesting an increase of \$500,000 and 1 staff-year in FY 2000 to support USDA information security initiatives.

YEAR 2000 STRATEGY

Along with security, our highest priority is to ensure that USDA's programs and services are not adversely affected by the Year 2000 problem. The Department continues to maintain a strong management approach to effectively respond to the challenges of Year 2000 remediation and ensure that our systems and operations are Year 2000 compliant. We have expanded our efforts in several areas since I met with you last year. During the past year USDA has:

- Expanded the responsibility and accountability for Year 2000 remediation to all agency senior executives by establishing a critical element in their performance standards.
- Provided Department-wide guidance in several areas of Year 2000 remediation, including testing, independent validation and verification, and business continuity and contingency planning. This guidance has followed the General Accounting Office approach.
- Continued to enforce a procurement moratorium requiring CIO approval of any IT acquisition over \$25,000

- Requested and received \$37,789,000 in supplemental emergency appropriations for Year 2000 conversion, for which I thank you and the Committee members. This money is being applied to remediation efforts in the areas of business continuity and contingency planning, testing and validation, equipment and facilities with embedded chips, hardware and software improvements, outreach and technical assistance.
- Completed the development of mission area business continuity and contingency plans. Each mission area has examined their strategic goals and objectives and identified their core business processes to ensure business continuity for all programs and services.
- Conducted independent validation and verification assessments of Year 2000 remediation in several areas, including systems remediation, buildings and facilities, and program management.
- Took a leadership role on the President's Council on Year 2000 Conversion, including membership on most of the Council's working groups which cover various sectors. These include: benefits payments, building operations, education, emergency services, energy (electric power), finance (banking, guarantee agencies & investments), health care, housing, human services, insurance, international trade, science & technology, small business, telecommunications, transportation, and water & wastewater. USDA chairs the Food Supply Working Group where we are leading assessment and outreach to the food supply sector.

- Expanded the usage of an Internet-based reporting system which allows agencies to input system information, including descriptions, milestones, and current status, and information from contingency plans. The information provides USDA with a "real time" status of Year 2000 remediation which assists managers, oversight organizations and the general public who have an interest in the progress of USDA's Year 2000 efforts.

The most recent quarterly report to the Office of Management and Budget was submitted in February 1999. As of March 1, 1999, we are tracking 353 systems, of which 285 (81%) are already compliant. We have designated 52 of those mission-critical systems as Departmental Priority systems, which have major impact regarding Americans' health, safety or finances, or have significant economic impact. Of the 266 mission-critical systems being repaired, 260 (98%) are now renovated, 245 (92%) are now validated and 234 (88%) are now compliant. There are 32 mission-critical systems scheduled for repair which have not completed the entire repair process. All are expected to be implemented by March 31, 1999. There are 30 systems remaining to be replaced. All but six mission critical systems are expected to be implemented by March 31, 1999. Once a system has completed the repair or replacement process, the Agency Executive Sponsor must certify the system as Year 2000 compliant, thereby ensuring the system fulfills its program as well as technical requirements.

Even though we have made significant progress, our work is far from done. During the remainder of this year we will continue to work on our non-mission critical systems. We are redoubling our efforts to assure that our facilities, laboratories, and telecommunications equipment are functional. And we will continue to test all of our systems to assure that the Department is fully prepared well before January 1, 2000. Recognizing that not everything is within our immediate control, we will also focus on business continuity requirements and continue to make contingency plans so that all of our programs will be delivered even if

some glitches do occur. We are also continuing to work with all of our partners, state and private, to ensure that food stamps, other nutrition programs, loan and other programs will not be adversely affected.

And we will continue our work with the President's Council on Year 2000 Conversion where USDA heads the Food Supply Working Group and has representation on fourteen other working groups. We will continue to work with the food industry to access the Year 2000 state of readiness of the food supply, and provide the American public accurate information so they can make rational, as opposed to irrational, preparations for January 1, 2000

CONCLUSION

Mr. Chairman and members of the Committee, let me conclude by saying again that I am privileged to serve as the Chief Information Officer at the USDA.

These are exciting and challenging times. As I have indicated, we are making progress toward meeting all of the challenges before us. However, our work is far from done, and in some respect USDA is still at the very beginning of what will clearly be the most far reaching transformation in its history.

USDA, like all of government and the private sector, is faced with a tremendous opportunity to harness new technologies that are forever changing the way we deliver programs and provide services to the American people, improving our efficiency and our effectiveness. As we do this, we must face the emerging cyber-terrorist threat by protecting our critical information infrastructures. To meet these challenges, we must effectively manage the substantial resources which you have entrusted to us on behalf of taxpayers. During

the past year, we have moved forward in implementing some important management tools to help us get the job done. With your help, we will continue to move forward.

I look forward to working with you, and I will respond to any questions you have at this time.

USDA Biographical Sketch

Anne F. Thomson Reed

Office of the Chief Information Officer



On August 8, 1996, Agriculture Secretary Dan Glickman designated **Anne F. Thomson Reed** as the chief information officer for the U.S. Department of Agriculture, as required by the Information Technology Management Reform Act of 1996.

As CIO, Reed is responsible for establishing the office of chief information officer; for assuring that information technology is acquired and information resources are managed effectively; for developing and maintaining a sound and integrated information technology architecture for USDA; and for monitoring the performance of USDA's information technology programs. With annual investments of over \$1 billion, information management is a critical component of USDA program delivery.

Reed was deputy assistant secretary of agriculture for administration from December 1993 until August 1996. In that position she helped direct USDA's information resources management, procurement, human resources, civil rights, administrative law, and general operational activities. Reed provided executive leadership in business modernization activities, focusing on reengineering processes such as the better utilization of the purchase card and third party draft systems. These efforts will improve service while saving more than \$50 million over four years. She was also involved with ensuring the reengineering of telecommunications services to integrate the management processes of inventory control, ordering, and billing.

As the executive sponsor for USDA's Information Resources Modernization (IRM) Program, Reed focused the department's efforts on improving the decision-making framework to assure better integration of program requirements and IRM investments; establishing a USDA-wide enterprise architecture; improving project management skills; and piloting data management initiatives to facilitate information sharing across programs and organizations. These efforts positioned USDA well to implement the Information Technology Management Reform Act.

Before joining USDA, Reed served from 1986-93 in a number of management positions in the Office of Comptroller within the Department of Navy, based at the Pentagon. She worked as a budget analyst for the Naval Sea Systems Command from 1983-86, after having served as a Presidential Management Intern with the Navy from 1981-83.

From 1977-80 Reed was the registrar and admissions officer for the John F. Kennedy School of Government at Harvard University in Cambridge, Mass., after having worked as a staff assistant to the assistant dean for administration at the Kennedy School from 1976-77. She served as junior community planner for the Nashville City Planning Commission from 1974-76, following a position as a development researcher with the Office of Alumni Development at Vanderbilt University in Nashville from 1973-74.

A native of Nashville, Tenn., Reed holds a B.A. degree in international relations from Goucher College

in Towson, Md., and a Master of Public Administration degree from the Kennedy School of Government, Harvard University.

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Mr. SKEEN. Thank you, Ms. Reed.
Ms. Gray.

INTRODUCTORY STATEMENT OF THE DIRECTOR OF CIVIL RIGHTS

Ms. GRAY. Mr. Chairman, and members of the committee, I am pleased to appear before you today to report on the accomplishments of the Office of Civil Rights for Fiscal Year 1998 and to submit and present the 2000 budget request.

I was appointed Director of the Office of Civil Rights in July 1998. Last year, the Acting Assistant Secretary for Administration reported on civil rights accomplishments since the CRAT report was issued. It is the Civil Rights Action Team's report on the conditions of civil rights at the Department, and was followed by the CRIT implementation report.

CIVIL RIGHTS GOALS

As you know, the Department's overall civil rights goal is to treat every customer and employee fairly and equitably, and with dignity and respect. To that end, the Department has developed and initiated more than two dozen policies and procedures over the last two years. Each year, we train each employee in the Department on civil rights—focusing on different issues in different years—and we train managers to ensure that they have the skills to develop a diverse workforce. We also are concentrating our efforts on increasing diversity at the Department.

PROGRAM AND EMPLOYEE COMPLAINTS

One of the major concerns of the CRAT reports certainly was that there were both program and employee complaints that had been delayed in processing at the Department. We would like to report to you today that last October—after having made some progress—the Secretary convened a task force for the program complaints. And, of the 1,088 backlogged program complaints, I would like to report today that only about 20 of those cases are unresolved. They are mostly food stamp cases that we will have completed by the end of March.

BACKLOG COMPLAINTS

Also as part of that backlog of complaints, there were approximately 164 African-American farmers' unresolved complaints which are part of the much-publicized consent decree in the Pigford v. Glickman litigation. Those cases will be processed pursuant to the terms of that decree. As you know, on January 5, 1999, the Department did enter into a consent decree that was negotiated by the Department of Justice that provides a process for resolving the complaints filed by African-American farmers.

In the backlog process, we resolved cases that had been filed by persons other than African-American farmers. Out of that process, we closed the remaining cases and we made 53 offers of settlements. Forty-two of those offers were accepted. In some of the 11 that were not accepted, the person made counteroffers that we did not accept or they did not accept our offer.

On the employment side in the backlog, there were more than 2,000 employee complaints backlogged. As of March 3, more than 1,500 of those employee complaints had been resolved. However, I must tell you that also during Fiscal Year 1998, more than 900 new employee complaints were filed so, while we made a lot of progress, we still have about 1,600 active employee complaints. On the program side, after the backlog process, we would have had approximately 240 remaining cases but, with the passage of the statute of limitations and the publicity surrounding the consent decree, more than 1,200 new program complaints have been filed.

To resolve these cases requires a lot of work. In many instances, we find the Department does not have jurisdiction over these cases but to reach that point it requires review of the complaint, it requires processing, it requires appropriate and accurate determinations to be made. We are requesting additional assistance in this area.

STATUTE OF LIMITATIONS ACT

Last fall, Congress passed the Waiver of the Statute of Limitations Act. By December 5, 1998, we had published regulations to implement that waiver. We have now reviewed all of our cases to determine if statute of limitations issues were involved in those cases. We identified more than 170 cases in our active case load that had statute of limitations issues.

We met the March 1 deadline of sending letters to each of those 170 persons. Forty of those persons have now asked for their cases to be processed under the statute of limitations waiver and 20 of those persons have requested hearing on the record. Our regular process for complaints do not provide for hearing on the record so we had to create arrangements to provide for those hearings. We have requested that administrative judges be provided through the Office of Personnel Management and that also has increased the need for additional resources.

ACCOUNTABILITY SYSTEM

One of the problems and one of the continuing concerns of the Department is that, along with educating employees and managers, we have to ensure that people are held accountable for their actions. To that end, the Department has implemented in headquarters an evaluation system where agency heads and managers are, as part of their annual performance evaluations, evaluated on their implementation of the civil rights plans that they developed for their agencies. We must work with each of the agencies, however, to ensure that not only managers in headquarters but employees and managers around the country are held accountable for their actions.

We need additional resources to do compliance reviews, both program and employment, to make sure that our employees and our customers are treated fairly and to implement a disciplinary policy so that where there are infractions and where there are violations of individuals' civil rights, those employees and those managers are appropriately disciplined.

Much of our focus in the next year in implementing the accountability system will be to ensure that employees are held account-

able for their actions. To do that, we also have to assist the managers. Instead of just processing a complaint or doing a disciplinary action, we want to make sure that managers are aware of the appropriate standards. We have to do compliance reviews. We have to advise managers about appropriate procedures so that they have support to make sure that everyone is treated fairly.

Within the amounts requested by the Departmental Administration for Fiscal Year 2000 is a budget request of \$14 million for the Office of Civil Rights—\$2,041,000 above the Fiscal Year 1999 level. It includes \$802,000 to improve our employment complaint processing and compliance reviews and to enhance our tracking systems for employment complaints. It also includes \$837,000 to prepare and process the additional cases under the statute of limitations waiver which will require providing administrative hearings and it includes mandatory pay cost increases of \$402,000.

CLOSING REMARKS

We have made good progress, but we do have a lot of work to do so that we can ensure equitable treatment of all employees and customers. I appreciate the support of this committee and I welcome any questions that you might have.

[The prepared statement and biography of Rosalind Gray follow:]

OFFICE OF CIVIL RIGHTS

Statement of Rosalind D. Gray, Director, Office of Civil Rights
Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration,
and Related Agencies

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to report on current accomplishments and to present the 2000 budget request for the Office of Civil Rights. I was appointed Director, Office of Civil Rights, on July 13, 1998, and have full responsibility for civil rights at USDA. Last year the Acting Assistant Secretary for Administration presented the budget statement and reported to you on the first year's progress in implementing the Civil Rights Action Team's -- CRAT-- recommendations for strengthening civil rights and diversity efforts at the Department of Agriculture --USDA. Today I am reporting on additional progress we have made toward moving USDA to a stronger position and record on civil rights enforcement.

TREAT ALL FAIRLY AND EQUITABLY WITH DIGNITY AND RESPECT

The Department's overall civil rights and diversity goal is to treat every customer and every employee fairly and equitably, and with dignity and respect. We have implemented new policies and procedures to achieve that goal. More than two dozen Departmental regulations and directives have been drafted and issued. Training and assistance is being provided to help the agencies assure that all employees understand and practice the new policies, procedures and guidelines. Also, an accountability system has been put in place to help assure that all employees

comply with the intent of our new civil rights effort.

ASSURE ALL HAVE FULL ACCESS TO ALL PROGRAMS AND SERVICES

Another major civil rights goal is to assure that all potential customers have access to all USDA programs and services. All USDA employees have been asked to study and comply with the February 25, 1998, "Equal Opportunity Public Notification Policy" -- Departmental Regulation 4300-3, the January 14, 1998, policy on "Communicating with Under-served Customers" -- DR 4360-1, and the March 16, 1998, "Civil Rights Policy for the Department of Agriculture" -- DR 4300-6. These directives delineate USDA policy and assure that all customers have access to USDA programs and services. In addition, the nondiscrimination statement is displayed in all offices and on all publications, making information about programs and services available to all through concerted efforts using alternative formats for those with sight or hearing impairments or for those who need the information in alternative languages. In partnership with community-based organizations and other groups, we use nontraditional communication channels to reach the hard-to-reach, and make all offices and meeting facilities handicap-accessible.

STAFF REFLECT THE DIVERSITY OF THE COMMUNITY

Another major civil rights and diversity goal of the Department is to eliminate under-representation of minorities, women, and people with disabilities in the workforce by recruiting and employing a highly skilled, competent and diverse workforce. The Department will create a workforce that reflects the diversity of the community. Recruiting efforts are expanding to better

reach under-represented candidates. Agencies are required to do workforce climate surveys of their employees each year and exit interviews when employees leave the agency in order to surface employees' issues and assess employees' satisfaction with working conditions. Moreover, agencies are required to assess the reason for complaints and to take the corrective action necessary to improve conditions that may cause under-represented employees to prematurely leave the agency. Also, we have created a "USDA Training and Development Consortium," that is responsible for providing the leadership for competency-based training of supervisors and managers. Interactive training will enhance "people skills" and is critical for establishing and maintaining a positive work environment that encourages and supports a diverse workforce.

MOST BACKLOG COMPLAINTS RESOLVED

In 1999, the Department entered a consent decree with the Plaintiffs in the class action lawsuit, *Pigford vs. Glickman*. The consent decree provides for processing African American farmers' discrimination complaints filed between January 1, 1981, and December 31, 1996.

We have resolved most of the old backlog of complaints that dated back as far as the early 1980's. There were 1,088 program discrimination cases in the backlog. The backlog cases are resolved with the exception of 10 cases where complainants did not accept a resolution offer, 8 assisted cases which require further investigation, and the class member cases. The program discrimination cases in the backlog that were part of the consent decree will generally be processed outside the Department. In addition, more than 1,500 of 2,142 cases that were in the backlog of employment discrimination cases are resolved.

In October 1998, we established the Early Case Resolution Taskforce to prevent or reduce the further delay in the resolution of discrimination complaints that were filed with USDA and, subsequently backlogged, and ensured that cases previously closed were done in accordance with CR policies and regulations. Departmental regulations for processing employment and program discrimination complaints have been approved and procedures for implementation are drafted. The new complaints process is designed to resolve program discrimination complaints in a timely manner—generally within 180 days.

OTHER SPECIFIC ACCOMPLISHMENTS

A new Conflict Resolution Center and new conflict management policies and procedures will lead to early resolution of many conflicts and misunderstandings before they become formal complaints. Early intervention, mediation and alternative dispute resolution will be used throughout the Department.

State Outreach Councils in each State to provide leadership and coordinate efforts to assure that all potential customers have full access to all USDA programs and services. These councils are made up of our top USDA agency heads in the State, key State officials such as the State Commissioners of Agriculture, and elected officials of State, local, and tribal governments.

Every USDA employee is required to have training in civil rights and diversity. Training is also offered to many cooperators, committee members, and volunteers. All who interact with our customers must understand our civil rights policies and regulations.

Special management training is provided to our top and mid-level managers and supervisors because many of the discrimination complaints stem from poor management practices such as simply not communicating well enough with customers and employees so that they understand why certain decisions are made.

Some loan application forms have been simplified so that it is less burdensome and time-consuming to apply for a small loan. In addition, the time required to approve some of our loans has been reduced.

For the first time in USDA history, agency managers are being held accountable—at the Department level—for achieving annual civil rights objectives. In FY 1998, the Assistant Secretary for Administration --ASA-- and I, as Director of Civil Rights, rated the agency administrators and staff office directors on their civil rights performance.

In fiscal year 1998, USDA focused on the process and procedures whereby agencies would be accountable for civil rights. The agencies were required to provide monthly reports on their progress in fulfilling the CRAT recommendations. The Office of Civil Rights received the data, assessed it, and the ASA and Civil Rights Director provided feedback to the agencies about whether or not they were fulfilling the intent of the CRAT recommendations and fully implementing the new civil rights policies and procedures.

In fiscal year 1999, we are continuing to hold the agency heads and staff office directors

accountable for civil rights. However, this year the focus is more on the achievement of end results.

- Special attention is being given to holding agencies accountable for taking documented, positive actions resulting in:
 - disciplining managers and employees who discriminate,
 - complying with settlement agreements,
 - improving workforce diversity, and
 - holding all managers and employees --at headquarters and the field level-- responsible and accountable for civil rights.

Agencies are expected to produce concrete results from increased attention to civil rights. For example, we expect agencies to report increases in service to small, minority, and women-owned firms, and other under-served farmers, businesses, and organizations. We also expect agencies to show evidence that their efforts to diversify the workforce--at all grade levels and in all occupations--actually resulted in a more diverse workforce.

OFFICE OF CIVIL RIGHTS BUDGET REQUEST

Within the amount requested for Departmental Administration for FY 2000 is a budget request of \$14,868,000 for Civil Rights. This is \$2,041,000 over the FY 1999 level of funding for

Civil Rights. It includes \$802,000 to improve employment complaints processing, and to enhance information system management, and \$837,000 to prepare for case increases due to cases that are now eligible for processing under the statute of limitations waiver for program civil rights complaints. Mandatory pay cost increases will require \$402,000.

CONCLUSION

Mr. Chairman and members of the Subcommittee, we are making good progress toward our goal of treating all customers and employees fairly and equitably with dignity and respect. I appreciate the very strong support this Subcommittee has given us. I welcome any questions that you may have.

BIOGRAPHY - ROSALIND D. GRAY

Rosalind D. Gray was appointed Director of the Office of Civil Rights at the Department of Agriculture by Secretary Dan Glickman in July 1998.

A native of Washington, North Carolina, Ms. Gray received her B.A. degree in psychology and biology from Marywood College in Scranton, Pennsylvania, and her law degree from Howard University Law School.

Ms. Gray began her career in civil rights as trial counsel for the Lawyer's Committee for Civil Rights from 1976 to 1986. She successfully litigated 23 class municipal cases, where she represented small, southern minority communities to ensure that residents had equal access to safe running water, fire protection, and other services.

She was Associate General Counsel for the University of the District of Columbia from 1988 to 1992, where she represented the university in Federal litigation and administration proceedings on employment discrimination and other labor claims. She was a corporate administrator for Sociometrics, Inc. from 1992 to 1994.

Ms. Gray joined the Federal Government in 1994 as General Counsel and Executive Assistant to the Director at the U.S. Commission on Civil Rights. From 1995-1997, she worked for the Equal Employment Opportunity Commission as attorney advisor, and later, Deputy General Counsel, where she directed the EEOC's national litigation program, participating in the settlement of many major class action cases. Prior to her appointment at the Department of Agriculture, Ms. Gray was a civil rights consultant.

Ms. Gray resides in Washington, D.C. and has a son in high school.

Mr. SKEEN. Thank you, Ms. Gray.

FY 2000 INCREASE FOR OCFO

Let us start with the Financial Officer. Ms. Thompson, you are requesting a \$2 million increase in Fiscal Year 2000?

Ms. THOMPSON. Yes.

FINANCIAL STATEMENTS

Mr. SKEEN. As you are aware, the Inspector General has been unable to audit the working capital fund's financial statements due to lack of supporting documentation. Specifically, how would the additional funding you are seeking be used to address the outstanding concerns of the Inspector General of having an unauditable financial statement?

Ms. THOMPSON. We are expecting to have an auditable financial statement this year. We have been providing and will apply additional resources of leadership and policy to the working capital fund. As you know, that is a fee for service fund and it also will be part of the new financial management system.

And that is part of the problem with the whole Department getting a disclaimer. Our old accounting system is not compliant with the standard general ledger and doesn't have the audit trail that the Inspector General needs to be able to track the information through the system. And so, it is going to be a partnership, between the CFO's office providing the leadership and the staffing, the new project team providing the system capabilities that they are bringing up, and the Working Capital Fund staff changing their processes—again, those business reengineering processes—to meet the new system.

AVAILABILITY OF TECHNOLOGY

Mr. SKEEN. I appreciate that answer. It has been apparent to me that when the technology was available that so many agencies throughout the Government have been lagging and being left behind because the technology has been evolving so fast. But, I want to tell you that I have visited the financial center in New Orleans. It is one of the most efficient centers.

Also, in your testimony today, you hit on a nerve that has always jarred me because we have the technology but, a lot of times, these various agencies just let it go and don't use it to its fullest capacity. You certainly are doing it and you are doing it well. You are applying for additional help in that area because it is evolving so fast—

Ms. THOMPSON. So very quickly.

Y2K

Mr. SKEEN. You are one of the first to say "Y2K, no big deal" because you are going to take care of it. And it always amazes me when somebody says, "Y2K is going to do this or do that or do the other." So, I want to commend you on that—

Ms. THOMPSON. Thank you, Mr. Skeen.

Mr. SKEEN [continuing]. And we will try to put the money together—

Ms. THOMPSON. I appreciate that.

Mr. SKEEN [continuing]. That you have asked for because I think that you certainly use it well.

Ms. THOMPSON. Thank you.

Mr. SKEEN. And for the Chief Information Officer—

Ms. REED. Yes, sir.

STATUS OF Y2K CONVERSION

Mr. SKEEN. Ms. Reed, we're 288 days away from January 1, 2000 and I know that you mentioned something about this. Would you give us your assessment of USDA's Y2K readiness?

Ms. REED. Yes, sir.

Mr. SKEEN. Tell us why it's no big deal, that you're getting it done? We'll pass the information along to some of the other agencies.

Ms. REED. Well, I cannot tell you that it's not a big deal. It's a very big deal.

Mr. SKEEN. It is a big deal.

Ms. REED. I will say, however, that there are many, many employees across the Department of Agriculture who have been working very hard to make sure that they will be able to continue to deliver a program after January 1st. We've made significant investment in terms of dollars, in terms of talent, and in terms of leadership. As of last Friday, over 80 percent of our mission-critical systems are compliant. I expect we will be well over 90 percent by the end of this month, and see no problems whatsoever in being completely ready by January 1st. Having said that, given the extent and complexity of the issue, I shouldn't be surprised if there aren't minor glitches. And given that, we are investing significantly in contingency planning. We're trying to think through what all the things are that we don't have control over. For example, what might happen and what is it that we need to have in place to make sure that the people we serve continue to be served? So we're taking it very, very seriously.

Y2K READINESS IN RURAL AMERICA

Mr. SKEEN. Also, would you give us your assessment of USDA's readiness as it relates to the domestic and international food supply and how it relates to rural America? You mentioned it, I know, in your testimony.

Ms. REED. Yes, I think the concern that we have in rural America is predominately with the small and medium size organizations. That, by the way, is not unique to rural America. It's true in urban America as well. There is a lot of evidence that suggests that smaller organizations are not as well engaged, and what we are trying within the Department to do is use the outreach mechanisms that we have. Sally Thompson spoke earlier of the number of loans that we have with very small businesses or small communities. We're contacting them to make sure that they understand what needs to be done. So, we're using the resources at our disposal.

FOOD SUPPLY IN Y2K

Food supply, generally the biggest area of concern that we have in this country is public panic. There is no indication that there will be any widespread, catastrophic disruption of food. It is possible that there will be intermittent kinds of disruptions unique to a particular product or a particular place. But there is no reason for panic. Our concern, as the media attention rises to this, is that people need to have more concrete evidence. We think at the Federal government level we're now able to provide the broad picture. We're hopeful that companies and local communities will now take the steps they need to take to be able to assure the population in their communities of their status of readiness.

SUPPORT SERVICES BUREAU

Mr. SKEEN. The administration is requesting \$74 million in appropriated funds for a new function and service center modernization initiative. I think you mentioned that?

Ms. REED. Yes.

Mr. SKEEN. That is a lot of money in what probably will not be a very good budget environment. Will there be any savings associated with this initiative in Fiscal Year 2000?

Ms. REED. I don't think we can project immediate savings in Fiscal year 2000. We'll get whatever figures we have on that for the record.

[The information follows:]

SAVINGS FROM SERVICE CENTER IMPLEMENTATION - FY 2000

The Fiscal Year 2000 budget request of \$74,050,000 plus \$16,231,000 to be transferred from the Commodity Credit Corporation--CCC--will support the continuation of an aggressive Business Process Reengineering--BPR--effort and continued replacement of stove piped, out moded technology in the Service Center agencies. This is part of a multi-year effort to better integrate farm, conservation, and rural development services, provide a shared information technology system, and open up new ways for USDA customers to do business with us in a modern businesslike manner. This multi-year effort will not be completed until FY 2002, or later, depending upon the funding stream.

Savings or benefits from this overall initiative were developed as part of an overall Business Case that was developed in late 1997. That document estimated that, after BPR is complete and all the investments are made to put the new processes in place, annual benefits in excess of \$550 million would begin to accrue. This consisted of about \$395 million in program process savings, \$88 million in administrative process savings, \$6 million in telephone and printing savings, and \$68 million in direct customer benefits.

Program process savings include such activities as:

- ▶ explaining the program
- ▶ determining eligibility
- ▶ developing a plan
- ▶ developing a contract
- ▶ issuing payments
- ▶ monitoring compliance
- ▶ manipulating geospatial data
- ▶ assessing damage
- ▶ processing Freedom of Information Act requests
- ▶ supporting committee elections

Process savings between 19-95 percent are projected for these areas of in-house work. Savings primarily relate to reduced employee staff time required. These improvements are critical in order for our reduced county office staffs to meet customer demand and to, in fact, improve the quality of services.

Administrative process savings are related to the following areas:

- ▶ issuing and maintaining directives
- ▶ managing the motor vehicle fleet
- ▶ hiring personnel
- ▶ administering travel
- ▶ automating small purchases

Direct customer benefits are based on improving program delivery approaches and providing greater access of more accurate data. While many of the customer benefits of a more integrated modernized delivery structure could not

be quantified there were many that could be and these were used to develop the estimate. Key benefits used were as follows:

- ▶ reducing travel time because Service Center staff with mobile computers could go to the customer.
- ▶ reducing travel time by eliminating servicing from multiple Service Centers for farmers whose operations covered more than one county.
- ▶ Reducing travel time as a result of Internet access
- ▶ reducing numbers of forms to fill out
- ▶ providing GIS data for precision farming
- ▶ reducing information redundancy because Service Center personnel can share informational data bases
- ▶ reducing appeals
- ▶ providing quicker payments
- ▶ providing GIS data to partners

Calculating a savings for a particular year is not possible or useful because of the intricate relationship of the BPR to the technology investments and the way that the investments have to be made. For example, in order to deploy one BPR that will save \$5 million, we may have to provide \$30 million in technology investments in that year. However, that same \$30 million investment may support several BPR projects savings hundreds of millions as they are implemented over the next two years or so. For that reason, benefit/cost analyses are done on a life cycle basis so that the overall life of the project can be judged rather than just looking at any one year that may be distorted by either a benefit or cost item. The FY 2000 investment level is just one incremental level necessary in achieving the savings and benefits projected.

Mr. SKEEN. We would appreciate having those.

Ms. REED. But let me just say we clearly anticipate that managing in a common administrative infrastructure across that community makes all kinds of sense. We will be able to manage more efficiently and more effectively. And over the long-term, we clearly do expect that there will be savings.

Mr. SKEEN. Well, I think also there's been a lack of being able to have real interchange or innovation.

Ms. REED. That's absolutely correct.

Mr. SKEEN. And that has irked me ever since I've been at this thing because the Government has been an isolated island, technologically—

Ms. REED. Right.

Mr. SKEEN. We're in the age now where you've got to know what everybody else is doing and how well they're doing it. We also need to provide the technology—I think the finance center is a good example.

Ms. REED. Yes, I think this is—I'm a very, very strong proponent of the Service Center Bureau. I think it will bring the right kind of integrated management that we need in this area.

Mr. SKEEN. Well, if you are sure—then the harp that I've been playing over here, you have sure helped me find the strings. [Laughter.]

Ms. REED. Thank you.

CIVIL RIGHTS PERFORMANCE EVALUATIONS

Mr. SKEEN. Ms. Gray, your testimony says that you and the Assistant Secretary for Administration rated agencies and their administrators on their civil rights performance. Could we have a copy of that report for the record, and can you tell us some of the most important findings?

Ms. GRAY. The ratings were part of the evaluations for the agency heads and administrators for last fiscal year. And we certainly do have quarterly assessment reports for each of those agencies, including the annual one. We will provide you a copy of those reports.

Mr. SKEEN. That will include the civil rights—

Ms. GRAY. That would include only the civil rights—

Mr. SKEEN. Oh, only civil rights.

Ms. GRAY [continuing]. Initiative. Basically, what we found based on the development of policies and plans in the various agencies that most people met that criteria. There were certainly certain agencies where there were a large number of complaints filed, and there were also some agencies that engaged in early resolution for the employment complaints and they had a small number of complaints. So, generally, I would say that 80 percent of the agencies met most of their objectives. There certainly is room for improvement in the other 20 percent. For this Fiscal Year, they have changed their objectives and their plans, and we will evaluate them accordingly. But, yes, we will get you a copy of those reports.

Mr. SKEEN. Once again, I think that is your good leadership. That is what the problem is and you've got a solution for working on it. I certainly appreciate that.

[The information follows:]

[CLERK'S NOTE.—Subsequent to the hearing, the U.S. Department of Agriculture's Office of General Counsel determined that the information could not be provided because of privacy regulations.]

INVESTING MANAGEMENT RESOURCES

Mr. SKEEN. Ms. Gray, this committee has put some additional money in civil rights over the past few years and you note some progress in your testimony. But GAO, the USDA's own inspector general, and the comments of minority farmers in the press indicate that there are many problems that remain. Is USDA investing the management resources as well as the money needed to address these problems?

Ms. GRAY. Yes, we are. One of the achievements since both of those reports were released is that the Department has issued Departmental Regulations for employment and program complaint processing. We are finalizing the operational procedures for those regulations. Both of those reports note that the Department had been without regulations for processing civil rights complaints for a number of years. We have developed those regulations.

We are, with the new staff we're adding on, providing those processes. For those tasks where there was no staff to perform them, we will be covering them this fiscal year and will carry out additional aspects of the work that needs to be done in the next fiscal year.

We're having to and will complete the implementation of a new tracking system for our program complaints so that we can have current up-to-date information on the status of every program complaint in the office. That new system for programs will be complete before the end of May.

Later in the summer, we will start to develop a new tracking system for employment complaints. The tracking system that we have now for employment complaints is an EMOS system. It's outdated and it's overloaded. We will start the development of that new system and that will be finished next year which is one of the areas for which we requested additional funds.

I cannot say that as of today, we respond to all of the complaints within 180 days, which is what EEOC and our own regulations require. We have reduced the amount of time that it requires to respond to and finalize complaints. Our conflict management resolution programs and our ADR programs help with the resolution of those cases because people are able to elect mediation if they choose not to go through the complaints process.

We hope that next year we will report that, based on our new regulations and our new processes being in place, we will be resolving all of our program and employee complaints within 180 days which is the requirement.

BUILDING RENOVATION

Mr. SKEEN. That sounds good. That's a very good goal to be working on and we appreciate that.

Let me ask you about building renovation.

Ms. THOMPSON. Yes?

Mr. SKEEN. How many years have we been working on that project?

Ms. THOMPSON. Well, I believe that you approved that in 1995. It took a while before we could start to do some planning on it.

Mr. SKEEN. We've gone Y2K backwards. [Laughter.]

Ms. THOMPSON. Yes.

Mr. SKEEN. That's been a horrible situation to take care of.

Ms. THOMPSON. It has but you know we've worked through all of the issues. This has been a good year. It's a good year for me to take over because I'm reaping the results of some successes there. We got tangled up with GSA, and then we got tangled up in the courts with a contractor because they weren't selected, but we got through all those issues this year. And, as I said, I am so delighted that phase one will be done next January.

Mr. SKEEN. Well, we're glad to hear that too.

Ms. THOMPSON. So are our employees let me tell you. And one of the things I didn't mention, as a financial officer, I always look for return on investments, as you know. When you looked at this project in 1995, we no longer are paying GSA the \$30 million worth of rent that we were paying on that building. Part of the thought was that most funds would go into our budget to provide for the construction. So, in a way, the project kind of pays for itself. Assuming, of course, that you allocated those resources to us. More importantly, when this project is finished, we are currently spending about \$35 million in rent for the space—

Mr. SKEEN. That's in the private sector?

Ms. THOMPSON. Pardon me?

Mr. SKEEN. Are you renting from private individuals?

Ms. THOMPSON. Yes.

Mr. SKEEN. Or are you not?

Ms. THOMPSON. Yes, we are. It's a contract with GSA but they in turn are renting from private sources. We'll be able to release some of that space as we go along. That will then save another \$35 million a year in rental costs.

Mr. SKEEN. Well, we might even have GSA get up-to-date on their process in time. Of course, that's out of our jurisdiction, but we can at least throw a snowball over the window.

Ms. THOMPSON. There you go.

Mr. SKEEN. Ms. Kaptur? Thank you.

FOOD FOR FARM AID

Ms. KAPTUR. Thank you, Mr. Chairman. This has been an extremely interesting panel this morning. And I just wanted to point out, I don't mean to pick on Ms. Reed, but in her testimony, she restates the goals of the Department of Agriculture. I've said this to many panels that have come up here this year, that really could be I suppose a mission goal for the Department of Commerce because the word farmer isn't in there. It was very surprising to me that the way in which we shape our thinking about programs in the Department of Agriculture doesn't include that particular focus. It tells me why we have some problems in the country today. The word "agricultural producer" is used. But I suppose you can say in a way I have an agricultural producer in my district that makes Cheerio's. They use an agricultural product and they process it. But I think if you went out to most farmers in my district, they wouldn't call themselves a producer. You can't do anything about

that alone, but when you get in these inter-departmental meetings at USDA, you can certainly be a voice. I think the absence of that word has an impact on every single function the Department does, including the way you collect data. And who is able to access your information and who you pay attention to.

I wanted to ask you, Ms. Reed, on page 3 of your testimony you talk about something I don't understand, where you say that one of the accomplishments of your efforts has been the Farm Service Agency electronic bid entry system so that bids for some \$1.2 billion "food for farm aid can be open." Now I don't quite understand what program that is?

Ms. REED. This is work of the Commodity Credit Corporation in Kansas City in sending food aid overseas; how we contract for and the distribution of that. It's that system that is referred to there.

FARMER ACCESS TO COMPUTER

Ms. KAPTUR. All right. Well, one of the issues I want to point out to you I had GIPSA staff out in our district, a couple of weeks ago because we have a huge crisis, as you know, all across rural America, in our area particularly in hogs and low grain prices. And after the meeting, a farmer came up to me and would have been eligible for one of the USDA programs that dealt with a payment to those producers who owned under 1,000 or produced under a 1,000 head. This particular producer had buried his animals. And I said, "Sir, you were exactly the kind of person that USDA was trying to reach." And he wrote me a letter after that.

But I guess I just wanted to say I would bet that whoever is coming in on this electronic bid entry system are people who can afford the computer, follow it, et cetera. And a lot of these farmers, many, many, many of them, do not. Only about 2 percent of our farmers actually hedge in the markets in Chicago. So when you look at what is really going on down there, I think you ought to think very hard, seeing as how the word "farmer" is missing from much of the testimony that was presented today, for that very discreet group of Americans that we can identify, how you find them. And make some of this incredible information available to them. And I think it's a problem, It's a problem across this country. And there's nothing you can answer that except that maybe you'll be more thoughtful about ways in which your programs can be—

COMMON COMPUTING EQUIPMENT

Ms. REED. Well, I will share with you that I gave a presentation yesterday at a technology convention downtown, and I talked about the things that we were doing in the Department and things that we were trying to do. I spoke a lot about what we're trying to do with the Common Computing Environment. And, what I was speaking to was the plight of the farmers. And afterwards a woman came up to me, and I will tell you I was very pleasantly surprised to learn that she was a farmer. She has farms in several counties, and right now she has to go to several different county offices because of the way in which our information is collected and managed. You can't transact your business in one place if your farm is in a different place.

The vision that we have is a technology environment which will give her the capacity to do that. Just that simple step, which I say is a simple step, it's actually complex—given the scope of it. It takes a lot for us to be able to do that. But it resonated with her as a farmer.

So I regret that there's any lack of sensitivity to this in my testimony today. It's very much a part of when I speak about what we're doing in the Department and how we're trying to help the people that we serve, farmers included.

ACCESS TO USDA INFORMATION

Ms. KAPTUR. Well, I'll tell you what. I've got 6,500 surplus hogs in my district right now in four different counties. Those farmers want to sell those hogs somewhere. And I would bet you a dime to a doughnut that when that electronic bid entry system is put up there by the Farm Service Agency, their stuff won't get bought. And so I just present that to you as the challenge across this country, particularly to independent farmers, to the co-ops that are out there trying to move product, that perhaps you really look at that subset of interests that access information in your Department as one group that by golly is going to be on the system.

I was very surprised, I was up in Delmarva the other day because of the difficulties in the poultry industry. And talking to people who are organized, in much of the country they're disorganized, but there they were organized to try to make a difference. And I said, "Have you looked at the new GIPSA website dealing with contract farming? Excellent information on there." They didn't. They had never seen it. And these are people who are involved in court cases. And I'm thinking, oh, my gosh.

So I'm just telling you there's a problem out there. And maybe there's something you can think about over the next year that would make a difference for these folks.

OUTREACH TO THE UNDERSERVED COMMUNITY

As I read about the \$7 million increase for socially-disadvantaged farmers, I'm interested in how those funds would be used? Ms. Thompson, could you?

Ms. THOMPSON. Thank you because I wanted an opportunity to respond to the question that you were asking Ms. Reed about in how do you reach those farmers that don't have the technology that you were talking about? And that's exactly what that outreach program is to do. It provides the training, the technical assistance, the financial counseling, if you would, to help them get access. A lot of those funds are administered through the universities and through the agriculture departments, particularly the 1890 colleges and universities and the 1994 schools, which are the Native American colleges. The universities know where to reach the minority and other specially disadvantaged clientele. So often, a lot of the farmers that you're talking about are the minority or the socially-disadvantaged that don't have access to all of the modern technology. They aren't clued in to the system of all the technical literature that's out there like the websites and that sort of thing. The whole purpose of outreach is to reach out to identify the types of people that you're talking about that aren't being reached by the

normal system. The program is set up to reach them and identify who they are and then set up a program or a process to be able to reach out to those farmers. That's exactly what the outreach program is all about.

They do that through the community-based organizations that are out there as well as the university system. We also work with other types of organizations that are set up specifically to deal with this problem. For instance, this week I met with the NAACP. They've got a network of 22,000 offices out around the country. They met with us to get our literature, to understand our programs, and for us to train their people to be able to reach out to their constituency with all of the different programs that USDA has. This includes programs for development of rural America and all of our farm programs.

HOT-LINE SYSTEM

Ms. KAPTUR. Well, I was sitting here thinking about all those records you have on file down there in New Orleans. I'm thinking there's got to be a website. There's got to be a way of having every farmer in our country on some kind of a hot-link system. If they don't have a computer, then they get a mailing. But when there is the opportunity to get an indemnity payment and they don't even know. And every single system we have in place, the Farm Service Agency, the co-op extension, the land grants, the minority outreach program there's got to be a direct link to the family farmer. I wouldn't depend on the States to do it. You've got the technology to do it. And you ought to get them up there. There's less than a million of them now, am I right? From when we had those people testify from the library—yes?

Ms. THOMPSON. One of the things that we did was to publish an 800 number and then we had staff on the phone for 24 hours straight for days when we were trying to get some of that emergency funding out there. Again, however, you have to depend upon the individual either hearing it on the radio or in the newspaper or something like that.

Ms. KAPTUR. That's why I think if you had their names up there or their addresses or whatever, then that hot-link goes out, either on the computer or by letter or something so that they know what they're eligible for.

One of the questions I had on the socially-disadvantaged program again is where we've been trying to build our farmers—rebuild our farmers' markets around the country. Are you coordinating with other offices within USDA so that if you identify people, they can find a way to market? We're putting a lot more emphasis in our WIC program, in the regular programs of USDA, the commodity program, to try to increase the farmers' market access. Will you link to those?

Ms. THOMPSON. Absolutely. Yes, we have done a lot of that. It's one of those programs that builds momentum and we're working very hard in that particular area of farmers' markets all over the country. We have a very successful one that goes on every Thursday right down at USDA. We clear out our parking lots.

BUILDING MODERNIZATION

Ms. KAPTUR. That brings me to my next question which has to do with your building modernization.

Ms. THOMPSON. Yes?

Ms. KAPTUR. In thinking about the future of the mall in the next century, I know that you have to retro-fit your building internally and so forth, but if you think about agriculture in this society and whether we're going to have it in the 21st century or whether we're merely going to process food that is raised somewhere else and imported in here—and that is a legitimate question based on technology today—then it seems to me that we have a job to do to tell the story of agriculture when less than 2 percent of the population is engaged in an activity than anyone else understands, our young people, our tourists, everybody else, has to understand that this has a place in the U.S. economy and it shouldn't be taken for granted. I'm wondering as you look at your modernization plans and the monies that will be spent, not insignificant, a quarter of a billion dollars or more, have you given any thought to how you tell the story of agriculture to the general public at the same time as we house those in the employment of the Government of the United States who try to administer the various farm programs of this country?

STORY OF AGRICULTURE

Ms. THOMPSON. That's a very, very good question. For those visitors to the mall, which is a very small part of the question you just asked, we've got a wonderful Visitor's Center right there on the main floor right off the mall that tells the story and has absolutely gorgeous brochures of agriculture in America.

I guess I would say that the new building will house about 6,000-6,500 employees and probably every one of them is a voice in some way for agriculture and rural America. It's a combination of both. We always look at the Department of Agriculture as the Department of Agriculture "and Farmers," and they are very, very important and a very big part of the mission of USDA even if the word isn't in there. Steve Dewhurst and I will certainly look at that. Since I am the CFO, I'm in charge of the strategic plan. You can bet we're going to see that that gets incorporated.

The same thing applies whether we're talking about rural America, housing, water and sewers, communications, utilities, and that sort of thing. All of those people are involved in getting the program out to the people in rural America and all over the world now because our farmers are just as dependent upon our export market as they are in producing the product. I've got farmers calling me everyday from Kansas, for instance, and saying, "We need to get this wheat out of these silos and get it shipped over there to Russia," or wherever we're trying to get it exported to.

I think you're absolutely right. We need to continue to put a major focus on the communication, through outreach, as to what is available and what we're doing, and the coordination. Again, it comes back to that role that not only I, but the whole Department has to play in leadership, policy, and oversight to make sure that

the funds that you appropriate actually obtain the results that you're looking for.

Ms. KAPTUR. Well, I appreciate your sensitivity on that. Let me just say that as the Department begins to expend almost a quarter of a billion plus on a building, you ought to think very hard about how you compete with NASA right up the street, with the Air and Space Museum, and the gift shop that is right next to it. I know you are an administrative building and they are not. However, in the way that that farmers' market is operated outside on your courtyard, some of the changes that are going to be made to internal space, the way you handle visuals, I really think you ought to give some thought to how you better tell the story with who you're competing against along that mall.

And I personally do not think that agriculture in America tells its story here in Washington. We have been in touch with the Smithsonian because there is a wing in the Museum of American History, and I've talked again about this before with other—Mr. Dewhurst has heard this lecture, but if you were a young person in America today going to the Museum of American History, you would absolutely never go into agriculture. Number one, you wouldn't understand it after you looked at the exhibit. If you did look at it, you decide that isn't for you. And the exhibits that are there for computers and others will draw our children to what they think is interesting. Unfortunately, within the Smithsonian itself, the exhibit truly is not interesting to the majority of visitors who come in there, especially children.

And so one of my questions again here to you, at the same time as you're pursuing this modernization, have you ever in your capacity, any of you, visited the Museum of American History and taken a good hard look at the agriculture exhibit?

Ms. THOMPSON. I'll have to tell you I have not, but I can tell you I will.

Ms. KAPTUR. That's an honest answer. But now while you're doing this renovation, you might think about it.

Ms. THOMPSON. We will.

Ms. KAPTUR. Because there is a connection and there is a movement of people along that mall. And so what story is it that we want to tell. There are ways of dealing with that in terms of your renovation. I will make you this promise, I will not support this money until the Department can tell me how you are going to better tell the story of the importance of agriculture in America as you begin to expend this significant amount of money and how you are going to cooperate with the Smithsonian in trying to upgrade those exhibits.

Ms. THOMPSON. And, I can promise you that one of the first things I do next week is to go over there and see that exhibit. We've got some very creative people on our staff. I will see that they get over there too, and we will get right on that.

VOLUME OF COMPLAINTS

Ms. KAPTUR. I think you're on the right track with the farmer's market. It may not even be in the right location, but you're beginning to tell your story and really America's story. There is so much

more to tell. Before I leave Washington, something is going to be done about that.

So I know the chairman is kind enough to let me say these things without cutting me off.

I wanted to just ask Ms. Gray one other question. In terms of the volume of complaints that you expect to receive as a result of extending—the statute of limitation was extended as a result of last year's appropriation, what type of volume increase do you expect as a result of that?

Ms. GRAY. We have since October, between October and the present day, received approximately 1,300 new filings. We did send out a number of brochures and we did do advertising relative to the statute of limitations because of the limited time frame. So far, we have about 300 to 400 new cases that we're processing. We only have accepted, as real statute of limitations cases, 40 cases. So we're getting a lot of new filings. What I can't say to you is that we have a lot of new statute of limitation cases. But, we do have to process the filings.

A number of the letters that did come in came in because when we closed the cases in the backlog, if there was a finding of no discrimination, we told the people that if they had a statute of limitations issue, they had the opportunity to have that processed under the statute of limitations regulations.

Right now it's very difficult to tell. March 1st was the deadline to send out the hundreds of letters that we did to people who had potential issues in their cases that we knew about. I would expect, just based on the activity to date, that we will have by the end of this fiscal year, 250 to 300 cases under the statute of limitations. And the majority of the people who file for processing under the statute of limitations will probably ask for a hearing on the record.

TURNOVER RATE IN THE DIRECTOR OF CIVIL RIGHTS POSITION

Ms. KAPTUR. Ms. Gray, we're very happy to see you in your position. There have been many predecessors in your position. Can you explain why the turnover has been so high? I know it's a hard job?

Ms. GRAY. That's a difficult question to answer, but it is a very difficult job. Beyond that, I don't know why the turnover rate has been what it has been, and I'm sure the reason might vary from individual to individual, but it is a very difficult job.

Ms. KAPTUR. Do you think that the addressing of the backlog may result in a greater tenure for an individual in your position?

Ms. GRAY. That's another difficult question to answer, but I'll ask the Secretary.

Ms. KAPTUR. Thank you. Thank you, Mr. Chairman.

Mr. SKEEN. Mr. Latham. Thank you, Ms. Kaptur.

CORE BUSINESS PROCESSES

Mr. LATHAM. Thank you, Mr. Chairman. I welcome the panel here. And Anne probably knows where I'll go here, but we've been struggling for a long time to get the Department to develop an information and technology system that functions as one, obviously. And we've discussed this several times and I appreciate all your efforts. And I hope you're getting the authority to do things rather than as was the case in the past. It appears we're scratching the

surface anyway, but we're still doing it in fragments in different agencies with their own systems. I understand there's the core business process program. Can you tell me about that and what the status is?

Ms. REED. One of the things that you do when you try and establish a common architecture across the Department, a common profile, is you look at what it is that your business is. And so one of the very first things that we did was to look and do a careful examination across each of the agencies. Asking what are the core business processes that that agency is engaged in to deliver its services? The next thing you begin to do is look for commonality in terms of the customer served, or in terms of the process in which you're engaged. And when you do that, you can then begin to look and see is there a new way to do business in that arena?

We have identified the core business processes. We have taken action most aggressively in the service center environment where we have that common customer in the farmer and the producers and residents in rural America. So that has helped shape the business methodologies and the supporting technical infrastructure.

The CFO and I are in discussions now about a common financial architecture across the Department, not just the administrative financial architecture, but as she mentioned earlier, we have a very significant role to play in loan making. Many agencies across the Department have a role to play in making loans, though sometimes with different types of customers. So part of our discussion now is how can we think about moving towards more common processes in loan management and servicing and what kind of a technical infrastructure would be most supportive.

I'm giving you a long answer to your question about core business processes, but core business methodology is the starting point for building a more cohesive information environment.

SCHEDULE FOR ONE SYSTEM

Mr. LATHAM. Is there any kind of schedule at all? You've got the common computing environment, which is three out of the what 29 agencies over there that are trying to get finally get on one system I guess? Are we ever going to get to the point where—or I should say, when are we going to get to the point where we have one system over there, that you're not agency by agency? Is there any benchmark or time set out to actually do this?

Ms. REED. Not in toto. But we're looking at the different processes. Clearly, the service center environment takes us a large step forward. It's actually five to seven agencies depending on how you count, in that environment. So that is a significant part of the Department. Another key part of the Department, in terms of just sheer volume, is the Forest Service. And we have made great efforts to assure there's an appropriate integration in geo-spatial information technology, which cuts across those arenas that they're working together. Those are in more programmatic areas.

In an administrative sense, I'm working with Ms. Thompson as the Acting Assistant Secretary for Administration on common administrative systems, particularly human resources management. We have a pilot project now that is underway in the service center arena that is being very carefully watched by the Office of Human

Resources at the Department level and by the agencies to see if that is HR process that would be of value to the entire Department.

In the financial system, of course, we're well underway to having a common core financial system. Sally, do you want to speak to that?

COMMON CORE FINANCIAL SYSTEM

Ms. THOMPSON. Yes, if that's all right, I would like to do that. Almost all of the information over the next couple of years will feed through a financial system. If you think about looking at how we're going to measure the programs and tie those results to budgets and appropriations, we're going to have to be able to measure all of that. And putting in the new financial system is driving a lot of what you're trying to get to is that common technology and that architectural plan.

While we've decided that one system to capture every program that we do and every piece of data that goes through there, whether it's human resources, is probably not the right answer. But, what is the right answer is a common technology and perhaps a warehouse technology or structure—architectural structure that all of the systems could talk to. And then you could sort the data to get whatever information you want out.

So the first part is the financial system. The second part will be a consolidated financial statement that brings in say, for instance, the loan system. And then other pieces that will be driving the architectural structure over the next few years will be, again, the program data that has to come in that we're trying to measure that.

And so we have put together the framework, if you would, of that architectural plan. We now have vendors helping us put the details behind that common technology.

The other thing that that financial system is driving is the common telecommunications system. So that everybody can talk to each other through the PC. And, so as each agency comes up, they need, in this financial system, to upgrade the power of their PC to be able to talk with say the National Finance Center where the data is flowing through. And so we are then able to drive that common technology and common standards, if you would, of the architecture system that we're trying to implement.

The pieces are there. We're working on them. Rather than trying to do everything at once, we've got it laid out that we're going to do this by October 1, 1999, this by October 1 of 2000, and it takes us out over October 1, 2003. And we will have that common architecture of technology that I think you're looking for.

SEGMENTED APPROACH

Ms. REED. So the bottom line answer is we're approaching this in segments. Each segment has a project plan with a time frame but there is no overall grand design.

USE OF E-MAIL

Mr. LATHAM. You're scaring me, Anne. It sounds hopeful though, at least now it sounds like maybe we'll be able—the north building will talk to the south building by e-mail?

Ms. REED. That's right. We can do that now.

Mr. LATHAM. Right, right. Haven't other agencies done this? It seems like there's something just inherent in USDA that you just don't get the cooperation in agencies? Do you still have the turf wars and little dynasties?

Ms. REED. Any large organization has its challenges in that respect. I certainly don't think that we are very different from most other large Federal departments.

Mr. LATHAM. That's encouraging.

SUPPORT OF INFORMATION COMMUNITY

Ms. REED. However, I think we have made some progress. And, in fact, over the last year or so, many of my colleagues have begun to come to talk to me to figure out: "Okay, how did you get this far? And how can we model what we're doing after what you have managed to accomplish?" I think there's no question but what the moratorium I put on acquisition for computers when I first came in had a huge impact in helping to just change the people's understanding of what we were driving for and how seriously we took it. I also will tell you that the information community, across the agencies, has been very supportive. They would like us to be able to move much faster because they recognize the needs for sharing information and their capacity to support the technical infrastructure is much better if we're better integrated. They understand that. It is resource intensive. And we do need to stay focused on how we allocate those resources to get the most bang for the buck.

Mr. LATHAM. I'm surprised you have any hair left in your head. I would think you would pull out all your hair by now.

Ms. REED. It's quite a bit grayer. I'll tell you that.

Mr. LATHAM. Thank you, Mr. Chairman.

CLOSING REMARKS

Mr. SKEEN. Thank you, Mr. Latham. And I want to say to you folks, these are trying times for Agriculture. There's no question about it, they represent 2 percent of our population and they feed everybody in the world. Farmers and ranchers are living through a nightmare that's going on. Like Ted Turner says the whole world should limit itself to three children per family and things of that kind. He has a lot of operations going on. And I'm not using him as a bad example. But he's quit, no cattle or anything else, he's raising buffalo, so we're going to bring the buffalo back.

I appreciate the work that you folks have done because it's not easy to get a communication system that covers all the problems. And we've had technology that we've depended on but there is a scarcity of it amongst some of the people that could use it the best. And, in many cases, they have it but they don't know how to use it.

And I think Ms. Kaptur had a good round of questioning. And I'll yield to you.

Ms. KAPTUR. Thank you, Mr. Chairman. You know this marks the last hearing for us?

Mr. SKEEN. Yes, it does.

Ms. KAPTUR. At the subcommittee level. At least in terms of our witnesses this year.

Mr. SKEEN. I think we've worn them out.

Ms. KAPTUR. I think we have worn some of them out. And we wanted to express to the people who are here with us today, thank you so very much. I wanted to say, Mr. Chairman, thank you to you on behalf of all of the members of our committee, some of whom have come this morning, some of whom have participated in other hearings, because I want the people from the Department, I'm sure they already know this, we couldn't have a better subcommittee Chair on Appropriations than Joe Skeen of New Mexico. And it's kind of hard to know how to thank him for his leadership. He's a very peppery character, you know. [Laughter.]

Mr. SKEEN. I thought I was more salty. [Laughter.]

Ms. KAPTUR. A little salty, well, maybe a little bit of both, but he keeps us all going on both sides of the aisle. There couldn't be a better, better Chair anywhere in this Congress whose heart is with the people who are actually doing the work in the fields across this country. It has just been a joy to be a part of these hearings this year. Mr. Chairman, we have just a little way of saying "Thank you," to kind of spice up this room like we hope we will be able to spice up the Department of Agriculture a bit.

Mr. SKEEN. Now you've got me worried. [Laughter.]

Ms. KAPTUR. So we would like to make a presentation from our side of the aisle to you, however, it is from your home State as a way of saying "Thank you for 1999."

Mr. SKEEN. Well, thank you. Ms. Kaptur, thank you so very, very much because the chili growers in New Mexico are world-renowned. I'll eat half of one, if you'll eat half of one. [Laughter.]

Thank you so much. Thank you to all of you. You're the kind of people we like to work with.

And we will adjourn.

[The following questions were received for the record:]

DEPARTMENTAL ADMINISTRATION

Questions submitted by Mr. Skeen

COST OF SETTLEMENTS

Mr. Skeen: What is the latest estimate of the cost of reparations or settlements for past program discrimination?

Response: During fiscal year 1998, thirteen settlement agreements were reached relating to the Farm Service Agency's programs. For these thirteen cases, cash payments totaled \$2.3 million and debt relief totaled \$1.6 million. In early fiscal year 1999, 23 settlement agreements were reached through the assistance of the Resolution Task Force. These 23 settlements totaled \$1.9 million in cash payments. Of the 23 agreements, the 11 involving the Farm Service Agency totaled \$1.3 million in cash payments and the 12 involving the Rural Housing Service totaled \$613,000 in cash payments.

FARM SERVICE AGENCY REVIEW

Mr. Skeen: Did the Farm Service Agency conduct a review of county committees and county office staffs to determine whether nepotism, conflict of interest, or discrimination in program delivery exists?

Response: Yes, FSA completed the review of county committees and county office staffs. By December 31, 1998, FSA had followed up and corrected all violations that were surfaced by the independent review teams.

FORECLOSURES

Mr. Skeen: Are foreclosures still suspended? How many foreclosures are currently pending, what states are they located in, and how much do the loans total?

Response: Accelerations and foreclosures have been suspended for all persons who have filed a program discrimination complaint with USDA and who have not had their complaint resolved. No further foreclosure action will be taken against any of these individuals until their respective program discrimination case has been closed. The acceleration and foreclosure policy also applies to the cases being filed under the class action suit. The number of suspended accelerations and foreclosure is somewhat less than 1,249 which was the number of active program discrimination cases involving the Farm Service Agency as of March 11, 1999. Most States have some suspended accelerations and foreclosures. Such loans average \$85,000 per borrower.

COST OF RESOLVING PROGRAM DISCRIMINATION COMPLAINTS

Mr. Skeen: How much does it cost to resolve a program discrimination complaint?

Response: The cost to resolve a program discrimination complaint, excluding settlement, varies according to its complexity, processing, and outcome. In a typical case involving an investigation and adjudication, the total cost for intake, processing, investigation, travel, report-writing, adjudication, management review, and administrative support is estimated to be about \$20,000.

SATELLITE OFFICES

Mr. Skeen: Did the Department decide that satellite offices are necessary to meet the needs of underserved customers and, if so, what has been done about this?

Response: In response to the need to expand outreach activities State Outreach Councils were formed and asked to develop and submit specific plans for meeting the needs of underserved customers. States were required to submit long term plans in April 1998, and annually thereafter. These plans identified customer information and resources required for implementation of outreach plans and specific actions that must be taken to improve access to USDA programs and services, assess their needs and obtain their input into service improvements required. Satellite office facilities and circuit riders were some of the ways the States determined could best meet the needs of these customers.

In addition, Section 2501(g) of the 1990 Food and Agriculture Trade and Conservation Act stipulates, that the Secretary shall require the service center agencies to establish a consolidated sub-office at tribal headquarters in each county that has a reservation for a minimum of one day per week. The Department's Native American Working Group, in consultation with tribal governments, has made recommendations to the National Food and Agriculture Council regarding the establishment of Service Centers at tribal headquarters. It has been determined that there are presently 71 USDA Service Centers located at tribal headquarters or elsewhere on tribal lands. The Native American Working Group recommends that USDA establish 42 additional Service Centers at tribal headquarters. The National Food and Agriculture Council plans to take action on this recommendation in the near future.

SERVICE CENTER ON INDIAN TRIBAL LANDS

Mr. Skeen: Did you open any additional full-time Service Centers needed on Indian Tribal lands? How many Centers are there now?

Response: USDA's Native American Working Group--NAWG--worked with the National Food and Agriculture Council and in consultation with tribal governments to make recommendations regarding the establishment of Service Centers at tribal headquarters. This work is necessary to ensure effective delivery of USDA programs and services to American Indian and Alaska Native Tribes and their members. These groups determined that there are presently 71 USDA Service Centers at tribal headquarters or elsewhere on tribal lands. The NAWG recommends that USDA establish 42 additional Service Centers at tribal headquarters.

ON-SITE REVIEWS

Mr. Skeen: Did you conduct any on-site reviews or complaint investigations regarding civil rights in fiscal year 1998? If so, please describe them.

Response: During fiscal year 1998, 436 program discrimination complaints were assigned by the Office of Civil Rights--CR--for investigation. Of these CR conducted 131 of the investigations and 305 were contracted out--61 to HUD and 244 to private firms.

A program complaint is investigated if available information supplied by the complainant and the alleged agency are not sufficient to render and support a decision. An investigation will usually involve an on-site visit, interviews with involved parties, taking of sworn statements, and collection of relevant documents and statistics. A draft report of investigation is prepared and submitted after the on-site visit. The report is then reviewed for quality control and legal sufficiency. When a report of investigation is accepted, the complaint moves to the decision stage.

CR also conducts compliance reviews. These reviews serve to ensure enforcement of all applicable civil rights laws, rules and regulations. The review team is led by a member of the Office of Civil Rights and includes an advisor and other civil rights and program specialists as needed. Agencies are requested to

designate a staff member to serve as a liaison to the review. The actual review includes interviewing agency staff and examining files and records, as well as clients and potential clients. Once a review is complete, the results are analyzed and reports of finding are produced in 8 to 10 weeks. Compliance with rules and regulation is then determined. During fiscal year 1998, the Office of Civil Rights conducted 19 on-site compliance reviews.

NUMBER OF COMPLAINTS

Mr. Skeen: Please update the table provided to the Committee last year showing the number of complaints of program discrimination you received and the number resolved to include fiscal year 1998 actuals.

Response: During fiscal year 1998, USDA received 671 program discrimination complaints. Of these, 334 are new complaints and 337 are "intends." "Intends" refers to complaints that have been filed but not accepted because jurisdiction has not yet been established based on the information submitted by the complainant. Also in fiscal year 1998, USDA closed 491 complaints. Of these 358 cases were from the backlog and 133 were new cases. The following tables provides the available data for fiscal years 1982 through 1998. The data for the fiscal years after 1995 reflects only those complaints that were actually received and processed by the Office of Civil Rights.

<u>Fiscal Year</u>	<u>Complaints Received</u>	<u>Complaints Resolved</u>
1982	373	N/A
1983	398	N/A
1984	479	N/A
1985	460	N/A
1986	518	N/A
1987	576	533
1988	578	537
1989	645	602
1990	651	681
1991	721	622
1992	794	791
1993	824	688
1994	853	638
1995	924	818
1996	196	118
1997	532	126
1998	671	491

EQUAL EMPLOYMENT OPPORTUNITY COMPLAINTS

Mr. Skeen: Please list the number of open Equal Employment Opportunity Complaints existing at the end of the four previous fiscal years and for the current year to date.

Response: The number of formal Equal Employment Opportunity--EEO--complaints existing at the end of each of the last four fiscal years was:

FY 1995	1,863
FY 1996	1,391
FY 1997	1,494
FY 1998	1,546

As of March 11, 1999, the Department had 1,601 open formal EEO complaints. This included 270 complaints which were on appeal with the Equal Employment Opportunity Commission, 51 that had been remanded, and 26 for which the Department was determining compensatory damages and attorneys' fees.

The Department closed 978 EEO complaints during fiscal year 1998, and 274 up to March 11, of fiscal year 1999.

PROCESSING COMPLAINTS

Mr. Skeen: What are the current processing times for discrimination complaints? Has processing time been reduced?

Response: In fiscal year 1998, the median number of days required to resolve EEO complaints was 614 days and the median number of days to resolve a program discrimination complaint was 469 days. Between fiscal years 1997 and 1998, the medium time required to resolve an EEO complaint decreased by 23 days or 4 percent, and the medium time required to resolve a program complaint was reduced by 42 days or 8 percent.

FIELD SERVICE CENTERS

Mr. Skeen: How much does USDA plan to spend in fiscal years 1999 and 2000 to implement new Field Service Centers, and what will be acquired with these investments?

Response: USDA plans to invest \$49,670,000 in fiscal year 1999 and \$90,281,000 in fiscal year 2000 in the Service Center Modernization Initiative. These estimates support the ongoing change management, customer service, business process reengineering, and enabling technology projects.

At the end of fiscal year 1998, 16,479 computer workstations were acquired to allow replacement of systems currently in use within service centers that are not Year 2000 compliant. In addition, these computers will provide some capabilities for sharing information, training, and support across the three agencies using a common set of office automation tools. These systems will also allow for the deployment of the first reengineered business applications when they become available. We have developed a deployment plan to make these systems available in the field. We plan to purchase an additional 5,500 computers in fiscal year 1999 to complete the replacement of all Year 2000 non-compliant systems now in use.

Other components of the CCE will be funded in fiscal year 2000 and future years. In fiscal year 2000, we will continue workstation replacements and begin acquisition of other components including, network servers to connect the workstations in USDA offices, public access servers to support greater use of the Internet to provide information to the public and receive applications or requests for services, application servers for more complex business

applications, and GIS servers to support geospatial services. We will also continue the acquisition of geospatial data.

LAN/WAN/VOICE INSTALLATION

Mr. Skeen: Did you complete the LAN/WAN/VOICE installation?

Response: LAN/WAN/Voice installations are currently underway. By the end of fiscal year 1999, we will complete installations in all of the 2,564 sites approved by the National PAC. Once these installations are complete, the ongoing maintenance and any need for future installations will be handled by the converged structure of the Support Services Bureau-SSB.

SERVICE CENTER MODERNIZATION

Mr. Skeen: How much of this amount does USDA plan to fund using CCC money in fiscal year 1999 and 2000?

Response: USDA plans to fund \$10,032,000 in fiscal year 1999 and \$16,231,000 in fiscal year 2000 from CCC money for the Service Center Modernization Initiative.

USDA STREAMLINING

Mr. Skeen: Please update the Committee on the status of USDA streamlining.

Response: The Department has reduced its staff years by over 22,000 or over 17 percent since the 1993 level of 129,495. In March 1998, the Secretary directed the Under Secretaries for Farm and Foreign Agricultural Services--FFAS, Natural Resources and Environment and Rural Development--RD--to consolidate their three administrative structures that provide information technology, civil rights, financial management, human resources and management services to employees in the RD and FFAS mission areas and the Natural Resources Conservation Services. The three administrative services are being combined into one new administrative support organization called the Support Services Bureau--SSB. When fully implemented in fiscal year 2002, the SSB is projected to achieve a 45 percent reduction in administrative staffing from fiscal year 1993 levels.

ALTERNATIVE DISCIPLINE PLAN

Mr. Skeen: Please update the Committee on the Alternative Discipline Plan in terms of number of employees using the plan and its effectiveness.

Response: USDA disciplines about 1,000 employees a year. Of that number, about 45 percent, or 450 employees are disciplined using alternative discipline. The use of alternative discipline continues to rise as managers and supervisors become familiar with its benefits in resolving misconduct problems for those employees who admit to misconduct and who voluntarily waive their rights to appeal, grieve, and complain in exchange for penalties that would not be available under traditional discipline.

In 1998, USDA revised the Alternative Discipline policy to simplify some of the procedures for implementing alternative discipline, to provide more examples based on actual cases, to establish a monitoring and certification system as part of the alternative discipline agreement, and to require that employees be notified in writing of the reason(s) they failed to fulfill the terms and conditions of the alternative discipline agreement.

MODERNIZATION OF ADMINISTRATIVE PROCESSES

Mr. Skeen: How much, in total, has been spent on the Modernization of Administrative Processes project?

Response: The Modernization of Administrative Processes Project--MAP--spent \$17,095,000 through fiscal year 1998. The MAP Project Office was closed in October 1997. Modernization projects are funded through reimbursements to "process owners in DA and OCIO from the WCF. The fiscal year 1999 estimate is \$2,639,000--\$1,962,000 in DA; fiscal year 2000 is \$2,354,000--\$1,677,000 in DA.

PROCUREMENT REFORM

Mr. Skeen: Please update the status report on procurement reform submitted for last year's testimony.

Response: Improvement and streamlining of the procurement process has been an ongoing objective within Departmental Administration. We currently have underway major initiatives to review and reengineer procurement processes within USDA. We continue to implement and support the initiatives of the Office of Federal Procurement Policy and are expanding our outreach efforts to small and disadvantaged businesses. The following are some highlights of our activities:

As part of our procurement modernization efforts, we have identified significant procurement processes and system improvement opportunities and begun implementation of these improvements. We are moving towards consolidated procurement processes and systems which will provide uniform, streamlined, cost effective, and customer oriented processes for satisfying the future procurement requirements of USDA and other cross-servicing agencies.

USDA has developed a "toolkit"--a modern, integrated suite of automated tools providing USDA employees with a single point of access to online acquisition applications and resources. The toolkit links to 27 acquisition databases and reference tools, including Department of Labor prevailing wage rates, the Small Business Administration's Pro-Net database, and the Department of Labor's VETS-100 database--which provides information on contractor compliance with veterans' employment reporting requirements.

USDA has streamlined its 8(a) contracting program by executing a memorandum of understanding with the Small Business Administration to allow USDA agencies to contract directly with 8(a) contractors on a bilateral basis.

To expedite the award of simplified acquisitions between \$25,000 and \$100,000, USDA secured a waiver to the requirement that proposed acquisitions over \$25,000 be synopsisized in the Commerce Business Daily. Since agencies taking advantage of this waiver must solicit quotes from a minimum of five small business concerns, including a small disadvantaged business and a woman owned business, if possible, this streamlining of simplified acquisition procedures will not adversely effect small businesses.

USDA continues to "step forward" in the Javits-Wagner-O'Day Act Program--JWOD. A multi-year effort to establish the new Beltsville office facility as an outstanding work environment complete with facility management provided under the JWOD program has culminated in USDA receiving the "Government Award". This award presented by NISH,--formerly known as the National Industries for the Severely Handicapped, recognizes "a military or other Federal agency which has provided technical or other assistance to a JWOD Community Rehabilitation Program--CRP--which enabled the CPR to expand and/or increase employment and upward mobility opportunities to persons with severe disabilities." The success of this action opens a new industry and job opportunities to persons with disabilities. At the 1999 Virtual Government Conference in February, USDA sponsored JWOD's presentation and exhibit booth promoting "IT Accessibility for All". USDA plans to continue to promote IT accessibility in fiscal year 2000. Within our own operation, USDA has incorporated JWOD awareness into its Federal Purchase Card

Training Program. For us at USDA, the 60th Year Anniversary of the JWOD Program has been a milestone year.

We are reviewing and will be updating the existing USDA training program for acquisition personnel to ensure continued improvement in the skills and knowledge of the USDA acquisition workforce and to ensure compliance with the Acquisition Workforce requirements of Section 4307 of the Clinger-Cohen Act--Maloney Provisions. USDA continues with its effort to work with the Office of Federal Procurement Policy on implementing the Maloney provisions. Consequently, we are establishing a career management program, covering the full range of functions, that will result in a highly qualified, well managed, professional procurement workforce.

The Office of Federal Procurement Policy initiative to increase the use of performance-based service contracting--PBSC--methods has migrated to a Priority Management Objective of the Office of Management and Budget. USDA has responded with increased use of PBSC methods. The base year, fiscal year 1997, rate of usage was much less than one percent. The usage increased to more than one percent in fiscal year 1998 and we expect to reach five percent of our total service contract dollars in fiscal year 1999. The initiative is embedded in our training, our performance measures, and our strategic plan.

To assess and review our acquisition operation, USDA-wide procurement performance measures previously established were modified based on experience gained in the data collection and review from the prior year. USDA contracting agencies were asked to measure and report on their use of purchase cards, the inclusion of past performance in evaluations for award, the use of a recently implemented automated contractor performance system, and the use of performance based service contracts. The measures previously developed were refined and more specific reporting and data collection methodologies developed to ensure reporting consistency to permit a better comparison of contracting agencies across USDA. We are continuing to review and modify, as necessary, the measures to ensure that they reflect the areas of emphasis within USDA.

CELEBRATION OF EXCELLENCE CEREMONY

Mr. Skeen: Did USDA conduct the Secretary's Annual Honor Awards Ceremony for USDA employees in fiscal year 1998? If so, what were the costs?

Response: The Department of Agriculture conducted the Secretary's Honor Awards Ceremony on June 10, 1998, in which 835 recipients were recognized. This figure includes 110 awards to 51 individuals, 5 teams, and 54 groups with 774 group members. The total expenditures for the 1998 Honor Awards Program was \$78,163.00.

PROPOSED PAPERLESS PERSONNEL REQUEST SYSTEM

Mr. Skeen: What is the status of the proposed paperless personnel request system? Include a timetable for implementation, an estimate of the costs, and an evaluation of the benefits.

Response: The Personnel Office Desktop Solutions System--PODS--is currently being tested by the National Finance Center--NFC--and the customer agencies. PODS testing will continue through April or until all the designed test scenarios are processed. Implementation of the application in participating agencies will begin after test results are evaluated and appropriate changes to the software are incorporated. The total expenditures by the National Finance Center for the development and implementation of PODS through fiscal year 1999 is estimated at approximately \$2,864,000. PODS provides customers with a number of benefits, including: automating a variety of manual personnel office functions, e.g., position classification, personnel action request tracking, staffing of vacancies, etc.; the availability of a personnel data base on-site, offline; the

transmission of data to/from NFC; and the flexibility to customize PODS to meet customer needs.

STATUS OF USDA REORGANIZATION

Mr. Skeen: Please provide the Committee with an update on the status of the USDA reorganization including: reduction in targeted personnel categories, senior executive allocations, civil rights impacts, implementation of customer service plans, and implementation of the President's Labor Management Relations Partnership Councils.

Response: The Department has reduced its staff years by over 22,000 or over 17 percent of the 1993 level of 129,495. In March 1998, the Secretary directed the Under Secretaries of Farm and Foreign Agricultural Services--FFAS, Natural Resources and Environment, and Rural Development--RD--to consolidate their three administrative structures that provide services for information technology, civil rights, financial management, human resources, and management services to employees in the FFAS and RD mission areas and the Natural Resources Conservation Service. The three administrative services are being combined in a new administrative support organization called the Support Services Bureau--SSB. We anticipate full implementation in fiscal year 2002 with the SSB projected to achieve a 45 percent reduction in administrative staffing from fiscal year 1993 levels.

The current USDA Senior Executive Service allocation is 368 positions. Within the last year the Office of Civil Rights has completed more than a dozen civil rights impact analysis of significant reorganizations within Department agencies. Where it was determined that women, minorities, and persons with disabilities would be adversely and disproportionately impacted by the proposed reorganization, those impacts were mitigated to the degree possible by modifying the reorganizational proposal, enhancing equal opportunity recruitment programs, offering retraining programs and the like. Those such efforts and a priority on diversity the Department has a slightly higher proportion of minorities and women in its workforce than it did in the early 1990s before the major Department wide reorganization. The customer service plans are tailored to accommodate the new streamline structure. The USDA Partnership Council was formed at the Department level in December 1993, just two months after the President issued the Executive Order on labor-management partnerships. The Council includes representatives from five different unions which represent over 38,000 employees throughout USDA. The Council is an advisory body and addresses issues of Departmentwide significance. In addition to the Council at the Department level, there are over 70 partnership councils throughout USDA at the level of recognition.

EARLY OUT AND BUYOUT OPTIONS

Mr. Skeen: How many USDA employees took the early out and buyout options in 1998? What were their grades and occupations? How many of these employees left positions that had to be refilled? Finally, what was the cost for USDA?

Response: The Department granted over 1,950 buyouts in 1998. The total cost amounted to \$37 million. Approximately 35 percent of those taking early outs and buyouts left positions which needed to be refilled by their agency. However, overall the Department reduced its employment ceiling by one for each buyout departure.

PLANS FOR EARLY OUT OR BUYOUT AUTHORITY

Mr. Skeen: Do you plan in using the early out or the buy out authority in 1999 or 2000? If so, how many employees do you think will use the early out or buy out option?

Response: We have used and are anticipating further use of the early out authority in 1999, as well as, 2000. To date, the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, the Foreign Agricultural Service, the National Agricultural Statistics Service, and the Natural Resources Conservation Service, offered early out retirement to a portion of their employees. Two other requests for early out authority are pending additional information. To date, 313 voluntary early outs have been sought and about 55 employees have been accepted. We anticipate an additional 75 will be sought and 5 acceptances processed.

We will not use buyout authority in 1999. We will reconsider buyout authority for fiscal year 2000 in August of 1999.

AGRICULTURE ACQUISITION REGULATION

Mr. Skeen: Please provide a status report on the Agriculture Acquisition Regulation. How much time and money does it save?

Response: A comprehensive update of the Agriculture Acquisition Regulation, or AGAR, became effective in November 1996. In May 1998, we issued one AGAR Acquisition Circular to amend the AGAR. The Circular promulgated two changes to the AGAR. One change is a set of editorial and technical corrections to the AGAR, intended primarily to reflect changes to the Federal Acquisition Regulation, or FAR. The second change established a preference program within USDA for products supported by the Alternative Agricultural Research and Commercialization Corporation. The AGAR as amended is posted under the Departmental Administration Home Page on the Internet. We are preparing additional AGAR revisions to ensure that AGAR coverage parallels FAR coverage of simplified acquisition procedures, FAR Part 13, and contracting by negotiation, FAR Part 15. These revisions will be editorial in nature.

It is difficult to quantify the effect of maintaining the AGAR in terms of time or money savings. The purpose of the AGAR is to provide agency specific procedural and policy guidance needed to implement or supplement the FAR. Any cost reductions or time savings from revision of the AGAR are spread over numerous contracting offices and vendors throughout the United States. Updating the AGAR to parallel the current Federal Acquisition Regulation makes it easier to refer to AGAR coverage which supplements the FAR.

NUMBER OF CREDIT CARDS ISSUED

Mr. Skeen: Please report on the number of credit cards issued in 1998 and the number issued so far in 1999.

Response: In fiscal year 1998, a total of 16,685 cards were issued. Through February 1999, 1,315 additional cards have been issued, for a total of 18,000.

SAVINGS THROUGH CREDIT CARDS

Mr. Skeen: What are the estimated annual savings achieved through the use of credit cards?

Response: The USDA average administrative processing cost for a paper purchase order totals \$77 per transaction. Using a purchase card, under the old card procedures, we incurred an average administrative processing cost of approximately \$32 per transaction. With our reengineered card system, which includes check writing, we expect to lower the processing cost to approximately \$17 per transaction. Given the volume of USDA procurement transactions, the cost avoidance enjoyed by USDA agencies is significant. Note that this cost avoidance will aid in USDA continuing to deliver its services given the budget reductions the Department is already facing through the end of the decade.

ESTIMATED ANNUAL SAVINGS

Mr. Skeen: Please update the Committee on the estimated annual savings for each of the following programs: Third Party Draft, USDA Recycling, and Improved Property Management.

Response: The Third Party Draft program is being rapidly phased out since our analysis indicates that the use of the purchase card--or the convenience check if a merchant does not accept the credit card--is more cost-effective than the use of a third party draft.

The Department's solid waste recycling program is managed on a local level at USDA locations Nationwide. There is no central accounting system in place to track dollars saved or costs avoided Departmentwide. However, for those USDA offices which are located in General Services Administration controlled space and participate in GSA's recycling collection program, we have information available on the revenue returned to USDA from GSA for the sale of paper and other recovered waste materials. For fiscal year 1997, the Department received \$28,310 from GSA; for fiscal year 1998 the amount is \$29,880. In accord with Section 608 of the Treasury and General Government Appropriations Act, 1998, Public Law 105-61, these recycling revenue funds are available to support USDA environmental management and/or recycling programs.

The property management program promotes the reutilization of excess personal property by USDA agencies, other Federal agencies, and educational institutions. Under the authorities of Section 923 of the Federal Agriculture Improvement and Reform Act, the Stevenson/Wydler Technology Innovation Act, and Executive Order 12999 "Education Technology: Ensuring Opportunities for All Children in the Next Century," the Department provides opportunities to eligible educational institutions to acquire property no longer needed by Federal agencies. This program provides significant benefit to institutions that would not otherwise have funds to acquire needed property for research, educational, technical or scientific activities.

STATUS OF KANSAS CITY AND DAVIS

Mr. Skeen: Please provide the Committee with a status report on the collocation projects at Kansas City and Davis.

Response: The Kansas City initiative will collocate six agencies--Farm Service Agency; Food and Nutrition Service; Grain Inspection, Packers and Stockyards Administration; Office of the General Counsel; Office of the Inspector General; and Risk Management Agency--and requires approximately 350,000 square feet of rentable space to house an estimated 1,300 personnel. The General Services Administration awarded a 10-year lease in May 1997 and construction began in late fiscal year 1998. Occupancy is scheduled between January - March 2000.

The Davis project collocates: 1) three USDA State offices--Farm Service Agency; Natural Resources Conservation Service--NRCS; and Rural Development; 2) regional offices of NRCS and the Risk Management Agency; and 3) three additional agency locations - - Agricultural Research Service; Grain Inspection, Packers and Stockyards Administration; and the Office of the Inspector General in a single facility of approximately 60,000 square feet of office and related space. The General Services Administration leased the space for USDA and construction was completed at the end of fiscal year 1998. Most tenants moved into the space in early fiscal year 1999, with the last group scheduled to relocate in June 1999.

TARGETED DISABILITIES

Mr. Skeen: Update the information from last year's hearing record regarding employment of persons with targeted disabilities.

Response: As of September 30, 1998, the total workforce at USDA was 85,935. Of this total, there were 1,045 employees with severe disabilities, or 1.22 percent of the total workforce. Employment of persons with all reported disabilities was 6,904 or 8.03 percent of the total workforce.

MOTOR VEHICLES

Mr. Skeen: As a means to reduce costs, USDA is placing a greater proportion of vehicles under Department ownership. Tell us how many vehicles at the Department are owned, how many are GSA leased, and how many are commercially leased. How has this changed over the past five years?

Response: USDA is continuing, whenever funding permits, to purchase vehicles in lieu of leasing. As of September 30, 1998, USDA owned 33,195 domestic vehicles which includes, sedans, station wagons, light trucks, medium trucks, heavy trucks, buses, and ambulances. In fiscal year 1998, USDA leased approximately 5,400 vehicles from GSA, and 343 vehicles were commercially leased, which is 30 less than fiscal year 1997.

Motor Vehicles

<u>Fiscal Year</u>	<u>Number of Owned & Percent of Total Fleet</u>	<u>Commercial Leases & Percent of Total Fleet</u>	<u>GSA Leased & Percent of Total Fleet</u>
1994	34,699 - 84%	750 - 2%	5,950 - 14%
1995	34,159 - 85%	481 - 1%	5,600 - 14%
1996	33,393 - 87%	383 - 1%	4,400 - 12%
1997	33,340 - 84%	373 - 1%	5,800 - 15%
1998	33,195 - 85%	343 - 1%	5,400 - 14%

DISTRIBUTION OF MOTOR VEHICLES

Mr. Skeen: Please update the table from last year's testimony showing the distribution of the Department's vehicles by agency.

Response: I will be pleased to do so.
(The information follows:)

USDA DOMESTICALLY OWNED VEHICLES (As of 9/30/98)

Agricultural Marketing Service	77
Agricultural Research Service	3,003
Farm Service Agency	11
Animal and Plant Health Inspection Service	3,065
Rural Development	15
Grain Inspection, Packers and Stockyards Administration	3
Forest Service	16,917
National Agricultural Statistics Service	23
Office of the Inspector General	29
Natural Resources Conservation Service	<u>10,052</u>
Total Domestically Owned Vehicles	33,195

In addition to the 33,195 owned sedans, station wagons, light trucks, medium trucks, heavy trucks, buses and ambulances listed in the above table, USDA owns and operates various special purpose vehicles which include: fire trucks, trash compactors, construction equipment, trailers, motorcycles, and snowmobiles. We also operate 186 vehicles in foreign countries and lease approximately 5,400 vehicles from GSA and 343 vehicles commercially. USDA also owns and loans through the Federal Excess Property Program--FEPP--about 25,000 pieces of fleet equipment made up of trucks, buses, and heavy equipment.

DISTRIBUTION OF AIRCRAFT

Mr. Skeen: Also, provide a table showing the Department's distribution of aircraft by agency.

[The information follows:]

DISTRIBUTION OF OWNED AND OPERATED AIRCRAFT (as of 9/30/98)

Agricultural Research Service	6
Animal and Plant Health and Inspection Services	22
Forest Service	<u>44</u>
Total Owned Aircraft	72

In addition, the Forest Service owns 306 aircraft which are on loan to State Forestry organizations and 28 aircraft which are on loan to museums. These organizations pay all costs associated with the aircraft. The Animal and Plant Health and Inspection Service also leased on a year round basis 8 aircraft and borrowed 4 aircraft from cooperators. The Department has also acquired by contract, charter, lease or rental approximately \$84 million in aircraft and aircraft services.

SUMMER INTERNS

Mr. Skeen: Please update the Committee on the total number of summer interns the Department hired in 1998? How many were from 1890 Land Grant Institutions, how many were from the Hispanic Association of Colleges and Universities, how many were from American Indian Colleges, and how many were from other Colleges and Universities?

Response: Summer Intern includes all students who were hired to work during the summer, capturing students who were paid by USDA directly or through contracts, and those for whom only a job site was provided. The total does not include the 3,677 year-round students.

Summer Intern Total	524
Total from 1890 Land Grant Institutions	153
Total from the Hispanic Association of Colleges and Universities	147
Total from the American Indian Colleges	12
Total from Other Universities	212

COMPETITIVE GRANTS PROCESS

Mr. Skeen: Did you review the competitive grant process for distributing funds to Land Grant Universities and, if so, what was the result?

Response: The Land Grant universities receive funds from the Cooperative State Research, Education, and Extension Service--CSREES--through three different mechanisms: formula funds, special grants and cooperative grants. Formula funding and most special grants-earmarked grants-are not competitively reviewed. However, CSREES provides a merit review, usually done by CSREES employees, for non-competitive research projects. CSREES conducts a vigorous peer review for competitive programs that include applications from the Land Grant system. Only those that are ranked highly for merit and relevance are funded.

CONVERSION OF NON-FEDERAL TO FEDERAL STATUS

Mr. Skeen: Does the Department support conversion of non-Federal employees to Federal status?

Response: Yes, we strongly support conversion of non-Federal FSA employees to Federal status with tenure. In the absence of the legislation required to make the conversions, we are doing all we can administratively to make the Federal and non-Federal FSA systems as compatible as possible by establishing common policies and procedures. We also support and are using the Byrd Amendment which allows our non-Federal employees to compete for Federal positions that otherwise would be open only to Federal employees.

SECTION 923, FEDERAL AGRICULTURE IMPROVEMENT AND REFORM (FAIR) ACT

Mr. Skeen: Please provide a table showing the amount of property transferred to date under Section 923 of the Farm Bill.

Response: I will be pleased to do so. The departmental procedure and guidelines for Section 923 of the Farm Bill were published as a final rule on October 27, 1998 in the Federal Register. To date, we have made the following transfers:

<u>Name of Institution</u>	<u>Type of Institution</u>	<u>Original Acquisition Value of Property</u>
Crownpoint Institute of Technology	1994 (Tribal)	\$715,289
Dine College	1994 (Tribal)	<u>80,193</u>
Total		\$795,482

CHANGING USDA CULTURE

Mr. Skeen: Please provide an example within an agency or a program of how you propose to change the USDA culture.

Response: There are examples of change initiatives throughout USDA tailored to the specific needs of the mission areas and the Department. One of the more comprehensive efforts is the Service Center Implementation Quality Customer Service and Change Management/Training Initiatives. These initiatives are important components that ensure the human side of change is at the forefront of all service center activities. The initiatives include customer surveys and listening activities to determine the kind of service that customers want and to ensure that the customer perspective is incorporated into strategic and operational plans. By the end of April 1999, 24,000 employees will have attended the change management and customer service course. This number includes training--scheduled for completion in April 2000--for State and headquarters administrative employees who will be a part of the new Support Services Bureau.

EEO COMPLAINTS

Mr. Skeen: On page 2-10 of the budget justification it appears that EEO complaints are increasing. What are the principal reasons for the increase?

Response: Increases in EEO complaint activity are due primarily to a greater awareness of the EEO complaint process; increased publicity of EEO matters, and greater numbers of people competing for fewer opportunities.

COMPLAINT TRACKING SYSTEM

Mr. Skeen: Is the complaint tracking system you propose available in the private sector or in other federal agencies?

Response: The new employment complaint/affirmative employment tracking system that Civil Rights is proposing is not available from the private sector or from other Federal agencies. The new system will be developed to meet the unique requirements of USDA.

An extensive review of different complaint tracking systems was done by the Office of Civil Rights--CR. The reviewed systems included those used in other Federal agencies, as well as those offered in the private sector. All of the systems reviewed had limitations that would not allow USDA to process complaints in a timely fashion.

USDA's active case load is much larger than any of the other Federal agencies reviewed. Because of this large case load, CR needs to move cases electronically through the process, with automatic generation of generic letters, reports, and e-mail notification to agency heads and representatives. Management must also be able to track the status of cases, determine bottle-necks, and quickly reassign cases, in order to move them efficiently through the process. To accomplish this objective, a workflow engine is needed. All of the systems reviewed either did not contain the workflow engine or, if the system had one, the source code/database structure was not available for modification to meet USDA's needs.

OFFICE OF ETHICS

Mr. Skeen: Please provide the number, pay grade and job title for the employees of the Office of Ethics.

Response: The Office of Ethics has five employees. The following table provides the grade and job title for each employee.
[The information follows:]

OFFICE OF ETHICS

Grade and Job Title of Employees

<u>Grade</u>	<u>Title</u>
ES-6	Director, Office of Ethics Regulation
GS-14	Ethics Program Specialist
GS-14	Ethics Program Specialist
GS-14	Ethics Program Specialist
GS-7	Ethics Assistant

GSA BILLS VS. GSA BUDGET

Mr. Skeen: What is the difference between the cost in the current GSA bills and the GSA budget run described on page 2-20 of the budget justification?

Response: The difference between these two cost estimates is \$3,564,000. The USDA budget estimate for the fiscal year 2000 GSA bill is \$115,500,000. The budget estimate for USDA is based on the current USDA space inventory and includes changes in that inventory anticipated for fiscal year 2000. The GSA budget run cost for fiscal year 2000 is \$111,936,000. The GSA budget run estimate is based on GSA's inventory of USDA space as of March 1998. The GSA budget run, which was not received until after the budget was submitted, does not include the correct USDA space inventory as of March, 1998 and does not include the anticipated USDA changes planned for fiscal year 2000.

\$5 MILLION RESERVE

Mr. Skeen: Which agency would hold the proposed \$5 million reserve?

Response: The \$5 million reserve will be held in the Departmental Administration Central Rent Account. Use of the money will be determined jointly by DA and the Office of the Chief Financial Officer.

LEGAL CHALLENGES FOR SOUTH BUILDING CONSTRUCTION

Mr. Skeen: Has the legal suit mentioned on page 2-21 of the budget justification been completely settled? Are there any other legal challenges to the South Building construction contract?

Response: The final ruling in favor of USDA was rendered by the Court of Federal Claims on July 14, 1998. The contractor who filed this protest litigation has since filed an appeal for relief of its bid preparation and legal fees, which had been denied in the ruling of July 14. There are no other legal challenges to the award of the Phase 1 construction contract.

Socially Disadvantaged Farmers and Ranchers

EXPENDITURES FOR THE OUTREACH PROGRAM

Mr. Skeen: Please provide a table showing the total expenditures for the Outreach Program for Socially Disadvantaged Farmers by year since the program began.

{The information follows:}

1. Please provide a table showing the total expenditures for the Outreach Program for Socially Disadvantaged Farmers by year since the program began.

Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (2601)									
FISCAL YEARS 1993 - 1999									
PROJECT	STATE	1993	*1994 & 1995	1996	1997	*FRA \$4.6 MILL. 1997	1998	1999	
Alabama A&M University	AL	\$ 25,000			\$ 160,000	\$ 371,628	\$ 60,000	\$ 162,500	
Alcorn State University	MS	\$ 20,000	\$ 520,000			\$ 265,000	\$ 250,000	\$ 200,000	
American Indian OJC	MS	\$ 25,000	\$ 153,000	\$ 101,000	\$ 55,000	\$ 93,500	\$ 65,500	\$ 82,000	
Arkansas Land and Farm Development Corporation	AR	\$ 110,000	\$ 395,000			\$ 126,000	\$ 220,000	\$ 127,500	
Baylor State University and									
University of Maryland, Eastern Shore	DE/MD		\$ 500,000		\$ 100,000		\$ 34,653	\$ 150,470	
Eastern Oklahoma State College	OK	\$ 50,000	\$ 150,000	\$ 100,000	\$ 69,654	\$ 20,966	\$ 100,000	\$ 81,500	
Federation of Southern Cooperatives	GA	\$ 115,000	\$ 500,000		\$ 150,000		\$ 200,000	\$ 200,000	
Fort Berkehead Community College	ND			\$ 140,000		\$ 140,000	\$ 160,000	\$ 105,760	
Florida A&M University	FL	\$ 45,000	\$ 354,450			\$ 254,000		\$ 100,000	
Fort Valley State College	GA								
Hemmerdick Mexicana Nacional	CA	\$ 40,000	\$ 48,806	\$ 148,000	\$ 50,000	\$ 306,718	\$ 66,640	\$ 94,300	
Kentucky State University	KY			\$ 150,000	\$ 110,668	\$ 143,600	\$ 176,000	\$ 156,653	
Langston University	OK			\$ 120,000	\$ 50,000	\$ 110,000	\$ 60,000	\$ 6,148	
Lee County Orellier Offshore Community College	WI	\$ 40,000	\$ 212,500						
Lincoln University	MO	\$ 30,000	\$ 260,000			\$ 257,769	\$ 60,000	\$ 102,500	
Little Hong Community College	ND	\$ 25,000	\$ 121,882			\$ 10,268	\$ 60,000	\$ 35,560	
North Carolina A&T University	NC					\$ 28,000	\$ 150,000	\$ 87,430	
Ogden Technical College	SD	\$ 40,000	\$ 216,626	\$ 100,000		\$ 217,000	\$ 60,000	\$ 87,980	
Pratt View A&M University	TX		\$ 500,000	\$ 111,000	\$ 100,000	\$ 100,000	\$ 90,000	\$ 143,500	
South Carolina State University	SC				\$ 100,000	\$ 285,000	\$ 422,397	\$ 142,589	
Southern University	LA	\$ 50,000	\$ 437,742			\$ 149,623	\$ 60,000	\$ 102,500	
Tennessee State University	TN	\$ 350,000	\$ 350,000			\$ 250,000	\$ 60,000	\$ 24,538	
University of Arkansas at Pine Bluff	AR	\$ 41,000	\$ 320,000	\$ 60,000		\$ 180,000	\$ 140,000	\$ 164,000	
University of Arkansas at Pine Bluff	AR	\$ 42,000	\$ 420,000	\$ 25,000	\$ 100,000	\$ 154,500	\$ 150,000	\$ 190,000	
University of Vermont	VT	\$ 50,000	\$ 160,827	\$ 85,000		\$ 160,000	\$ 170,000	\$ 129,863	
Virginia State University	VA		\$ 275,000			\$ 275,000		\$ 73,800	
Field Day Activity (Franklin View A&M Univ.)	TX					\$ 11,260			
Rural Coalition (Training)	DC				\$ 15,000				
School Development Group	DC							\$ 25,000	
BJA Social Engineer Company	DC					\$ 300		\$ 66,613	
Natural Resources Conservation	DC								
North Carolina Coalition of Farm and Rural Families	NC	\$ 50,000							
Cornopolis Institute of Technology	MA	\$ 50,000							
University of Hawaii at Hilo	Hawaii	\$ 40,000							
Association for Community Based Education	CA	\$ 50,000							
TOTAL		\$ 1,000,000	\$ 8,999,000	\$ 1,000,000	\$ 1,000,000	\$ 4,000,000	\$ 3,000,000	\$ 3,000,000	

NOTE:

* In FY 1994 and 1995, \$3 million and \$2.995 were appropriated under Section 2601

The expenditures for FY 94 were awarded in FY 95.

*Fund for Rural America (FRA)

* In 1993 Delaware State University (DSU) and the University of Maryland Eastern Shore were combined. The awarded is administered through DSU.

AUDITS BY INTERNAL OR EXTERNAL ORGANIZATIONS

Mr. Skeen: When was the last time the program was audited by internal or external organizations? Please describe the findings.

Response: The 2501 Program has not been audited since the program began, but each entity has an annual audit performed by an external organization.

AWARD PROCESS FOR GRANTS

Mr. Skeen: Please describe the award process for grants under this program.

Response: Federal Register Notice No. 126, Volume 58, was issued July 2, 1993, to accept 5-year plans for providing outreach and technical assistance. Proposals were accepted until August 1, 1993. A total of 84 proposals were submitted.

All proposals from entities eligible for funding under the program were evaluated by a review panel selected and organized to provide maximum expertise and objective judgment in the evaluation of proposals.

The criteria factors and criteria weights used are as follows:

- Institutional Commitment (3.5)
- Number of counties and the number of borrowers served (3.5)
- Socially Disadvantaged Applicants - Outreach (3.5)
- Preparatory Features - Statement of Work (3.5)
- Feasibility and Policy Consistency (3.5)

All awards were made on a competitive basis within the framework allowed under the provision inherent in the 1985 and 1987 Farm Bills and Presidential Executive Orders 12232, 12320, 12677, and 12876.

A program solicitation will be published in the Federal Register and such other publication(s), as deemed appropriate, as early as practicable every five years that funds will be available for new project use and at other appropriate times.

In fiscal year 1994, awards were made to 1890/1862/1994 Land Grant Colleges and Institutions and community-based organizations through Cooperative Agreements. Cooperative Agreements are used when the principal purpose is to support or stimulate activities relating to the agency mission, or the support of a public purpose rather than acquiring property or services for the use of the government and when substantial involvement is expected between the executive agency and the recipient.

The purpose for these agreements was to utilize 1890 Institutions and community-based organizations to enhance the viability of small farmers by providing them with training and technical assistance, in overall farm management practices. Also, to assist them in improving their farm income in order to service debts and maintain a reasonable standard of living.

GRANTS AWARDED IN FISCAL YEARS 1996 - 1998

Mr. Skeen: Please provide a list of grants awarded in fiscal years 1996 through 1998, the grantees and a brief description of the purpose of each grant.

Response: Under the Small Farmer Outreach Training and Technical Assistance Program, i.e., "Outreach and Assistance Grants for Socially Disadvantaged Farmers and Ranchers Programs"--2501, grant awards are made annually to entities, based on available funding; to provide intensive training and management assistance--one-on-one and group training--to small farmers and ranchers determined to meet the objectives of the program, particularly those designated as minority or socially disadvantaged--SDA.

Each participating farmer or rancher is visited a minimum of three times monthly, by a project representative with expertise in farm management and agricultural production. Training and Technical Assistance includes: developing

individualized farm plans, introducing effective/sound production and marketing practices, and teaching farm accounting and record-keeping procedures.

In fiscal year 1998, training and technical assistance was provided by award recipients to over 8,000 farmers and ranchers; of which 1,964 are Farm Service Agency--FSA--borrowers; representing the delivery of USDA services to customers living in 394 counties and 22 states. Outreach has been provided to over 107,466 rural constituents.

The objectives of the program are:

- (a) The long-term objective of the Small Farmer Outreach Training and Technical Assistance Program is to keep small farmers and ranchers, especially those who are members of socially disadvantaged groups, on the farm and strengthen the rural economy.
- (b) An immediate objective of the Small Farmer Outreach Training and Technical Assistance Program is to encourage and assist members of socially disadvantaged groups to own and operate farms and ranches and to participate in agricultural programs.

There was a total of 28 award recipients in the program in 1996.

Alabama A&M University--AL--1890 Land Grant Institution located in Normal, Alabama. This project will develop an interdisciplinary holistic approach for providing an outreach and technical assistance program designed to reverse the continuing decline of socially disadvantaged farmers and ranchers and to ameliorate the conditions of the socially disadvantaged farm family. The University will develop a five-year plan to improve the information levels of socially disadvantaged farmers and ranchers, increase participation in Federal and other assistance programs, and enhance the overall well-being of the farm family. The other supporting objectives are to identify and evaluate the impacts of low-cost production interventions, small-scale resource management and marketing technology.

Alcorn State University--MS--1890 Land Grant Institution located in Lorman, Mississippi. The overall goal of this project is to directly improve the farm income of borrowers through better management and financial analysis. The project will focus on identifying small and family-sized borrowers and addressing the problems of profitability on their farms. The University will work cooperatively with FSA in implementing a pilot project which will make inventory farmland available to socially disadvantaged individuals on a rent-free basis for three to five years.

Arkansas Land and Development Corporation--AR--Community-based organization located in Brinkley, Arkansas. This award is for the development of a comprehensive rural development plan that coordinates agricultural services and support to individuals with social and economic development for the rural communities in which they live. The plan will provide an agricultural outreach, training and technical assistance, and demonstration program that is sensitive to the learning styles and implementation abilities of socially disadvantaged farmers and provides access to developmental resources on level appropriate to individual farmer needs.

Delaware State University/University of Maryland, Eastern Shore--DE, MD--1890 Land Grant Institutions. The Delaware State University--DSU--and the University of Maryland, Eastern Shore--UMES--programs combined in 1993 to take advantage of combined capabilities in small-scale agriculture and extension, and to coordinate service delivery over a broad geographic area. The objective of the program is to directly improve the farm income of FSA borrowers and non-borrowers through better financial planning, resource management, and access to information and technology. DSU and UMES will provide intensive training and technical assistance to enhance small-scale and limited resource farmers' participation in the rural revitalization of their communities.

Eastern Oklahoma State College--OK--The Institution is located in Wilburton, Oklahoma. Eastern Oklahoma State College and the Choctaw Nation of Oklahoma will develop a five-year program to advance the socially disadvantaged adult and youth agriculturalist in Oklahoma. The plan will provide socially disadvantaged youths and adults in southeastern Oklahoma with the information and management skills

necessary to improve their agricultural operations and to access the state and Federal agricultural programs.

Federation of Southern Cooperatives/Land Assistance Fund--AL, GA, MS, SC--Community-based organization located in East Point, Georgia. This project will provide socially disadvantaged participants with up to date information on funding and land availability; train participants on the newest farm technology, management techniques and budget preparation; and train participants on the best use of land and alternative markets and market practices. Through the project, small, limited resource and socially disadvantaged farmers are provided assistance to develop family farm businesses that are profitable and contribute to the rural economy.

Florida A&M University--FL--1890 Land Grant Institution located in Tallahassee, Florida. The project will provide marketing assistance to small and socially disadvantaged farmers and ranchers in the target over a five-year period. This plan will improve the ability of small and socially disadvantaged farmers to produce and market their produce competitively.

Fort Valley State College--GA--1890 Land Grant Institution located in Fort Valley, Georgia. This award is for working with FSA and non-FSA borrowers to move as many financially marginal/socially disadvantaged farmers to stable profitability in their current farm enterprises and/or new alternatives; to develop educational tools and programs to assist socially disadvantaged farmers to remain current as the economy and farm programs changes; to train them to analyze opportunities for enhancing their profitability through non-traditional farm or non-farm enterprises; and to analyze and identify the structural impediments that have lead to the production problems.

Kentucky State University--KY--1890 Land Grant Institution located in Frankfort, Kentucky. The purpose of this project is to provide an educational outreach program for socially disadvantaged and small farm families and FSA borrowers. The project will provide technical assistance, via one-on-one visits, and expand the efforts of the Small Farm and Family Development and Management programs.

Langston University--OK--1890 Land Grant Institution located in Langston, Oklahoma. This project will provide technical assistance relating to tested farm management techniques, planning and profitable alternative farm and/or non-farm activities. The purpose is to directly improve the farm income of borrowers through better management and financial analysis. Alternatives for those farmers and borrowers who are no longer able to show a gain in income from farming, part- or full-time, will be studied and addressed as a separate objective.

Lincoln University--MO--1890 Land Grant Institution located in Columbia, Missouri. A concentrated effort will be made in those areas having the greatest number of potential socially disadvantaged farmers and ranchers. The program will address the problem of improving the farm income of the borrower through better overall management and utilization of financial analysis and utilization of alternative income sources.

North Carolina A&T University--NC--1890 Land Grant Institution located in Greensboro, North Carolina. This project is designed to stem the rapid decline of socially disadvantaged farmers in North Carolina and throughout the southeast. This project involves doing research, conducting a needs assessment, and developing a comprehensive five-year strategic plan.

Prairie View A&M University--TX--1890 Land Grant Institution located in Prairie View, Texas. The purpose of this program is to develop and enhance business management and marketing skills to directly improve the farm income of borrowers through better management and financial analysis. The University will conduct ongoing training of small, limited resource farmers and ranchers in the major areas of farm financial management including records keeping.

South Carolina State University--SC--1890 Land Grant Institution located in Orangeburg, South Carolina. The overall goal of this project is to develop a five-year plan that will be designed specifically to assist socially disadvantaged farmers in reversing their economic decline through educational and technical assistance. To accomplish this goal, the plan will encourage and

assist socially disadvantaged farmers with owning and operating successful farm businesses, enhancing their access to effective agricultural programs, services, and resources, and with becoming recognized as integral parts of the economic development and sustainable forces that shape their communities.

Southern University--LA--1890 Land Grant Institution located in Baton Rouge, Louisiana. The project will develop custom designed management and marketing strategies of small and socially disadvantaged rural farmers and ranchers in Louisiana. One unique component of this project is the inclusion of a youth program which will be instituted during the third through the fifth year. The major goal of the five-year plan is to equip the farmers with the skills to successfully operate in the global economic environment.

Tennessee State University--TN--1890 Land Grant Institution located in Nashville, Tennessee. The program will focus on reversing the rapid decline of minority-owned and operated farms in Tennessee. The primary goal is to help producers become better farm managers and to improve their net farm income. Program participants are provided a variety of financial and production services including: record keeping, assistance with the loan application process, year end analysis, marketing, soil testing, recommended crop varieties, and equipment calibration.

Tuskegee University--AL--1890 Land Grant Institution located in Tuskegee, Alabama. This proposal is for the development of a five-year plan dealing with technical assistance in forest management and marketing for the socially disadvantaged forest farmers and land owners in selected Black Belt counties in Alabama. The approach to be used in this project is called "Farm Participatory Approach" which involves the farmers in all of the stages of project development and implementation.

University of Arkansas at Pine Bluff--AR--1890 Land Grant Institution located in Pine Bluff, Arkansas. The project will establish and manage over a five-year period a pilot project consisting of more than ten 15-acre Integrated Resource Efficient Crop and Livestock Farm demonstration sites in the Southeast Arkansas delta region. These sites will be used for training socially disadvantaged and limited resource farmers in order for this group to benefit from enterprise diversification using alternative crops and livestock to reduce production risks and augment the production of row crops in the delta region.

Virginia State University--VA--1890 Land Grant Institution located in Petersburg, Virginia. This program will provide training and technical assistance relating to tested farm management techniques, planning and profitable alternative farm and/or non-farm activities. In addition, intensive training will be provided in record keeping, management and production to those operators who apply for FSA assistance as well as current borrowers.

American Indian Opportunities Industrial Center--MN--This project, known as "Project Grow," is an agricultural and horticultural self-help program offered on Indian Reservations and Indian elementary schools. Project Grow enhances the lives of Native Americans by promoting health, nutrition, and the utilization of land resources. Almost all of the constituents of these tribes, schools and community organizations are Native Americans. All Project Grow participants are located in areas which are characterized by poverty and other indicators of socio-economic distress. Other tribes, Indian schools and organizations will be assisted in establishing Project Grow programs as funding permits.

Cankdeska Cikana Community College--Little Hoop Community College--ND--The project mission is to develop and implement a bison/range management curriculum in cooperation with the Intertribal Bison Consortium, American Bison Association, North Dakota Bison Association, and regional universities for American Indians in the Spirit Lake Nation Tribe. The educational courses focus on range ecology with emphasis on culture, economics, health, and reproduction, meat science and marketing of these products. The students will obtain either an associate of science degree or associate of applied science degree in bison production. Courses will be structured to allow transfer of credits to another institution.

Fort Berthold Community College--ND--The Assistance, Counseling, Training--ACT --Project began out of the primary need to provide technical assistance to both beginning farmers and ranchers and those already established on the Fort Berthold Indian Reservation due to the high default rate on loans. Also, the possibility of the loss of thousands of acres of trust lands through foreclosures or voluntary liquidation prompted a definite need for such a project. The mission of the ACT Project is to provide educational outreach services to interested producer families at three remote sites of the reservation. Through these outreach services the ACT Project will help producer families achieve their business and personal goals through improved management.

Hermadad Mexicana Nacional-CA--Community-based organization located in North Hollywood, California. This project will provide assistance to Hispanic and other small or limited resource farmers in the Santa Maria Valley--Santa Barbara County, California. The plan will develop training and a cooperative structure through which the small scale Hispanic farmers in the Santa Maria Valley can achieve a reasonable rate of return on their farming operations on a long range basis through accessing market at a level at which they can earn a profit.

Lac Courte Oreilles Ojibwa--LCO-Community College--WI-The funds were provided to develop and implement an agricultural and resource management program to assist socially disadvantaged farmers on the LCO reservation with the technical assistance and infrastructure necessary to assure success. This program will integrate the "traditional farming" philosophies and practices of the Ojibwa people with contemporary farm production and marketing methods. The project will enable the LCO band of Ojibwa to develop the most diverse, nutritious, and culturally acceptable food supply that can be self-sustainable and organically produced.

Texas A&M University--TX--Women in Agriculture, Management Development Program --This project is to develop and implement a program to help women acquire the comprehensive management skills and information needed to successfully own and/or operate a farm or ranch business. This includes a familiarity with and a working knowledge of the programs and resources available to assist them in this process.

[The table of grants awarded for fiscal years 1996 through 1998 follows:]

4. Please provide a list of grants awarded in fiscal years 1996 through 1998, the grantees and a brief description of the purpose of each grant. (see attached for description)

Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (2801)					
FISCAL YEARS 1996 - 1998					
PROJECT	STATE	1996	1997	*FRA \$4.5 MILL. 1997	1998
Alabama A&M University	AL		\$ 100,000	\$ 171,823	\$ 80,000
Alcorn State University	MS			\$ 205,000	\$ 250,000
American Indian UIC	MN	\$ 101,000	\$ 55,000	\$ 93,500	\$ 85,500
Arkansas Land and Farm Development Corporation	AR			\$ 195,000	\$ 230,000
Delaware State University and University of Maryland, Eastern Shore	DEMD		\$ 100,000	\$ 262,000	\$ 38,583
Eastern Oklahoma State College	OK	\$ 100,000	\$ 69,034	\$ 20,968	\$ 100,000
Federation of Southern Cooperatives	GA		\$ 150,000	\$ 275,000	\$ 200,000
Fort Belkoud Community College	ND				\$ 150,000
Florida A&M University	FL			\$ 140,000	\$ 180,000
Fort Valley State College	GA			\$ 258,000	
Hernando Mendez National	CA				
Kentucky State University	KY	\$ 145,000	\$ 50,000	\$ 308,718	\$ 68,840
Langston University	OK	\$ 150,000	\$ 110,968	\$ 143,600	\$ 175,000
Lex Centre Ovelles Orlawa Community College	WI	\$ 120,000	\$ 50,000	\$ 110,000	\$ 80,000
Lincoln University	MO			\$ 257,789	\$ 80,000
Little Hoop Community College	ND			\$ 10,268	\$ 60,000
North Carolina A&T University	NC			\$ 25,000	\$ 150,000
Oglala Lakota College	SD	\$ 100,000		\$ 217,000	\$ 80,000
Prairie View A&M University	TX		\$ 100,000	\$ 272,109	\$ 90,000
South Carolina State University	SC	\$ 111,000	\$ 100,000	\$ 265,000	\$ 422,397
Southern University	LA			\$ 148,823	\$ 200,000
Tennessee State University	TN			\$ 250,000	\$ 80,000
Texas Agricultural Extension Service	TX	\$ 60,000		\$ 80,000	
Tuskegee University	AL			\$ 180,000	\$ 140,000
University of Arkansas at Pine Bluff	AR	\$ 25,000	\$ 100,000	\$ 158,800	\$ 160,000
University of Vermont	VT	\$ 85,000		\$ 180,000	\$ 170,000
Virginia State University	VA			\$ 275,000	
Field Day Activity (Prairie View A&M Univ.)	TX			\$ 17,500	
Rural Coalition (Tuskegee)	DC		\$ 15,000		
Global Development Group	DC				
RJA Social Engineer Company	DC				
Natural Resources Conservation	DC			\$ 300	
TOTAL		\$ 1,000,000	\$ 1,000,000	\$ 4,500,000	\$ 3,000,000

NOTE:

*Fund for Rural America (FRA)

* In 1993 Delaware State University (DSU) and the University of Maryland Eastern Shore were combined. The awarded is administered through DSU.

Agriculture Buildings and Facilities

STRATEGIC SPACE PLAN

Mr. Skeen: Please update the table from last years's hearing record showing the progress of the strategic space plan. (The information follows:)

Fiscal Year	Location	Amount (000's) Description	
1998	Relocate Wing 3 (now underway)	Award Phase I Construction (FY 1997 & 1998 funding)	\$18,505
1999	Complete Vacating Wing 3 Begin Vacating Wing 4	Phase I Construction Underway	\$5,000
2000	Backfill Wing 3	Complete Phase I	
2000	Complete Vacating Wing 4	Award Phase II Construction (FY 2000 funding)	\$26,000
	Backfill Wing 4 & Head House	Complete Phase II	
2001	Relocate 1/3 Portion of Head House	Award Phase III (FY 2001 funding)	\$26,000
	Backfill 1/3 Portion of Head House	Complete Phase III	
2002	Relocate Wing 5 & Portion of Tail House	Award Phase IV (FY 2002 funding)	\$36,000
	Backfill Wing 5 & Portion of Head House	Complete Phase IV	
2003	Relocate Wing 2 & Portion of Head House	Award Phase V (FY 2003 funding)	\$36,000
	Backfill Wing 2 & Portion of Head House	Complete Phase V	
2005	Relocate Wing 1 & Portion of Tail House	Award Phase VI (FY 2005 funding)	\$36,000
	Backfill Wing 1 & Portion Tail House	Complete Phase VI	
2006	Relocate Wing 6 & Portion of Head House	Award Phase VII (FY 2006 funding)	\$36,000
	Backfill Wing 6 & Portion of Head House	Complete Phase VII	
2008	Relocate Wing 7 & Portion of Tail House	Award Phase VIII (FY 2008 funding)	\$36,000
	Complete Phase VIII		
		Total	\$255,505

Notes:

1. Preliminary estimates reflect costs by fiscal year which include planning and design costs, moving costs, telecommunications and furniture costs,

and construction costs for appropriate phases. Planned award date for construction contract determines fiscal year on table. Other costs for a particular phase may cross fiscal years.

2. All costs after fiscal year 2000 are presented in fiscal year 2000 dollars, with no adjustment for inflation.
3. Cost estimates are preliminary and for planning purposes only. More detailed costs will be developed as design work proceeds for each phase.
4. Funding based on Master Phasing Plan prepared by Shalom Baranes/Syska and Hennessy Joint Venture in June 1997. A plan is included.
5. Costs shown do not include fiscal year 1995 appropriation set aside for design of the Concepts for the entire building and final design of Wings 3 (Phase 1) and Wing 4 (Phase 2).

BELTSVILLE OFFICE FACILITY

Mr. Skeen: What is the cost to date of the Beltsville Office Facility?

Response: Including costs in fiscal year 1999, the costs for the Beltsville Office Facility total \$56,955,000.

HEADQUARTERS COMPLEX RENTAL CHARGES

3. Mr. Skeen: Update the table provided for last year's hearing record showing the amount GSA charged USDA for the four buildings owned by GSA, but occupied by USDA to include fiscal year 1998.

[The information follows:]

HEADQUARTERS COMPLEX RENTAL CHARGES

Revised as of 3/1/99

Fiscal Year	Jamie L. Whitten Building	Agriculture Annex	South Building	Auditors Building
1981	NA 1/	NA 1/	NA 1/	NA 1/
1982	NA 1/	NA 1/	NA 1/	NA 1/
1983	\$1,859,496	\$461,608	\$14,225,076	\$558,240
1984	2,077,284	520,032	14,320,032	651,480
1985	4,009,740	833,448	14,320,032	1,287,040
1986	4,030,348	838,208	14,146,532	1,287,040
1987	4,143,192	1,016,304	24,520,656	NA 2/
1988	4,873,616	1,195,652	28,546,320	NA 2/
1989	4,945,876	1,079,164	29,125,304	NA 2/
1990	5,057,796	1,208,180	29,677,452	2,266,420
1991	5,241,095	1,259,653	30,871,540	2,531,864
1992	5,736,322	1,346,795	33,473,685	3,443,770
1993	6,083,883	1,428,235	35,498,563	3,652,899
1994	6,235,795	1,463,717	36,383,590	3,745,102
1995 3/	6,117,877	1,435,956	35,691,417	3,702,278
1996 3/	6,245,408	1,465,915	36,443,590	3,772,519
1997 3/	6,245,408	1,465,915	36,443,590	3,772,519
1998 3/	N/A 4/	N/A 4/	N/A 4/	3,767,562

Notes:

1. Prior to the creation of the Rental Payments to GSA Appropriation in fiscal year 1983, agencies were individually charged for space and a Departmental Administration level is not available.
2. The Auditors Building was vacated for renovation from 1987 until 1989.
3. Beginning in fiscal year 1995, USDA no longer pays GSA the value of the rent charged for the DC Complex.
4. During USDA's South Building Modernization Project, GSA has suspended rent charges for the Whitten Building, Cotton Annex Building, and South Building.

BELTSVILLE OCCUPANCY

Mr. Skeen: Which agencies have moved or will move to the Beltsville facility?

Response: The agencies which occupy the Beltsville facility include staff from: The Agricultural Research Service, Natural Resources Conservation Service, Food Safety and Inspection Service, Office of Inspector General, Departmental Administration, and the newly established subgroup of the Service Center Implementation Team. There only remains approximately 20,000 square feet of

unoccupied space and I expect to decide on tenants for this space in the next few weeks.

RENTAL PAYMENTS AND GSA REPAIR COSTS

Mr. Skeen: Please update the table provided for last year's hearing record showing the amount of rental payments made to GSA and the amount spent by GSA for repairs to include fiscal years 1997 and 1998.

[The information follows:]

<u>Rental Payments to GSA</u>	<u>1/</u>
\$52,766,671	1985
47,751,006	1986
48,728,000	1987
45,857,311	1988
46,363,000	1989
44,788,846	1990
46,120,802	1991
45,679,002	1992
44,932,917	1993
84,465,408	1994
90,762,069	1995
91,047,992	1996
100,149,713	1997
98,085,340	1998

1/ Note: These figures reflect the rental payments for the entire Department of Agriculture Nationwide (National Capital Region owned and leased space and field office locations owned and leased space).

Estimated Costs for Repair Contracts Awarded by GSA - FY 1985-1998

Jamie L. Whitten Building	\$3,759,518
Annex Building	2,033,605
Auditors Building (Renovation included)	13,363,236
Auditors Building - site improvements	1,248,725
South Building	6,570,167
West Auditors Bldg (Removed from USDA inventory in 1998)	<u>680,000</u>
Total Estimate	27,655,251

Advisory Committees

ADVISORY COMMITTEES STAFF COSTS

Mr. Skeen: USDA agencies are allowed to obligate funds for portions of salaries and benefits for staff time devoted to support advisory committees. Update the table from last year's testimony, showing the breakout of funds obligated for this purpose by agency.

[The information follows:]

ADVISORY COMMITTEE STAFF COSTS
Fiscal Year 1998
(In thousands of dollars)

<u>Agency</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Total</u>
Agricultural Research Service.....	\$4	\$1	\$5
Cooperative State Research, Education, and Extension Service 1/.	54	8	62
National Agricultural Statistics Service.....	17	3	20
Animal and Plant Health Inspection Service.....	7	1	8
Foreign Agricultural Service.....	79	20	99
Natural Resources Conservation Service.....	34	6	40
Total, All Agencies.....	195	39	234

ADVISORY COMMITTEES FUNDED FROM OTHER ACCOUNTS

Mr. Skeen: Provide an update of the table from last year's hearing record that lists all committees funded through other accounts. Also, explain any additions or deletions to the table.

[The information follows:]

USDA ADVISORY COMMITTEES FUNDED FROM FOREST SERVICE

<u>Committee Title</u>	<u>1999 Estimate</u>
Blue Mountains.....	\$11,750
Allegheny National Forest:	
Northern.....	250
Southern.....	250
California Spotted Owl Federal Advisory Board.....	0
Committee of Scientists	14,400
Committee of State Foresters.....	0

<u>Committee Title</u>	<u>1999 Estimate</u>
Intergovernmental Advisory Committee to the Regional Interagency Executive Committee.....	158,265
Lake Tahoe Basin Advisory Committee 1/.....	20,000
National Urban and Community Advisory Committee.....	131,000
Provincial Interagency Executive Comm. Advisory Committee..	749,825
Wildcat River Advisory Committees.....	0
(Committees included in Wildcat River Committees):	
Brule River Study Committee.....	0
Carp River Study Committee.....	0
Little Manistee River Study Committee.....	0
Ontonagon river Study Committee.....	0
Paint River Study Committee.....	0
Preque Isle River Study Committee.....	0
Tahquamenon River Study Committee.....	0
Sturgeon River (Hiawatha National Forest) Study Committee.	0
Sturgeon River (Ottawa National Forest) Study Committee..	0
Whitefish River Study Committee.....	0
White River Study Committee.....	<u>0</u>
Total, Forest Service.....	1,085,740

1/ The Charter was signed on July 13, 1998 but, no work was done until January 1999.

USDA ADVISORY COMMITTEES FUNDED FROM COMMODITY CREDIT CORPORATION

<u>Committee Title</u>	<u>1999 Estimate</u>
Advisory Committee on Emerging Markets.....	\$14,000
Commission on 21st Century Production Agriculture.....	<u>275,000</u>
Total, Commodity Credit Corporation.....	289,000

USDA ADVISORY COMMITTEES FUNDED FROM USER FEES

<u>Committee Title</u>	<u>1999 Estimate</u>
Advisory Committee on Universal Cotton Standards.....	\$ 11,000
Burley Tobacco Advisory Committee.....	41,712
Flue-Cured Tobacco Advisory Committee.....	36,453
National Advisory Committee for Tobacco Inspection Services	46,341
Plant Variety Protection Advisory Board.....	<u>14,800</u>
Total, User Fees.....	150,306

Mr. Skeen: The Commission on 21st Century Production Agriculture missed the deadline for its first mandated study on production agriculture, which was June 28, 1998. Why was the report delayed and what is its status?

Response: There were a number of factors which contributed to the delay of the initial Commission report. To begin, there was a delay in the establishment of the Commission and in the appointment of its members. Further, USDA requested additional appropriated funding to support the Commission in fiscal year 1998. The additional funding was denied and USDA was required to fund the Commission within limited resources available to support all USDA advisory committees and boards. Due to the limited funding, the Commission was unable to hire staff support during fiscal year 1998. The Commission eventually secured assistance from the Congressional Research Service to prepare the first report which is expected to be published in mid-April.

Mr. Skeen: What is the need for the nearly half million dollar contingency/reserve proposed for fiscal year 2000?

Response: These funds are intended primarily to provide for the cost in fiscal year 2000 of new committees established after the fiscal year 2000 budget was submitted. As an example, two additional committees have already been added to the list of committees expected to operate in fiscal year 1999. The National Nutrition Monitoring Advisory Committee is estimated to cost \$61,000 in both fiscal year 1999 and fiscal year 2000, and the Biotechnology Advisory Committee, which is proposed for establishment during fiscal year 1999, may cost up to \$161,000 in fiscal year 2000 depending on the number of meetings.

Hazardous Waste Management

PERFORMANCE GOALS

Mr. Skeen: Please report on the Department's accomplishments in terms of its hazardous waste management performance goals in 1998.

Response: To improve program performance and implement the Government Performance and Results Act--GPRA, USDA has established a system for setting, tracking, and reporting hazardous waste management goals. Attached is a summary, by general type of activity, of our fiscal year 1998 goals and accomplishments. Please note that in the case of investigations and UST cleanups, multiple sites are often bundled into a single project to achieve cost efficiencies.

The process of identifying potential historical hazardous waste sites was substantially completed in calendar year 1998. The results of these surveys are being compiled and loaded into electronic format, a process expected to be complete in fiscal year 1999. The total number of sites requiring additional investigation and possible cleanup is expected to exceed 2000.

For fiscal year 1998, the goal for completed investigations was 43 individual sites. That goal was achieved in the 19 projects in the "finished" column of the attachment. An additional 59 investigations are ongoing. The goal for completed cleanups was 25. We completed 27 cleanups and have an additional 45 underway. The goal for agreements under which potentially responsible parties-- PRPs--would pay for or perform the necessary cleanup work was 8 and that goal was met. The total estimated value of the work performed by PRPs was over \$101 million in fiscal year 1998. Of the 20 sites at which this PRP work was performed, eight were completed, and 12 are ongoing.

The goal for underground storage tank--UST--removals and cleanups was 5, reflecting the final compliance date of the UST regulations. The 13 UST cleanup projects completed in fiscal year 1998 resulted in the removal and cleanup of 55 USTs, as reported to the Environmental Protection Agency in December 1998. Cleanup and monitoring at the site of USTs found to be leaking when they were removed is continuing in eight projects.

The goal for environmental compliance audits was three, and three were completed. The goal for the Office of the General Counsel--OGC--matters worked on was 366, and that goal was met.

Fiscal Year 1998 ACCOMPLISHMENTS SUMMARY
(Dollars in thousands)

Actual Stage When FY 98 Ended

Indicator Group	Summary Data Type	Finished	Ongoing	GRAND TOTAL
Investigations	# of Activities, This Indicator FY 98 HWMA Obligated Amount	19 \$862.3	59 \$6,592.4	78 \$7,454.7
Cleanups	# of Activities, This Indicator FY98 HWMA Obligated Amount	27 \$2,605.6	45 \$3,279.1	72 \$5,884.7
NRD	# of Activities, This Indicator FY98 HWMA Obligated Amount		2 \$24.8	2 \$24.8
Enforcement Support	# of Activities, This Indicator FY98 HWMA Obligated Amount		16 \$562.5	16 \$562.5
Orphan Share	# of Activities, This Indicator FY98 HWMA Obligated Amount		1 \$222.8	1 \$222.8
UST	# of Activities, This Indicator FY98 HWMA Obligated Amount	13 \$180.9	9 \$1,264.7	22 \$1,445.6
P2 & Env. Audit	# of Activities, This Indicator FY98 HWMA Obligated Amount	1 \$51.8	2 \$230.0	3 \$281.8
Legal Services	This Indicator FY98 HWMA Obligated Amount		\$885.7	\$885.7
Program Management	# of Activities, This Indicator FY98 HWMA Obligated Amount	2 \$37.7	24 \$1,897.4	26 \$1,935.1
TOTAL OF ACTIVITIES, THIS INDICATOR		62	159	221
TOTAL FY 98 HWMA OBLIGATED AMOUNT		\$3,738.3	\$14,959.3	\$18,697.6

*Grand total includes obligation of prior year carryover

FUNDING FOR CERCLA, RCRA, AND Pollution Prevention

Mr. Skeen: Please provide tables showing the individual budgets for fiscal years 1998 and 1999 for complying with the Comprehensive Environmental Response, Compensation, and Liability Act--CERCLA, the Resource Conservation and Recovery Act--RCRA, and the Pollution Prevention program.

Response: The following tables reflect the individual budgets for complying with CERCLA, RCRA, and the Pollution Prevention program--P2.

USDA HAZARDOUS WASTE MANAGEMENT CENTRAL ACCOUNT FUNDS
(in thousands of dollars)

Agency	FY 1998			
	CERCLA	RCRA	P2	Total
Commodity Credit Corporation	\$3,000	...	...	\$3,000
Rural Housing Service	20	...	...	20
Forest Service	5,972	1,283	...	7,255
Agricultural Research Service	2,660	1,098	...	3,758
Farm Service Agency	...	...	...	0
Office of the General Counsel 1/	892	...	...	892
Animal & Plant Health Insp. Service	14	76	...	90
HWM Forest Service Prog. Admin.	298	132	20	450
Food Safety & Inspection Service	...	135	100	235
Total	\$12,856	\$2,724	\$120	\$15,700

1/ All legal activities related to CERCLA, RCRA, and Pollution Prevention.

USDA HAZARDOUS WASTE MANAGEMENT CENTRAL ACCOUNT FUNDS
(in thousands of dollars)

Agency	FY 1999			
	CERCLA	RCRA	P2	Total
Commodity Credit Corporation	\$3,000	...	...	\$3,000
Rural Housing Service	75	...	...	75
Forest Service	6,605	295	...	6,900
Agricultural Research Service	2,666	1,000	...	3,666
HWM Forest Service Prog. Admin.	360	70	20	450
Farm Service Agency	...	...	...	0
Office of the General Counsel 1/	1,379	...	...	1,379
Food Safety & Inspection Service	...	100	130	230
Total	\$14,085	\$1,465	\$150	\$15,700

1/ All legal activities related to CERCLA, RCRA, and Pollution Prevention.

UNDERGROUND STORAGE TANKS

Mr. Skeen: What is the status of the work on underground storage tank requirements? How many of the storage tanks that the Department is responsible for still need to be addressed? What are the total and remaining costs to fully comply with RCRA?

Response: As of the December 22, 1998, compliance deadline, all USDA agencies reported substantial compliance with applicable underground storage tank--UST--requirements. The preliminary estimate of the number of regulated USTs at USDA facilities is 350. The actual number will be determined during the comprehensive inventory now underway. The results of this inventory will be reported to the Environmental Protection Agency.

The 1994 Office of Inspector General audit report listed the number of regulated USTs at USDA facilities as 3,353. Some 720 of those USTs were on Farm Service Agency--FSA, Farm Loan Programs inventory properties acquired as a result of foreclosures or voluntary conveyances. These USTs were included in the inventory because FSA policy was to remove such USTs and to clean up any associated contamination. That policy was changed after passage of Public Law 104-208, "Asset Conservation, Lender Liability, and Deposit Insurance Protection Act of 1996, which amended Section 9003(h)(9) of RCRA, which provides a secured creditor exemption pertaining to USTs. The Asset Conservation Act RCRA amendments provide that the CERCLA lender liability provisions apply in determining liability as an owner or operator of an UST; however, where those provisions are inconsistent with the EPA's UST Lender Liability Rule at 40 C.F.R. 280.200-280.230, that rule will prevail. Now, lenders holding indicia of ownership primarily to protect a security interest and acquiring a property involuntarily are no longer considered to be owners or operators for the purpose of a RCRA and UST liability determination so long as they do not participate in management of the property and seek to divest themselves of the property in a commercially reasonable manner. Of course, FSA will continue to conduct cleanups on inventoried properties when required to protect human health or the environment, or to protect the value of the public's investment.

Although USDA achieved substantial compliance with the UST regulatory requirements by the December compliance deadline, some of the USTs that were removed had leaked. The UST cleanup program now underway will require expenditures beyond this fiscal year. The most recent cost estimate for the cleanups through fiscal year 2004 is \$2,485,000. This cost estimate will be updated during preparation of the fiscal year 2001 budget request.

COMPLIANCE WITH STATE LAWS

Mr. Skeen: The Federal Facility Compliance Act establishes that Federal facilities must comply with State environmental laws and could be obligated to pay fines and penalties for non-compliance. Provide a list of all USDA facilities that are not in compliance with State Laws. Include in this list the project location, the deadline for compliance, and the total cost of compliance.

Response: USDA has the following five sites which are responding to complaints or notices of violation for non-compliance with hazardous waste requirements of RCRA:

The Agricultural Research Service--ARS--facility at the Plum Island Animal Disease Center--PIADC--in Greenport, New York on February 18, 1999, entered into a Consent Agreement and Consent Order CA/CO with the Environmental Protection Agency--EPA--which includes an agreement to implement a supplemental environmental project--SEP--to offset a portion of the proposed EPA fine. PIADC is also conducting an investigation and cleanup of hazardous waste sites in conjunction with the complaint. The SEP involves the conversion of the former wastewater treatment plant lagoons into viable, self-sustaining wetland habitat.

The ARS facility at The Stored Product Insects Research Development Laboratory

--SPERDL-in Savannah, Georgia in fiscal year 1997 entered into a Consent Order--CO--with the State and is currently meeting the milestones of the order. The CO included a RCRA penalty of \$2,998 negotiated down from a proposed fine of \$50,000. Based on the time lines in the consent order, ARS estimates the final clean-up of this property will be completed in spring or summer, 2002. The time frame depends upon the extent of contamination, which is yet to be determined, as well as the review time that the State of Georgia requires for the various phases of the clean-up. The total estimated cost of compliance for both the PIADC and SPIRDL sites is \$4 million.

The ARS Facility at USDA Horticultural Research Center, St. Lucie, Florida is entering into a Consent Agreement--CA--with the South Florida Water Management District for violations of a wetlands permit. During construction of a farm site, an ARS contractor, CRKlewin, inadvertently deposited silt into a wetlands area while draining a canal. Because the permit was in the Agency's name, the District rejected a proposal to issue the Notice of Violation directly to CRKlewin. Corrective actions have been conducted to the District's satisfaction. To complete the settlement, the CA will require USDA to pay a penalty of \$4,618, negotiated down from \$10,000. ARS will seek reimbursement from CRKlewin under the terms of the contract for both cleanup costs and the penalty.

At the Quenado tick dipping site in Maverick County, Texas, APHIS received in December 1998 a proposed Agreed Order from the Texas National Resource Conservation Commission--TNRCC--concerning alleged non-compliance with State requirements relating to the management and disposal of industrial solid waste used in livestock dipping operations. The APHIS tick eradication program is operated cooperatively with the State and County governments. The TNRCC proposed order would require APHIS, the Texas Animal Health Commission--TAHC--and Maverick County to implement a facility operations plan, investigate possible contamination and conduct cleanup of contaminated areas, and to pay stipulated penalties in the event of failure to comply with the order. Negotiations with TNRCC as well as with TAHC and Maverick County are ongoing.

In fiscal year 1997, the State of Colorado issued a RCRA compliance advisory to the Forest Service--FS--at Woodland Park Work Center. The FS negotiated and signed a Compliance Order on Consent. The FS agreed to 1) conduct a soil study at the site; 2) conduct a groundwater study at and around the site; and, 3) conduct a region-wide training program. Contracts have been let to do the studies and the training will start the first week of March for an estimated \$500,000.

SALARIES AND BENEFITS

Mr. Skeen: The Forest Service and other USDA agencies charge this account for salaries and benefits of staff hours devoted to hazardous waste management activities. Provide a table showing the amount charged to this account for these activities for fiscal years 1997 and 1998 and estimates for fiscal year 1999.

Response: The amounts charged for salary and benefits by the Forest Service and the Office of the General Counsel represent all salaries and benefits charged to the central account for program management and in-house work for RCRA/CERCLA activities such as investigations, contract administration, compliance counseling, negotiations and settlements with potentially responsible parties--PRPs, and oversight of agency managed and PRP performed cleanup work. I will provide for the record a table of those amounts.

SALARIES AND BENEFITS FOR HAZARDOUS WASTE MANAGEMENT
(Dollars in Thousands)

Fiscal Year	Forest Service 1/	Office of the General Counsel	Total
1997	\$2,840	\$870	\$3,710
1998	\$2,233	\$886	\$3,119
1999 (est.)	\$2,156	\$1,379	\$3,535

1/ Includes funding for the Hazardous Waste Management Group--HWMG.

SALARIES/BENEFITS AND CLEANUP COSTS

Mr. Skeen: How much of the fiscal year 1998 appropriation was used for salaries and benefits and how much was used for actual hazardous waste cleanup activities?

Response: In fiscal year 1998, \$3,119,000 was used for salary and benefits for program management and in-house work for RCRA/CERCLA activities such as investigations, contract administration, compliance counseling, negotiations and settlements with potentially responsible parties--PRP, and oversight of agency managed and PRP performed cleanup work. The remaining \$12,581,000 was used for investigation, cleanup, and other allowable uses. The salary and benefit costs for the Forest Service, the Hazardous Waste Management Group, and OGC supported negotiation of settlement agreements with PRPs who paid for or performed cleanup work with an estimated value of over \$100,000,000.

AGENCY SUPPORT

Mr. Skeen: Provide a table showing the sources of funding by agency for Hazardous Waste Management for fiscal years 1998 through 2000.

Response: The following table summarizes the preliminary estimates proposed by each agency for the use of agency funds and the central account funds.

TOTAL USDA HAZARDOUS WASTE MANAGEMENT FUNDS
(Dollars in Thousands)

Agency	1998 HWM Central Account	1998 Agency Funding	1998 Total	1999 HWM Central Account	1999 Agency Funding	1999 Total	2000 HWM Central Account	2000 Agency Funding	2000 Total
Commodity Credit Corp.	\$3,000	0	\$3,000	3,000	5,000	8,000	\$4,500	\$5,000	\$9,500
Forest Service	7,255	7,893	15,148	6,900	9,000	15,900	11,265	10,272	21,537
Agric. Research Service	3,758	0	3,758	3,666		3,666	4,145	0	4,145
Farm Service Agency, Farm Credit Programs	0	0	0	0	1,000	1,000	150	1,000*	1,150
Animal and Plant Health Inspection Service	90	163	253	0		0	210	160	370
Food Safety and Inspection Service	235	0	235	230		230	230	.....	230
Rural Housing Service	20	0	20	75	95	170	60	60	120
Office of the General Counsel	892	0	892	1,379		1,379	1,569	.....	1,569
Program Admin.	450	0	450	450		450	571	.....	571
Total, USDA HWM Funds	15,700	8,056	23,756	15,700	15,095	30,795	22,700	16,492	39,192

*Estimates are roughly between \$1 to 2 million dollars.

FORECLOSURES REQUIRING CLEANUP

Mr. Skeen: How many foreclosures in FmHA inventory require cleanup action and what is the cost to comply with the law? Please describe for us the steps that are being taken to recover these costs and tell us how successful they have been.

Response: These actions are now included in activities of the FSA. Approximately 75 properties of the 730 in inventory are currently undergoing some level of cleanup. It is estimated that about 95 percent of the current inventory properties have had site assessments sufficient to identify the source and level of contamination from releases of hazardous substances. FSA has about 1,300 accounts with foreclosure actions pending. These properties are evaluated for the presence of hazardous substances before finalizing a foreclosure action. A certain number of these properties may require some level of response action. It is difficult to estimate future cleanup costs until after the site evaluations are completed. However, a very rough estimate is \$1 to \$2 million.

At this time, FSA has no sites where a borrower has been identified as a "financially viable" potentially responsible party with assets available for cost recovery under CERCLA. Since these properties have been obtained because of non-payments on the loan, the Agency has not pursued cost recovery for the expenses incurred for the cleanup of hazardous substances on an inventory property. In these cases, the PRP simply would not be a viable party with respect to providing the funding to complete the work. The Agency will pursue CERCLA cost recovery if it appears that such an action is practical. In the event a cost recovery action is pursued, FSA will follow the requirements established by CERCLA and the National Contingency Plan.

USDA SITE CLEANUPS

Mr. Skeen: Please update the list provided to the Committee last year of all sites that have been identified for cleanup, the total cost involved, and the expected completion dates?

Response: The attached listing includes the agency proposed projects which comprise the \$22.7 million request.

[illegible]

Agency	Region	Facility Name	City	State	Project/Activity Name/Description	App. Agency	ECAT	Indicate if Other	FY04 (Actual) Budget Request	FY04 (Actual) WY04 Budget Request	FY04 (Actual) WY04 Budget Request	Project Status
1	1	1	1	1	1	1	1	1	1	1	1	1
2	2	2	2	2	2	2	2	2	2	2	2	2
3	3	3	3	3	3	3	3	3	3	3	3	3
4	4	4	4	4	4	4	4	4	4	4	4	4
5	5	5	5	5	5	5	5	5	5	5	5	5
6	6	6	6	6	6	6	6	6	6	6	6	6
7	7	7	7	7	7	7	7	7	7	7	7	7
8	8	8	8	8	8	8	8	8	8	8	8	8
9	9	9	9	9	9	9	9	9	9	9	9	9
10	10	10	10	10	10	10	10	10	10	10	10	10
11	11	11	11	11	11	11	11	11	11	11	11	11
12	12	12	12	12	12	12	12	12	12	12	12	12
13	13	13	13	13	13	13	13	13	13	13	13	13
14	14	14	14	14	14	14	14	14	14	14	14	14
15	15	15	15	15	15	15	15	15	15	15	15	15
16	16	16	16	16	16	16	16	16	16	16	16	16
17	17	17	17	17	17	17	17	17	17	17	17	17
18	18	18	18	18	18	18	18	18	18	18	18	18
19	19	19	19	19	19	19	19	19	19	19	19	19
20	20	20	20	20	20	20	20	20	20	20	20	20
21	21	21	21	21	21	21	21	21	21	21	21	21
22	22	22	22	22	22	22	22	22	22	22	22	22
23	23	23	23	23	23	23	23	23	23	23	23	23
24	24	24	24	24	24	24	24	24	24	24	24	24
25	25	25	25	25	25	25	25	25	25	25	25	25
26	26	26	26	26	26	26	26	26	26	26	26	26
27	27	27	27	27	27	27	27	27	27	27	27	27
28	28	28	28	28	28	28	28	28	28	28	28	28
29	29	29	29	29	29	29	29	29	29	29	29	29
30	30	30	30	30	30	30	30	30	30	30	30	30
31	31	31	31	31	31	31	31	31	31	31	31	31
32	32	32	32	32	32	32	32	32	32	32	32	32
33	33	33	33	33	33	33	33	33	33	33	33	33
34	34	34	34	34	34	34	34	34	34	34	34	34
35	35	35	35	35	35	35	35	35	35	35	35	35
36	36	36	36	36	36	36	36	36	36	36	36	36
37	37	37	37	37	37	37	37	37	37	37	37	37
38	38	38	38	38	38	38	38	38	38	38	38	38
39	39	39	39	39	39	39	39	39	39	39	39	39
40	40	40	40	40	40	40	40	40	40	40	40	40
41	41	41	41	41	41	41	41	41	41	41	41	41
42	42	42	42	42	42	42	42	42	42	42	42	42
43	43	43	43	43								

COMPLIANCE DOCKET

Mr. Skeen: Assessments and investigations must be sent to EPA and State agencies for their review and approval. Please provide the Committee with the most current data on the number of projects USDA has on the Federal Agency Hazardous Waste Compliance Docket and how has this list been changed since last year's testimony.

Response: Last year's Federal Facilities Compliance Docket included at least 182 sites for USDA. The latest update to the Docket was performed by EPA on November 23, 1999. Presently, USDA has 188 sites listed on the Docket. USDA is contending that some of these sites should not be listed as federal facilities and continues working with EPA on this issue.

Only certain documents must be sent to EPA on docketed sites. USDA is exercising its lead agency authority under Executive Orders 12580 and 13016 at sites on public lands within the jurisdiction, custody, and control of USDA, including docketed sites. USDA has two sites on the National Priorities List, Beltsville Agricultural Research Center and the White King/Lucky Lass abandoned mines. The Docket process is dynamic, as new projects are added and others are completed or removed because they do not qualify as Federal facilities.

CCC GRAIN STORAGE SITE STATUS

Mr. Skeen. At last year's hearing, you provided information on former CCC grain storage sites that have been identified by the EPA and State agencies as having carbon tetrachloride contamination in the groundwater. Please update this information including the location, by state, of the sites?

Response: Following are tables that identify a total of 120 communities in which CCC previously was involved in the operation of grain storage facilities where EPA and/or State agencies have indicated there is carbon tetrachloride --CT--contamination of ground water and where CCC may be a potentially responsible party for the contamination. Of the 120 communities, there is one in Iowa, 25 in Kansas, 2 in Missouri, and 32 in Nebraska that have ground water contamination levels exceeding the maximum contaminant levels--MCL--for drinking water. These sites could require some type of containment and/or response action. There are 22 communities in Kansas and 38 communities in Nebraska with ground water contamination levels below the MCL where no further action is currently needed. Based on site investigations, it has been determined that CCC is not a responsible party for ground water contamination at Plainville, Kansas and Tamora, Nebraska. CCC may be eliminated as a potentially responsible party at other sites as site investigations proceed. As a response action, alternate drinking water supplies have been provided where the MCL for drinking water is exceeded. These include providing bottled water, individual water treatment units at the point of use, and providing alternate water sources through connection of affected parties to existing domestic water systems or construction of a new well.

The two tables summarize the sites where ground water contamination with CT has been identified. The first table lists sites where the CT contamination level exceeds the maximum contaminant level--MCL--of 5 parts per billion--ppb--for drinking water and sites down to 4.5 ppb to ensure a conservative margin for error to determine sites that may need further action. The second table lists sites where the CT contamination is less than the MCL for drinking water and no further action is currently planned.

SITES WHERE CT CONTAMINATION
EXCEEDS MCL FOR DRINKING WATER

Sites Above MCL	State	CT in ppb
Cedar	Iowa	290.0
Agenda	Kansas	15.4
Agra	Kansas	92.1
Bendena	Kansas	62.9
Everest	Kansas	122.0
Frankfort	Kansas	12.1
Glasco	Kansas	10.3
Hackney	Kansas	155.0
Hilton	Kansas	910.0
Hutchinson	Kansas	17.3
Marion	Kansas	24.2
Morrill	Kansas	184.0
Moundridge	Kansas	8.6
Navarre	Kansas	370.0
Potwin	Kansas	61.3
Ramona	Kansas	45.5
Randall	Kansas	6.4
Washington County	Kansas	5.0
Webber	Kansas	15.4
Yates Center	Kansas	8.5
Yoder	Kansas	181.0
Adams	Nebraska	13.1
Aurora	Nebraska	84.0
Blair	Nebraska	10.2
Bloomfield	Nebraska	7.8
Bruno	Nebraska	40.1
Ceresco	Nebraska	8.7
Clay Center	Nebraska	18.2
Cortland	Nebraska	5.6
Craig	Nebraska	67.0
Deshler	Nebraska	7.0
Funk	Nebraska	10.1
Gladstone	Nebraska	109.0
Hartington	Nebraska	4.7
Hastings	Nebraska	48.0
Hordville	Nebraska	36.3
Hubbards	Nebraska	22.0
Humphrey	Nebraska	12.0
Johnson	Nebraska	5.9
Keneshaw	Nebraska	10.2
Leshara	Nebraska	128.6
Marquette	Nebraska	7.4
Martell	Nebraska	19.0
Milford	Nebraska	382.0

Murdock	Nebraska	6,500.0
Raymond	Nebraska	308.0
Ruskin	Nebraska	6.0
Shelby	Nebraska	23.0
Straussville	Nebraska	80.0
Utica	Nebraska	490.0
Waverly	Nebraska	3,120.0
Wymore	Nebraska	6.2
York	Nebraska	152.0

**SITES WHERE CT CONCENTRATION IN GROUND WATER
IS LESS THAN MCL FOR DRINKING WATER
(No Further Action Currently Planned)**

Barnes	Kansas
Brewster	Kansas
Cedarville	Kansas
Cheney	Kansas
Concordia	Kansas
Ellis	Kansas
Haddam	Kansas
McPherson	Kansas
Minneapolis	Kansas
Morrowville	Kansas
Ness City	Kansas
Perry	Kansas
Powhattan	Kansas
Salina	Kansas
Sharon	Kansas
White City	Kansas
Woodbine	Kansas
Alexandria	Nebraska
Alliance	Nebraska
Arapahoe	Nebraska
Ashland	Nebraska
Auburn	Nebraska
Bradshaw	Nebraska
Brownville	Nebraska
Bruning	Nebraska
Chester	Nebraska
Coleridge	Nebraska
Columbus	Nebraska
Dakota City	Nebraska
Edgar	Nebraska
Emerald	Nebraska
Geneva	Nebraska
Grand Island	Nebraska
Hemingford	Nebraska
Laurel	Nebraska
Lincoln	Nebraska

Loomis	Nebraska
Mason City	Nebraska
Newman Grove	Nebraska
Omaha	Nebraska
Omaha #2	Nebraska
Orleans	Nebraska
Paxton	Nebraska
Pierce	Nebraska
Raymond	Nebraska
Rising City	Nebraska
Springfield	Nebraska
Sterling	Nebraska
Stromsberg	Nebraska
Tobias	Nebraska
Valentine	Nebraska
Waco	Nebraska
Wahoo	Nebraska

Former CCC Sites where Carbon Tetrachloride (CT)
has been detected

Sites	State	CT in ppb
Exeter	Nebraska	1.5
Papillion	Nebraska	2.3
Beattie	Kansas	2.4
Bremen	Kansas	1.2
Centralia	Kansas	19.3
Everest	Kansas	121
Hanover	Kansas	1.3
Home City	Kansas	4.9
Horton	Kansas	19
Imman	Kansas	4.3
Sabetha	Kansas	0.7
Slyvan Grove	Kansas	33.6
Savannah	Missouri	29
Forest City	Missouri	19

Typical Cleanup Efforts

Mr. Skeen: Please describe to the Committee some typical cleanup efforts and their associated costs for both USDA and other funding sources.

[The information follows:]

APHIS facility at Moore Air Base, Mission Texas. Moore Air Base has been used by the USDA for approximately 30 years and is currently under USDA jurisdiction, custody and control. Prior to this, the facility was owned and operated as a pilot training facility by the United States Air Force. The original facility comprised several administrative, housing, and recreational buildings, sewage and wastewater treatment facilities, an aviation facility and runway, and a fuel depot. Over the past several years, APHIS has performed a number of cleanup projects to address environmental issues at the facility. These include the removal of 19 underground storage tanks, 10 of which were previously abandoned by the Air Force. Projects have also included the removal of PCB-containing transformers, and hazardous waste disposal. With an old landfill and other possible problem areas now being investigated, Moore Air Base may require additional cleanups. Actual and projected expenditures through fiscal year 2004 are as follows:

FY	1998	1999	2000	2001-2004
USDA Funds	\$141,200*	25,000*	210,000	1,000,000
Agency Funds	\$101,500*	0	160,000	1,000,000

* These amounts were changed from what was budgeted because we did not know of the 10 Air Force tanks until we accidentally discovered them during operations at the site. USDA funds were moved from other agencies to cover the costs.

Duncan Township Landfill on the Ottawa National Forest in Michigan. The Duncan Township is a rural township with a small population base which has very little financial capability to properly close the landfill and to respond to potential ground water contamination from the site. The landfill was operated by the township under a special use permit issued by the Forest Service. Because of implementation of more stringent landfill regulations by EPA, the township discontinued use of the site but did not close the landfill in accordance with State of Michigan regulations. The State Department of Environmental Quality sent a violation notice letter to the Forest Service in 1992 indicating that the landfill must be capped in accordance with State requirements. Subsequent ground water testing by the Forest Service and the State indicates that leachate from the landfill is affecting the ground water. Negotiations for cleanup with the township are ongoing, but cleanup action should be taken in 1999. Actual and expected expenditures through fiscal year 2000 are as follows:

FY	1998	1999	2000
USDA Funds	0	0	\$100,000
Agency Funds	\$127,100	690,000	0

ARS facility at Beltsville Agricultural Research Center, Beltsville, Maryland. This facility was added to the Superfund National Priorities List in 1994. Investigative work begun in 1989 identified 44 potential hazardous waste sites. EPA added an additional 48 sites in the Federal Facilities Agreement under CERCLA Section 120 between USDA and EPA that was signed in 1998. Investigative work has included a preliminary assessment and site inspection, and an environmental site assessment in preparation of transfer of portions of the land to Metro for a maintenance yard. Portions of the land found to be clean have been transferred, but further investigation and potential groundwater cleanup may be required on the remaining parcel proposed for transfer. An \$8 million cleanup was undertaken on the property to be transferred to Metro, and several additional cleanup actions have been completed or are underway. Need for additional cleanup work remains. The total cleanup costs for BARC is expected to approach \$40 million. To date, \$15 million in USDA funds have been expended.

BHP Copper Mine, Tonto National Forest. The BHP copper operations are adjacent to National Forest System lands in the Pinto Creek drainage. Pinto Creek is an upstream tributary to Lake Roosevelt which is a large reservoir in the Central Arizona Project. Lake Roosevelt is a drinking water source for Phoenix and a major source for agricultural irrigation. BHP was attempting to stabilize a very large mine tailings storage facility when the dam retaining hundreds of thousands of cubic yards of hazardous material contaminated tailings failed and the material swept down onto National Forest System lands and into Pinto Creek. In some areas, the material was over 40 feet deep. EPA and the Forest Service--FS--worked cooperatively, with the FS taking the lead under its CERCLA authority to implement the cleanup action. BHP signed an agreement with the FS to cleanup the problem and has completed the majority of the work. Expenditures in fiscal year 1998 were \$158,900 USDA funds, \$29,900 agency funds, and \$36,000,000 in value of work performed by the mining company. The FS will recover the USDA and agency funds from BHP in fiscal year 1999 for use on other sites.

CCC formerly operated grain storage facility, Bruno, Nebraska. This site is located on private land and was placed on the National Priority List by EPA in June 1996. Bruno's water supply was found to be contaminated with carbon tetrachloride in 1984. The EPA identified two other potentially responsible parties--PRPs--in addition to CCC. The contaminated public wells have been replaced with new wells from a different aquifer that supply the town with sufficient safe, potable drinking water. CCC provided the town with funds for the cost of new well construction. CCC has performed extensive studies characterizing the contaminated aquifer, and EPA has issued a record of decision selecting the preferred alternative for cleanup of the contaminated aquifer. CCC with OGC's assistance is working with EPA and the Department of Justice on potential cleanup actions and involvement of the other PRPs. The site is currently being monitored quarterly. USDA funds expenditure through fiscal year 1998 are approximately \$970,000.

Sites to be Funded in Fiscal Years 1999 and 2000

Mr. Skeen: How many sites are expected to be funded by the fiscal year 2000 request? How many are planned for fiscal year 1999.

Response: For fiscal year 1999, the goal for cleanup actions is 20 sites completed. Additional goals include 54 sites to be assessed/characterized for potential cleanup actions, completion of 13 site cleanup designs, negotiations for potential cleanup by responsible parties at 20 additional sites and completion of the identification and screening process at the last 50 sites in the site inventory.

For fiscal year 2000, the goal for cleanup actions is 26 sites completed. Additional goals include 55 sites to be assessed/characterized for potential cleanup actions, completion of 12 site cleanup designs, and negotiations for potential cleanup by responsible parties at 20 additional sites. The identification and screening process was completed in early fiscal year 1999.

Each year the number of sites which will be worked on by a given amount of funding can vary considerably. For example, site cleanup costs can vary from less than \$100,000 to over \$100,000,000 per site.

Cost of Forest Service Site Cleanup

Mr. Skeen: What is the estimated cost of the cleanup of the 1800 Forest Service sites?

Response: At each of these sites, the FS and USDA may be subject to environmental enforcement actions and lawsuits by private parties. Fines and penalties could exceed \$25,000 per day and lawsuits could cost, in some cases, more than the funding needed to perform a timely cleanup action. The FS has completed most of the cleanup actions at sites where it was the only responsible

party. Cleanup and natural resource restoration costs at the 1,800 remaining sites are estimated to approach \$2 billion. Another important source of funding are third parties responsible for the environmental harm affecting the National Forests. The FS is pursuing these parties to fund or conduct cleanup projects on sites where they are responsible for the contamination. We estimate that these activities could provide over 30 percent of the future needed funding. Funding and work performed by responsible parties exceeds \$100 million over the past three years. Without the requested increases, the FS will not be able to continue to effectively implement this program and address sites in a timely manner. The FS is also requesting an increase to fund the share of needs at sites where responsible parties cannot be located or are no longer financially viable. Ultimately, the agency will need to address cleanup on lands under its jurisdiction, custody, and control even if the contamination is the result of actions by others.

Forest Service Funding

Mr. Skeen: How much Forest Service money has been spent to cleanup Forest Service sites?

Response: Through fiscal year 1998, the FS has expended over \$28,000,000 of agency and cooperative agreement funds to clean up FS sites. The FS is spending an additional \$9,000,000 in agency funds in fiscal year 1999 for FS site cleanup and is requesting \$10,272,000 in agency funds for its fiscal year 2000 budget. In addition, at the end of fiscal year 1998, the FS had leveraged agency and USDA funds by securing funding or cleanup work from responsible polluters with a total value of over \$143,500,000 on FS sites.

USDA/1890 NATIONAL SCHOLARS PROGRAM

Mr. Skeen: Please update the information provided to the Committee last year on the USDA/1890 National Scholars Program including the number of students in the program and the costs of operation in fiscal years 1997 and 1998.

Respondent: The National Scholars Program provided scholarships for 141 students in fiscal year 1998. The cost was approximately \$1.5 million. Of this total, \$846,000 was expended for tuition, books, and fees; \$106,000 for computers; \$62,000 for travel and summer lodging; \$440,000 for summer employment and benefits and \$50,000 for costs of operation.

We estimate that we will provide scholarships for 134 students in fiscal year 1999. The total cost is estimated at \$1.8 million to include \$948,000 for tuition, books, and fees; \$59,000 for computers; \$69,000 for travel and summer lodging; \$594,000 for summer employment and benefits; and \$136,000 for costs of operation. A program manager has been appointed for fiscal year 1999, which results in an increase in costs of operation.

Mr. Skeen. Provide a table showing a complete list, by agency, of all funds being transferred to each Land Grant University for fiscal year 1998 and estimates for fiscal year 1999.

[CLERK'S NOTE.—The answer was not provided by April 30, 1999 when this section went to press.]

HISTORICALLY BLACK COLLEGES AND UNIVERSITIES

Mr. Skeen: Please update the table provided to the Committee last year showing the funds USDA provided to Historically Black Colleges and Universities to include fiscal year 1998 actuals and 1999 estimates.

Response: [The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
Funds Provided to Assist Historically Black Colleges and Universities
(Dollars in Thousands)

	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimate
Research and Development			
Program Evaluation	\$41,282	\$43,577	\$45,011
Training	4,218	2,208	323 a/
Facilities and Equipment	143	640	950
Fellowships, Traineeships, Recruitment, and IPAs	11,186	8,326	8,789
Student Tuition Assistance, Scholarships, and Other Aid	7,165	6,806	7,163
Direct Institutional Subsidies	1,659	1,601	2,002
1890 Liaison Officers	27,063	27,451	28,137
Other	1,417	1,905	2,034
	832	3,754	411 b/
Total	94,965	96,268	94,820

a/ Award recipients for the Section 2501 Program have not been named at this time.

b/ Amounts to be awarded for the Small Farmer Outreach Training and Technical Assistance Program are not known at this time.

OFFICE OF THE CHIEF FINANCIAL OFFICER

Questions submitted by Mr. Skeen
STOVE PIPING AMONG USDA AGENCIES

Mr. Skeen: According to last year's testimony, the Department was coordinating strategic planning across mission areas and agencies to reduce agency stove piping. Provide specific examples where stove piping has been reduced as a result of the strategic planning process.

Response: There are a number of strategic planning cross cutting efforts in the Department. To name a few examples, agencies are coordinating their efforts in the area of food safety, climate change, sustainable agricultural development, small farms, field Service Center improvements, and rural community outreach initiatives. In addition, there are coordinated initiatives in management areas such as civil rights, information technology and financial management. For example, during fiscal year 1998, long-term departmental goals for financial management were also established, and supporting efforts are reflected in the fiscal year 2000 plans of our component agencies.

Finally, we are working hard within USDA to ensure consistency in the reporting of program performance information. During the past year, members of my staff and component agency staff worked together to develop and present program performance information for the overview to the Consolidated Financial Statement and to ensure that the information in this overview was consistent with the performance information incorporated in annual plans. In a separate undertaking, members of my staff teamed with the Office of Communications to ensure that program performance information included in the Secretary's Annual Report for fiscal year 1998 was consistent with program performance information included in the fiscal year 1998 Consolidated Financial Statement and the fiscal year 2000 annual performance plans.

AMOUNTS PAID INTO WORKING CAPITAL FUND BY CURRENT AGENCY STRUCTURE

Mr. Skeen: Provide a table that shows, by current agency structure, the amount paid into the Working Capital Fund for fiscal years 1998 and estimates for fiscal year 1999 and 2000.

Response: We will be happy to provide that information. The table also appears on page 3-25 of the budget Explanatory Notes.

[The information follows:]

WORKING CAPITAL FUND COST DISTRIBUTION SUMMARY: FY 1997 - 2000

Agency Code	Acronym	FY 1997 <u>Actual</u>	FY 1998 <u>Actual</u>	FY 1999 <u>Estimate</u>	FY 2000 <u>Estimate</u>
01	OSEC	\$ 660,000	\$ 595,000	\$ 758,000	\$ 783,000
02	AMS	4,623,000	5,081,000	6,019,000	6,457,000
03	ARS	6,574,000	6,809,000	7,044,000	7,596,000
07	RHS	14,247,000	16,831,000	19,543,000	21,638,000
08	RMA	8,479,000	4,043,000	1,365,000	420,000
10	FAS	2,665,000	2,596,000	3,070,000	3,102,000
11	FS	37,257,000	46,070,000	51,561,000	55,475,000
13	OC	1,159,000	728,000	766,000	784,000
14	OGC	470,000	522,000	575,000	583,000
15	RUS	393,000	190,000	236,000	263,000
16	NRCS	10,016,000	11,791,000	13,727,000	14,743,000
18	ERS	970,000	483,000	565,000	593,000
20	NASS	1,009,000	1,460,000	1,436,000	1,547,000
22	CSREES	1,876,000	2,793,000	2,215,000	2,248,000
23	OIG	963,000	882,000	941,000	992,000
30	FNS	3,747,000	3,287,000	3,579,000	3,798,000
32	RBCS	359,000	236,000	117,000	131,000
34	APHIS	5,265,000	6,505,000	7,344,000	7,807,000
36	GIPSA	1,110,000	1,049,000	1,149,000	1,225,000
37	FSIS	6,222,000	7,764,000	7,963,000	8,262,000
38	OCE	667,000	164,000	202,000	204,000
42	OBPA	158,000	168,000	190,000	188,000
90	OCFO	502,000	407,000	528,000	541,000
92	OALJ	161,000	51,000	55,000	56,000
94	OCR	570,000	126,000	261,000	251,000
96	OHRM	134,000	88,000	300,000	296,000
98	OO	3,408,000	2,132,000	1,990,000	2,107,000
AW	AARC	37,000	67,000	3,000	7,000
CA	BCA	1,000	21,000	19,000	19,000
DB	OSDBU	20,000	21,000	32,000	32,000
ES	OES	38,000	48,000	70,000	76,000
FA	FSA	12,521,000	12,702,000	13,458,000	16,586,000
IT	OCIO	567,000	1,935,000	2,186,000	2,257,000
NA	NAD	96,000	356,000	113,000	122,000
OA	OAS	43,000	126,000	106,000	114,000
PP	OPPM	36,000	657,000	62,000	60,000
SC	NSIIC	0	7,000	9,000	10,000
	Other*	929,000	0	0	0
Total USDA Basic Services		127,952,000	138,791,000	149,557,000	161,373,000
Non-USDA		51,189,000	61,228,000	59,422,000	58,863,000
TSP		29,780,000	35,659,000	42,447,000	46,277,000
Total		208,921,000	235,678,000	251,426,000	266,513,000

Includes Agency Training, Treasury Postage (salary check costs), and other undefined items

WCF OPERATING COSTS

Mr. Skeen: In addition, update the table on page 709 of last year's hearings that compares the operating plan and actual expenditures for fiscal years 1992 through 1998.

[The information follows:]

WORKING CAPITAL FUND OPERATING COSTS, COMPARISON OF OPERATING PLAN AND
ACTUAL EXPENDITURES FY 1992-FY 1998
(Dollars in millions)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998*</u>
Plan	\$156.7	\$173.9	\$187.1	\$194.2	\$203.3	\$211.1	\$230.7
Actual	153.1	171.1	178.0	184.1	197.4	208.9	235.7

WCF PURCHASE OF COMPUTER EQUIPMENT AND SERVICES

Mr. Skeen: How much did the fund contribute toward the purchase of computer equipment and services in the Department for fiscal year 1998 and how much is estimated for these purchases in fiscal years 1999 and 2000?

[The information follows:]

WORKING CAPITAL FUND - COMPUTER EQUIPMENT AND SERVICES PURCHASES
FY 1998 - FY 2000
(Dollars in millions)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Capital Acquisitions (capital)	\$14.7	\$22.3	\$20.1
Hardware/Software Leases (operating costs)	5.6	8.2	8.1
Non-Capital Equipment (operating cost)	<u>4.8</u>	<u>2.7</u>	<u>2.0</u>
Total	<u>25.1</u>	<u>33.2</u>	<u>30.2</u>

BENEFITS FOR PROVIDING PAYROLL SERVICES TO NON-FEDERAL
FSA COUNTY OFFICE EMPLOYEES

Mr. Skeen: Provide the Committee with an update on the status of the decision for NFC to provide payroll services to the non-Federal FSA county office employees.

Response: The FSA county office employees implementation into the USDA Payroll/Personnel System operated at NFC is on schedule. The pilot implementation of three States--Alabama, Georgia, and Tennessee--is scheduled for June 6, 1999, with the training and parallel testing to begin April 12, 1999. The remainder of the States will be implemented October 10, 1999, with the training and parallel testing to begin July 12, 1999.

USDA TRAVEL COSTS

Mr. Skeen: Please provide the Committee with a table displaying department-wide travel costs for the past five years to include fiscal year 1998.

[The information follows:]

USDA TRAVEL COSTS
(Dollars in Millions)

FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
\$258	\$232	\$240	\$244	\$306

FOUNDATION FINANCIAL INFORMATION SYSTEM--FFIS

Mr. Skeen: How many agencies are now in production operation in Foundation Financial Information System (FFIS).

Response: The Office of the Chief Financial Officer's appropriated funds and the Risk Management Agency--RMA--are fully implemented on FFIS. Two regions and one research station of the Forest Service are also implemented.

Mr. Skeen: How do you plan to address the weaknesses in the system that you have identified?

Response: Issues with the implementation of FFIS are not system weaknesses but rather issues associated with the previous implementation strategy employed for FFIS. An independent validation and verification contract commissioned by the USDA Chief Financial Officer--CFO--and USDA Chief Information Officer examined these issues. The contractor's report and other analyses identified issues with the project management structure; implementation planning and timeframes; testing; systems capacity requirements analysis; reports requirements analysis; and business process reengineering, particularly for the Forest Service implementation.

In response to this report, the CFO hired a project management team who previously had implemented the software package identical to the one being implemented by USDA. The CFO has implemented three management features to ensure adequate progress and oversight over the project. First, the management group assembled by the CFO has been granted line authority for all aspects of the project. Second, the project director reports directly to the CFO. Third, progress on the project is monitored regularly by the Secretary's FFIS Executive Oversight Committee.

The project team has developed a five-year plan and costs designed to ensure implementation of all USDA agencies by October 1, 2002. Computer capacity issues are being addressed and a Systems Life Cycle (SLC) approach is being used for all development and testing. A separate contractor is developing a data warehouse strategy that will ensure USDA's compliance with OMB Circular A-127 integrated financial system requirements while meeting the FFIS reporting requirements as well as external reporting requirements.

The Forest Service has hired a CFO experienced with the FFIS software package who is working to further reengineer Forest Service financial management business processes. She has hired a Forest Service FFIS project team intended to complement the USDA team and to attend to issues, policies and processes specific to the Forest Service implementation and change to financial management practices. This team works closely with the USDA project team on an ongoing basis.

AMOUNT SPENT ON FISVIS

Mr. Skeen: What has been spent in total on FISVIS to date and what is expected to be spent in fiscal years 1999 and 2000?

Response: Through Fiscal Year 1998, \$57.4 million had been spent for development and implementation activities. This does not include costs incurred by the Forest Service that were not part of either the NFC or--now defunct--FISVIS Project Office project tasks or budget, nor does it include any other agency internal costs. This amount includes both USDA personnel, as well as contractor costs. The FY 1999 estimate included in the President's budget is \$26.9 million; the estimated budget for FY 2000 is \$32.9 million. As we proceed with execution this year, we are finding that the FY 1999 estimate can be reduced somewhat, to \$23.8 million. Further, we have adjusted the FY 2000 estimate downward, to \$32.5 million. These new FY 1999 and FY 2000 costs are reflected in the project plan developed by the new project management team.

CONSOLIDATION OF FINANCIAL INFORMATION SYSTEMS IN USDA

Mr. Skeen: Please provide a status report on the progress made to date on consolidating the 67 financial management systems in USDA.

Response: We reported last year in response to this question that there were 70, versus 67, systems. Since then, one system was eliminated. USDA now has a total of 69 operational systems for which plans are in place to reduce the total to 60. The planned reduction of 9 systems is attributable to three by the Rural Development mission area's Community Utilities and Business Programs Management Information and Accounting System; one by the Food and Nutrition Service's Agency Financial Management System, and five by the Farm Service Agency/Commodity Credit Corporation's Cotton On-Line Processing System, CORE Accounting System, and Management of Agricultural Credit (MAC) System.

REPLACEMENT OF SYSTEMS IN THE FOUNDATION FINANCIAL INFORMATION SYSTEM

Mr. Skeen: How many systems has the Foundation Financial Information System replaced to date?

Response: Implementation of FFIS in USDA is just beginning. Therefore, FFIS has not replaced any major systems to date. FFIS, when fully implemented, will replace the National Finance Center's Central Accounting System--NFC-CAS. USDA has asked Logistics Management Institute--LMI--to examine all the legacy feeder systems for payment processing with a goal of using the FFIS baseline package to the maximum extent possible and integrating feeder functionality. This study is due in April 1999. A previous study that LMI completed recommended that the functionality for the Billing and Collection System--BLCO--be integrated with FFIS. USDA decided to do this. Once all the agencies that use BLCO are implemented, the BLCO system will be retired.

COST OF CONTRACT AT NFC WITH AMERICAN MANAGEMENT SYSTEMS

Mr. Skeen: What has been the total cost of the contract at NFC with American Management Systems to date?

Response: Actual contract costs incurred by NFC through fiscal year 1997 was \$22,068,000. Costs for fiscal year 1998, were \$2,575,459. Most of this was with AMS, but a small amount went to other support contractors.

The contract budget for FFIS for fiscal year 1999 is approximately \$11.2 million. To date, approximately \$8.1 million has been or is about to be obligated. Of that, approximately \$6.1 is for services provided by AMS. The

other \$2 million is for contracts with: Logistics Management Institute for analysis of legacy systems, reports strategy and conversion strategy; IBM for the technical analysis of the current reporting warehouse and for the analysis and requirements definition of a data warehouse strategy that will ensure USDA's compliance with the OMB Circular A-127 integrated financial system requirements while meeting FFIS reporting requirements as well as external reporting requirements; and Planning Technologies, Inc. for telecommunications infrastructure analysis and development to ensure agencies and NFC have the necessary telecommunications capability required for FFIS.

COST OF AMS CONTRACT

Mr. Skeen: What was the total projected cost of the AMS contract when the contract was signed and what is the current projected cost?

Response: The total projected contractor costs to be incurred when the contract was signed was \$35,786,000 through fiscal year 2002. Most of this was with AMS, but a small amount went to other support contractors. Since revamping project management and bringing on the new FFIS Project Team in July 1998, we have adjusted our estimates of contract costs for the 5-year plan covering fiscal years 1999 - 2003. In addition to AMS, we will be using other contractors for major portions of the project including the reports data warehouse and some business process reengineering with the agencies. Our most up-to-date estimate of fiscal years 1999-2003 contract costs is approximately \$57.3 million. This includes contracting costs not only for AMS but other contractors as well.

Mr. Skeen: Are additional costs for the AMS contract anticipated in fiscal year 2000? How much?

Response: The contract budget for FFIS for fiscal year 2000 is approximately \$16.5 million. These costs will not be for AMS only. We expect to continue to have contracts for individual validation and verification of the ongoing FFIS efforts to ensure that project decisions are subject to outside review. In addition, we expect to have a contractor other than AMS analyze, design, and develop the data warehouse integrated database and reporting strategy. Also, we will continue to need other contractor support for telecommunications.

COST TO IMPLEMENT THE CFO ACT OF 1990

Mr. Skeen: What has been the cost so far to implement the CFO Act of 1990? If an actual cost is not available, please provide an estimate of what the cost has been to implement the Act of 1990.

Response: The cost so far to implement the CFO Act of 1990 is not available. The Department does track dollars and staff years utilized for general financial management. To isolate CFO Act implementation from these costs would require us to estimate the cost of individuals, many of whom were employed over the years to work on more than just the implementation of the CFO Act.

REQUIREMENTS OF THE CFO ACT

Mr. Skeen: Please update for the Committee the progress made in implementing the requirements of the CFO Act in the same format that was provided in last year's record on pages 716 through 719.

Response: I will provide for the record where we stand with the requirements for implementing the CFO Act.

[The information follows:]

RESPONSIBILITIES UNDER THE CFO ACT OF 1990In Place:

Report directly to the Secretary regarding financial management matters.

Make recommendations to the Secretary regarding selection of the Deputy Chief Financial Officer of the Department.

Prepare and transmit an annual report on financial management to the Secretary and the Director of OMB.

Prepare and submit to the Secretary and the Director of OMB a financial management status report and 5-year plan for the Department.

Prepare USDA consolidated financial statements and work with the Inspector General and other auditors to improve the independent review and auditability of financial statements.

Provide financial management advice to the Secretary and Subcabinet officials.

Develop financial information standards and definitions for the Department and its component agencies, maintain and refine the standards, and assist with their implementation.

In Progress:

Oversee all financial management activities related to the programs of USDA and its component agencies.

Ensure that the data included in financial reports is auditable. This includes performance measures as reported in financial statements.

Establish financial management policies for the Department and its agencies.

Develop and maintain an integrated Departmentwide accounting and financial management system. The system is to provide information that is prepared on a uniform basis and that is responsive to the financial information needs of the Department and agency managers for:

- Financial reporting and internal controls.
- Integration of accounting and budgeting information.
- Systematic measurement of performance.
- The development and reporting of cost information.

Ensure Departmentwide compliance with applicable accounting, financial, and systems standards (including the U.S. Government Standard General Ledger and core financial systems requirements).

Establish, review, and enforce throughout the Department internal control policies, standards, and compliance guidelines involving financial management--including the authority to require and ensure timely corrective actions regarding material weaknesses disclosed through audit findings and reports under the Federal Managers' Financial Integrity Act--FMFIA.

Establish, in coordination with program managers, Department wide and agency internal control processes; advise the Secretary on the accuracy and completeness

of the Department's annual FMFIA report; and participate with agencies in monitoring and requiring corrective actions on reported material weaknesses.

Ensure adequate controls over cash and credit management, debt collection, inventories, and property, plant, and equipment.

Direct, manage, and provide policy guidance and oversight of the implementation of asset management systems (including cash and credit management, debt collection, and property and inventory management and control).

Develop, in coordination with program managers, financial and programmatic performance indicators for inclusion in agency financial reports and statements.

Ensure that program information systems provide financial and programmatic data--including program performance measures--to the Department's financial management system on a consistent, reliable, and timely basis.

Review and approve financial reports and statements prepared by agencies for transmittal to the Secretary as well as to the Congress, OMB, President, and other external parties.

Monitor the development of accounting standards by the Federal Accounting Standards Advisory Board and other central guidance agencies and implement those standards throughout the Department.

Approve the job descriptions, skill requirements, and selection of the heads of agency financial management activities.

Advise and provide direction to program managers on financial management matters.

Provide guidance and oversight of the approval and management of departmental and agency financial management systems design or enhancement projects.

Mandate data and report format requirements (consistent with OMB guidance) for program and financial managers throughout the Department.

Review, on a biennial basis, the fees, royalties, rents, and other charges imposed by agencies for the things of value they provide, and make recommendations on revising those charges to reflect the costs incurred in providing them.

Just Initiated:

Provide Departmentwide policy advice on the qualifications, recruitment, training, performance, and retention of all financial management personnel in the Department to ensure a cadre of qualified financial management professionals.

Manage directly, monitor, evaluate, and approve the design, budgeting, development, implementation, operation, and enhancement of Departmentwide and agency accounting, financial, and asset management systems.

Direct, manage, and provide policy guidance for, and oversight of, departmental and agency financial management activities, personnel, and operations.

Approve the design of information systems that provide financial and/or program performance data used in financial statements, to ensure that the CFO's needs are met. Evaluate, where appropriate, the installation and operation of systems that provide financial and programmatic data--including program performance measures--to agency financial management systems.

Not Yet Initiated:

Develop a departmental financial management budget; approve planning, budget formulation, and legislation affecting financial management--FTE, salaries and expenses, systems, other equipment--at both the departmental and agency levels.

Monitor the financial execution of the budget of the Department and its agencies in relation to actual expenditures, and prepare and submit timely performance reports to the Secretary.

Review all major legislative and other programmatic proposals--including major procurements and changes in credit programs--in order to provide advice to the Secretary and agency heads on Federal cost and program benefit estimates.

Ensure accurate and timely information on contract disbursements in relation to projected costs and actual commitments and test results--if any, including cost estimates for major procurements.

Participate with agency heads in the annual performance evaluations of the heads of component agency financial management activities.

STAFF YEAR LEVELS AT THE NATIONAL FINANCE CENTER

Mr. Skeen: Provide a table showing the staff year levels at the National Finance Center for fiscal years 1991 through 1998 and estimates for fiscal years 1999 and 2000.

[The information follows:]

WORKING CAPITAL FUND/NATIONAL FINANCE CENTER
STAFF YEAR UTILIZATION--FY 1991-FY 2000

	USDA Activity	Non-USDA Activity	TSP	Total
1991	883	277	198	1,358
1992	800	368	281	1,449
1993	750	471	314	1,535
1994	786	448	379	1,613
1995	769	407	408	1,584
1996	662	499	430	1,591
1997	715	457	445	1,617
1998	750	463	421	1,634
1999 Estimate	710	404	545	1,659
2000 Estimate	668	417	585	1,670

CROSS SERVICING

Mr. Skeen: Please provide a list of all cross-servicing the Center performs and were any added in fiscal year 1998 or to date in fiscal year 1999?

[The information follows:]

National Finance Center Cross-Servicing Activity
Abbreviations are arranged alphabetically first by Department and within
Department by agency

Abbreviation	Organization
Dept Agency	
AG -----	Department of Agriculture
AARC	Alternative Agriculture Research and Commercialization Center
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BCA	Board of Contract Appeals
CSREES	Cooperative State Research, Education, and Extension Service
DM	Departmental Administration Management Services Staff
ERS	Economic Research Service
FAS	Foreign Agricultural Service
FNS	Food and Nutrition Service
FSA	Farm Service Agency
FS	Forest Service
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers and Stockyards Administration
IT	Office of the Chief Information Officer
NAD	National Appeals Division
NASS	National Agricultural Statistics Service
NRCS	Natural Resources Conservation Service
OALJ	Office of Administrative Law Judges
OAS	Office of Administrative Support
OBPA	Office of Budget and Program Analysis
OC	Office of Communications
OCE	Office of Chief Economist
OCFO	Office of the Chief Financial Officer
OCR	Office of Civil Rights
OES	Office of the Executive Secretariat
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OO	Office of Operations
OSDBU	Office of Small and Disadvantaged Business Utilization
PA	Policy Analysis and Coordination Center
RBCS	Rural Business - Cooperative Service
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SEC	Office of the Secretary
SC	National Sheep Industry Improvement Center

Abbreviation		Organization
Dept	Agency	
AH	NEA	National Endowment for the Arts
AP	ARC	Appalachian Regional Commission
BD	MSPB	Merit Systems Protection Board
BT	ATBCB	U.S. Architectural and Transportation Barriers Compliance Board
CC	CCR	Commission on Civil Rights
CT	CFTC	Commodity Futures Trading Commission
CM	-----	Department of Commerce
	CBC	Bureau of the Census
	CBEA	Bureau of Economic Analysis
	CESA	Economics and Statistics Administration
	CBXA	Bureau of Export Administration
	CEDA	Economic Development Administration
	CITA	International Trade Administration
	CMBDA	Minority Business Development Agency
	CNIST	National Institute of Standards and Technology
	CNOAA	National Oceanic and Atmospheric Administration
	CNTIA	National Telecommunications and Information Administration
	CNTIS	National Technical Information Service
	COIG	Office of the Inspector General
	COS	Office of the Secretary
	CPTO	Patent and Trademark Office
	CTA	Technology Administration
DJ	-----	Department of Justice
	CRS	Community Relations Service
	DEA	Drug Enforcement Administration
	EOIR	Executive Office for Immigration Review
	FPS	Federal Prison System
	HC	Headquarters Components
	INS	Immigration and Naturalization Service
	JOIG	Justice Office of the Inspector General
	OJP	Office of Justice Programs
	USA	Offices of the U.S. Attorneys
	USMS	U.S. Marshals Service
	UT	U.S. Trustee Program
ED	ED	Department of Education
EM	FEMA	Federal Emergency Management Agency
FC	FCC	Federal Communications Commission
FD	FDIC	Federal Deposit Insurance Corporation
FK	FCSIC	Farm Credit System Insurance Corporation
FL	FCA	Farm Credit Administration
FM	FM	Federal Mediation and Conciliation Service
FW	OSC	U.S. Office of Special Counsel
FY	FHFB	Federal Housing Finance Board
GA	NGA	National Gallery of Art
	NGAFF	National Gallery of Art (Publication Fund)
	NGATF	National Gallery of Art (Trust Fund)
GG	OGE	Office of Government Ethics
GW	GW	International Boundary Water Commission
HU	HUD	Department of Housing and Urban Development
HX	OFHEO	Office of Federal Housing Enterprise Oversight
JV	CoVA	U.S. Court of Veterans Appeals
KS	CNCS	Corporation for National and Community Service
LA	AOC	Architect of the Capitol
	SR	Senate Restaurants
LB	BG	U.S. Botanic Garden
LC	LOC	Library of Congress

Abbreviation		Organization
Dept Agency		
LD	CBO	Congressional Budget Office
LF	FEC	Federal Election Commission
LG	GAO	General Accounting Office
LH	OTA	Office of Technology Assessment
LL	USCP	U. S. Capitol Police
	USC	Commission on Security and Cooperation in Europe
LQ	JSC	John C. Stennis Center
NL	NLRB	National Labor Relations Board
NP	NCPC	National Planning Commission
OS	OSHR	Occupational Safety and Health Review Commission
PS	PSC	Treasury Personal Services Contractors
	TTA	Treasury Technical Assistance
RS	FMSHRC	Federal Mine Safety and Health Review Commission
SB	SBA	Small Business Administration
SM	-----	Smithsonian Institution
	RIF	Reading Is Fundamental
	SIF	Smithsonian Federal Employees
	SIT	Smithsonian Trust Employees
	WWICSF	Woodrow Wilson International Center for Scholars, Federal Employees
	WWICST	Woodrow Wilson International Center for Scholars, Trust Employees
TIB	-----	Thrift Investment Board
TR	-----	Department of the Treasury
	ATF	Bureau of Alcohol, Tobacco and Firearms
	BEP	Bureau of Engraving and Printing
	BPD	Bureau of the Public Debt
	CS	U.S. Customs Service
	DO	Departmental Offices
	FLETC	Federal Law Enforcement Training Center
	FMS	Financial Management Service
	IRS	Internal Revenue Service
	USM	U.S. Mint
	OCC	Office of Comptroller of the Currency
	TOIG	Treasury Office of the Inspector General
	USSS	U.S. Secret Service
ZG	OC	Office of Congressional Compliance

New Agencies in FY 1999

TR	TG	Treasury Inspector General for Tax Administration
PU	PC	Peace Corps
AH	IM	Institute of Museum and Library Services

DIRECT DEPOSIT/ELECTRONIC FUNDS TRANSFER

Mr. Please update the statistics on participation in the use of Direct Deposit/Electronic Funds Transfer provided on page 725 of last year's hearing record.

[The information follows:]

PERCENT OF EMPLOYEES USING ELECTRONIC FUNDS TRANSFER

	Pay Period		
	February 1997	February 1998	February 1999
USDA agencies.....	87.6	90.4	95.2
Non-USDA agencies..	95.9	97.1	98.5
Department of the Treasury.....	88.2	90.1	91.6
Average.....	91.2	93.1	95.4

As of pay period 2, 1999, checks still being mailed were as follows: USDA agencies:4,559, Department of the Treasury bureaus:12,466, and other non-USDA agencies:2,829.

CCC REPORTING PROCESS

Mr. Skeen: Last year you reported that the CCC was working to improve its reporting process. What is the status of this work and how is the CCC attempting to make improvements to its reporting process?

Response: In fiscal year 1998, the format of CCC's expenditure report was revised based on feedback received from congressional committee members and staffers. The revised format provides for summarized management information on CCC's outlays and receipts plus details of the relationship between the total amount of funds apportioned for automated data processing and reimbursable services activities and the related obligations and disbursements. This information is pulled directly from CCC's accounting records and ties to its general ledger and other reports prepared for external use.

Standardized operating procedures, reconciliations, and quality control checks are in place for the production and issuance of the report. Current operational processes and procedures are expected to be followed until fiscal year 2000, at which time CCC's new CORE Accounting System is scheduled for implementation. Processes and procedures for 2000 are already being developed to produce the CCC expenditure report from the new CORE Accounting System, which will allow for less manual intervention, more timely data, and more detailed information for supplemental reporting.

GAO AND OIG AUDITS

Mr. Skeen: Briefly describe the findings and recommendations and actions taken on each GAO and OIG audit listed in the explanatory notes.

[The information follows:]

#11-401-0003-FM, FY 1997 National Finance Center Review of Internal Control Structure

The objective of the audit was to obtain reasonable assurance about whether: the internal control structure at the National Finance Center presents fairly, in all material respects, the aspects of the National Finance Center's policies and procedures that may be relevant to a user organization's internal control structure; the control structure policies and procedures included were suitably designed to achieve control objectives, if those policies and procedures were complied with, placed in operation and were operating effectively.

The Office of Inspector General's report resulted in an adverse opinion because of numerous long standing material internal control weaknesses and a lack of corrective actions.

The National Finance Center (NFC) formed a team headed by a senior manager reporting directly to the NFC Director. The team representing all NFC organizations developed a corrective action plan with estimated completion dates addressing not only the seven report recommendations, but also, a list of issues the Inspector General cited in previous audit reports. Actions taken by NFC included:

- Developed a uniform risk assessment methodology for NFC managers.
- Completed certifications and recertifications of NFC systems as required by OMB Circular A-130.
- Reviewed and limited access to the computer room and tape library to only those who need access to perform their jobs.
- Improved cash reconciliation process.
- Improved controls over the general ledger adjustment process.

As a result of our corrective actions, based on the OIG's review of the fiscal year 1998 Internal Control Structure, they found that actions taken were sufficient to either correct or substantially reduce the risk associated with many of the weaknesses.

#50-099-0011-FM, Verification of Data Input into NFC Payroll/Personnel System

The purpose of the audit was to (1) evaluate the adequacy of the system of internal controls in the payroll/personnel and time and attendance systems, (2) determine if changes made by the personnel offices to the systems were supported, accurate, reviewed and approved, and (3) verify the appropriateness of access granted to the systems.

The Office of Inspector General identified internal control weaknesses and recommended implementation of additional procedures, processes, and controls to more fully protect the payroll/personnel systems from errors, irregularities, or abuse.

The National Finance Center--NFC--has since implemented a number of procedures, processes and controls, such as:

- As an interim measure, NFC established a manual process to compare names of employees with TOP SECRET access to employees who were terminated or deceased on the Payroll/Personnel System database. NFC plans to automate this process.
- NFC provided USDA management with reports identifying employees updating or changing their own payroll or personnel records.
- NFC established a manual process to ensure employees receiving a Quick Service Request for payroll payments are properly recorded and to prevent duplicate processing.

#50-401-0024-FM, FY 1997 USDA Financial Statements

This report presented the results of the Office of Inspector General's audit of the USDA's financial statements for the fiscal year ended September 30, 1997. The report contained a disclaimer of opinion on the financial statements. The report identifies a number of serious financial management system problems, such as, (1) the Department has reported to the President that it is unable to provide reasonable assurance that the Department's financial systems provide information that is relevant, timely, and consistently reported, (2) cost data necessary to

effectively manage programs may not be reliable, (3) agency officials cannot be sure that the Central Accounting System records accurately show the fund balance with the Treasury.

The USDA OCFO generally agreed with the findings and recommendations, however, we have not been able to reach management decision on the recommendations in the report.

50-401-0023-FM 9/08/97, FY 1997 Working Capital Fund Financial Statements

This audit was never completed and no recommendations or actions were taken. Due to time constraints the decision was made to defer action on the fiscal year 1997 WCF Financial Statements audit, in order to do a review of the fiscal year 1998 Operating Costs for the USDA National Finance Center. An audit of the fiscal year 1999 WCF Financial Statements is now being planned.

FOUNDATION FINANCIAL INFORMATION SYSTEM

Mr. Skeen: According to your written testimony, full implementation of FFIS is scheduled for October 1, 2002. What was the original target date for full implementation and how many years has the project been in existence?

Response: The project began incurring costs for development in September 1993. The initial plan for investments called for completion in time for fiscal year 1997.

Mr. Skeen: What has been the reaction of the Forest Service regarding the new management structure of FFIS, and are you aware of any plans the Forest Service may have to seek an independent contractor for a general ledger system?

Response: The new CFO of the Forest Service has expressed her strong support for the new management structure of the USDA FFIS project office and has modeled her FFIS project office on a similar organizational structure. The Forest Service CFO works closely with the USDA project office and the USDA project staff. The Forest Service FFIS project staff has jointly planned the project and is working together to implement FFIS. The Forest Service FFIS implementation is very much a team effort and the agency is committed to implementing FFIS at the National Finance Center.

THRIFT SAVINGS PLAN

Mr. Skeen: You stated that the costs of delivering services to TSP shareholders will increase, but the Thrift Investment Board will absorb these costs through investment earnings. How much will the costs increase and will USDA have to finance the increased costs up-front and then be reimbursed by the Thrift Board?

Response: The Thrift Savings Plan System--TSPS--and services provided by NFC to the Thrift Investment Board--TIB--continue to grow in number of accounts and types of services. Further, we are working closely with the Thrift Investment Board to reengineer existing Thrift Savings--TSP--Plan applications operated at NFC. What this means is that as requirements are defined and resource needs to address them are identified, cost estimates for TSP support are likely to be revised in the fiscal year 2000 estimates that will be reviewed this spring. This is the procedure we use in reviewing and refining estimates for all WCF activities. As we take a second pass at our estimates and get better information on demands and resource needs, we work with our customers and our Executive Committee to revise estimates accordingly, thereby ensuring that costs are commensurate with service requirements. Given current thinking, our best estimate is that NFC's cost for TSP services will increase by approximately 14 percent in fiscal year 2000. The TIB pays its full actual costs for all services provided. NFC services are 100 percent reimbursable and billed on a

monthly basis. Capital expenditures are generally amortized over a 5-year period and billed as depreciation expense to those benefitting from the asset.

COST FOR FFIS IMPLEMENTATION

Mr. Skeen: Provide for the record an agency by agency breakout of the fiscal years 1999 through 2001 costs for FFIS implementation.

Response: WCF FFIS total costs are allocated to agencies Fund on an annual basis. The costs for FFIS implementation for fiscal year 1999 have been allocated to the USDA agencies as indicated on the chart that follows, reflecting our adjusted fiscal year 1999 and fiscal year 2000 estimates. The fiscal year 2000 distribution could be revised based on a reexamination of the FFIS budget during the annual review of WCF budgets within the Department and in cooperation with the WCF Executive Committee. Allocations for the agencies will be determined during each fiscal year and are not yet available for fiscal year 2001.

[The information follows:]

FFIS Cost Distribution - FY 1999/2000 Estimates

<u>Agency</u>	<u>FY 1999</u>	<u>FY 2000</u>
OSEC	\$ 91,613	\$ 110,484
AMS	1,471,423	1,774,504
ARS	1,331,544	1,605,813
RHS	1,037,109	1,250,731
RMA	109,916	132,556
FAS	190,395	229,612
FS	13,228,446	15,953,223
OC	55,925	67,444
OGC	77,411	93,356
RUS	79,993	96,470
NRCS	3,630,060	4,377,775
ERS	128,398	154,845
NASS	223,430	269,452
CSREES	101,884	122,870
OIG	165,391	199,458
FNS	354,223	427,186
RBCS	39,214	47,291
APHIS	1,299,745	1,567,465
GIPSA	225,626	272,101
FSIS	1,457,940	1,758,245
OCE	25,732	31,032
OBPA	19,567	23,597
OCFO	13,653	16,468
OALJ	10,471	12,627
OO	174,888	210,910
AARC	11,967	14,433
BCA	3,470	4,185
OSDBU	3,718	4,483
OES	10,440	12,590
FSA	914,416	1,102,767
OCIO	95,826	115,565
NAD	41,434	49,967
DAM	56,405	68,023
PACC	83,683	100,920
NSIIC	3,818	4,604
Subtotal	26,769,174	32,283,052
Non-USDA	209,826	253,048
Grand Total	26,979,000	32,536,100

PAYROLL/PERSONNEL SYSTEM AT NFC

Mr. Skeen: What changes will be made to upgrade the payroll/personnel system at NFC?

Response: The overall upgrade of the system will allow for deployment of those portions of the system that the customers use in Windows- and WEB-based technologies, as well as upgrading the main processing functions with more modern relational data base technologies. The upgrade will include taking five existing front-end systems used by the customers and combining them into one system. This process will benefit the customers in ease of usage, enhancing input capabilities, and ease of learning for personnel clerks. In addition, the upgrade will automate processes in the personnel office, such as processing personnel requests, that were previously handled by manual paper processes. The upgrade will also include modernizing the agency reporting processes to make it easier for users to access their data and provide quicker access through modern reporting tools. Finally, the upgrade will improve maintenance capabilities in the future, through use of CASE technology and relational data bases.

PERSONNEL STAFFING, PAY, AND NON-PAY

Mr. Skeen: The budget requests an additional \$2.5 million for pay-related costs. The justification states "this increase is needed to retain the expected personnel resource level needed to maintain the expected level of program operations." What is the projected level of FTE that will be used for fiscal year 2000?

Response: We expect to employ 2,089 FTEs fund-wide in fiscal year 2000.

Mr. Skeen: What was the projected level for fiscal years 1999 and 1998? What was the actual for those same years?

Response: Last year, we projected fiscal year 1998 FTE usage at 2,099 FTEs. This included a reserve of 100 FTEs held for services provided by the National Finance Center for non-USDA customers. Actual FTEs for fiscal year 1998 were 2,039. Similarly, last year we provided a fiscal year 1999 FTEs estimate of 1,965. This did not include the non-USDA reserve. The current estimate of FTEs for fiscal year 1999 in the fiscal year 2000 budget is 2,078.

Mr. Skeen: What was the rate of attrition for the Working Capital Fund--WCF--, for fiscal year 1999 and what is the projected rate for fiscal year 2000?

Response: The WCF supports 20 activities. However, almost 90 percent of all FTEs are employed by the National Finance Center and National Information Technology Center--mainframe and applications services. At NFC, 33 employees have separated so far this year. Averaging the separation rate of the past 5 years, we project that 110 employees will separate from service at NFC in fiscal year 2000. At the National Information Technology Center, there have been two separations to date in fiscal year 1999. The projected rate for fiscal year 2000, based on an average of the past 5 years, is 5.

Mr. Skeen: On average, how much time lapses between when a vacancy occurs and when it is filled?

Response: Following from the previous response, focusing on the National Finance Center and National Information Technology Center, we found that at NFC, an analysis of 25 recently filled positions indicates that the average is about 3 months. At NITC, the average time lapse between when a vacancy occurs and when it is filled is about 5-6 months.

Mr. Skeen: For the existing FTE structure, what is the average grade and step?

Response: Fund-wide, the average GS grade and step is a grade 8, step 7. The WCF also employs approximately 50 SES and wage grade employees not included in this calculation.

Mr. Skeen: When filling vacancies, on average, at what step are new employees hired?

Response: At NFC, where 80 percent of all employees supported by the WCF work, the average of new hires is a step 2. At NITC, where most of the remainder of WCF employees are located, most vacancies are filled at the step 2 or 3 level for new employees.

Mr. Skeen: Given these practices of savings on personnel costs, why can't these increased pay-related costs just be absorbed?

Response: The WCF makes every effort to offset required personnel compensation with avoidances in other areas. Unfortunately, we have the responsibility for modernizing a number of financial and administrative systems, which drive cost increases in the WCF. Absent these requirements, WCF activities would have offset 85 percent of pay inflation, within-grade, promotion, and non-pay inflation cost increases this year, in addition to offsetting all workload cost increases, through improved efficiencies.

Mr. Skeen: The table on page 3-17 summarizes the increases and decreases included in the budget request. Changes from 1999 are divided into either pay costs or program changes. However, the category program changes also includes non-pay-related inflationary costs. Why are these increases included under "program"?

Response: Instructions provided to the WCF to complete the summary of increases and decreases depicted on Page 3-17 did not provide for the separate display of non-pay-related inflation costs. Again, as with all WCF costs, these are only estimates that serve to illustrate what we expect costs will be in fiscal year 2000. The WCF is obligated to recover actual or estimated costs of service. In that context, the WCF does not reprogram costs among expense categories or among pay, non-pay inflation, or program categories. Only the costs of services delivered to customers will be billed.

Mr. Skeen: How much of the \$10.5 million listed as program changes is for non-pay inflation?

Response: The estimated amount of the increase due to non-pay related inflation costs is \$1,850,000.

Mr. Skeen: On page 3-24 the budget states that it is more advantageous for the government to purchase, rather than lease. Is this statement applicable across the board for equipment and other capital investments? Please provide any documentation that is available to back up this assertion.

Response: This year, if one compares the lease cost to the purchase cost for those assets where there is an option, we will save more than \$1.7 million over the useful life of the assets we expect to acquire. One example illustrates the point. We will acquire a mainframe computer to upgrade equipment at the National Finance Center. If we were to lease this equipment, costs over the life of the equipment would be about \$1.3 million. By purchasing the equipment, we will expend about \$1.0 million over the useful life of the equipment, for a cost avoidance of \$300,000, a 22 percent saving.

It does not always make sense to purchase rather than lease. Rapid turnover

in some technologies and favorable lease terms make leases preferable in some instances. However, these occurrences are less frequent. We undertake a lease versus purchase analysis of every capital asset requested by a WCF activity for which both options exist. We work with our activities and with our customers to seek the most advantageous financing, lease or purchase, to benefit our customers without compromising service quality or timeliness.

Mr. Skeen: Please explain why funding is needed up-front for programmatic increases when charges can be recouped during execution of the year. For example, the budget requests an increase of \$2.9 million for program delivery under Information Technology for anticipated increases in telecommunications service costs as a result of centralization. However, there are a number of contingencies listed for this request. Why doesn't the WCF not seek additional appropriations and change the charges levied to participating users?

Response: The WCF does not receive any up-front funding for services delivered to its customers. What is reflected in the budget is our estimate of what it will cost to deliver services, not a request for transfers or advances from agencies to fund these activities. WCF activities bill their customers in accordance with methodologies published for each activity and included among initial cost estimates provided to agencies at the beginning of the fiscal year. Generally, WCF activities bill their customers periodically, monthly or quarterly for example, on the basis of the level of service delivered.

In the case of the telecommunications estimate we, in cooperation with agencies represented on our Executive Committee, reviewed submitted estimates in considerable detail. However, the initiatives being proposed by the Chief Information Officer in this area are in a very early stage of development. So, rather than include the submitted estimate as part of the fiscal year 2000 budget, we included what might be viewed as a placeholder. We thought this prudent since we and the Executive Committee will have an opportunity to review the telecommunications initiatives in greater detail this coming spring. If the justifications are inadequate in the view of the Executive Committee and Chief Financial Officer, funding for these initiatives through the WCF would not be included in the fiscal year 2000 estimates we send to the Secretary with the fiscal year 2001 budget this summer. This approach is consistent with that employed with all WCF activities and is implemented in concert with our Executive Committee during our annual budget review.

Finally, the WCF does not receive appropriations for continuing operations. Language in 7 U.S.C. 2235 requires the fund to be credited with advances or reimbursements from customers on the basis of rates that include estimated or actual charges for personal services, materials, equipment, including maintenance, repairs, and depreciation, and other expenses. The budget we present is an estimate of what we think costs will be. To the extent that actual costs are higher or lower, such costs would be billed consistent with our legal obligations.

Mr. Skeen: Please provide more detail to justify the \$9.9 million increase requested for program delivery under Finance and Management operations. Are the requested increases for TSP a government-wide situation?

Response: Of the total \$9.9 million increase in program delivery for Finance and Management, \$7.0 million is for costs to service USDA agencies. Almost all of this amount--\$6.0 million--is the result of costs--primarily contract support--associated with the Foundation Financial Information System. Of the total \$3.8 million increase for TSP support costs, \$3.2 million is associated with program delivery. As to whether the increases for TSP are a government-wide situation, it is important to remember that the services provided to the Thrift Investment Board in support of the Thrift Savings Plan are unique to the NFC. The NFC serves as recordkeeper for the Thrift Savings Plan and as the loan operations office. About 2.3 million accounts are maintained. Cost increases are the

result of an increasing array of services the Plan gives shareholders.

Mr. Skeen: Please explain why non-USDA activities are anticipated to increase their usage of the WCF in 2000. What does this increase reflect besides inflation?

Response: The increases in non-USDA activity are entirely the result of a \$3.8 million increase in estimated costs to service the Thrift Savings Plan. When TSP support is accounted for, costs to service non-USDA agencies will be slightly lower in fiscal year 2000 than in fiscal year 1999.

Mr. Skeen: Page 3-15 lists the budget by object class. From this perspective, please explain, in detail, the rationale for the following increases: average pay and benefits, 6 percent; transportation of things, 11 percent; and other services, 12 percent.

Response: Of the total personnel compensation increase, about 83 percent results from increases in salary costs, of which \$2,482,000 represents pay cost adjustments and the remainder the result of staffing changes and grade adjustments. An additional 15 percent of the increase is due to increased benefits payments for on-board personnel. The rest of the total personnel compensation increase is for overtime, awards, and benefits paid to former personnel. These last three items comprise about 1.4 percent of the total increase. If actual costs for personnel compensation are different the result of different levels of service demand or mix of services provided only actual personnel compensation costs would be included in charges to customers.

Estimates for transportation of things increase by about \$92,000 and is the result of costs associated with warehousing forms and publications.

Other Services cost increases are entirely the result of increases in contract support for WCF activities, which is in turn primarily the result of contract support for the Foundation Financial Information System under development at NFC.

PAY/PERSONNEL SYSTEM

Mr. Skeen: What is the technology vision and modernization plan for the NFC's legacy Pay/Personnel system for your client agencies for the next two years and the next five years? What is the relationship to your Strategic Plan?

Response: The vision for modernizing the NFC's legacy Payroll/Personnel System is one of complementary modernization of functionality and technology. Functionally, the system is being enhanced to automate functions that historically were not fully automated by the legacy application. This extension of automation also affords the opportunity to streamline human-interface processes which will result in a more robust and efficient system for our client agencies to use. At the same time, the system is being upgraded to offer Windows- and WEB-based access for our customers, depending upon their infrastructure needs or preferences. In years 1999 and 2000, the majority of the client-agency functionality will be deployed. The following two out-years will be devoted to modernizing those portions of the legacy system which the NFC uses to process agency actions, compute pay, and provide external reporting to and on behalf of our client agencies.

The Strategic Plan for the Office of the Chief Financial Officer calls for the NFC to provide systems with the functionality required by its customers at a reasonable cost. In addition, the plan states that NFC will maintain technological competitiveness and currency. The modernization of our legacy Payroll/Personnel System is driven by these two objectives.

Mr. Skeen: Do you have any plans to re-deploy your current legacy system on different technology developed internally?

Response: The legacy Payroll/Personnel System is currently deployed using IBM 3270- and SNA-based technology. The modernized and upgraded system will be deployed using industry standard Windows- and TCP/IP-based technology. The NFC is not building any technology related to system operation or deployment. However, it should be noted that the legacy application is being moved to CASS-based, open systems technology which brings with it the ability to deploy the system using industry standard Windows- and TCP/IP-based technology.

Mr. Skeen: Does the NFC plan to use private sector products and services as the foundation for a modern Pay/Personnel system?

Response: The modernization of its legacy Payroll/Personnel System is being accomplished by a team of private sector and Federal personnel using a commercially available CASE development tool set.

Mr. Skeen: Has the NFC communicated to its customers and solicited feedback to ensure that NFC's vision is in line with their requirements now and in the future? What, if any, has been their reactions?

Response: The NFC has held several formal meetings with its customers and many additional meetings with individual customers in order to obtain an understanding of our customers technical directions and their functional desires. In addition, the NFC has held several design and prototype meetings with customers in order to obtain feedback on the system modernization efforts. The NFC has also recently established designated customer representatives for each of our customers in order to maintain an open channel of dialog between organizations on issues and needs.

From an overall perspective, feedback has been very good. We have received a great deal of encouragement to continue our efforts because they are being seen as very positive steps forward which will allow our client-agencies the ability to perform their human resource recordkeeping and payroll-related actions in a much more efficient and automated manner. In addition, several customers have voiced different specific functionality needs in terms of the payoff to them. Because of the feedback, we will be able to tailor our deployment plans to meet the functionality requirements of our customers.

Mr. Skeen: Can the NFC compete with private sector Pay/Personnel application service providers? If so, on what basis? Contrast NFC strengths with private sector providers?

Response: The NFC currently provides service to approximately 100 Federal organizations through the use of integrated administrative systems. The complexity of Federal pay and recordkeeping is greatly increased due to the diversity in terms of employee-type, pay and benefit, and other negotiated employee-services. The ability to service such a diverse community has not yet been demonstrated by private sector providers and is the basis of analysis now underway in terms of the future direction of NFC's application system. In addition, NFC's application system suite affords many servicing efficiencies due to the integration of various administrative applications including collections, travel, and accounting.

What the private sector has done well is to automate the personnel process beyond the recordkeeping and pay areas including: employee development, training, and performance management. The NFC has developed a process which allows our clients to interface their systems with our Payroll/Personnel System whereby the flow of automated data can continue throughout the life-cycle of an employee's personnel and pay recordkeeping. We work closely with the private sector providers to ensure an effective and efficient interface between our applications. This way, our clients can take advantage of the best of what all application providers can offer. Currently, several of our non-USDA clients use proprietary or COTS systems as feeders into the NFC systems. Private sector

personnel applications make up a large portion of these feeder systems.

Mr. Skeen: Has the NFC identified areas of weakness and what are you doing to correct them?

Response: The National Finance Center has a commitment to continuous improvement of its processes and services. In a team effort of our customers, in-house staff, and external auditors, we monitor the operational efficiency and effectiveness of the Payroll/Personnel System. Included in recent improvements are:

- Making the System Y2K compliant
- Improving internal controls
- Tightening external access to the system
- Providing serviced employees Web access to their earnings, leave, and other personal data
- Continuing a Payroll/Personnel System Upgrade project which will address innumerable enhancements documented by NFC's operational staff and customers
- Reducing average unit costs in FY 1999 by more than \$4 per person

Mr. Skeen: How does NFC compare from a technical skills perspective with other government Data Centers both within USDA and outside to other Agencies?

Response: The NFC has no knowledge of an evaluation of its technical skills in comparison with other Government data centers, within or external to USDA. However, based on its market penetration and customer satisfaction, we believe that our technical skills level is commensurate or better than most other Federal data centers. The NFC has recognized that it is difficult to retain highly current technical skill sets and has made the strategic decision to blend internal and private sector skills, where appropriate, in order to provide the best from a skills perspective at any point in time.

Mr. Skeen: I read in your written testimony that the National Finance Center has been investing over the last 2-3 years to improve the price and quality of services offered through the Center. What kind of resources have they invested, what new products will be available this spring to NFC's customers, and has the NFC improved the price and quality of services offered?

Response: The NFC invests approximately \$9 million per year in product development. This annual investment is projected for the next two out-years as well. The new products being rolled out presently and through the remainder of this fiscal year include:

- EARN--Earnings and Leave Information System
- EPIC--Entry, Correction, and Inquiry System
- PODS--Personnel Office Desktop Solution
- STAR System for Time and Attendance Reporting
- CFST--Consolidated Financial Statement
- FAADS--Federal Awards and Assistance Data System
- EPP--Employee Personal Page, which includes pay slip, benefits and Form W-2 functionality

These systems and others are being delivered to clients while NFC has taken the

steps to reduce the average unit cost of Payroll/Personnel System services by \$4.00 per unit while absorbing more than \$5 million in pay and other inflationary costs. To our customers, the \$4.00 in unit cost savings is only a minor portion of the benefits and cost savings they will experience by using our new systems offerings. What delivery of these systems means to our customers is a complementary modernization of functionality and technology. Functionally, the system is being enhanced to automate functions that historically were not fully automated by the legacy application. This extension of automation also affords the opportunity to streamline human-interface processes which will result in a more robust and efficient system for our client agencies to use. At this same time, the system is being upgraded to offer Windows- and WEB-based access for our customers, depending upon their infrastructure needs or preferences.

OFFICE OF THE CHIEF INFORMATION OFFICER

QUESTIONS SUBMITTED BY MR. SKEEN

CAPITAL PLANNING AND INVESTMENT CONTROL GUIDE

Mr. Skeen: Bring the Committee up to date on the Capital Planning and Investment Control Guide. Has the guide been published? How was the guide used during the fiscal year 2000 budget process?

Response: A Guide to the USDA Capital Planning and Investment Control process was recently approved, and it is being printed for distribution to USDA agencies and staff offices. The Guide is a reference manual that provides information about Capital Planning and Investment Control. It was developed with significant input of USDA agencies, and while, not published officially at that time, was available to all agencies as guidance for the FY 2000 budget cycle. The focus of this first version of the Guide is on the Selection phase of Capital Planning.

As funds permit, we will expand it to include the Control and Evaluate phases of Capital Planning. It will be used during the fiscal year 2001 budget process.

EXECUTIVE INFORMATION TECHNOLOGY INVESTMENT REVIEW BOARD FY 2000 REVIEW

Mr Skeen: Did the Executive Information Technology Investment Review Board -- EITIRB -- complete a full review of all of the Department's information technology projects using the investment review process in the fiscal year 2000 budget process?

Response: The EITIRB considered and approved the USDA information technology portfolio of investments for FY 2000 as part of the investment review process in the FY 2000 budget process. The Board focused on the major information technology initiatives within the Department, the totality of the investment, and the strategic issues that derive from this level of investment.

RETURN-ON-INVESTMENT METHODOLOGY

Mr. Skeen: What methodology has USDA developed to measure return-on-investment for USDA projects?

Response: OMB Circular A-94 recommends use of Benefit/Cost Analysis -- BCA -- to evaluate investments. BCA is a requirement for technical approval of major investments at USDA. Additionally, we are currently reviewing strengths and weaknesses of other financial measures to evaluate investments, including Return on Investment, Internal Rate of Return, Payback Period and Net Present Value.

OCIO will recommend that agencies use a number of these calculations to make a complete assessment of the value of their investments.

STRENGTHENING THE KNOWLEDGE, SKILLS, AND ABILITY OF USDA IT STAFF

Mr. Skeen: What steps did USDA take in fiscal year 1998 to strengthen the knowledge, skills, and capabilities of its staff to effectively manage information resources, deal with emerging technologies, develop needed systems, and manage systems acquisitions? What are your plans in fiscal years 1999 and 2000.

Response: USDA is actively involved in strengthening the knowledge, skills and capabilities of its IT staff. During fiscal year 1998 we added a member to the OCIO staff to work specifically on issues relating to the current national IT workforce crisis, as well as requirements cited in the Clinger-Cohen Act of 1996. Both the USDA and OCIO Strategic Plans include strategies to implement a professional development program to ensure that program and IT staffs possess the skills necessary to effectively manage and deliver IT programs and services.

During fiscal years 1998 and 1999, OCIO has been collaborating closely with USDA's Office of Human Resources Management -- OHRM -- in IT workforce planning and development. Early in fiscal year 1999, USDA's Deputy CIO was named co-chair of the Federal CIO Council's Education and Training Committee, and is now working with federal agencies to ensure adoption and implementation of the core competencies for IT professionals approved by the Council.

During fiscal years 1999 and 2000, the OCIO will continue to address IT staffing issues including training, certification, classification consistency, and private/public sector challenges in the area of IT workforce planning and development.

FY 2000 APPROPRIATED AND CCC INFORMATION TECHNOLOGY FUNDS

Mr. Skeen: How much of the fiscal year 2000 IT budget will come from appropriated funds and how much will come from CCC funds.

Response: The funding sources for USDA's FY 2000 information technology budget consists of \$1.180 billion from USDA agency appropriations, \$2.0 million from the FCIC Revolving Fund, \$1.0 million from the GIPSA Trust Fund, and \$28.0 million from the CCC. A copy of the OMB Exhibit 42 report, which contains a detailed breakout of the funding sources, is attached for the record.

[The information follows:]

DATE PRINTED: Wed Apr 7, 1999 3:14:10 pm

OMB ACCOUNT ID: 005-XX-XXXX -0

AGENCY: Department of Agriculture

BUREAU: Department of Agriculture, activities

ACCOUNT: Department of Agriculture, activities

TREAS ACCT ID: -XXXX -0

EXERCISE: EX2000

VERSION: MASTER

LAST PC ACTIVITY: 01-19

LAST OMB ACTIVITY: 01-19-99

DOWNLOAD DATE: 01-12-99

		(in millions of dollars)	
	PY BA	CY BA/FTE	BY BA/FTE
Resources for Financial Management (8)			
Report on Resources for Financial Management Activities			
Asset Management			
1001	No. of FTE.....	6,563	6,561
1002	Budget Authority.....	409	425
Accounting and Reporting			
2001	No. of FTE.....	2,157	2,159
2002	Budget Authority.....	127	131
Audits of Financial Statements			
3001	No. of FTE.....		
3002	Budget Authority.....	1	1
Financial Management Systems			
4001	No. of FTE.....	739	738
4002	Budget Authority.....	129	125
Subtotal			
5001	No. of FTE.....	9,459	9,458
5002	Budget Authority.....	666	682
Adjustments			
6001	No. of FTE.....		
6002	Budget Authority.....		
Total, net			
7001	No. of FTE.....	9,459	9,458
7002	Budget Authority.....	666	682
Audits of Financial Statements Contract			

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OMB ACCOUNT ID: 005-XK-XXXX -0
ACCOUNT: Department of Agriculture, activitiesEXERCISE: EX2000
VERSION: MASTER

		(in millions of dollars)	
	PY BA	CY BA/FTE	BY BA/FTE
8102	Budget Authority.....	1	1
8201	In-house costs No. of FTE.....	.....	.....
8202	Budget Authority.....	.....	.....
9102	Org-wide Financial Statements Contract Budget Authority.....	.....	.....
9201	In-house costs No. of FTE.....	.....	.....
9202	Budget Authority.....	.....	.....
9401	Total, all reporting entities No. of FTE.....	.....	.....
9402	Budget Authority.....	1	1
9998	Robert M. Darragh III.....		
9999	(202) 720-0998.....		

Part 1. Data on IT Systems By Mission Area (7)

Mission Area 1: Financial Management			
Major IT:			
0110-10	FNS Agency Financial Management System.		
0110-11	Development/modernization/ enhancement.....	.....	.....
0110-12	Steady State.....	4	4
0110-13	Subtotal, IT costs.....	4	4
Appropriation/Funding Sources			
0110-14 01	FNS appropriations.....	4	4

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/FTE	BY BA/FTE
0110-17	Subtotal, funding sources.....	4	4	4
0110-20	FMS Food Stamp Integrated Information System.....			
0110-21	Development/modernization/ enhancement.....	.....	.....	.....
0110-22	Steady State.....	2	2	3
0110-23	Subtotal, IT costs.....	2	2	3
0110-24 01	Appropriation/Funding Sources FMS appropriations.....	2	2	3
0110-27	Subtotal, funding sources.....	2	2	3
0110-30	FS Central Accounting System.....			
0110-31	Development/modernization/ enhancement.....	30	36	34
0110-32	Steady State.....	3	3	4
0110-33	Subtotal, IT costs.....	33	39	38
0110-34 01	Appropriation/Funding Sources FS Appropriations.....	33	39	38
0110-37	Subtotal, funding sources.....	33	39	38
0110-40	FS Integrated Personnel System.....			
0110-41	Development/modernization/ enhancement.....	5	6	6
0110-42	Steady State.....			

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(in millions of dollars)		
		FY BA	CY BA/FTE	BY BA/FTE
0110-43	Subtotal, IT costs.....	5	6	6
0110-44 01	Appropriation/Funding Sources FS Appropriations.....	5	6	6
0110-47	Subtotal, funding sources.....	5	6	6
0110-50	FSA CORP.....			
0110-51	Development/modernization/ enhancement.....	3	2	
0110-52	Steady State.....	1	1	1
0110-53	Subtotal, IT costs.....	4	3	1
0110-54 01	Appropriation/Funding Sources CCC.....	1	1	1
0110-54 02	FSA Appropriation.....	3	2	
0110-57	Subtotal, funding sources.....	4	3	1
0110-60	NRCS Financial Management Information System - Legacy.....			
0110-61	Development/modernization/ enhancement.....			
0110-62	Steady State.....	6	6	6
0110-63	Subtotal, IT costs.....	6	6	6
0110-64 01	Appropriation/Funding Sources NRCS Appropriation.....	6	6	6
0110-67	Subtotal, funding sources.....	6	6	6

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

	PY BA	CY BA/FTE	BY BA/FTE
(in millions of dollars)			
0120-01 All Other Financial Management			
Development/modernization/ enhancement.	11	14	12
0120-02 Steady State.....	29	30	31
0120-03 Subtotal, IT costs.....	40	44	43
Appropriation/Funding Sources			
0120-04 01 FS Appropriation.....	5	5	5
0120-04 02 USDA Agencies Appropriations.....	32	34	38
0120-04 03 CCC.....	3	5	
0120-07 Subtotal, funding sources.....	40	44	43
Total: Mission Area			
0130-01 Development/modernization/ enhancement.	49	58	52
0130-02 Steady State.....	45	46	49
0130-03 Subtotal, IT costs.....	94	104	101
Other Mission Areas			
Mission Area 2: USDA Program and			
Administrative Support Systems.....			
Major IT:			
1110-10 FNS Food Stamp Integrated Information			
System.....			
1110-11 Development/modernization/			
enhancement.....			
1110-12 Steady State.....	3	4	4
1110-13 Subtotal, IT costs.....	3	4	4

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ACCOUNT: Department of Agriculture, activitiesEXERCISE: EX2000
VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/FTE	BY BA/FTE
1110-14 01	Appropriation/Funding Sources FNS appropriations.....	3	4	4
1110-17	Subtotal, funding sources.....	3	4	4
1110-20	Processed Commodities Inventory Management System.....			
1110-21	Development/modernization/ enhancement.....	1	1	4
1110-22	Steady State.....	8	8	8
1110-23	Subtotal, IT costs.....	9	9	12
1110-24 01	Appropriation/Funding Sources AMS Appropriation.....	1	1	3
1110-24 02	FSA Appropriation.....	2	2	2
1110-24 03	CCC.....	2	2	2
1110-24 04	FNS appropriations.....	4	4	5
1110-27	Subtotal, funding sources.....	9	9	12
1110-30	FNS Electronic Benefit Transfer.....			
1110-31	Development/modernization/ enhancement.....			
1110-32	Steady State.....	43	43	43
1110-33	Subtotal, IT costs.....	43	43	43
1110-34 01	Appropriation/Funding Sources FNS appropriations.....	43	43	43

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		FY BA	CY BA/FTE	BY BA/FTE
		(in millions of dollars)		
1110-37	Subtotal, funding sources.....	43	43	43
1110-40	FSIS Field Automation & Information Management.....			
1110-41	Development/modernization/ enhancement.....	0	12	12
1110-42	Steady State.....			
1110-43	Subtotal, IT costs.....	0	12	12
1110-44 01	Appropriation/Funding Sources FSIS Appropriation.....	0	12	12
1110-47	Subtotal, funding sources.....	0	12	12
1110-50	APHIS Integrated Systems Acquisition Project.....			
1110-51	Development/modernization/ enhancement.....			
1110-52	Steady State.....	10	6	9
1110-53	Subtotal, IT costs.....	10	6	9
1110-54 01	Appropriation/Funding Sources APHIS Appropriation.....	10	6	9
1110-57	Subtotal, funding sources.....	10	6	9
1110-60	FS Integrated Personnel System.....			
1110-61	Development/modernization/ enhancement.....	5	6	6

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ACCOUNT: Department of Agriculture, activitiesEXERCISE: EX2000
VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/FTE	BY BA/FTE
1110-62	Steady State.....	.....	.....	.....
1110-63	Subtotal, IT costs.....	5	6	6
Appropriation/Funding Sources				
1110-64 01	FS Appropriations.....	5	6	6
1110-67	Subtotal, funding sources.....	5	6	6
1110-70	Service Center.....			
1110-71	Development/modernization/ enhancement.....	90	50	90
1110-72	Steady State.....	.....	.....	.....
1110-73	Subtotal, IT costs.....	90	50	90
Appropriation/Funding Sources				
1110-74 01	RD Appropriation.....	6	8	.....
1110-74 02	CCC.....	49	10	16
1110-74 03	FSA Appropriation.....	4	1	.....
1110-74 04	Service Bureau Appropriation.....	.....	.....	74
1110-74 05	NRCS Appropriation.....	31	31	.....
1110-77	Subtotal, funding sources.....	90	50	90
1110-80	RD Dedicated Loan Origination System...			
1110-81	Development/modernization/ enhancement.....	1	1	1
1110-82	Steady State.....	4	4	4

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(in millions of dollars)		
		FF BA	CF BA/FTE	BF BA/FTE
1110-03	Subtotal, IT costs.....	5	5	5
Appropriation/Funding Sources				
1110-04 01	ND Appropriation.....	5	5	5
1110-07	Subtotal, funding sources.....	5	5	5
1110-90	NRCS Administrative Support and Records Management/MSIS.....			
1110-91	Development/modernization/ enhancement.....			
1110-92	Steady State.....	1	1	1
1110-93	Subtotal, IT costs.....	1	1	1
Appropriation/Funding Sources				
1110-94 01	NRCS Appropriations.....	1	1	1
1110-97	Subtotal, funding sources.....	1	1	1
All Other for Mission Area.....				
1120-01	Development/modernization/ enhancement.	75	95	94
1120-02	Steady State.....	406	413	413
1120-03	Subtotal, IT costs.....	481	508	507
Appropriation/Funding Sources				
1120-04 01	FCIC Revolving Fund.....		2	2
1120-04 02	Other USDA Agency Appropriations.....	420	429	442
1120-04 03	GIPSA Trust.....	2	2	1

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/PTE	BY BA/PTE
1120-04	04 CCC.....	18	21	18
1120-04	05 FS Appropriation.....	41	54	44
1120-07	Subtotal, funding sources.....	401	508	507
Total: Mission Area.....				
1130-01	Development/modernization/ enhancement.	160	165	207
1130-02	Steady State.....	475	479	462
1130-03	Subtotal, IT costs.....	655	644	689
All Mission Areas				
9930-01	Development/modernization/ enhancement...	229	223	259
9930-02	Steady State.....	520	525	531
9930-03	Subtotal, IT costs.....	749	748	790
Part 2. Data on Infrastructure and Office Automation (8)				
Major IT Infrastructure System:				
01-1010	FS Project G15.....			
01-1011	Development/modernization/ enhancement.	85	68	31
01-1012	Steady State.....	28	32	71
01-1013	Subtotal, IT costs.....	113	100	102
Appropriation/Funding Sources				
01-1014 01	FS Appropriations.....	113	100	102
01-1017	Subtotal, funding sources.....	113	100	102

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000.

VERSION: MASTER

		(in millions of dollars)		
	PY BA	CY BA/FTE	BY BA/FTE	
01-1020	FSA SCOP.....			
01-1021	Development/modernization/ enhancement.....		1	
01-1022	Steady State.....	9	10	8
01-1023	Subtotal, IT costs.....	9	11	8
Appropriation/Funding Sources				
01-1024 01	CCC.....	9	11	8
01-1024 02	FSA Appropriation.....			
01-1027	Subtotal, funding sources.....	9	11	8
Other Infrastructure System:				
01-2001	Development/modernization/ enhancement...	89	105	88
01-2002	Steady State.....	216	234	222
01-2003	Subtotal, IT costs.....	305	339	310
Appropriation/Funding Sources				
01-2004 01	CCC.....	11	20	1
01-2004 02	FS Appropriation.....	106	108	99
01-2004 03	USDA Agencies Appropriation.....	188	211	210
01-2007	Subtotal, funding sources.....	305	339	310
All Infrastructure Systems:				
99-3001	Total Development/modernization/ enhancement.....	174	174	119
99-3002	Total Steady State.....	253	276	301

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EXERCISE: KX2000
VERSION: MASTER

		(in millions of dollars)		
	PY	CY	BY	
	BA	BA/PTE	BA/PTE	
99-3003	Total, All Infrastructure Systems.....	827	850	820

Part 3. Data on IT Architecture and Planning (9)

Other IT Architecture and Planning:				
01-2001	Development/modernization/ enhancement....	.....	.....	1
01-2002	Steady State.....	.....	.....	.....
01-2003	Subtotal, IT costs.....	.....	.....	1
Appropriation/Funding Sources				
01-2004 01	USDA Agency Appropriations.....	.....	.....	1
01-2007	Subtotal, funding sources.....	.....	.....	1
All IT Architecture and Planning				
99-3001	Total Development/modernization/ enhancement.....	.....	.....	1
99-3002	Total Steady State.....	.....	.....	.....
99-3003	Total, All IT Architecture.....	.....	.....	1

Part 4. IT Resources Summary (0)

Mission Area, Infrastructure, and Architecture Totals				
99-3001	Development/modernization/ enhancement....	603	397	379
99-3002	Steady State.....	773	801	832
99-3003	Total, All IT costs.....	1,176	1,198	1,211

CONTRACTOR SUPPORT SERVICES IN FY 1998 AND 1999

Mr. Skeen: How much of the fiscal year 1999 information-technology budget does USDA plan to spend on contractor services? How many contracts were in place and how much was spent or is planned to be spent in fiscal years 1998 and 1999?

Response: During fiscal year 1998, there were 1,191 active contracts for ADP-related support services, as defined by the Office of Federal Procurement Policy. These contracts totaled approximately \$259 million.

In fiscal year 1999, there are 548 active contracts for ADP-related support services, totaling approximately \$117 million.

Mr. Skeen: Please provide for the record a list of all IRM support services contracts for 1999. For each contract, provide information on its cost, length, and purpose.

[The information follows:]

08-MAR-1999

IT Support Service Contracts
Active in FY 1999

Reporting Agency	Description	Service Code	Obligated Amount	Action Date	Compl. Date	# of Actions
			YYMM	YYMM	YYMM	
APHIS	ADP ACQUISITION SUP SVCS	D314	\$156,207	199309	200408	1
	ADP FACILITY MANAGEMENT	D301	\$78,780	199706	199812	1
	ADP PROGRAMMING SVCS	D308	\$369,154	199808	199903	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$975,000	199809	199903	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$2,208	199809	199901	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$2,018	199911	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$2,345	199809	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$18,674	199811	199909	2
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$77,583	199812	199909	5
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$26,381	199810	199909	15

SUM			\$1,708,348			29
ARS	ADP ACQUISITION SUP SVCS	D314	\$13,000	199809	199909	1
	ADP SVCS/TELECOMM & TRANSMISSION	D304	\$48,000	199901	199909	1
	ADP SYSTEM ANALYSIS	D306	\$105,000	199809	199908	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$27,000	199809	199810	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$200,000	199609	200109	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,000	199710	200109	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$15,000	199711	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$14,345	199901	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$1,189	199809	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$23,966	199808	199902	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$339,340	199804	199903	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$10,656	199902	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$22,599	199902	199902	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$171,092	199812	199903	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$30,055	199810	200109	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	-\$172,000	199810	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$16,252	199810	199810	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$198,000	199806	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$197,000	199804	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$13,000	199610	199909	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$650,000	199809	199909	1
	AUTO NEWS, DATA & OTHER SVCS	D317	\$424,410	199811	200312	1

08-MAR-1999

IT Support Service Contracts
Active in FY 1999

Reporting Agency	Description	Service Code	Obligated Amount	Action Date	Compl. Date	# of Actions
ARS	AUTO NEWS, DATA & OTHER SVCS	D317	\$25,000	199803	199812	1
	AUTO NEWS, DATA & OTHER SVCS	D317	\$550,000	199810	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$141,063	199810	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$28,000	199711	200109	2
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$72,000	199809	199902	3
	AUTO NEWS, DATA & OTHER SVCS	D317	\$235,000	199809	199909	4
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$164,998	199810	199909	14

SUM			\$3,565,965			50
FAS	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$40,280	199409	199909	1

SUM			\$40,280			1
FCS	ADP FACILITY MANAGEMENT	D301	\$20,160	199902	199904	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$150,000	199611	199909	1
	ADP SVCS/DATA ENTRY	D303	\$134,306	199807	199909	1
	ADP SYSTEM ANALYSIS	D306	\$301,619	199810	199909	1
	ADP SYSTEMS DEVELOP	D302	\$1,412,582	199807	199908	1
	ADP SYSTEMS DEVELOP	D302	\$73,105	199809	199904	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D302	\$427,996	199809	199902	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$125,070	199809	199906	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$139,878	199809	199903	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$31,812	199809	199902	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$89,417	199806	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$209,914	199804	199905	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$37,088	199802	199810	1
	ADP SYSTEMS DEVELOP	D302	-\$6,520	199811	199811	1
	ADP SYSTEMS DEVELOP	D302	\$317,120	199809	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$606	199812	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$93,182	199809	199908	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$1,086,767	199809	199907	1
	ADP SYSTEMS DEVELOP	D302	\$892,921	199807	199907	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$99,994	199805	199909	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$200,000	199605	199909	1

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IT Support Service Contracts
Active in FY 1999

Reporting Agency	Description	Service Code	Obligated Amount	Action Date YYYYMM	Compl. Date YYYYMM	# of Actions
FCS	ADP INF, BROADCAST & DIST SVCS	D309	\$200,000	199509	199909	1
	ADP FACILITY MANAGEMENT	D301	\$55,925	199810	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$765,558	199808	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$490,692	199809	199909	2
	ADP SYSTEM ANALYSIS	D306	\$190,288	199809	199909	3
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$1,753,350	199810	199909	4

SUM			\$9,290,830			35
FS	ADP FACILITY MANAGEMENT	D301	\$7,000	199802	199810	1
	ADP PROGRAMMING SVCS	D308	\$32,000	199806	199811	1
	ADP PROGRAMMING SVCS	D308	\$100,000	199902	200004	1
	ADP SYSTEMS DEVELOP	D302	\$57,428	199708	199812	1
	ADP PROGRAMMING SVCS	D308	\$40,471	199801	199811	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$425,000	199805	199812	1
	ADP SYSTEMS DEVELOP	D302	\$46,840	199902	199910	1
	ADP SYSTEMS DEVELOP	D302	\$25,185	199902	199909	1
	ADP SYSTEMS DEVELOP	D302	\$9,945	199902	199904	1
	ADP SYSTEMS DEVELOP	D302	\$72,000	199809	200109	1
	ADP SYSTEMS DEVELOP	D302	\$43,000	199809	199912	1
	ADP SYSTEMS DEVELOP	D302	\$359,000	199809	199909	1
	ADP SYSTEMS DEVELOP	D302	\$11,000	199809	199908	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,054	199809	199811	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,176	199807	199907	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$54,168	199807	199906	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$27,432	199802	199901	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,171	199712	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$11,957	199704	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$430,870	199912	199812	1
	DIGITIZING SVCS	D315	\$8,122	199809	199907	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$62,976	199812	199906	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$44,653	199812	199903	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$21,200	199811	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$758	199811	199811	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$5,040	199810	199811	1

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IT Support Service Contracts
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Reporting Agency	Description	Service Code	Obligated Amount	Action Date YYYYMM	Compl. Date YYYYMM	# of Actions
FS	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$63,175	199809	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$36,080	199809	199908	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$30,373	199809	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$96,002	199901	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$9,277	199901	199902	1
	DIGITIZING SVCS	D315	\$10,600	199809	199901	1
	DIGITIZING SVCS	D315	\$20,000	199808	199907	1
	DIGITIZING SVCS	D315	\$10,900	199807	199902	1
	DIGITIZING SVCS	D315	\$100,000	199805	199907	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$56,126	199810	199812	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	-\$36,657	199810	199810	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	-\$168,000	199809	199810	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$56,126	199808	199812	1
	ADP SYSTEMS DEVELOP	D302	\$10,000	199809	199902	1
	ADP SYSTEMS DEVELOP	D302	\$20,000	199808	199904	1
	ADP SYSTEMS DEVELOP	D302	\$5,000	199808	199902	1
	ADP SYSTEMS DEVELOP	D302	\$6,000	199808	199811	1
	ADP SYSTEMS DEVELOP	D302	\$1,271	199808	199810	1
	ADP FACILITY MANAGEMENT	D301	\$30,000	199804	199909	1
	ADP FACILITY MANAGEMENT	D301	\$67,253	199809	199909	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$2,781	199810	199906	1
	ADP SYSTEMS DEVELOP	D302	\$40,000	199810	199909	2
	ADP PROGRAMMING SVCS	D308	\$2,284,000	199509	199904	2
	ADP SYSTEMS DEVELOP	D302	\$2,000	199810	200010	2
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$13,000	199808	199812	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$154,521	199709	199810	2
	ADP SYSTEMS DEVELOP	D302	\$35,429	199612	199812	2
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$28,000	199808	199905	2
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$12,000	199711	199811	2
	ADP SYSTEMS DEVELOP	D302	\$97,839	199810	199903	3
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$35,000	199808	199903	4
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$2,000	199808	200008	4
	ADP FACILITY MANAGEMENT	D301	\$73,000	199801	199810	6
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$51,481	199709	199812	6
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$16,641	199809	199810	6

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IT Support Service Contracts
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Reporting Agency	Description	Service Code	Obligated Amount	Action Date	Compl. Date	# of Actions
Agency	Description	Code	Amount	YYYYMM	YYYYMM	Actions

SUM			\$5,169,365			92
FSA	ADP DATA CONVERSION SVCS	D311	\$962,000	199712	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$70,000	199910	199910	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$7,137,988	199909	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$7,900,000	199810	200209	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$118,446	199810	199910	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$1,995,000	199810	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$216,000	199809	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$664,160	199804	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$23,120	199802	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D307	\$349,558	199909	199909	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$304,983	199805	199909	1
	ADP FACILITY MANAGEMENT	D301	\$2,931,911	199902	200001	1
	ADP FACILITY MANAGEMENT	D301	\$20,000	199902	199909	1
	ADP FACILITY MANAGEMENT	D301	\$50,170	199902	199903	1
	ADP FACILITY MANAGEMENT	D301	\$50,170	199901	199905	1
	ADP FACILITY MANAGEMENT	D301	\$475,074	199811	199910	1
	ADP FACILITY MANAGEMENT	D301	\$189,808	199811	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$10,000	199602	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,624,810	199601	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$60,000	199512	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$4,416,608	199510	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$260,000	199509	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$47,000	199504	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$198,000	199502	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,690,510	199501	199912	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,745,324	199802	199901	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$8,036,000	199710	200209	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$130,000	199709	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$11,000	199707	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$58,000	199705	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	-\$26,000	199703	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$31,000	199607	199909	1

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IT Support Service Contracts
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Reporting Agency	Description	Service Code	Obligated Amount	Action Date	Compl. Date	# of Actions
				YYYYMM	YYYYMM	
FSA	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$103,000	199605	199909	1
	ADP FACILITY MANAGEMENT	D301	\$406,657	199810	199910	1
	ADP FACILITY MANAGEMENT	D301	\$5,000	199809	199910	1
	ADP FACILITY MANAGEMENT	D301	\$156,509	199806	199909	1
	ADP FACILITY MANAGEMENT	D301	\$312,759	199806	199903	1
	ADP FACILITY MANAGEMENT	D301	\$583,760	199710	199810	1
	ADP DATA CONVERSION SVCS	D311	\$168,000	199810	199909	1
	ADP DATA CONVERSION SVCS	D311	\$100,000	199810	199812	1
	ADP DATA CONVERSION SVCS	D311	\$150,000	199809	199912	1
	ADP DATA CONVERSION SVCS	D311	\$30,000	199809	199810	1
	ADP DATA CONVERSION SVCS	D311	\$550,000	199812	199903	2
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$258,000	199810	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$341,000	199701	199909	2
	ADP DATA CONVERSION SVCS	D311	\$365,000	199901	199903	2
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$207,366	199910	199910	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$5,494,091	199710	199909	2
	ADP DATA CONVERSION SVCS	D311	\$650,000	199809	199812	3
	ADP FACILITY MANAGEMENT	D301	\$646,934	199809	199903	3
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$739,000	199609	199909	4
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$4,852,700	199610	199909	4
	ADP FACILITY MANAGEMENT	D301	\$2,330,178	199809	199909	8
	ADP FACILITY MANAGEMENT	D301	\$5,139,866	199810	199909	11
SUM			\$66,852,458			87
FSIS	ADP SYSTEMS DEVELOP	D302	\$95,641	199706	200910	1
	ADP SYSTEMS DEVELOP	D302	\$199,744	199807	199901	1
	ADP SYSTEMS DEVELOP	D302	\$50,760	199810	199909	1
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$139,097	199903	199904	1
	ADP FACILITY MANAGEMENT	D301	\$165,050	199810	199909	2
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$15,446	199901	199903	2
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$22,739	199810	199811	2
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$4,484	199812	199812	3
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$126,377	199810	199810	4
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$28,253	199811	199812	4

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IT Support Service Contracts
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Reporting Agency	Description	Service Code	Obligated Amount	Action Date YYYYMM	Compl. Date YYYYMM	# of Actions
FSIS	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$279,434	199812	199901	8
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$652,359	199901	199902	11
	AUTOMATED INFORMATION SYSTEM SVCS	D307	\$548,182	199902	199903	11

SUM			\$2,327,567			51
NRCS	ADP SYSTEMS DEVELOP	D302	\$135,240	199709	199909	1
	ADP SYSTEMS DEVELOP	D302	\$99,612	199805	200109	1
	ADP SYSTEMS DEVELOP	D302	\$215,632	199808	200109	1
	ADP SYSTEMS DEVELOP	D302	\$499,955	199902	199909	1
	ADP SYSTEMS DEVELOP	D302	\$5,000	199808	199909	1
	ADP SYSTEMS DEVELOP	D302	\$544,920	199712	199909	1
	ADP SYSTEMS DEVELOP	D302	\$255,000	199709	200109	1
	ADP SYSTEMS DEVELOP	D302	\$167,049	199806	199909	2
	ADP SYSTEMS DEVELOP	D302	\$167,431	199810	199909	2
	ADP SYSTEMS DEVELOP	D302	\$289,554	199804	199909	3
	ADP SYSTEMS DEVELOP	D302	\$24,814	199805	199909	3
	ADP SYSTEMS DEVELOP	D302	\$418,904	199707	200109	4
	ADP SYSTEMS DEVELOP	D302	\$643,988	199712	200109	4
	ADP SYSTEMS DEVELOP	D302	\$1,579,840	199812	199909	4
	ADP SYSTEMS DEVELOP	D302	\$1,316,498	199811	199909	5
	ADP SYSTEMS DEVELOP	D302	\$383,953	199901	199909	5
	ADP SYSTEMS DEVELOP	D302	\$2,635,896	199801	199909	6
	ADP SYSTEMS DEVELOP	D302	\$540,571	199803	199909	7
	ADP SYSTEMS DEVELOP	D302	\$239,221	199807	199909	7
	ADP SYSTEMS DEVELOP	D302	\$1,316,270	199809	199909	11

SUM			\$11,769,346			70
OPM	ADP SYSTEM ANALYSIS	D306	\$122,067	199810	199903	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$45,363	199810	199909	1
	ADP SYSTEM ANALYSIS	D306	\$184,982	199810	199909	2

SUM			\$352,412			4

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IT Support Service Contracts
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Reporting Agency	Description	Service Code	Obligated Amount	Action Date YYYYMM	Compl. Date YYYYMM	# of Actions
OIG	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$1,000	199710	199810	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$4,000	199812	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$5,000	199811	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$14,000	199810	199909	3

SUM			\$24,000			6
OO	ADP FACILITY MANAGEMENT	D301	\$150,930	199509	199909	1
	ADP FACILITY MANAGEMENT	D301	\$20,000	199902	199909	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$147,596	199712	199903	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$19,000	199901	199901	1
	ADP PROGRAMMING SVCS	D308	\$832,796	199510	199909	1
	ADP PROGRAMMING SVCS	D308	\$191,785	199504	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$159,462	199802	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$26,869	199710	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$118,825	199709	199810	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$26,596	199902	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$187,500	199901	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$127,461	199812	200309	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$3,493,000	199812	199910	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$39,235	199812	199812	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$480,338	199901	199909	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$11,587	199901	199902	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$5,762	199901	199901	1
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$414,590	199812	199909	1
	ADP TELEPROCESSING & TIMESHARE	D305	\$16,000	199810	199810	1
	ADP SYSTEMS DEVELOP	D302	\$360,535	199805	199812	1
	ADP SVCS/TELECOMM & TRANSMISSION	D304	\$25,000	199902	199903	1
	ADP SVCS/TELECOMM & TRANSMISSION	D304	\$25,000	199811	199902	1
	ADP SVCS/TELECOMM & TRANSMISSION	D304	\$192,780	199809	199909	1
	ADP SVCS/TELECOMM & TRANSMISSION	D304	\$62,802	199710	200809	1
	ADP PROGRAMMING SVCS	D308	\$70,120	199802	199912	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$27,500	199811	199812	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$35,977	199811	199812	1
	ADP TELEPROCESSING & TIMESHARE	D305	\$175,000	199901	199903	1

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Active in FY 1999

Reporting Agency	Description	Service Code	Obligated Amount	Action Date YYYYMM	Compl. Date YYYYMM	# of Actions
OO	ADP TELEPROCESSING & TIMESHARE	D305	\$25,000	199811	199903	1
	ADP INF, BROADCAST & DIST SVCS	D309	\$172,380	199710	199903	1
	ADP FACILITY MANAGEMENT	D301	\$959,839	199812	199909	1
	ADP FACILITY MANAGEMENT	D301	\$13,824	199601	199909	1
	ADP FACILITY MANAGEMENT	D301	\$29,724	199809	199910	1
	ADP FACILITY MANAGEMENT	D301	\$929,479	199511	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D309	\$52,999	199902	200309	2
	ADP SVCS/DATA ENTRY	D303	\$2,067,672	199809	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$1,059,450	199809	199812	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$286,770	199809	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$236,000	199811	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$63,982	199809	199810	2
	ADP SVCS/TELECOMM & TRANSMISSION	D304	\$51,000	199812	199902	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$5,947,608	199810	199909	4
	TELECOMMUNICATION NETWORK MGMT SVCS	D316	\$1,887,176	199902	199909	4

SUM			\$21,104,442			57
RD	ADP DATA CONVERSION SVCS	D311	\$33,333	199902	199909	1
	ADP FACILITY MANAGEMENT	D301	\$78,000	199806	199905	1
	ADP FACILITY MANAGEMENT	D301	\$30,276	199812	199909	1
	ADP PROGRAMMING SVCS	D308	\$212,382	199809	199905	1
	ADP SYSTEM ANALYSIS	D306	\$83,336	199808	199908	1
	ADP SYSTEMS DEVELOP	D302	\$599,965	199808	199908	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$5,001	199409	199909	1
	ADP SYSTEMS DEVELOP	D302	\$192,750	199902	199908	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$47,808	199812	200001	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$159,664	199811	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$6,675,000	199809	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$423,131	199808	199909	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$347,748	199808	199908	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$82,815	199807	199912	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$39,224	199803	199912	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$110,288	199801	199912	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$40,000	199902	200002	1

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IT Support Service Contracts
Active in FY 1999

Reporting Agency	Description	Service Code	Obligated Amount	Action Date YYYYMM	Compl. Date YYYYMM	# of Actions
RD	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$167,072	199902	199904	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$43,434	199901	199903	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$36,000	199711	199902	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$5,939,000	199704	199905	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$593,000	199611	199905	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$89,000	199602	199905	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$5,252,000	199510	199905	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$7,274,730	199509	199912	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$7,182,000	199505	199912	1
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$50,960	199502	199909	1
	ADP SVCS/TELECOMM & TRANSMISSION	D304	\$34,409	199812	199909	1
	ADP OPTICAL SCANNING SVCS	D312	\$210,000	199809	199909	1
	ADP FACILITY MANAGEMENT	D301	\$11,500	199811	199909	1
	ADP FACILITY MANAGEMENT	D301	\$34,655	199809	199908	1
	ADP SYSTEMS DEVELOP	D302	\$519,206	199809	199909	2
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$1,121,880	199610	199912	2
	ADP FACILITY MANAGEMENT	D301	\$704,914	199810	199909	3
	OTHER ADP & TELECOMMUNICATIONS SVCS	D399	\$2,612,604	199810	199909	4

SUM			\$41,037,086			42
SUM			\$163,242,099			524

FIXED ASSET PLAN AND JUSTIFICATION FOR FY 2000 PROJECTS

Mr. Skeen: For what projects identified in the fiscal year 2000 budget did USDA prepare a fixed asset plan and justification, as provided for under Part 3 of OMB's Circular A-11?

Response: USDA prepared a fixed asset plan according to Part 3 of Circular A-11 for the following projects:

APHIS - Integrated Systems Acquisition Project
FNS - Agency Financial Management System
FNS - Food Stamp Integrated Information System
FNS - Electronic Benefits Transfer
FNS/FSA/AMS - Processed Commodities Inventory Management System
FS - Central Accounting System
FS - Integrated Personnel System
FS - Project 615
FSA - CORE -- Accounting
FSA - State & County Office Automation Project -- SCOAP
FSIS - Field Automation & Information Management
NRCS - Financial Management Information System - Legacy
NRCS - Administrative Support and Records Management/MSIS
OCFO - Foundation Financial Information System
OCFO - Personnel Office Desktop Solutions
OCFO - Thrift Savings Plan
RD - Dedicated Loan Origination System
SCIT - Shared Information System

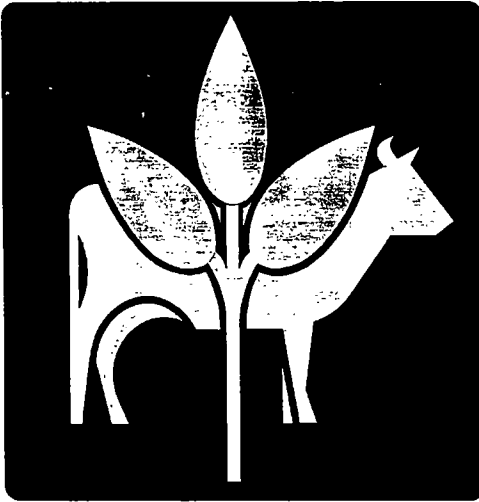
LATEST CCC QUARTERLY REPORT

Mr.Skeen: Please provide the latest quarterly CCC report related to ADP expenditures.

[The information follows:]

Summary Expenditure Report

Commodity Credit Corporation



For the Quarter Ended September 30, 1998

Summary Expenditure Report
Sections 5 and 11
For the Quarter Ended September 30, 1998
(Dollars in Thousands)

	Fiscal Year 1998		Cumulative
	Through June 30	Current Quarter Total	Fiscal Year Total
Funded by CCC Borrowing Authority			
Outlays:			
Commodity Loans Made	\$ 6,225,201	\$ 983,998	\$ 7,189,199
Commodity Purchases	(a) 122,676	80,780	233,888
Commodity Storage & Handling	(b) 42,717	7,584	50,391
Transportation-Domestic & Foreign	(c) 34,294	5,827	39,820
Deficiency	(d) (5,408)	(1,570)	(6,978)
Loan Deficiency	9,944	487,771	477,716
Flexibility Contracts	(a) 2,571,495	3,100,274	5,671,770
Disaster	(f) (471)	(202)	(673)
Cotton User Marketing	(g) 207,180	208,100	416,280
Livestock Assistance	(h) 5,205	(4)	3,201
Export Enhancement	(i) 139	1,268	1,404
Market Access	(j) 62,393	30,000	92,393
Interest - Treasury	(k) 251,542	18,407	269,949
Interest - Other	(l) 13,836	4,617	18,258
Dairy Export Incentive	112,074	18,139	150,243
Wool and Mohair	(m) (168)	(34)	(702)
Conservation	1,804,620	65,302	1,889,930
Noninsured Assistance	(n) 18,323	8,818	22,841
Automated Data Processing - Under Apportionment Authority (Exhibit 1)	23,849	17,872	44,721
Reimbursable Services (Exhibit 2)	33,309	5,152	38,491
Other Outlays	(o) 535	28,043	28,278
Total	\$ 11,961,278	\$ 5,048,780	\$ 18,608,058
Receipts:			
Commodity Loans Repaid	\$ 4,128,635	\$ 1,931,963	\$ 6,061,618
Commodity Sales Proceeds	8,258	14,594	21,182
Interest Income	(p) 148,785	85,263	213,558
Assessments	(q) 48,478	17,978	67,456
Claims	22,623	8,582	31,106
Collections and Other Receivables	3,187	2,995	6,182
Miscellaneous Receipts	20,600	3,332	23,882
Total	\$ 4,380,366	\$ 2,044,987	\$ 6,428,333
Non-Expenditure Transfers-Natural Resources Conservation Service (Wildlife Habitat Incentives Program)	\$ 30,000	\$ —	\$ 30,000
Non-Expenditure Transfers-Risk Management Agency (Dairy Options Pilot Program)	\$ 10,063	\$ —	\$ 10,063
Non-Expenditure Transfers-Animal & Plant Health Inspection Service-Karnal Bunt	\$ 14,425	\$ 16,569	\$ 30,991
Net Outlays (Receipts) Funded by CCC Borrowing Authority	\$ 7,235,418	\$ 3,016,362	\$ 10,253,781
Funded by Specific Appropriation and/or Permanent Borrowing Authority			
Outlays:			
P.L. 480 Direct Credits	\$ 134,532	\$ 88,252	\$ 223,784
Export Credit Guarantees	37,098	48,849	85,054
PL 480 Titles I (Ocean Freight Differential), II & III	578,187	234,248	810,405
Reimbursable Services - Hazardous Waste (Exhibit 2)	(r) 1,682	1,048	2,740
Disaster	(s) (813)	18	(597)
Total	\$ 748,654	\$ 373,412	\$ 1,122,286
Receipts:			
P.L. 480 Direct Credits	\$ 388,980	\$ 194,547	\$ 593,627
Export Credit Guarantees	383,501	55,267	438,768
PL 480 Titles I (Ocean Freight Differential), II & III	15,775	617	16,392
Total	\$ 788,256	\$ 250,431	\$ 1,048,687
Net Outlays (Receipts) Funded by Specific Appropriation and/or Permanent Borrowing Authority	\$ (48,402)	\$ 122,981	\$ 73,579
Total CCC Net Outlays	\$ 7,187,016	\$ 3,141,343	\$ 10,327,360

Note: Expenditures are defined as outlays for purposes of this report.
Totals may not add due to rounding.
0 Represents a refund or receivable established for program payment

Commodity Credit Corporation
Summary Expenditure Report
Footnotes
For the Quarter Ended September 30, 1998

- (a) Costs associated with the purchase of commodity inventory including processing and packaging costs.
- (b) Amount of warehouse receiving, handling, and storage charges for acquiring commodities from price support loans and producers.
- (c) Expense incurred in transporting CCC-owned commodities, including ocean transportation and costs incidental to the disposition of CCC-owned commodities.
- (d) Deficiency payments and related recoveries, including advances and amounts forgiven for feed grains, wheat, cotton, and rice producers.
- (e) Production flexibility contract payments for wheat, corn, grain sorghum, barley, oats, upland cotton, and rice.
- (f) Amount of payments and related recoveries incurred under the Disaster Assistance Acts of 1988, 1989, 1990, and 1993 (not covered under P.L. 103-75).
- (g) Upland cotton Step II payments and related recoveries.
- (h) Payments incurred under the livestock emergency programs.
- (i) Payments made to exporters under the Export Enhancement Program.
- (j) Formerly the Market Promotion Program, this line represents the amount of outlays made for overseas market development.
- (k) Amount of interest paid on CCC capital stock and borrowings from the U.S. Treasury (excluding interest on foreign program borrowing).
- (l) Includes interest expense associated with no-net cost tobacco, warehouse user fee fund, prompt payment penalties, and other related expenses.

Commodity Credit Corporation
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- (m) Amount of payments made under the noninsured disaster assistance program to provide coverage equivalent to catastrophic risk protection for eligible crops when such protection under the Federal Crop Insurance Act is not available.
- (n) Represents outlays not otherwise classified, or not directly attributable to a specific program, such as accounts and notes receivable, accounts payable, undistributed expenditures, etc.
- (o) Represents interest income on loans, claims, and other receivables, including non-Credit Reform amounts collected under the OGSM Direct Sales program and rescheduled debt for export credit programs.
- (p) Assessments withheld or collected for marketing sugar and tobacco. Parentheses () represent refunds of assessments previously collected.
- (q) Amount of site inspection and cleanup expense invoiced by the Department of Energy. These amounts are related to funds under the USDA shared appropriation 12X0500.
- (r) Amount of payments and related recoveries incurred under the Disaster Assistance Acts of 1990, 1992, and 1993 (not covered under P.L. 103-75) related to programs for which advanced appropriation funds were received before expenses were incurred.

Exhibit 1

Commodity Credit Corporation
Automated Data Processing (ADP)
Schedule of Obligations and Disbursements
For the Quarter Ended September 30, 1998
(Dollars in Thousands)

	Year of Apportionment			Cumulative Total
	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	
Apportionment of Borrowing Authority	\$ 155,000 \$	54,833 \$	91,900 \$	301,733
Obligations:				
Cumulative through June 30	143,982	37,444	32,752	214,179
Current Quarter	0	(1,298)(a)	47,896	46,598
Total	\$ 143,982 \$	36,146 \$	80,648 \$	260,777
Net Balance (b)	\$ 11,018 \$	18,687 \$	11,252 \$	40,956
Disbursements:				
Cumulative through June 30	\$ 72,063 \$	15,800 \$	8,232 \$	96,095
Current Quarter	8,296	1,123	8,453	17,872
Total	\$ 80,359 \$	16,923 \$	16,685 \$	113,967

Note: Totals may not add due to rounding.

(a) The amount represents an adjustment for obligations recorded in Fiscal Year 1997 which were determined to be overstated.

(b) The unobligated balances of indefinite borrowing authority are withdrawn at the end of each year to comply with guidance established by the Office of Management and Budget, and the Department of Treasury.

Exhibit 2
Commodity Credit Corporation
Reimbursable Services Outlays
For the Quarter Ended September 30, 1998
(Dollars in Thousands)

	Fiscal Year 1998 through June 30	Current Quarter Total	Cumulative Fiscal Year Total
Systems Support			
Agency:			
Agricultural Marketing Service	\$ 98	\$ --	\$ 98
Food & Nutrition Service	--	--	--
Foreign Agricultural Service	--	--	--
General Services Administration	--	--	--
Office of Communications	31	--	31
Total	\$ 129	\$ --	\$ 129
County Estimates Program			
Agency:			
National Agricultural Statistics Service	\$ 100	\$ --	\$ 100
Total	\$ 100	\$ --	\$ 100
Administrative Support			
Agency:			
Foreign Agricultural Service	\$ 19,750	\$ --	\$ 19,750
General Services Administration	1,895	1,282	2,977
Grain Insp. & Packers/Stockyards Adm.	11	48	59
Natural Resources Conservation Service	--	720	720
Office of the Secretary	--	40	40
Office of the Inspector General	842	--	842
U.S. Air Force	97	--	97
U.S. Geological Survey	677	--	677
Extension Service	--	--	--
Economic Research Service	71	--	71
Agricultural Marketing Service	91	56	147
Total	\$ 23,234	\$ 2,146	\$ 25,380
Remote Sensing			
Agency:			
Foreign Agricultural Service	\$ 3,250	\$ --	\$ 3,250
Total	\$ 3,250	\$ --	\$ 3,250
U.S. Warehouse Act			
Agency:			
Farm Service Agency	\$ 2,776	\$ 1,587	\$ 4,363
Total	\$ 2,776	\$ 1,587	\$ 4,363
State Options Contracts			
State Options Contracts Program	\$ 1,282	\$ --	\$ 1,282
Total	\$ 1,282	\$ --	\$ 1,282
Hazardous Waste Management			
Agency:			
Village of Utica			
Funded by Specific Appropriation	\$ --	\$ 300	\$ 300
Department of Army			
Funded by Specific Appropriation	\$ 80	\$ 20	\$ 100
Department of Energy			
Funded by Specific Appropriation	1,612	728	2,340
Funded by CCC Borrowing Authority	2,538	1,449	3,987
Total	\$ 4,230	\$ 2,497	\$ 6,727
Total	\$ 35,001	\$ 6,230	\$ 41,231

Exhibit 3
Commodity Credit Corporation
Reimbursable Services
Schedule of Obligations and Disbursements
For the Quarter Ended September 30, 1998
(Dollars in Thousands)

	Year of Apportionment			Cumulative Total
	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	
Apportionment of Borrowing Authority	\$ 50,000 \$	43,746 \$	43,343 \$	137,089
Obligations:				
Cumulative through June 30	49,441	39,283	24,055	112,779
Current Quarter	0	0	13,806	13,806
Total	49,441 \$	39,283 \$	37,861 \$	126,585
Net Balance (a)	559 \$	4,463 \$	5,482 \$	10,504
Disbursements: (b)				
Cumulative through June 30	45,378 \$	29,318 \$	15,420 \$	90,116
Current Quarter	261	2,498	2,436	5,195
Total	45,639 \$	31,816 \$	17,856 \$	95,311

Note: Totals may not add due to rounding.

(a) The unobligated balances of indefinite borrowing authority are withdrawn at the end of each year to comply with guidance established by the Office of Management and Budget, and the Department of Treasury.

(b) Does not reflect disbursements made in the current fiscal year for agreements established in 1995 and prior years.

IT MORATORIUM

Mr. Skeen: Has the moratorium on new information technology activities been lifted?

Response: In compliance with our FY 1999 appropriation -- Public Law 105-86, the Executive Information Technology Investment Review Board has approved all information technology investments and the Chief Information Officer continues to review all USDA information technology investments to ensure new purchases are consistent with the current architecture and are directed at bringing the Department into Year 2000 compliance. Since August 1997, any Departmental or Agency information technology acquisition over \$25,000 has required a waiver from the Chief Information Officer. Waivers are granted for emergencies and Year 2000 remediation efforts only.

There are only two types of information technology acquisitions which do not require a waiver - existing contracts for mission-critical maintenance and leases, and information technology acquisitions by organizations other than USDA agencies that are funded by USDA grants.

USDA SERVICE CENTER LAN/WAN/VOICE INSTALLATIONS

Mr. Skeen: Update the table that appears on page 657 of last year's hearing record showing LAN/WAN/Voice installations to include the latest information.

[The information follows:]

Number of LAN/WAN/Voice Installations

Fiscal Year	Completed Installations at end of FY	Remaining Installations - out of 2564 Target
1997	206	2,358
1998	1,695	869
1999	2,564	0

LAN/WAN/VOICE INSTALLATION COSTS

Mr. Skeen: Please provide the Committee with a table showing costs for fiscal year 1996 through 2000 to complete the LAN/WAN/Voice installation.

[The information follows:]

LAN/WAN/Voice Installation Costs

Fiscal Year	\$000
FY 1996	72,700
FY 1997	10,673
FY 1998	25,275
FY 1999	11,400

FY 2000	0 <u>a/</u>
Total, LAN/WAN/Voice	\$120,048

a/ FY 1999 is the last year of the LAN/WAN/Voice as part of the SCI. After FY 1999, the Support Services Bureau will provide these services as offices are opened or closed as part of the normal turnover of leases.

USDA YEAR 2000 PLAN

Mr. Skeen: Please submit for the record and discuss the highlights of USDA's plan to address the Year 2000 issue to include the most recent information that is available.

Response: One of the top priorities for USDA is preparing for the year 2000. As of March 19, 1999, USDA agencies are reporting that 83% of all mission critical systems are compliant. Current projections are that USDA agencies will achieve 93% compliance by March 31, 1999. We will continue with testing and independent validation and verification of mission critical systems, and place increasing focus on business continuity and contingency planning. USDA continues to make good progress in developing business continuity and contingency plans for all mission critical systems, with a particular emphasis on the 52 Departmental Priority systems.

IMPACT OF THE YEAR 2000 PROBLEM ON USDA PROGRAMS

Mr. Skeen: What is your latest assessment of the Y2K impact on USDA programs?

Response: USDA has taken steps to identify all potential risks to the continued delivery of critical programs and services as it prepares for the Year 2000. The systems which have the greatest impact on USDA's ability to deliver its programs have been identified as the Department's top priorities. These priorities are based on health and safety risk, financial impact, and economic repercussions.

While more work remains, we believe that our agencies are well-positioned to make the transition to the Year 2000 with very little disruption in program and service delivery. Our remediation effort has advanced to the comprehensive testing stage, which includes end-to-end tests with our external partners, such as banks and state government entities. In some cases, testing has helped us to identify unforeseen problems and given us enough time to fix them. We are using outside experts to review all aspects of our remediation efforts and are confident that there will be very little negative impact on programs.

We continue to work intensively with the states to assess their readiness to deliver USDA programs, such as Food Stamps, Women, Infants, & Children, and Child Nutrition. Contingency plans are being required wherever there is uncertainty about the rate of progress.

ADDITIONAL FUNDS IN FY 2000 TO ADDRESS THE YEAR 2000 PROBLEM

Mr. Skeen: Is OCIO seeking any funds in fiscal year 2000 to address the Year 2000 problem?

Response: OCIO is not seeking any funds in fiscal year 2000 to address the Year 2000 problem. However, OCIO requested and received \$7,814,000 in multi-year

supplemental emergency funding during fiscal year 1999, as follows:

- \$765,000 to meet costs in the areas of program management;
- \$1,899,000 for business continuity and contingency planning;
- \$300,000 for vulnerable building and embedded chip remediation;
- \$4,000,000 for telecommunications remediation, including funding for verification of Year 2000 compliance statements and independent validation and verification of telecommunication inventories; and
- \$850,000 for outreach, including support for the outreach and assessment activities of the President's Council on Y2K Conversion Food Supply Working Group, chaired by USDA.

We have requested an additional \$2 million for Independent Validation and Verification during the latest round of supplemental emergency funding. The Chief Information Officer has instituted a Department-wide Independent Verification and Validation -- IV&V -- program which mandates that at a minimum all Departmental Priority systems be reviewed by an independent source. The OCTO plans to do additional validation and verification of the readiness of several priority systems which support payments and loans to farmers and rural communities, systems that support government-wide or federally-supported programs, and systems that directly impact the health and safety of USDA employees or the public.

AGENCIES NOT Y2K COMPLIANT

Mr. Skeen: Were there any USDA agencies that were not Year 2000 compliant by the March 1999 target date? If so, which ones? What are the plans to get these agencies Y2K compliant and will they become Y2K compliant?

Response: Some USDA agencies will not have all systems Year 2000 compliant by the March 31 target date. The agencies are the Risk Management Agency, the Food and Nutrition Service, the Foreign Agriculture Service, the Farm Service Agency, and the Animal and Health Plant Inspection Service. Plans are in place to accelerate work where possible, and all systems that are not Year 2000 compliant will continue to be tracked and monitored until all work is completed. All systems are projected to be either compliant or retired by January 1, 2000.

BUSINESS PROCESS REENGINEERING

Mr. Skeen: The Service Center Implementation Team has a major Business Process Reengineering - BPR - effort underway. Please provide a detailed description of this effort. What is the cost to USDA to perform Business Process Reengineering? Provide some specific examples of BPR from any of the eight Service Center pilot sites.

Response: There is an extensive Business Process Reengineering -BPR - effort underway. It involves many program and administrative personnel from all parts of the partner agencies. Altogether, there are twenty BPR projects in various stages of development. Some have moved into the pilot stage and are being tested at one or more of the nine service center pilot sites. One project, an administrative human resource project, is nearly ready for national deployment. We expect to have several BPR projects ready for deployment in the late fall of this year. These are projects that can be supported on the new computer workstations that are now being deployed. The projects include such things as customer information management, more efficient office information systems, and conservation area analysis techniques.

A number of other BPR projects will depend upon other components of the Common Computing Environment that are proposed for funding in FY 2000. Many of these latter projects will be dependent upon the availability of geospatial data and systems to support them. There is a heavy orientation towards redesigning processes around Geographical Information Systems - GIS - because of the many map-based processes that the Service Center Agencies now utilize and the labor-intensive processes that are involved. Our early pilot testing results are confirming that when we move our operations into GIS-based systems, we are producing labor savings of 80 to 85% for many of the processes that our field personnel are involved in. In addition, we are able to provide our customers with more alternatives because of the automated processes, and with better, more professional products. In fact, about one-third of the total benefits that we project from the BPR-CCE investments are due to the utilization of GIS.

The Business Process Reengineering budgetary costs are as follows:

BPR COSTS BY FISCAL YEAR (\$000)

Actual FY 1996	Actual FY 1997	Actual FY 1998	Budgeted FY 1999	Budgeted FY 2000
\$800	\$8,628	\$9,516	\$13,888	\$14,000

A detailed description of the BPR process that we are using, the individual projects and their status follows:

[The information follows:]

DESCRIPTION OF BPR PROGRAM AND PROJECTS

I. USDA Service Center Business Process Reengineering (BPR) and Improvement Program

The Information Technology Management Reform Act requires executive agencies to:

...analyze the missions of the executive agency and, based on the analysis, revise the executive agency's mission-related processes and administrative processes as appropriate before making significant investments in information technology that is to be used in support of the performance of those missions.

This requirement supports the USDA desire to assess and adjust current business practices in support of the service center agency strategic directions. USDA is committed to fundamental change in how it conducts business in service centers. In fact, delivering one-stop service is nearly impossible in our current environment. Simply sharing a customer's address and phone number is not possible, let alone sharing up-to-date location information enabled by the use of Geographical Information Systems (GIS). The existing USDA service center business processes and IT infrastructure have major deficiencies that negatively impact both service quality and operating efficiency, and are completely inadequate in meeting foreseeable demands. Service center operations may currently best be described as a series of "stovepipe" units delivering very important services independently to an overlapping set of customers by a dedicated group of employees. This results in inefficient and costly delivery, placing an unacceptable burden on USDA customers. Operations also are comprised of many complex and cumbersome processes, resulting in untimely delivery of services and incomplete or outdated information.

The SCI BPR objectives are:

- Improve customer service and reduce customer burden.
- Reengineer core service center processes from an enterprise perspective.
- Integrate service center processes where it makes sense to provide one USDA voice to customers.
- Share common information.
- Identify and prioritize the highest payback areas in terms of a favorable return on investment.
- Provide USDA management with a recommendation as to whether to proceed with the investment in IT and BPR.
- Reduce the cost of service center operations while improving quality.

USDA intends to reengineer 100 percent of the service center business. We are taking an incremental approach to BPR. Currently, the SCI has initiated the reengineering of approximately 60 percent of the service center business, beginning with those portions of the business expected to provide the most substantial benefits. The USDA is planning to reengineer the remaining 40 percent of the business over the next several years, as resources permit.

Progress To Date and Future Actions

USDA began the BPR effort in December 1996, and has made significant progress. The following BPR phases have been completed or are in progress:

Phase	Status
Conduct BPR Studies	Completed in early FY1998
Develop BPR Business Case	Completed in mid FY1998
Establish BPR implementation structure and organization	Completed end FY 1998
Develop projects	In progress
Perform integration testing	In progress
Conduct pilot testing	In progress
Validate the Business Case	In progress
Deploy nationwide	Future action

Phase 1: Conduct BPR Studies

In FY 97, USDA completed four BPR studies: 1 - Customer Interface and Outreach, 2 - Program Delivery, 3 - Geospatial Information, and 4 - Administrative Management. These BPR studies accomplished the following:

- Identified and addressed the major deficiencies associated with service center operations.
- Developed the vision of the integrated service center.
- Modeled As-Is and To-Be service center activities and processes.
- Identified and defined 17 BPR implementation projects.
- Developed baseline costs for several key business areas.
- Brought the service center agencies together to focus as an integrated team on common issues.

The reengineering studies of service centers resulted in a FY 1998 implementation strategy that segments the business into two pieces: Customer Management and Program Delivery. Customer Management includes all activities relating to the "back office" management of the customer, such as how we manage information about a customer and how we find customers. Program Delivery encompasses all "front office" activities that occur in delivering services to customers, such as conservation planning and mobile outreach and delivery.

The SCI is initially focusing on improving several key enterprise-wide activities that dominate the work performed in a service center: These key activities are: 1 - Deliver Customer Benefits, 2 - Service Customer Benefits, and 3 - Provide Information. In FY 1999, the SCI will begin reengineering a fourth key activity-- Provide Financial Support.

Customer Management

Two major objectives of the SCI are to reduce customer burden and improve customer service. The Customer Management function supports both important goals, and begins with greeting the customer and providing helpful information

to the customer. This includes improved appointment scheduling; collecting, accessing, and storing customer information; providing information to customers; and acquiring new customers through improved marketing techniques and professional literature.

Specific projects in progress that support the Customer Management goal are listed here. The objectives, status, and future actions for each project are detailed in Section II of this response.

- Customer Information Management - CIM
- Integrated Office Information Systems - IOIS
- Common Land Unit Project
- Wetlands/Easements
- Demographic and Business Project
- Multi-Family Housing
- Risk and Productivity Assessment.

Program Delivery

USDA is fundamentally reengineering the way it delivers programs. SCI is focusing on new concepts, such as mobile delivery of programs, as well as more efficient performance of "back office" activities, including determining eligibility. The key to more efficient program delivery is determining which programs have similar information needs, locating the information, and determining the best way to share the information. The end result will reduce the burden on the customer and reduce the redundant collection of information through the development and automation of analytical algorithms to speed application processing.

Specific projects in progress, which support the Program Delivery goal, are listed here. The objectives, status, and future actions for each project are detailed in Section II of this response.

- Customer Service Toolkit
- Common Eligibility and Compliance Project
- Land Use
- Appeals
- Lending
- Conservation Area Resource Assessment Analysis.

Phase 2: Develop and Present BPR

Business Case

The Business Case presented the proposed BPR implementation projects, a strategy for moving forward, and the management and economic justification for implementation. USDA used the Raines Rules as criteria for investment in major Automated Information Systems - AISS. USDA is managing the service center implementation to ensure that Service Center AISS:

- Support core/priority mission functions
- Support simplified work processes that are redesigned to reduce cost
- Make maximum use of COTS technology

- Reduce risk by using fully tested pilots, simulation, and prototype implementations
- Are implemented with a phased approach.

Additionally, AISs must demonstrate a projected return on investment that is clearly equal to or better than the current state, as evidenced by improved mission performance; reduced cost; increased quality, speed, and flexibility; and increased customer and employee satisfaction. The initial Business Case, issued in October 1997 and communicated to USDA management and OMB, demonstrated a favorable 40-percent return on investment with substantial cost savings and customer benefits. USDA management made the decision in late 1997 to proceed with BPR implementation based on the results of the Business Case and BPR studies. USDA intends to validate the Business Case at the end of FY 1999, and provide economic justification for service center implementation based on pilot test results.

Phase 3: Establish BPR Implementation

USDA accomplished the following tasks associated with BPR structures and project development:

- Identified, evaluated, and ranked 17 original BPR implementation projects. Additional projects were proposed, evaluated, and approved through a strict integration process administered by a cross-agency team. Projects were then ranked in order of priority, and the final set of projects represent those that have the greatest potential for supporting the service center strategic goals and are likely to realize the highest return on investment.
- Divided the business into six areas and assigned partner agency program personnel as business area coordinators to direct and manage the reengineering efforts. This approach keeps the projects focused on the business rather than the technology solution. The six business areas are: 1 - Administration, 2 - Conservation, 3 - Eligibility and Compliance, 4 - Farm and Community Support, 5 - Lending and Outreach, and (6) Resource Inventory and Assessment.
- Developed an integration process that reviews all projects for applicability to SCI objectives. It also examines interfaces with the Common Computing Environment -- CCE, data, and telecommunications projects; SCI, agency, and Department priorities; paperwork reduction objectives; and the impact of the project on service center operations.
- Developed four major implementation strategies for proceeding with BPR development, testing, and deployment. The strategies have been developed to ensure the partner agencies are working toward the same goal. They address the vision, objectives, current environment, target environment, benefits, performance measures, overall strategy, piloting strategy, dependencies, and milestones. Strategies developed to date include:
- Developed a Business Integration Strategy. Specific business-area strategies have also been built to supplement this strategy at a lower level of detail to guide project managers. These include:
 - CCE Strategy
 - Data Management Strategy

- GIS Strategy.

Phase 4: Develop Projects

The USDA is currently developing BPR projects that are in various stages of progression. The major tasks accomplished or in progress include:

- Forming Project Teams: Project managers and team members were designated for each approved high-priority project.
- Developing Project Plans: Project teams developed project plans containing project objectives, work steps, resources, and schedules.
- Developing Projects: The project teams are developing software applications, creating training courses, and designing reengineered processes, all geared towards testing feasibility, complexity and value at pilot sites.

Phase 5: Perform Integration Reviews and Testing

The existing environment is exemplified by individual agencies with "stovepipe" business processes and information technology. The objective of integration reviews and testing is to replace the stovepipes with integrated processes and supporting technology. Integration reviews and testing provide an enterprise-wide approach, and are being used as a proof-of-concept to validate BPR and IT before testing them in an actual production environment at pilot sites.

Progress To Date

- Established and currently operating a Business Integration Center in Beltsville, Maryland, to design, develop, and test BPR business project processes and applications running in a CCE and LAN/WAN testing environment. Integration is maintained through close coordination and review by the three main strategy elements: business-driven efforts, enterprise data management, and common platform usage.
- Provided a mechanism for reengineering business within an environment that focuses on integration, rather than specific agency requirements.
- Established an Interoperability Laboratory, a key component of the Business Integration Center. Interoperability testing ensures that software applications can coexist on a shared platform. Central coordination of configuration management, security, quality assurance, and training is ensuring the fullest possible integration of service delivery.
- Simulating, developing, and testing reengineered business applications.
- Creating and maintaining the enterprise data models.
- Evaluating proposed CCE alternatives, the effect of potential upgrades and enhancements to the selected CCE, and other technical alternatives to support business needs.
- Testing the effects of LAN/WAN/Voice capabilities and technologies.
- Presenting a centralized demonstration capability for service centers or agencies to preview or evaluate various existing applications, or prototype potential new applications.
- Tested and currently distributing software to pilot sites for testing.
- Integrated legacy software into the pilot-site CCE configuration.

Future Actions

- Continue to test and configure BPR software

- Further define testing and configuration management standards and practices
- Build and deploy hardware to pilot sites.

Phase 6: Conduct Pilot Testing

Pilot testing the reengineered business processes and improvements and the enabling CCE technology is an important validation phase of the project development lifecycle before deployment nationwide. Live testing of business scenarios in an operational environment is the only way to determine if solutions make practical and economic sense and represent the right technology for the job.

The criteria used to select pilot sites ensured diverse office sizes, geographic locations, customer demographics, and agricultural products and services. In addition, pilot sites were selected if they exhibited positive attitudes and characteristics; flexibility and adaptability; and the ability to sustain concurrent projects while balancing the daily workload. The nine chosen BPR pilot sites represent an equitable distribution of field service centers nationwide, both operationally and functionally.

Progress To Date

- Selected nine service centers and five State offices as pilot sites based on pre-established criteria
- Conducted organizational meetings at all pilot sites and performed business and technical baseline studies at service center pilot sites
- Provided CCE equipment and core training to make pilot sites operational
- Established a central Help Desk to support pilot sites
- Established a formal communications line to provide a structured method for providing information to and from pilot sites, SCI, and project teams
- Initiated pilot testing of 5 BPR projects.

Future Actions

- One more sites will receive equipment and training required for live test status.
- Provide State office IRMs with system administration training.
- Support pilot testing and collection and analysis of test data.

Pilot Site	Business/Technical Assessments	Equipment Installed	Core Training	Site Live
Gainesville, Florida	•	•	•	07/01
Okeechobee, Florida	•	•	•	07/24
Scottsburg, Indiana	•	•	•	08/19
Paola, Kansas	•	•	•	09/10
Snow Hill, Maryland	•	•	•	01/99
The Dalles, Oregon	•	•	•	11/04
Las Lunas, New Mexico	•	•	•	11/11
Rolla, North Dakota	•	•	•	10/15
Abilene, Texas	•	•	•	03/99
Sacramento, California	•	4/99	5/99	05/99

Pilot Site Summary

Phase 7: Validate the Business Case

The original Business Case, issued in October 1997, will be updated and validated in FY 1999. USDA management will use the updated and validated Business Case to decide whether to proceed with each phase of the SCI investment. The validation is intended to achieve the following:

- Measure anticipated risk-adjusted return on investment
- Measure projected benefits and costs
- Evaluate progress on the SCI
- Determine savings
- Frame risk for decision-makers
- Recommend whether or not to proceed with nationwide deployment.

The major tasks that have been accomplished or are in progress include:

- Developed an Enterprise Activity Model representing all service center activities, through extensive meetings and input from service center field staff. The model is used to determine the potential impact of individual projects on the other service center activities.
- Gathered baseline cost data at pilot sites.
- Estimating As-Is enterprise activity costs.
- Completed process evaluations on pilot sites.
- Developed project staffing and funding requirements, and cost estimates for SCI projects in terms of government personnel, contractor services, computer hardware and software, equipment, travel, and other costs.

Phase 8: Deploy Nationwide

If the results of pilot testing and the validation of the Business Case lead to an approval to proceed, USDA intends to deploy BPR projects nationwide in the 2000 to 2002 timeframe. USDA will ensure that service center staff are adequately trained.

II. Status of BPR Projects**1. Customer Management Projects****Customer Information Management Project**

The Customer Information Management -- CIM -- Project supports the "Customer Management" function by providing a single source for customer information. Customer information is currently stored in three different physical locations, and is managed and maintained by three separate agencies. The information is almost entirely duplicated in two of the three locations. CIM will provide a single, central repository of core customer data that can be shared across all agencies represented at USDA service centers.

Progress To Date

- Developed two versions of prototype database for customer information.
- Deployed to four current pilot sites for testing.
- Pilot tested the customer information database and new processes for managing customer information in pilot sites.
-

Future Actions

- Identify additional business requirements for the customer information database's enhanced capability during FY 1999.
- Provide the enhanced customer information database to all pilot sites.
- Provide a cost/benefit analysis for enterprise deployment in 1999.

Integrated Office Information Systems Project

The Integrated Office Information Systems - IOIS -- Project supports the "Customer Management" function by improving information dissemination. The IOIS project will provide service centers with the capability to update, create, store, retrieve, access, and disseminate office information electronically, process the information internally and externally, schedule personnel and events, and share customer information. This project will utilize the Common Computing Environment -- CCE. This project is being rapidly deployed to pilot sites and does not require major infrastructure changes in order to be effective.

Progress To Date

- Identified more than 250 opportunities for applying office suite tools to automate time-consuming, manual processes such as generating mailing lists or filling out paper forms. Personnel from the Florida, Indiana and Kansas pilot sites participated in the identification process.
- Identified template functional requirements during May and June of 1998.
- Developed 75 templates that will result in substantial improvements to 16 processes.
- Deployed to all active pilot sites beginning in September 1998.

Future Actions

- Pilot test new processes, capabilities, and electronic templates as they are developed.
- Provide benefit-cost analysis in May 1999.

Common Land Unit Project

The Common Land Unit -- CLU -- project supports the "Customer Management" function by automating the customer/land relationship. This is a back-office activity that must be accomplished to improve the quality of geospatial information provided to USDA customers. Currently, land records are maintained on paper photographs. Implementing the common land unit project means fundamentally changing the way service centers do business. All service center agencies can share in its maintenance just as all share in the maintenance of other common customer information, such as customer name and address.

Progress To Date

- Digitized CLU for all pilot sites.
- Conducted a meeting of agency representatives to review and achieve consensus regarding the Common Land Unit Handbook in August 1998.
- Defined the "As-Is" processes for maintaining farm records.

Future Actions

- Secure approval of agency leadership for the Common Land Unit Handbook.
- Conduct pilot testing of GIS processes.
- Establish a national program to digitize CLU and program wetlands and

complete the development of digital soils and orthoimagery.

- Provide benefit-cost analysis in 1999.

Wetlands and Easements Project

The Wetlands and Easements project supports the "Customer Management" function by providing more reliable placement of wetland and easement boundaries. At present, service centers maintain wetland and easement information in hardcopy, which becomes damaged or destroyed over time due to extensive manual use. Thus, it becomes difficult to track this data and provide customers with the information they request. Wetlands and Easements will provide digitized maps of USDA-certified wetlands and easements, as well as database information including functions, values, management, expenditures, and monitoring.

Progress To Date

- Conducted first team meeting in August 1998.
- Defined project scope and objectives in August 1998.
- Developed initial software; now in testing.

Future Actions

- Finalize specifications for certified wetland determinations and easements.
- Deploy to pilot sites by May 1999.
- Conduct benefit-cost analysis in July 1999.

Demographic and Business Analysis Project

Demographic and Business Analysis supports the "Customer Management" function by reaching out to under-served customers. Service center agencies currently rely on their own manual processes for analyzing demographic and facilities data. In addition, information is not available to all agencies regarding the kind and location of service providers, and the number and kinds of customers served or under-served. Demographic and Business Analysis will develop a system of demographic and analysis tools for nationwide use. This system will significantly enhance USDA management's decision-making capabilities and improve USDA's ability to publicize services that support civil rights and equal opportunity initiatives.

Progress To Date

- Project scope and objectives were defined in July 1998.
- Procured prototype data warehouse and front-end analysis tools.
- Identified demographic and related data to be included in warehouse.
- Created automated procedures to load new demographic data.
- Began testing demographic data warehouse at California pilot site.
- Completed modifications in system based on test results by January 1999.
- Trained pilot office staff to use demographic data warehouse.
- Trained selected State personnel in the use of the demographic data warehouse.

Future Actions

- Deploy to pilot sites by June 1999.
- Conduct benefit-cost analysis in July 1999.

Multi-Family Housing Project

Multi-Family Housing supports the "Customer Management" function by improving and reducing the time required to deliver USDA programs. The Multi-Family Housing program provides safe, decent, sanitary, and affordable housing for low-and moderate-income families. It encompasses 18,000 borrowers, 500,000 tenant families, and more than 450,000 units, with a portfolio balance of \$11.8 billion and more than \$1 billion in interest subsidies and rental assistance annually-- all supported by 225 field offices. The Multi-Family Housing project will provide enabling technology to support and improve scheduling and tracking, project performance measurement, budget and financial analysis, project and tenant analysis, rental assistance and interest subsidy tracking, general ledger entry, and loan servicing.

Progress To Date

- Defined requirements.
- Developed and analyzed the business through a series of business models.
- Conducted a current systems analysis.
- Developed a gap analysis.
- Selected functionality for pilot testing.
- Developing pilot application.

Future Actions

- Deploy to pilot sites by June 1999.
- Conduct benefit-cost analysis in July 1999

Risk and Productivity Assessment Project

Risk and Productivity Assessment supports "Customer Management" by bringing together processes to use GIS models and program expertise to determine crop risk appraisals and productivity estimates. Currently, the mechanisms for evaluating and communicating yield potentials and risks are produced inconsistently and are seldom shared. They use minimal graphics and poor-quality maps, and reflect many program elements based on county-level values rather than individual producer values. Risk and Productivity Assessment will improve the methods and processes used to conduct crop risk appraisals and yield estimates, in addition to conveying productivity, risk, and disaster designations.

Progress To Date

- The first team meeting was held in September 1998.
- Develop a process to use Geographic Information System - GIS -- topography, soils, farm boundaries, and climate data, together with crop growth models and program experience, to determine crop risk appraisals and yield estimates.

Future Actions

- Complete pilot project designs.
- Deploy to pilot sites in late FY 1999 or early FY 2000.

2. Program Delivery Projects

Customer Service Toolkit Project

The Customer Service Toolkit -- CST -- supports the "Program Delivery" function by improving customer service. Service center employees often visit customers to discuss and promote conservation planning, and to collect required information. Currently, personnel take manila folders containing the customer's information to the customer site. The CST will essentially bring the customer information files and data to the customer site electronically, where information can be added, changed, or deleted, and program and technical information can be shared with the customer. In addition, this project will provide scenario-driven templates to help develop conservation plans at the customer site or in the office. Linking customer information to land information for planning purposes will significantly enable this project.

Progress To Date

- Developed "As-Is" and "To-Be" process models for the conservation planning process.
- Conducted demonstrations and focus groups on the functionality of the Customer Service Toolkit for the OMB State Leadership Council, Information Technology Showcase, and a variety of States.
- Customized ArcView software for this project.
- Completed 10 ArcView extensions.
- Coordinated and provided the foundation for Outlook file structure and provided it to the Service Center Organizer -- SCO.
- Worked with Virginia Tech to complete CROPS design and database.
- Assembled team to address legacy systems.
- Develop "Check In" and "Check Out" features between the Toolkit and application servers.
- Deliver Toolkit prototype to the Interoperability Laboratory.
- Prepared additional Toolkit extensions for release.
- Deployed Toolkit to initial pilot sites.

Future Actions

- Provide web-based download to field offices and partners.
- Provide Beta version to remaining pilot sites in spring of 1999.
- Conduct benefit-cost analysis in June 1999.

Common Eligibility and Compliance Project

The Common Eligibility and Compliance project supports the "Program Delivery" area by identifying common requirements for eligibility determination, compliance, and payments along product lines. This project will lessen the burden on customers by significantly reducing the amount of paperwork required to receive benefits.

Progress To Date

- Developed an automated AD-1026 form for the Conservation Reserve Program.
- Developed an automated CRP-2 for completing FSA producer-related information during sign-up.
- Defined business rules and design specifications for an automated means of

performing CRP-3 calculations and CRP-2 NRCS scoring summaries -- with some national ranking factor calculations.

- Deployed the automated CRP-2 and CRP- process to two initial pilot sites.

Future Actions

- Continue to automate other CRP-3 national ranking factors.
- Reengineer and build business rules to develop detailed project plans for each program area.
- Deploy enhanced eligibility determination and compliance functionality for additional product lines to pilot sites in iterations through December 1999.
- Provide benefit-cost analysis in FY 1999.

Land Use Project

Land Use supports the " Program Delivery" area by improving customer service. Information describing how a customer's land is used is a common eligibility requirement for certain USDA programs. Each program has land-use requirements; some are unique, but many are identical. The Land Use project will identify all program land use requirements, resulting in a process that can be shared among programs.

Progress To Date

- Identified project scope for reengineering.
- Provided initial strategic planning and team development -- Rural Development, FSA, NRCS.

Future Actions

- Determine team members and review current reporting requirements and business processes and develop an "As-Is" model.
- Develop "To-Be" recommendations.
- Obtain comments and guidance from OMB and program leaders.
- Obtain required approvals.
- Develop functional requirements.
- Pilot test in late 1999.

Appeals Project

Appeals supports the " Program Delivery" function by improving and reducing the time required to deliver programs. Currently, service center employees manually collect, maintain, and track appeals information. The Appeals project will establish an automated system to track appeals data and provide links to eligibility determination data, to offer customers immediate access to the most current status of their appeals.

Progress To Date/Future Actions

- Project not yet started.

Lending Project

Lending supports the " Program Delivery" function by improving and reducing the time required to deliver programs, as well as the time required for applicant approval. The agencies will analyze all lending programs, reduce redundancy, simplify the application process, and determine the best payments

methods. The project team will use other Government benchmarks to assist in developing the most efficient processes.

Progress To Date

- Lending was not analyzed during the initial reengineering phase. As a result, much of the effort at this time focuses on planning future actions.

Future Actions

- Define integrated requirements.
- Obtain feedback from agencies.
- Develop prototype application by August 1999.
- Begin pilot tests By September 1999.

Conservation Area Resource Assessment Analysis Project

Conservation Area Resource Assessment Analysis -- CARAA -- supports the "Program Delivery" function by reengineering resource assessment. Today, ranking criteria and selection of priority conservation areas are based on inconsistent data and manual or subjective analysis of data. This sometimes results in customers not receiving equitable consideration and an unfair distribution of tax/program dollars. CARAA will establish a uniform, repeatable process to access and identify priority conservation areas, resulting in increased customer eligibility and fairer distribution of tax dollars.

Progress To Date

- Defined project scope and objectives in August 1998.
- Developed project plan in August 1998.
- Developed "As-Is" process for assessing and identifying priority conservation areas.
- Designed ArcView application to pilot test.

Future Actions

- Test application at Interoperability Laboratory.
- Deploy to three pilot sites in April 1999.
- Evaluate pilot testing and provide benefit-cost analysis in July 1999.
- Make revisions/improvements to meet nationwide targets in October 1999.

3. Administrative Projects

Travel Administration Project

The objective of this project is to streamline the travel processes of service center operations. It is not yet started.

Phase 1

This phase of the project will make it possible for a traveler to electronically receive travel information, make reservations, and receive reimbursement. A single approval will authorize the travel and all costs associated with it. To the extent possible, vendors -- i.e., airlines and hotels -- will be paid directly, reducing the need for travelers to pay for those expenses and then seek reimbursement from the agency. This project will minimize documentation, reduce duplication, and eliminate manual processing.

Implementation of the project includes:

- Determining policy and procedural changes needed for reengineering the travel system.
- Renegotiating travel agency contracts as necessary.
- Issuing the common policy and procedures.
- Notifying unions and employer associations of new online systems and policies and allowing them to request negotiations.

Combined Administrative Management System -- Phase I -- Project

The Combined Administrative Management System -- CAMS -- Phase I Project will provide a single human resources management system for service center agencies -- FSA, NRCS, and Rural Development. This system will support policies and delegation of authorities for all Human Resources specialists across all three agencies. CAMS -- Phase I -- supports personnel actions, training, and performance management.

Progress To Date

Significant progress has been made since January of 1998. Key milestones and deliverables include:

- Identified customers, programs, and organizations affected by CAMS.
- Assessed the human resources business environment -- "As-Is" .
- Developed functional and systems requirements, logical data model, and data management plan.
- Developed the reengineered processes and defined performance targets.
- Tested CAMS at Interoperability Laboratory.
- Trained Help Desk employees.
- Piloted Windows clients in Florida in June 1998.
- Established 5 State Office pilot sites for test purposes.

Future Actions

- Pilot the National Finance Center -- NFC -- interface and web client in Florida.
- Pilot CAMS in Oregon, Indiana, Pennsylvania, and Arkansas.
- Implement CAMS in Oregon, Indiana, Pennsylvania, and Arkansas.
- Provide benefit-cost analysis in July 1999.
- Implement CAMS Version I nationally.

Directives Project

The Directives Project will provide electronic access to directives. The project will allow authors to receive comments online, both before and after a directive is issued. Approvals will be completed online and delivery will occur almost instantaneously via the Internet.

Progress To Date

- Conducted initial team meeting in July 1998.
- Conducted a series of detailed interviews with agency representatives.
- Drafted the functional requirements for a Directives Management System.

- Developed a prototype web site.

Future Actions

- Develop and field a web site that will provide common access to the existing directive sites across the three agencies.

4. Technology Projects

Geospatial Data Acquisition, Integration, and Delivery Project

This project will establish a nationwide process for acquiring, integrating, and delivering - AID -- geospatial data to service center staff and customers. Acquired data will be in various formats, scales, resolution, and media, and will need to be converted before delivery to service centers. This project will integrate data themes and map them to the base map layer, as well as determine the best delivery mechanism to provide service centers with data requiring minimal reformatting and uploading prior to use. Delivery mechanisms may include CD-ROM, Local Area Network/Wide Area Network -- LAN/WAN --, Internet, and File Transfer Protocol -- FTP -- sites. The SCIT Data Management GIS Data Standards Technical Working Group is developing the data standards that will ensure integration of the base and 23 themes of geospatial data being acquired. Some of the members of the Data AID BPR team also are members of the GIS Standards Data team. The Natural Resource Data Gateway -- NRDG -- effort will be included in this project. The NRDG concept was developed by earlier NRCS efforts to provide service center employees and the public easy access to natural resources data via the Internet. The Gateway will furnish users with a catalog of available data in the area they have selected. This area could be the entire U.S., a State, a county, a watershed, or an individual farm. From a series of maps, users will identify the geographic area for which they want data, then select the data and how it is packaged. Considerable analysis and planning have been completed to date. The project will provide service centers with complete, accurate, and authoritative geospatial data. It also will establish a seamless geospatial data process that requires minimal service center employee time for reformatting and uploading before use.

Progress To Date

- Acquired, integrated, and delivered an integrated data set to Okeechobee, Florida, pilot site in June 1998.
- Acquired, integrated, and delivered soils and digital data to pilot sites.
- Identified "As-Is" processes for data acquisition, integration, and delivery -- for the critical themes [CLU, soils digital orthoimagery] and Digital Line Graphs.
- Identified draft conceptual "To Be" process models for data acquisition, integration, and delivery -- for the critical themes [CLU, soils digital orthoimagery] and Digital Line Graphs.

Future Actions

- Deliver to, and support pilot sites with "value added" geospatial data (the work performed in the annotation, cartographic symbolization, reformatting, integration, geocoding, attributing, registration, tiling, compression, and enhancement of data for ease of use) for GIS themes with priority to

critical themes.

- Complete the CLU theme at all pilot sites.
- Define and provide hotline -- SC employee -- assistance to pilot sites on data provided.
- Develop documentation for the data -- how the data was created and integrated.
- Develop and define policies and specifications associated with AID for geospatial data.
- Develop an implementation plan for national deployment, training, and support.
- Conduct benefit-cost analysis for the project.

Geographic Information Systems -- GIS -- Software and Application Training Project

The Geographic Information Systems -- GIS -- Software and Application Training Project will:

- Provide pilot site service center staff with GIS core training and support. This includes:
 - GIS Terms and Concepts Training
 - GIS Customized Training -- using USDA data
 - Follow-up training.
- Determine and recommend the most cost effective way to provide GIS training to all GIS users in the 2,500 service centers during national implementation.
- Develop a GIS help-desk-training plan and provide the help desk training to help desk personnel.
- Identify USDA business applications and business process improved by GIS. Currently there is no standardized GIS training process at the USDA service center level. Training for those agencies using GIS is informal and may require service center staff to spend a great deal of time learning about the capabilities of the software by trial and error. Training on the application of GIS to specific business processes is limited to non-existent. The GIS Software and Application Training Project will develop a standardized plan for GIS systems and applications training, as well as GIS support, involving: 1 - a training process on the use of the software and 2 - a training process on how to use GIS to conduct service center business more effectively. This will enable the service center staff to provide customers with the highest quality of service possible, and reduce the burden on the customer by shortening the amount of time before the customer receives a final product, improving the quality of the product received and reducing the number of times a customer has to visit a service center before receiving a final product.

Progress to Date

- Developed GIS Terms and Concepts Training Course July 1998.
- Reengineered business processes associated with: measuring linear distances, measuring area, calculating acres, and providing acreage, soils, demographics, or other USDA information to the customers, pilot site from July to September 1998.

- Delivered training to pilot sites.
- Developed GIS Customized Training Course October 1998.

Future Actions

- Provide GIS training to remaining pilot sites.
- Provide follow-up training to all nine pilot sites.
- Provide Help Desk personnel training.
- Review training alternatives and determine most effective training for national implementation.
- Develop user documentation for service center and help desk GIS personnel.
- Document and test results and provide benefit-cost analysis.
- Make recommendation for national implementation of GIS training.

Electronic Access To Information Project

Currently, the USDA has extensive electronic communications capabilities being employed at various levels throughout the organization. This project will first determine the best way to use existing resources at the service center level, and build upon that foundation by integrating the management of electronic information used at the service center. Customers will be able to access information electronically, from their home or place of business, without making a trip to the service center.

Future Actions

- Identify currently available information.
- Determine information dissemination priorities.
- Develop internal access to information.
- Pilot a system to test access to customer and program information via the Internet.
- Provide benefit-cost analysis based on pilot test results.

USDA EMPLOYEES WORKING ON THE SERVICE CENTER IMPLEMENTATION

Mr. Skeen: How many USDA employees are devoted to the Service Center Implementation Team? What was the total cost for the Service Center Implementation Team in Fiscal Year 1998? What are the estimated costs for the Service Center Implementation Team for fiscal years 1999 and 2000?

Response: Currently, there are 13 USDA employees devoted to the Service Center Implementation Team - SCIT. These staff-years were included in USDA Agency budgets for FY 1998, 1999, and 2000. SCIT's related indirect salary cost for FY 1998 is estimated at \$975,000. The total cost of the SCIT in FY 1998 was \$2,065,000. The total estimated cost for the Service Center Implementation Team for FY 1999 is \$2,500,000, of which \$850,000 is for the Implementation Team's direct cost. For FY 2000, the total estimated cost is \$2,500,000, of which \$850,000 is to cover the Implementation Team's direct cost such as salaries, benefits, travel, etc.

Mr. Skeen: Please provide a detailed breakout, by agency, of the total number of USDA employees working on Service Center Implementation.

[The information follows:]

Program	ORRM	FSIS	APHIS	FNS	OCE	OCR	NASS	CSRESS	RMA	DA	FSA	NRCS	RD	Total
Strategic Planning	0	0	0	0	0	0	0	0	0	0	1.0	0.4	0.2	1.6
Outreach	0	1.0	0	0	0	0	0	0	0	0	0	0	0	1.0
Communications	0	0	0	0	0	0	0	0	0	0	1.2	0.1	0.1	1.4
Program Management	0	0	0.9	0	0	0	0	0	0	0	1.5	1.0	3.0	6.4
Change Management	0	0	0.1	0	0	0	0	0	0	0	8.3	9.3	6.3	24.0
Customer Service	0	0	0	0	0	0	0	0	0	0	0.5	0.7	1.4	2.6
BPR	0	0	0	0	0	0	0	0	0	0	0	1.0	4.8	5.8
BPR - Pilot Sites	0	0	0	0	0	0	0	0	0	0	2.0	0	1.0	3.0
BPR -	0	0	0	0	0	0	0	0	0	0	2.4	0	0	2.4
Eligibility/Compliance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BPR - Farm and Community Programs	0	0	0	0	0	0	0	0	0	0	1.1	0	0	1.1
BPR - Resource and Community Assessment	0	0	0	0	0	0	0	0	0.1	0	3.9	2.8	0	6.8
BPR - Administration	1.0	0	0	0	0	0	0	0	0	0	8.0	12.0	6.0	27.0
BPR - Lending/Outreach	0	0	0	0	0	0	0	0	0	0	3.7	0	0.4	4.1
BPR - Conservation	0	0	0	0	0	0	0	0	0	0	0.1	9.6	0	9.7
Data Management	0	0	0	0	0	0	0	0	0	0	2.7	3.2	0.7	6.6
Geospatial Data Stds.	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCE	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LAN/WAN/Voice	0	0	0	0	0	0	0	0	0	0	3.0	2.5	0.5	6.0
Office Information	0	0	0	0	0	0	0	0	0	0	1.8	9.6	3.9	15.3
Disaster Assistance	0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	1.1	0.8	0.1	0.1	2.0
Paperwork Reduction	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	1.0	1.1	1.1	0.1	0.1	0.1	0.1	0.1	0.3	0.1	42.0	55.5	28.4	130.0

Note: In addition to the above, two staff years in the Office of the Chief Information Officer provide Departmental oversight of the Service Center Initiative.

FSIS AND APHIS EMPLOYEES WORKING ON THE SERVICE CENTER INITIATIVE

Mr. Skeen: Why are there employees from the Food Safety and Inspection Service and Animal and Plant Health Inspection Service working on Service Center Implementation? How will these two agencies benefit from Service Center Implementation?

Response: The Service Center Initiative - SCI - currently employs one person from each of the services you cite. The employee from Animal and Plant Health Inspection Service - APHIS - is our Budget Officer. The position was announced USDA-wide, and the individual selected from APHIS was judged to be the best-qualified candidate. The SCI is interested in having the best available personnel working on this important initiative. His salary is reimbursed to APHIS. The individual from the Food Safety and Inspection Service involved in the SCI is our Outreach Team Leader. She approached SCI management and expressed a strong interest in the outreach aspects of the initiative. She had previously worked on the USDA Civil Rights Action Team - CRAT, and the SCI was very glad to have the benefit of her knowledge and experience as a leader of our outreach activities. She participates under a reimbursable agreement with the Food Safety and Inspection Service. Both individuals will return to their respective agencies with a broader set of experiences from which to draw in the performance of their future agency positions. This is clearly a benefit to both of the agencies concerned, and the agencies are reimbursed for these services.

ACTION ON OIG AND GAO AUDIT FINDINGS

Mr. Skeen: Briefly describe the findings and recommendations and actions taken on each GAO and OIG audit listed in the explanatory notes.
[The information follows:]

Office of the Inspector General Reports:

#50-099-0007-FM -- 03/31/97 -- "USDA Access to the Internet"

OIG Recommendations: Develop Departmental Internet Protocol -- IP -- addressing plan; require agencies to establish IP addresses which achieve planned efficiencies; perform Departmental oversight of Internet.

Actions Taken: The Office of the Chief Financial Officer -- OCFO -- accepted final action on recommendation 3b) in audit number 50099-7-FM, on October 14, 1998. Additionally three of the recommendations 2a, 2b and 4a have been closed with the issuance of Departmental Regulation -- DR 3300-1, Telecommunications and Internet Services and Use. OCFO was provided a copy of DR 3300-1 on March 23, 1999, and we are expecting close-out by mid-April 1999. In addition, appendix M of DR 3300-1 addresses The IP addressing issue discussed in the report finding 1.

Status: Recommendation 3a - OCIO requested the National Security Agency -- NSA -- to do an Information Security assessment to identify any real or potential threats to agency access in the Atlanta Metropolitan Area of the USDA Internet Access Network. NSA began work at USDA on September 24, 1998, after conducting "Teach, Train and Assess" methodology training. NSA completed the Atlanta assessment process the week of February 16, 1999 and we expect their final report in April. OCIO will submit final action on recommendation 3a) with the issuance of NSA's report.

Recommendation 4b - OCIO required each USDA agency to conduct internal reviews to identify all use of private Internet Service Provider's with the OCIO

letter "USDA Internet Access Security Provisions" dated October 31, 1997.

Two agencies have not complied with this letter. These agencies must present a security plan to OGC, for offices that are located on university campuses. Upon receipt of these responses, a final action on recommendation 4b will be submitted.

#50-601-1-FM -- 3/31/98 -- "Review of the Year 2000 Conversion Project"
OIG Recommendations: 1d - Evaluate agency contingency plans for sufficiency in ensuring the continued operation of mission critical systems where planned corrections may not be completed in time or if the systems fail to operate as intended. 1e - Ensure all USDA agencies strengthen their monitoring and oversight of all state and local Year 2000 activities.

Actions Taken: 1d - The Office of the Chief Information Office will monitor USDA process through adaptation of the GAO guidance document, "Year 2000 Computing Crisis: Business Continuity and Contingency Planning." 1e - Year 2000 status reports of progress in State systems that generate USDA benefits are being monitored through an administrative review by the oversight agency. Reports are being provided on a quarterly basis.

Status: The OIG has accepted the management decision and the Office of the Chief Information Officer is actively evaluating agency and mission area business continuity and contingency plans. Administrative review of State systems that generate USDA benefits has been enhanced and technical assistance is being provided to States.

#58-099-21-FM -- 9/91 -- "Review of Management and Security Over Local Area Network"

OIG Recommendations: 1c - Develop a contingency plan based on the risks and vulnerabilities identified during the risk analysis. 6a - Develop and start a cost allocation and billing process that provides for an equitable distribution of costs to user agencies on their basis of services received.

Actions Taken: 1c - The Network Services Division -- NSD, Office of the Chief Information Officer, requested funding for FY99 to complete a disaster recovery and contingency plan for the Washington Headquarters Local Network, USDA backbone network, and USDA electronic mail gateways.. The plan will support USDA's critical business processes by providing redundant/alternative capabilities in the event of emergencies. 6a - As part of the FY2000 budget submissions, NSD has developed a cost allocation model billing process.

Status: 1c - A Disaster recovery and contingency plan has been completed for the USDA Internet Access, Wide-Area-Network data circuits and networking equipment, and Washington Headquarters Local and Metropolitan Networks. Implementation of the plan is scheduled for completion in August 1999. 6a - The cost allocation and billing process will be submitted to the Working Capital Fund Board for approval May 5, 1999.

Action on General Accounting Office Reports:

#AIMD-95-97 -- 4/24/95 -- "USDA Telecommunications: Missed Opportunities to Save Millions"

GAO Recommendations: Consolidate and Optimize FTS2000 telecommunications at USDA's Field Officer Service Centers and identify additional USDA headquarters and field office sites where it is cost-effective to consolidate and optimize FTS2000 telecommunications services. Establish an implementation team consisting of the Office of the Chief Information Officer -- OCIO -- and agency staff who have the technical capabilities and resources necessary to implement Department-wide FTS2000 cost-savings solutions.

Actions Taken: The telecommunications requirements of the USDA's field Service Centers were consolidated in the LAN/WAN and Voice Systems and Services document completed by Mitre Corporation. A copy of the Statement of

Work for Engineering and Design and Installation Support, a copy of the LAN/WAN/Voice project Service Center Models, and a copy of the USDA-Virginia Telecommunications Local Service Center Analysis were provided to the General Accounting Office. The Office of the Chief Information Officer has conducted training classes for agency staff on Network Analysis.

A Departmental moratorium on the acquisition of all telecommunications resources was established in the Fall of 1996. This moratorium required USDA agencies to document the need for each telecommunications acquisition prior to initiating the acquisition process. Waivers were granted only when clearly demonstrated cases for need could be established. In addition, opportunities for sharing telecommunications equipment and facilities were explored, and when applicable, were required as a part of moratorium waivers.

Status: OCIO established the Telecommunications Network Stabilization and Migration Program -- TNSMP -- to ensure that USDA agencies have consider and addressed Department-wide consolidation and optimization of FTS2000 services, as well as other telecommunications equipment and services. The Telecommunications Network Stabilization phase of the TNSMP establishes specific procedures which agencies must follow when ordering FTS2000 or other telecommunications services. While the TNSMP allowed the relaxation of the moratorium in terms of dollar thresholds, the TNSMP and moratorium are continuing to provide strong, forceful management control over the acquisition of telecommunications systems.

#AIMD-95-203 -- 9/22/95 -- "USDA Telecommunications: Better Management and Network Planning Could Save Millions"

GAO Recommendations: Conduct review of commercial telephone bills for accounts over 3 years old to identify instances where USDA may be paying for telecommunications services or leased equipment that are unnecessary or no longer used. Establish and implement procedures for reviewing telecommunications resources at offices USDA plans to either close or relocate. Direct the Assistant Secretary for Administration to take actions to address and resolve the Department's telecommunications management and network planning weaknesses.

Actions Taken: 1 - USDA agencies, through an audit conducted by the National Finance Center, have reviewed all commercial Local Exchange Carrier bills and official records, recovering redundancy and overcharges.

2 - The Telecommunications Network Stabilization and Migration Program - TNSMP - was established in May 1997. This USDA program complimented the objectives of Department moratorium by clearly defining agency and Departmental roles and responsibilities. While the TNSMP allowed the relaxation of the moratorium in terms of dollar thresholds, the TNSMP and the moratorium are continuing to provide strong, forceful management control over the acquisition of telecommunications systems. The TNSMP has resulted in the several successful optimization and consolidation initiatives.

Twenty-one major USDA telecommunications hub cities have been identified in the United States. The TNSMP is overseeing agency telecommunications consolidation and optimization efforts in each of these cities.

A joint telecommunications consolidation, optimization effort between USDA and the Department of the Interior - USDOl - is ongoing.

Status: 1 - The TNSMP and the moratorium are continuing to provide strong, forceful management over the acquisition of telecommunications systems. 2 - As part of the transition to FTS2001, the department will implement a shared network, based on the twenty-one cities. 3 - As part of transition to FTS2001 the department will establish a Network Operations Center -- NOC. The NOC will ensure efficient management and administration of the shared network. As part

of its Business Contingency Plan, the department will share network resources with the USDOJ. 4 - As a part of its Telecommunications Billing Ordering and Inventory management process, the department is implementing a web based capability in support of telecommunications inventory and transition to FTS2001. The inventory capability will be operational by April 27, 1999 and the FTS2001 transition capability will be operational the fourth quarter FY99.

#AIMD-96-59 -- 4/16/96 -- "USDA Telecommunications: More Effort Needed to Address Telephone Abuse and Fraud"

GAO Recommendations: USDA should identify and implement actions necessary to minimize USDA's exposure to telephone abuse, via considering blocking collect calls to the Department, notifying commercial carriers to cancel all telephone credit cards issued to USDA personnel, and identifying methods that other large organizations employ to combat telephone abuse and fraud.

Actions Taken: Telephone waste, fraud, and abuse audit has been completed. Departmental regulations, procedures and controls have been changed to minimize the opportunity for abuse; awareness training has been conducted for employees; telephone bills have been reviewed to identify unauthorized calls, and agencies have been advised on appropriate investigative and disciplinary actions; collect call blocking procedures have been implemented; disputed bills have been settled.

Status: The Office of the Chief Information Officer -- OCIO -- revised its review procedure in the first quarter of FY 1998. Monthly, USDA agencies are sent CD-ROM copies of its agency's Washington DC Bell Atlantic commercial phone bill, called the Power Bill, for their personal review and follow up action. Implementation of the Telecommunications Ordering, Billing, and Inventory System will satisfy the recommendations of this audit.

EARNED VALUE MANAGEMENT SYSTEM

Mr. Skeen: Has USDA signed a contract for the Department's Earned Value Management System?

Response: USDA has not signed a contract for an Earned Value Management System -- EVMS. While we support implementing an EVMS for the Department, insufficient funds have been appropriated to support this initiative. The limited capital planning resources available have been directed towards other priorities, such as the implementation of the Information Technology Investment Portfolio System -- I-TIPS -- and the development of the Capital Planning and Investment Control Process.

USDA YEAR 2000 COMPLIANCE PROGRAM

Mr. Skeen: Please provide a complete update on USDA's Year 2000 Compliance Program to include an agency-by-agency status on the Year 2000 program.

Response: A copy of our latest milestone report, "Schedule for USDA Mission Critical Systems to be Compliant" is submitted for the record. This report outlines progress on an agency-by-agency basis of all mission-critical systems. [The information follows:]

Schedule for USDA Mission Critical Systems to be Compliant

Attachment A1

Agency	Total No. of Systems	Compliant Prior to Jul 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Jan 99	Feb 99	Mar 99	After Mar 99	Totals
Foreign Agricultural Service - current baseline	12	0	0	0	0	0	0	10	0	0	1	1	12
Foreign Agricultural Service - actual	12	0	0	0	0	0	0	0	0	0	0	0	0
Farm Service Agency - KC - current baseline	147	85	1	12	30	0	0	2	2	0	2	2	147
Farm Service Agency - KC - actual	147	85	6	3	36	1	0	0	1	0	0	0	141
Farm Service Agency - HQ - current baseline	3	2	0	0	0	0	0	0	0	0	0	0	3
Farm Service Agency - HQ - actual	3	2	0	0	0	0	0	0	0	0	0	0	2
Risk Management Agency - current baseline	13	6	0	2	0	1	0	0	0	0	0	0	9
Risk Management Agency - actual	13	7	1	1	0	0	0	0	0	0	0	0	9
Farm and Foreign Agricultural Services - baseline	175	104	1	14	30	1	0	12	3	0	3	3	171
Farm and Foreign Agricultural Services - actual	175	104	7	4	35	1	0	0	1	0	0	0	152
Food and Nutrition Service - current baseline	16	3	0	0	0	1	8	0	0	0	1	2	16
Food and Nutrition Service - actual	16	2	0	0	2	0	5	0	0	0	2	1	11
Food, Nutrition and Consumer Services - baseline	18	3	0	0	1	8	0	0	0	0	1	2	16
Food, Nutrition and Consumer Services - actual	18	2	0	0	2	0	5	0	0	0	2	1	11
Food Safety and Inspection Service - current baseline	8	4	0	0	0	3	0	0	1	0	0	0	8
Food Safety and Inspection Service - actual	8	4	0	0	0	0	0	0	5	0	0	0	5
Food Safety - baseline	8	4	0	0	0	3	0	0	1	0	0	0	8
Food Safety - actual	8	0	0	0	0	0	0	0	0	0	0	0	0
Agricultural Marketing Service - current baseline	8	0	0	1	0	0	1	1	1	0	4	0	8
Agricultural Marketing Service - actual	8	0	0	0	0	0	0	0	0	0	3	0	3
Animal and Plant Health Inspection Service - current baseline	21	1	0	1	3	0	0	1	5	0	10	0	21
Animal and Plant Health Inspection Service - actual	21	0	0	2	2	1	0	1	0	3	0	0	9
Grain Inspection, Packers and Stockyards Administration - current baseline	13	1	0	2	3	0	0	0	0	0	2	5	13
Grain Inspection, Packers and Stockyards Administration - actual	13	0	0	3	2	0	0	4	1	3	0	0	13
Marketing and Regulatory Programs - baseline	42	2	0	4	6	0	1	2	6	2	19	0	42
Marketing and Regulatory Programs - actual	42	0	0	5	4	1	0	5	1	9	0	0	25
Forest Service - current baseline	17	0	0	0	2	3	0	1	1	10	0	0	17
Forest Service - actual	17	0	0	1	1	3	1	4	0	5	0	0	15
Natural Resources Conservation Service - current baseline	15	0	0	0	2	1	2	1	3	1	5	0	15
Natural Resources Conservation Service - actual	15	0	0	2	0	2	0	0	3	3	0	0	10
Natural Resources and Environment - baseline	32	0	0	0	4	4	2	2	4	11	5	0	32
Natural Resources and Environment - actual	32	0	0	3	1	5	1	4	3	8	0	0	25
Agricultural Research Service - current baseline	8	5	1	0	0	1	0	0	0	0	1	0	8
Agricultural Research Service - actual	8	5	0	1	0	0	0	2	0	0	0	0	8
Cooperative State Research, Education and Extension Service - current baseline	5	3	0	0	2	0	0	0	0	0	0	0	5
Cooperative State Research, Education and Extension Service - actual	5	3	0	0	1	0	0	0	0	0	0	0	4
Economic Research Service - current baseline	2	0	0	0	1	0	0	0	0	0	1	0	2
Economic Research Service - actual	2	0	0	0	1	0	0	0	0	0	0	0	2
National Agricultural Statistics Service - current baseline	13	10	0	0	0	0	0	0	0	3	0	0	13

Schedule for Mission Critical Systems to be Renovated

Agency	Renovated Prior to Jul 98	Renovated Jul 98	Renovated Aug 98	Renovated Sep 98	Renovated After Sep 98	Total Renovation Completed
Foreign Agricultural Service - current baseline	0	0	0	1	0	1
Foreign Agricultural Service - actual	0	0	0	0	0	0
Farm Service Agency - IAC - current baseline	107	20	6	8	2	143
Farm Service Agency - IAC - actual	108	15	4	14	1	142
Farm Service Agency - HQ - current baseline	3	0	0	0	0	3
Farm Service Agency - HQ - actual	3	0	0	0	0	3
Risk Management Agency - current baseline	0	0	0	0	0	0
Risk Management Agency - actual	0	0	0	0	0	0
Farm and Foreign Agricultural Services - baseline	110	20	6	9	2	147
Farm and Foreign Agricultural Services - actual	111	15	4	14	1	145
Food and Nutrition Service - current baseline	5	3	3	0	1	12
Food and Nutrition Service - actual	5	3	3	0	1	12
Food, Nutrition and Consumer Services - baseline	5	3	3	0	1	12
Food, Nutrition and Consumer Services - actual	5	3	3	0	1	11
Food Safety and Inspection Service - current baseline	5	2	1	0	0	7
Food Safety and Inspection Service - actual	5	2	1	0	0	7
Food Safety - baseline	5	2	0	0	0	7
Food Safety - actual	5	1	1	0	0	7
Agricultural Marketing Service - current baseline	2	0	1	0	3	6
Agricultural Marketing Service - actual	2	0	1	0	2	5
Animal and Plant Health Inspection Service - current baseline	10	1	2	7	0	20
Animal and Plant Health Inspection Service - actual	10	0	0	7	1	18
Grain Inspection, Packers and Stockyards Administration - current baseline	2	0	5	5	0	12
Grain Inspection, Packers and Stockyards Administration - actual	1	0	3	8	0	12
Manufacturing and Regulatory Programs - baseline	14	1	8	12	3	38
Manufacturing and Regulatory Programs - actual	13	0	4	15	3	35
Forest Service - current baseline	1	1	2	3	10	17
Forest Service - actual	1	0	2	3	10	17
Natural Resources Conservation Service - current baseline	11	0	0	0	0	11
Natural Resources Conservation Service - actual	11	0	0	0	0	11
Natural Resources and Environment - baseline	12	1	2	3	10	28
Natural Resources and Environment - actual	12	0	3	3	10	28
Agricultural Research Service - current baseline	2	0	0	0	0	2
Agricultural Research Service - actual	1	0	0	0	1	2
Cooperative State Research, Education and Extension Service - current baseline	0	0	0	0	0	0
Cooperative State Research, Education and Extension Service - actual	0	0	0	0	0	0
Economic Research Service - current baseline	0	0	0	0	0	0
Economic Research Service - actual	0	0	0	0	0	0
National Agricultural Statistics Service - current baseline	3	0	0	1	0	4

Schedule for Mission Critical Systems to be Renovated

Agency	Renovated Prior to Jul 98	Renovated Jul 98	Renovated Aug 98	Renovated Sep 98	Renovated After Sep 98	Total Renovated Completed
National Agricultural Statistics Service - actual	3	0	0	1	0	4
Research, Education and Economics - baseline	5	0	0	1	0	6
Research, Education and Economics - actual	4	0	0	1	1	6
Rural Development - current baseline	11	1	2	0	0	14
Rural Development - actual	10	1	2	0	0	14
Rural Development - baseline	11	1	2	0	0	14
Rural Development - actual	10	1	1	2	0	14
Staff Offices						
Departmental Administration - current baseline	0	0	0	2	0	2
Departmental Administration - actual	0	0	0	0	0	0
Departmental Administration - current baseline	0	0	0	0	0	0
National Appeals Division - current baseline	0	0	0	0	0	0
National Appeals Division - actual						
Office of the Chief Financial Officer - NFC - current baseline	0	6	0	0	0	6
Office of the Chief Financial Officer - NFC - actual	8	0	0	0	0	6
Office of the Chief Information Officer - current baseline	0	0	0	0	0	0
Office of the Chief Information Officer - actual	0	0	0	0	0	0
Office of Communications - current baseline	0	1	0	0	0	1
Office of Communications - actual	0	0	1	0	0	1
Office of Communications - current baseline	2	3	0	0	0	5
Office of the Chief Economist - current baseline	2	3	0	0	0	5
Office of the Chief Economist - actual	0	0	0	0	0	0
Office of the Inspector General - current baseline	0	0	0	0	0	0
Office of the Inspector General - actual	0	0	0	0	0	0
Office of Budget and Program Analysis - current baseline	0	0	0	0	0	0
Office of Budget and Program Analysis - actual	0	0	0	0	0	0
Office of the General Counsel - current baseline	0	0	0	0	0	0
Office of the General Counsel - actual	0	0	0	0	0	0
Staff Offices - baseline	2	10	0	2	0	14
Staff Offices - actual	8	3	1	2	0	14
USDA BASELINE TOTAL	164	38	21	27	16	266
BASELINE CUMULATIVE TOTAL	164	202	223	250	266	
BASELINE CUMULATIVE PERCENT	62%	76%	84%	94%	100%	
USDA ACTUAL TOTAL	168	20	19	37	16	260
ACTUAL CUMULATIVE TOTAL	168	188	207	244	260	
ACTUAL CUMULATIVE PERCENT	63%	71%	78%	92%	98%	

Schedule for Mission Critical Systems to be Validated

Attachment A3

Agency	Validated Prior to Jul 98	Validated Jul 98	Validated Aug 98	Validated Sep 98	Validated Oct 98	Validated Nov 98	Validated Dec 98	Validated Jan 99	Validated After Jan 99	Total Validation Completed
Foreign Agricultural Service - current baseline	0	0	0	0	0	0	1	0	0	1
Foreign Agricultural Service - actual	0	0	0	0	0	0	0	0	0	0
Farm Service Agency - current baseline	93	13	17	13	0	3	1	0	1	143
Farm Service Agency - actual	93	10	0	26	0	0	0	1	0	141
Farm Service Agency - HC - current baseline	3	0	0	0	0	0	0	0	0	3
Farm Service Agency - HC - actual	3	0	0	0	0	0	0	0	0	3
Risk Management Agency - current baseline	0	0	0	0	0	0	0	0	0	0
Risk Management Agency - actual	0	0	0	0	0	0	0	0	0	0
Farm and Foreign Agricultural Services - baseline	96	15	17	13	0	3	2	0	1	147
Farm and Foreign Agricultural Services - actual	96	10	9	28	0	0	0	1	0	144
Food and Nutrition Service - current baseline	3	2	1	4	1	0	0	0	1	12
Food and Nutrition Service - actual	2	0	4	1	0	1	0	0	1	9
Food, Nutrition and Consumer Services - baseline	3	2	1	4	1	0	0	0	1	12
Food, Nutrition and Consumer Services - actual	2	0	4	1	0	1	0	0	1	9
Food Safety and Inspection Service - current baseline	4	0	1	1	1	0	0	0	0	7
Food Safety and Inspection Service - actual	4	0	0	0	1	0	0	0	0	7
Food Safety - baseline	0	0	1	1	1	0	0	0	0	7
Food Safety - actual	0	0	1	1	1	0	0	0	0	7
Agricultural Marketing Service - current baseline	1	0	0	0	1	1	0	0	3	6
Agricultural Marketing Service - actual	2	0	0	0	0	0	0	0	2	2
Animal and Plant Health Inspection Service - current baseline	1	1	0	1	0	0	1	18	0	20
Animal and Plant Health Inspection Service - actual	0	0	2	9	2	0	1	1	0	15
Grain Inspection, Packers and Stockyards Administration - current baseline	1	0	2	2	0	0	0	2	5	12
Grain Inspection, Packers and Stockyards Administration - actual	0	0	3	2	0	0	4	3	0	12
Marketing and Regulatory Programs - baseline	2	1	2	4	1	1	1	18	8	36
Marketing and Regulatory Programs - actual	0	0	5	11	2	0	5	4	2	29
Forest Service - current baseline	0	0	0	4	3	1	1	7	1	17
Forest Service - actual	0	0	1	3	3	2	3	2	1	16
Natural Resources Conservation Service - current baseline	0	2	1	2	2	2	1	1	0	11
Natural Resources Conservation Service - actual	1	0	3	0	3	1	1	0	0	9
Natural Resources and Environment - baseline	0	2	1	6	5	3	2	8	1	25
Natural Resources and Environment - actual	1	0	4	3	6	3	4	3	1	28
Agricultural Research Service - current baseline	1	1	0	0	0	0	0	0	0	2
Agricultural Research Service - actual	0	1	0	0	0	0	1	0	0	2
Cooperative State Research, Education and Extension Service - current baseline	0	0	0	0	0	0	0	0	0	0
Cooperative State Research, Education and Extension Service - actual	0	0	0	0	0	0	0	0	0	0
Economic Research Service - current baseline	0	0	0	0	0	0	0	0	0	0
Economic Research Service - actual	0	0	0	0	0	0	0	0	0	0
National Agricultural Statistics Service - current baseline	3	0	0	0	0	0	0	1	0	4
National Agricultural Statistics Service - actual	3	0	0	0	0	0	0	1	0	4
Research, Education and Economics - baseline	4	1	0	0	0	0	1	0	0	6
Research, Education and Economics - actual	3	1	0	0	0	0	1	1	0	6

Schedules for Mission Critical Systems to be Validated

Agency	Validated Prior to Jul 98	Validated Jul 98	Validated Aug 98	Validated Sep 98	Validated Oct 98	Validated Nov 98	Validated Dec 98	Validated Jan 99	Validated After Jan 99	Total Validation Completed
Rural Development - current baseline	7	1	4	2	0	0	0	0	0	14
Rural Development - actual	6	0	1	4	0	0	0	0	0	11
Rural Development - baseline	7	1	4	2	0	0	0	0	0	14
Rural Development - actual	6	0	1	4	0	0	0	0	0	11
Staff Offices										
Departmental Administration - current baseline	0	0	0	0	1	1	0	0	0	2
Departmental Administration - actual	0	0	0	0	1	1	0	0	0	2
National Appeals Division - current baseline	0	0	0	0	0	0	0	0	0	0
National Appeals Division - actual	0	0	0	0	0	0	0	0	0	0
Office of the Chief Financial Officer - NFC - current baseline	0	0	0	0	6	0	0	0	0	6
Office of the Chief Financial Officer - NFC - actual	0	0	0	0	0	3	3	0	0	6
Office of the Chief Information Officer - current baseline	0	0	0	0	0	0	0	0	0	0
Office of the Chief Information Officer - actual	0	0	0	0	0	0	0	0	0	0
Office of Communications - current baseline	0	0	1	0	0	0	0	0	0	1
Office of Communications - actual	0	0	1	0	0	0	0	0	0	1
Office of the Chief Economist - current baseline	2	3	0	0	0	0	0	0	0	5
Office of the Chief Economist - actual	2	3	0	0	0	0	0	0	0	5
Office of the Inspector General - current baseline	0	0	0	0	0	0	0	0	0	0
Office of the Inspector General - actual	0	0	0	0	0	0	0	0	0	0
Office of Budget and Program Analysis - current baseline	0	0	0	0	0	0	0	0	0	0
Office of Budget and Program Analysis - actual	0	0	0	0	0	0	0	0	0	0
Office of the General Counsel - current baseline	0	0	0	0	0	0	0	0	0	0
Office of the General Counsel - actual	0	0	0	0	0	0	0	0	0	0
Staff Offices - baseline	2	3	1	1	7	1	3	0	0	14
Staff Offices - actual	2	3	1	1	1	1	3	0	0	14
USDA BASELINE TOTAL	118	25	27	37	9	7	6	25	11	258
BASELINE CUMULATIVE TOTAL	118	143	170	207	216	223	229	255	266	
BASELINE CUMULATIVE PERCENT	44%	54%	64%	78%	81%	84%	86%	86%	100%	
USDA ACTUAL TOTAL	110	14	24	48	9	7	13	16	4	245
ACTUAL CUMULATIVE TOTAL	110	124	148	196	205	212	225	241	245	
ACTUAL CUMULATIVE PERCENT	41%	47%	55%	74%	77%	80%	85%	81%	82%	

Schedule for Mission Critical Systems to be Implemented

Agency	Prior to												Total After Mar 99	Impl Mar 99	Total Impl
	Jul 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Jan 99	Feb 99	Mar 99	Apr 99	May 99			
Economic Research Service - current baseline	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Economic Research Service - actual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
National Agricultural Statistics Service - current baseline	3	0	0	0	0	0	0	0	0	0	0	0	0	0	4
National Agricultural Statistics Service - actual	3	0	0	0	0	0	0	0	0	0	0	0	0	0	4
Research, Education and Economics - baseline	3	1	0	0	1	0	0	1	0	0	0	0	0	0	6
Research, Education and Economics - actual	3	0	1	0	0	0	1	1	0	0	0	0	0	0	6
Rural Development - current baseline	5	0	2	7	0	0	0	0	0	0	0	0	0	0	14
Rural Development - actual	5	0	0	4	1	0	0	0	0	0	0	0	0	0	11
Rural Development - baseline	5	0	2	7	0	0	0	0	0	0	0	0	0	0	14
Rural Development - actual	6	0	0	4	1	0	0	0	0	0	0	0	0	0	11
Staff Offices															
Departmental Administration - current baseline	0	0	0	0	2	0	0	0	0	0	0	0	0	0	2
Departmental Administration - actual	0	0	0	0	2	0	0	0	0	0	0	0	0	0	2
National Appeals Division - current baseline	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
National Appeals Division - actual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of the Chief Financial Officer - NFC - current baseline	0	0	0	0	0	0	0	6	0	0	0	0	0	0	6
Office of the Chief Financial Officer - NFC - actual	0	0	0	0	0	0	3	3	0	0	0	0	0	0	6
Office of the Chief Information Officer - current baseline	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of the Chief Information Officer - actual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of Communications - current baseline	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1
Office of Communications - actual	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Office of the Chief Economist - current baseline	2	3	0	0	0	0	0	0	0	0	0	0	0	0	5
Office of the Chief Economist - actual	2	3	0	0	0	0	0	0	0	0	0	0	0	0	5
Office of the Inspector General - current baseline	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of the Inspector General - actual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of Budget and Program Analysis - current baseline	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of Budget and Program Analysis - actual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of the General Counsel - current baseline	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Office of the General Counsel - actual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Staff Offices - baseline	2	3	0	1	2	0	3	3	0	0	0	0	0	0	14
Staff Offices - actual	2	3	1	0	2	0	3	0	0	0	0	0	0	0	14
USDA BASELINE TOTAL	116	6	17	47	17	2	12	14	14	22	1	266			
BASELINE CUMULATIVE TOTAL	116	120	137	184	201	203	215	229	243						
BASELINE CUMULATIVE PERCENT	43%	46%	52%	69%	76%	76%	81%	86%	91%						
USDA ACTUAL TOTAL	108	9	13	46	10	9	13	10	16	0	0	234			
ACTUAL CUMULATIVE TOTAL	108	117	130	176	186	196	208	218	234						
ACTUAL CUMULATIVE PERCENT	41%	44%	49%	66%	70%	73%	78%	82%	88%						

NEW A-11 IT EXHIBIT

Mr. Skeen: I understand that the reporting requirements for information resources management were changed and that OMB A-11 Exhibit 43 is no longer required. Provide the Committee with the new exhibit and provide them for the record, by agency, and to include fiscal years 1998-2000.

Response: OMB now requires that Exhibit 42 be submitted. A copy is provided for the record.

[The information follows:]

DATE PRINTED: Wed Apr 7, 1999 3:16:10 pm

OWB ACCOUNT ID: 605-XI-XXXX -0

AGENCY: Department of Agriculture

BUREAU: Department of Agriculture, activities

ACCOUNT: Department of Agriculture, activities

TREAS ACCT ID: -XXXX -0

EXERCISE: 012000

VERSION: MASTER

LAST PC ACTIVITY: 01-19

LAST OWS ACTIVITY: 01-19-99

DOWNLOAD DATE: 01-12-99

		(in millions of dollars)	
	PY BA	CY BA/FTE	BY BA/FTE
Resources for Financial Management (6)			
Report on Resources for Financial Management Activities			
Asset Management			
1001	No. of FTE.....	6,563	6,561
1002	Budget Authority.....	409	425
Accounting and Reporting			
2001	No. of FTE.....	2,157	2,159
2002	Budget Authority.....	127	131
Audits of Financial Statements			
3001	No. of FTE.....	.....	.....
3002	Budget Authority.....	1	1
Financial Management Systems			
4001	No. of FTE.....	739	738
4002	Budget Authority.....	129	125
Subtotal			
5001	No. of FTE.....	9,459	9,458
5002	Budget Authority.....	666	682
Adjustments			
6001	No. of FTE.....	.....	.....
6002	Budget Authority.....	.....	.....
Total, net			
7001	No. of FTE.....	9,459	9,458
7002	Budget Authority.....	666	682
Audits of Financial Statements Contract			

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OMB ACCOUNT ID: 005-XI-XXXX -0

ACCOUNT: Department of Agriculture, activities

EXERCISE: E12000

VERSION: MASTER

		(in millions of dollars)	
	FY BA	CY BA/FTE	BY BA/FTE
8102 Budget Authority.....		1	1
8201 In-house costs No. of FTE.....			
8202 Budget Authority.....			
9102 Org-wide Financial Statements Contract Budget Authority.....			
9201 In-house costs No. of FTE.....			
9202 Budget Authority.....			
9401 Total, all reporting entities No. of FTE.....			
9402 Budget Authority.....		1	1
9998 Robert M. Darragh III.....			
9999 (202) 720-0994.....			

Part 1. Data on IT Systems By Mission Area (7)

Mission Area 1: Financial Management

Major IT:

0110-10 FMS Agency Financial Management System.

0110-11 Development/modernization/ enhancement.....			
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0110-12 Steady State.....	4	4	4
---------------------------	---	---	---

0110-13 Subtotal, IT costs.....	4	4	4
---------------------------------	---	---	---

0110-14 01 Appropriation/Funding Sources FMS appropriations.....	4	4	4
---	---	---	---

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OMB ACCOUNT ID: 005-KK-KKXXX -0

ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000
VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/FYE	BY BA/FYE
0110-17	Subtotal, funding sources.....	4	4	4
0110-20	FNS Food Stamp Integrated Information System.....			
0110-21	Development/modernization/ enhancement.....	.....	.....	.....
0110-22	Steady State.....	2	2	3
0110-23	Subtotal, IT costs.....	2	2	3
0110-24 01	Appropriation/Funding Sources FNS appropriations.....	2	2	3
0110-27	Subtotal, funding sources.....	2	2	3
0110-30	FS Central Accounting System.....			
0110-31	Development/modernization/ enhancement.....	30	36	34
0110-32	Steady State.....	3	3	4
0110-33	Subtotal, IT costs.....	33	39	38
0110-34 01	Appropriation/Funding Sources FS Appropriations.....	33	39	38
0110-37	Subtotal, funding sources.....	33	39	38
0110-40	FS Integrated Personnel System.....			
0110-41	Development/modernization/ enhancement.....	5	6	6
0110-42	Steady State.....			

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000
VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/FTE	BY BA/FTE
0110-43	Subtotal, IT costs.....	5	6	6
0110-44 01	Appropriation/Funding Sources FS Appropriations.....	5	6	6
0110-47	Subtotal, funding sources.....	5	6	6
0110-50	FSA CORE.....			
0110-51	Development/modernization/ enhancement.....	3	2	.....
0110-52	Steady State.....	1	1	1
0110-53	Subtotal, IT costs.....	4	3	1
0110-54 01	Appropriation/Funding Sources CCC.....	1	1	1
0110-54 02	FSA Appropriation.....	3	2	.....
0110-57	Subtotal, funding sources.....	4	3	1
0110-60	NRCS Financial Management Information System - Legacy.....			
0110-61	Development/modernization/ enhancement.....	.....	.....	.....
0110-62	Steady State.....	6	6	6
0110-63	Subtotal, IT costs.....	6	6	6
0110-64 01	Appropriation/Funding Sources NRCS Appropriation.....	6	6	6
0110-67	Subtotal, funding sources.....	6	6	6

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000
VERSION: MASTER

	PY BA	CY BA/FTE	(in millions of dollars) BY BA/FTE
0120-01 All Other Financial Management Development/modernization/ enhancement.	11	14	12
0120-02 Steady State.....	29	30	31
0120-03 Subtotal, IT costs.....	40	44	43
0120-04 01 Appropriation/Funding Source FS Appropriation.....	5	5	5
0120-04 02 USDA Agencies Appropriations.....	32	34	38
0120-04 03 CCC.....	3	5	.....
0120-07 Subtotal, funding sources.....	40	44	43
0130-01 Totals: Mission Area Development/modernization/ enhancement.	49	58	52
0130-02 Steady State.....	45	46	49
0130-03 Subtotal, IT costs.....	94	104	101
Other Mission Areas			
Mission Area 2: USDA Program and Administrative Support Systems.....			
1110-10 Major IT: FMS Food Stamp Integrated Information System.....			
1110-11 Development/modernization/ enhancement.....			
1110-12 Steady State.....	3	4	4
1110-13 Subtotal, IT costs.....	3	4	4

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ONS ACCOUNT ID: 005-XX-XXXX -0

EXERCISE: EX2000

ACCOUNT: Department of Agriculture, activities

VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/FTE	BY BA/FTE
1110-14 01	Appropriation/Funding Sources FNS appropriations.....	3	4	4
1110-17	Subtotal, funding sources.....	3	4	4
1110-20	Processed Commodities Inventory Management System.....			
1110-21	Development/modernization/ enhancement.....	1	1	4
1110-22	Steady State.....	8	8	8
1110-23	Subtotal, IT costs.....	9	9	12
1110-24 01	Appropriation/Funding Sources AMS Appropriation.....	1	1	3
1110-24 02	FSA Appropriation.....	2	2	2
1110-24 03	COC.....	2	2	2
1110-24 04	FNS appropriations.....	4	4	5
1110-27	Subtotal, funding sources.....	9	9	12
1110-30	FNS Electronic Benefit Transfer.....			
1110-31	Development/modernization/ enhancement.....	.....	.....	.....
1110-32	Steady State.....	43	43	43
1110-33	Subtotal, IT costs.....	43	43	43
1110-34 01	Appropriation/Funding Sources FNS appropriations.....	43	43	43

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ACCOUNT: Department of Agriculture, activitiesEXERCISE: EX2000
VERSION: MASTER

		(in millions of dollars)		
		FY BA	CY BA/FTE	BY BA/FTE
1110-37	Subtotal, funding sources.....	43	43	43
1110-40	FSIS Field Automation & Information Management.....			
1110-41	Development/modernization/ enhancement.....	8	12	12
1110-42	Steady State.....			
1110-43	Subtotal, IT costs.....	8	12	12
1110-44 01	Appropriation/Funding Sources FSIS Appropriation.....	8	12	12
1110-47	Subtotal, funding sources.....	8	12	12
1110-50	APHIS Integrated Systems Acquisition Project.....			
1110-51	Development/modernization/ enhancement.....			
1110-52	Steady State.....	10	6	9
1110-53	Subtotal, IT costs.....	10	6	9
1110-54 01	Appropriation/Funding Sources APHIS Appropriation.....	10	6	9
1110-57	Subtotal, funding sources.....	10	6	9
1110-60	FS Integrated Personnel System.....			
1110-61	Development/modernization/ enhancement.....	5	6	6

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(in millions of dollars)		
		PY BA	CY BA/FTE	BY BA/FTE
1110-62	Steady State.....	.....	.....	.....
1110-63	Subtotal, IT costs.....	5	6	6
Appropriation/Funding Sources				
1110-64 01	FS Appropriations.....	5	6	6
1110-67	Subtotal, funding sources.....	5	6	6
1110-70	Service Center.....			
1110-71	Development/modernization/ enhancement.....	90	50	90
1110-72	Steady State.....	.....	.....	.....
1110-73	Subtotal, IT costs.....	90	50	90
Appropriation/Funding Sources				
1110-74 01	RD Appropriation.....	6	8	.....
1110-74 02	OCC.....	49	10	16
1110-74 03	FSA Appropriation.....	4	1	.....
1110-74 04	Service Bureau Appropriation.....	.....	.....	74
1110-74 05	NRCS Appropriation.....	31	31	.....
1110-77	Subtotal, funding sources.....	90	50	90
1110-80	RD Dedicated Loan Origination System...			
1110-81	Development/modernization/ enhancement.....	1	1	1
1110-82	Steady State.....	4	4	4

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OMB ACCOUNT ID: 085-MN-XXXX -0

ACCOUNT: Department of Agriculture, activities

EXERCISE: EE2000

VERSION: MASTER

		(in millions of dollars)		
		FY BA	CY BA/FTE	BY BA/FTE
1110-93	Subtotal, IT costs.....	5	5	5
1110-94 01	Appropriation/Funding Sources NO Appropriation.....	5	5	5
1110-97	Subtotal, funding sources.....	5	5	5
1110-90	NRCS Administrative Support and Records Management/MSIS.....			
1110-91	Development/modernization/ enhancement.....			
1110-92	Steady State.....	1	1	1
1110-93	Subtotal, IT costs.....	1	1	1
1110-94 01	Appropriation/Funding Sources NRCS Appropriations.....	1	1	1
1110-97	Subtotal, funding sources.....	1	1	1
	All Other for Mission Area.....			
1120-01	Development/modernization/ enhancement.	75	95	94
1120-02	Steady State.....	406	413	413
1120-03	Subtotal, IT costs.....	481	508	507
1120-04 01	Appropriation/Funding Sources FCIC Revolving Fund.....		2	2
1120-04 02	Other USDA Agency Appropriations.....	420	429	442
1120-04 03	GIPSA Trust.....	2	2	1

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(In millions of dollars)		
		PY BA	CY BA/FTE	BY BA/FTE
1120-04 04	CCC.....	18	21	18
1120-04 05	FS Appropriation.....	41	54	44
1120-07	Subtotal, funding sources.....	481	508	507
Total: Mission Area.....				
1130-01	Development/modernization/ enhancement.	180	165	207
1130-02	Steady State.....	475	479	482
1130-03	Subtotal, IT costs.....	655	644	689
All Mission Areas				
9930-01	Development/modernization/ enhancement...	229	223	259
9930-02	Steady State.....	520	525	531
9930-03	Subtotal, IT costs.....	749	748	790

Part 2. Data on Infrastructure and Office Automation (8)

Major IT Infrastructure System:				
01-1010	FS Project 615.....			
01-1011	Development/modernization/ enhancement.	85	68	31
01-1012	Steady State.....	28	32	71
01-1013	Subtotal, IT costs.....	113	100	102
Appropriation/Funding Sources				
01-1014 01	FS Appropriations.....	113	100	102
01-1017	Subtotal, funding sources.....	113	100	102

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(in millions of dollars)		
		FY BA	CY BA/FTE	FY BA/FTE
01-1020	FSA SOAP.....			
01-1021	Development/modernization/ enhancement.....		1	
01-1022	Steady State.....	9	10	8
01-1023	Subtotal, IT costs.....	9	11	8
Appropriation/Funding Sources				
01-1024 01	CCC.....	9	11	8
01-1024 02	FSA Appropriation.....			
01-1027	Subtotal, funding sources.....	9	11	8
Other Infrastructure System:				
01-2001	Development/modernization/ enhancement...	89	105	88
01-2002	Steady State.....	216	234	222
01-2003	Subtotal, IT costs.....	305	339	310
Appropriation/Funding Sources				
01-2004 01	CCC.....	11	20	1
01-2004 02	FS Appropriation.....	106	108	99
01-2004 03	USDA Agencies Appropriation.....	188	211	210
01-2007	Subtotal, funding sources.....	305	339	310
All Infrastructure Systems:				
99-3001	Total Development/modernization/ enhancement.....	174	174	119
99-3002	Total Steady State.....	253	276	301

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ACCOUNT: Department of Agriculture, activities

EXERCISE: EX2000

VERSION: MASTER

		(in millions of dollars)		
	FY	CY	BY	
	BA	BA/FTE	BA/FTE	
99-3003	Total, All Infrastructure Systems.....	427	450	420

Part 3. Data on IT Architecture and Planning (0)

Other IT Architecture and Planning:				
01-2001	Development/modernization/ enhancement...	.....	.....	1
01-2002	Steady State.....	.....	.....	.....
01-2003	Subtotal, IT costs.....	.....	.....	1
Appropriation/Funding Sources				
01-2004 01	USDA Agency Appropriations.....	.....	.....	1
01-2007	Subtotal, funding sources.....	.....	.....	1
All IT Architecture and Planning				
99-3001	Total Development/modernization/ enhancement.....	.....	.....	1
99-3002	Total Steady State.....	.....	.....	.....
99-3003	Total, All IT Architecture.....	.....	.....	1

Part 4. IT Resources Summary (0)

Mission Area, Infrastructure, and Architecture Totals				
99-3001	Development/modernization/ enhancement...	403	397	379
99-3002	Steady State.....	773	801	832
99-3003	Total, All IT costs.....	1,176	1,198	1,211

USDA RESTRUCTURING PROGRESS

Mr. Skeen: The 1994 GAO report on USDA Restructuring recommended a focus on Business Processes. What progress, if any, has been made in this area?

Response: The National Food and Agriculture Council -- FAC, at the request of the Secretary, is reengineering, modernizing, and streamlining the processes of county-based Service Centers. The FAC established the Service Center Implementation Team -- SCIT -- to design and implement the changes required to achieve an integrated Service Center environment that will provide customers with "One Stop Service."

The National FAC looked at a number of high level activities conducted at the service center and grouped them into four separate Business Process Reengineering -- BPR -- projects: Customer Interface, Customer Service-Program Delivery, Geospatial Information, and Administrative Management.

These four projects resulted in 45 recommendations which were prioritized into 17 implementation projects by the FAC. These projects will address customer needs and provide the infrastructure needed to make improvements. Based on these 17 projects, a business case was developed that projected life cycle costs and benefits out to the year 2011. This projection is available upon request.

A business integration strategy has been developed which identifies how the 17 original projects, as well as 3 additional projects will be implemented over the next five years. Initial work is focusing on nine selected pilot sites. The business integration strategy includes the following focus areas:

Internal Operations and Work Processes -

- Internal Office Operations include processes such as: HR, Procurement and Contracting, Financial Management, Training, Directives, hiring, and travel.
- Program Work Processes includes: lending, farm and community programs, eligibility and compliance, conservation, and resource inventory and assessment.

Customer Service and Outreach -

- Office collocation, customer satisfaction measurement, and change management/training.

Accurate and Timely Land, Customer and Program Information

- Geospatial Data definition, acquisition, and delivery to customers
- Customer Information Standardization
- Public and customer access to program information.

Example benefits expected from BPR include:

- Customers will receive USDA benefits seamlessly rather than through stovepipe delivery systems.
- Additional service center employee time can be spent with customers because of the elimination of duplicative work currently performed.
- Accurate, high quality, tailored products will be provided to customers because of integrated data and geographic information system availability.
- More services and benefits can be provided at the customer's location.

While there are many other specific benefits for both customers and internal benefits, the primary benefit is that of achieving the vision the Secretary has cast for better, more efficient delivery of USDA programs to rural America.

USDA TOTAL PLANNED 2000 IT EXPENDITURES

Mr. Skeen: What is USDA's total planned IT expenditures for fiscal years 2000 and how much will be spent on agency hardware and software?

Response: As reflected in the OMB Exhibit 42 report submitted in January, 1999, USDA has requested budget authority for IT of just over \$1.2 billion. Specific information on the expenditures for hardware and software are no longer reported. According to the last Exhibit 43 report, prepared in the fall of 1998 for budget year 2000, the estimated expenditures for equipment are \$224 million, and estimated expenditures for software are \$66 million.

NUMBER AND COST OF AGENCY OR OFFICE FTE'S FOR FY 2000

Mr. Skeen: How many FTE's by each component agency or office will be supported under this budget and what is the cost?

Response: According to the estimate prepared in August of 1998 for FY 2000, the number of FTE's from all of USDA's agencies and staff offices devoted to information technology activities is 4,816 for FY 2000. The composition, by agency or office, follows:

AGENCY	PERSONNEL - \$000	FTE
AMS	\$2,951	72.00
ARS	16,127	225.50
APHIS	13,332	202.00
CSREES	2,053	24.50
DA	1,931	25.75
ERS	4,355	50.00
FSA	45,671	683.00
FNS	10,517	158.56
FSIS	4,501	72.00
FAS	0	0.00
FS	84,689	1443.19
GIPSA	2,016	27.50
NASS	7,058	142.00
NAD	0	0.00
NRCS	25,308	414.00
OBPA	315	4.40
OC	264	5.00

OCE	567	4.50
OCFO	26,452	604.00
OCIO	24,287	314.33
OIG	1,179	23.00
OGC	229	3.00
RMA	3,935	58.80
RD	14,763	259.00
TOTAL	\$292,500	4,816.03

IT BUDGET FOR CONTRACTOR SUPPORT

Mr. Skeen: How much of fiscal year 2000 IT budget will be used for contractor support?

Response: The amount of the FY 2000 IT budget to be used for contract support services was not required by OMB and was not collected from the agencies. OCIO will collect this information for submission by May 1, 1999.

CPIC GOALS, OBJECTIVES, RESULTS

Mr. Skeen: To what extent have the CIO's fiscal year 1999 performance goals and objectives been achieved for each activity being carried out under the Capital Planning and Investment Control Process? What are the results?

Response: For FY 1999 we established a performance goal that ten agencies use the Capital Planning and Investment Control -- CPIC -- process in the management of their information technology assets. At present, we have nearly fifteen of the agencies in the Department using the methods and disciplines fostered by CPIC process, which substantially exceeds our goal. However, some agencies are further along implementing the CPIC process than others. Additional funding is required to implement all phases of the Select, Control, and Evaluate model.

TIMEFRAME AND MILESTONES FOR USDA CAPITAL PLANNING AND IT ARCHITECTURE

Mr. Skeen: Have you established the current time frame and milestones for completing a department wide Information Systems Technology Architecture, and fully instituting a Capital Planning and Investment Control Process at USDA?

Response: USDA is revising Version 1 of the ISTA. The next version will be published in the summer of 1999. This effort is refocusing the architecture to align with the Federal Architecture Model, which prescribes a segment approach for addressing diverse organizations such as the Federal government and USDA. Major segments represent business areas such as grants, finance, ecosystems management, etc. Organizing by segments allows critical parts of the architecture to be developed individually, while also providing a mechanism for integrating the architecture segments into the larger enterprise architecture. Examples of USDA segments include: the Foundation Financial Information System - with initial implementation of the Department-wide

financial system beginning in FY 1999 and ending in FY 2002, the Service Center Initiative's Lan/Wan/Voice and Common Computing Environment -- CCE -- which are bringing common telecommunications, and network and desktop hardware and software infrastructures, to over 2500 county-based farm service centers.

Lan/Wan/Voice deployment is over 85% complete, with the remainder to be completed in FY 1999. CCE deployment was initiated in FY 1998 for Year 2000 machine replacements and will continue through FY 2002 to fully complete the system. And, the Procurement Modernization Team is working to provide modern, integrated procurement automation tools and streamlined business processes to the USDA acquisition community - breaking down "stovepipes", reducing the time and cost of processing procurement actions, and better supporting the Department's mission.

During FY 2000, integration of the USDA Information Systems Technology Architecture -- ISTA -- into the capital planning process will continue to ensure the interoperability of future information technology investments across program areas and further breakdown existing "stovepipes" within the Department.

During FY 1999, the OCIO capital planning performance plan goal was to have 10 agencies using the Capital Planning and Investment Control Process. For FY 2000, the goal stated was 20 agencies using capital planning. We now have 15 agencies using capital planning, and hope that by the FY 2001 budget cycle, which begins in July, all of our agencies and staff offices will be using capital planning to manage their IT investments. Further, USDA plans to use I-TIPS, an information technology capital planning support system, to produce reports for OMB, including Circular A-11 Exhibit 42 and Exhibit 300. Additional resources requested in the President's budget would be used to hire and train skilled staff to perform and review benefit-cost, return on investment, and other detailed analyses in order to reduce as far as practical the risk of failure in the development, deployment, and operation of USDA information technology systems.

A UNIFIED SYSTEM OF INFORMATION TECHNOLOGY MANAGEMENT

Mr. Skeen: Has the CIO independently validated and verified its work on creating a unified system of information technology management? If so, what are the results?

Response: OCIO has instituted a policy that Independent Verification and Validation -- IV&V -- reviews of major segments of USDA's information technology management process be conducted as a normal part of the system life cycle. OCIO has conducted several reviews over the last two years, all which have yielded valuable feedback and recommendations, and which have helped to strengthen the Department's internal IT management processes.

For example, an IV&V of the USDA Information Systems Technology Architecture -- ISTA -- validated the baseline architecture against current industry standards, provided recommendations for future development which are consistent with OMB guidelines, and identified a set of critical success factors. A review of USDA's Foundation Financial Information System, the core of USDA's future Foundation Information System Vision and Strategy, included a recommendation to suspend implementation and modify the approach to implementation and management, which was completed successfully. The Service Center Modernization Initiative is building the future information technology foundation for to support USDA's farm service and rural development agencies. OCIO has overseen reviews of several aspects of Service Center implementation, including the business case,

telecommunications deployment and the Common Computing Environment -- CCE. Recommendations were adopted which have improved project management, validated the CCE cost benefit/analysis and technical alternatives, and redirected the LAN/WAN/Voice deployment to ensure proper implementation.

IMPROVING IT MANAGEMENT IN NETWORK SECURITY, DATA MANAGEMENT, ETC.

Mr. Skeen: What has been done by the CIO to improve and strengthen IT management in other key areas such as information systems and network security, data management, etc.? What performance indicators have been established for these other areas and what are the time frames and milestones for completing work?

Response: The CIO has undertaken several initiatives to improve and strengthen IT management in such key areas as information systems and network security and data management. In the area of IT systems and network security, the preparation of an interim USDA plan to meet critical infrastructure protection requirements mandated by Presidential Decision Directive -- PDD -- 63 has been completed and follow-on steps remain a priority. OCIO has focused on developing comprehensive guidelines for USDA agency IT security plans. These guidelines require agencies: 1 - to respond to existing regulatory requirements as well as PDD 63 requirements; 2 - to link the IT security planning and budgeting processes; and 3 - to establish performance indicators for measuring the effectiveness of agency IT security programs. Agency IT security submissions are due to OCIO by June 1, 1999. After an initial request for IT security budgets during late 1998, agencies will be required to submit IT security budget information as a part of the annual A-11 IT budgeting process. IT budget data must be submitted during early July for the beginning of an intense budget review process.

USDA has also implemented a comprehensive Information Security Policy review and update project. The project includes development of new policies and revision of existing policies in such areas as electronic mail privacy and security, Internet security, incident reporting, software piracy, and security awareness and training. We have established a process of working closely with USDA agency officials and external consultants, such as the Gartner Group, in developing and vetting these policies before issuance. The identified security policies are scheduled to be published at varying intervals between now and September 30.

USDA's long-term focus through FY 2002 involves increasing operational efficiency by reengineering business processes and implementing common computer applications, data architectures and computing platforms to facilitate sharing of accurate, timely and readily accessible information across mission areas. Performance improvements will be measured in terms of the time required to collect and process data, turn-around time for loans and payments, and less travel time, which will allow farmers to be farmers.

USDA Information Collection activities work to ease the paperwork "burden" on our customers and facilitate effective management of Department Information resources. In meeting regulatory requirements, OCIO ensures the department continues to reduce the time, effort, and/or financial resources required to communicate with the the USDA. These efforts are measured on an annual basis, with a target burden reduction, set by the Office of Management and Budget, of 5% in each of FY 1999 and 2000. While the Department does not expect to meet this target in FY 1999 -- 2.9%, the FY 2000 projection is to exceed the target -- 7.8%.

Through our oversight, we are also helping to ensure that data management is

a very high priority within the Service Center Modernization Initiative -- SCMI. The need for the farm, conservation and rural development program areas to share data about customers, land and program participation and to reduce paperwork, has led to an intensive effort within the SCMI area related to data management. These Agencies have established an interagency Data Management team that has made significant progress in reaching consensus on data definitions. For example, by agreeing to a standard definition of a common land unit, future business process re-engineering efforts - across program delivery areas - will share common base Geographic Information System -- GIS -- data, and data gathering and analysis processes. Additionally, the team has established a joint Data Management Policy and Data Management Strategy, and is exploring common data warehouse tools to further integrate data management approaches.

SUPPORT SERVICES BUREAU

Mr. Skeen: What are the department's planned expenditures and FTE levels for the Support Services Bureau -- SSB -- in fiscal year 2000, and what amounts will be used for IT personnel?

Response: Secretary Glickman approved the Organizational Structure of the Support Services Bureau -- SSB -- on February 3, 1999, and directed that the SSB be operational on October 1, 1999. The Secretary asked that the Implementation Team finalize the FY 1999 administrative budget and staffing levels relative to the SSB formation. A team has been formed to make this estimate for FY 2000 expenditures and FTE levels for the SSB. They should complete their work within the next several weeks and we will provide these estimates to you. Staffing and resources for direct program delivery will not be converged, but remain specific to each agency in this budget.

Mr. Skeen: What are the total sources of funding for the SSB in fiscal year 2000?

Response: The SSB will be financed by a combination of transfers from serviced agencies and direct appropriations. Specifically, the salaries and expenses of the SSB will be financed through transfers from serviced agencies. Transfer authority is requested to merge the agencies central administrative services into this common account. The FY 2000 budget also requests \$74,050,000 for Service Center Modernization Initiative -- SCMI. In addition, \$16,231,000 will be made available from the Commodity Credit Corporation.

Mr. Skeen: Have you established performance measurements for providing service through the SSB?

Response: A 1999 and 2000 Annual Performance Plan for the Service Center Modernization Initiative activities that will be funded in the SSB account has been created. The General Accounting Office issued a report -- GAO/RCED-99-34, Administrative Streamlining Is Expected to Continue Through 2002 -- which recommend that the Secretary "...develop and implement performance measures for the Department's administrative operations that assess service delivery, efficiency, and quality". The Department is working on a response to this GAO Report. The SSB Implementation Leadership has a strategic plan that includes establishing baselines needed to develop performance measures for the SSB.

Mr. Skeen: What process did USDA use to determine the workload needs for the

Support Services Bureau in terms of the planned expenditures and FTE levels?

Response: The SSB planning process ended on October 8, 1998, when a report was issued to the Secretary. The planning team spent a considerable amount of time determining what positions were to be included in the SSB. They developed a standard staffing methodology to identify positions to be included in the SSB baseline data for fiscal year 1998. Now that the SSB implementation process has begun, a team has been assigned to update the FY 1998 data to reflect the current status of the three agencies' on-board staffing.

Mr. Skeen: The USDA has determined that it would be more economical and efficient to establish the SSB, would such a concept work for all of USDA?

Response: The SSB concept will work because the agencies involved represent the USDA program delivery system to rural areas. The three agency stand alone administrative staffs are generally collocated and many of the program responsibilities of the agencies are interrelated. This similarity in location and mission lends itself to merging the three administrative support functions into the SSB. At this point no assessment has been made as to whether the concept would work for all of USDA.

Mr. Skeen: Has the Secretary assigned a senior-level official with overall responsibility, authority, and accountability for managing and coordinating the separate service center IT modernization projects? If so, when was this assignment made and who was assigned?

Response: The Secretary has approved an organization of the SSB which will have a National Board of Directors made up of the Administrator of the Farm Service Agency, The Deputy Under Secretary of Operations and Management of Rural Development, and the Chief of the Natural Resources Conservation Services. An Executive Director who reports to the National Board will lead the SSB. In support of the National structure, each state will have a Board of Directors and a single Administrative Support Unit. In addition to the State units, four unique program units have been identified. These entities will also have a Board of Directors and a single Administrative Support Unit. To ensure a single point of accountability for the SSB, the National Board of Directors will allocate administrative funds and delegate administrative authorities to the SSB Executive Director. The Executive Director and other senior leaders of the SSB will be fully responsible to the National Board for ensuring that the needs and requirements of the serviced agencies are met. The SSB Deputy Director will also be the Chief Information Officer for this group of Agencies, and will manage the IT support for the Service Center Modernization Initiative.

The Secretary signed a memorandum on March 3, 1999, approving the organizational structure of the Support Services Bureau and appointing Joseph Leo as the Acting Executive Director for implementing the new organization. Until the SSB is operational, the ongoing SCMI will continue to operate as a joint project for FSA, Rural Development, and NRCS. The Deputy Secretary assigned the responsibility for strategic coordination and management of the SCMI to the National Food and Agriculture Council -- FAC. The National FAC manages the efforts of inter-agency project teams working towards completing the SCMI. All Service Center Agency staff working on the SCMI are contributed by the agencies without reimbursement.

GAO RECOMMENDATION TO HOLD CIO ACCOUNTABLE FOR SCMI.

Mr. Skeen: Has USDA implemented GAO's recommendation for holding the CIO accountable, and providing the requisite authority and responsibility for managing and implementing the Service Center IT modernization effort?

Response: The Department did not agree with the GAO recommendation. Our position is that we will continue to place accountability with the program leaders of the agencies to ensure that the modernization, business process reengineering, change management, and other components of the Service Center initiative are carried out successfully. The USDA CIO will continue to provide a strong oversight role to ensure that the IT modernization is done correctly and is in accordance with the overall IT architecture envisioned for the Department.

USDA REQUEST FOR CCC INCREASE

Mr. Skeen: What is included in USDA's request for an increase on CCC for computers and telecommunications?

Response: The proposed legislation provides an increase of \$105 million in the CCC ADP cap from FY 2000 to 2002. This level of funding will provide an average of \$35 million each year in CCC funding for ADP activities. Funding at this level will only cover PSA operational, contractor support, and maintenance costs of mission critical systems with very limited funds for new initiatives, capital investments, or funds to begin converting/reengineering.

GAO RECOMMENDATIONS ON REDUNDANT AND UNNECESSARY TELECOMMUNICATIONS SERVICES

Mr. Skeen: Has the Department addressed GAO's recommendations and solved its problems with redundant and unnecessary telecommunications networks and services?

Response: Many of GAO's recommendations have been addressed and many of USDA's redundant and unnecessary telecommunications networks and services have been eliminated. Still, work needs to and will continue on eliminating redundant and unnecessary telecommunications network and services. The following are some specific actions taken:

A Departmental moratorium on the acquisition of all telecommunications resources was established in the fall of 1996. This moratorium required USDA agencies to document the need for each telecommunications acquisition prior to initiating the acquisition process. Waivers were granted only when clearly demonstrated cases for need could be established. In addition, opportunities for sharing telecommunications equipment and facilities were explored, and when applicable, were required as a part of moratorium waivers.

The Telecommunications Network Stabilization and Migration Program --TNSMP -- augmented the USDA Departmental moratorium on the acquisition of telecommunications equipment and services by defining Departmental and agency roles and procedures relating to acquisitions. TNSMP identifies the requirements for sharing services across USDA agencies. It requires agencies to prepare detailed plans for telecommunications projects and to document those plans. As part of this process, agencies enter forecasts of equipment and service acquisitions into a Departmental database called Forecast Inventory Requirements -- FIR. This information is analyzed to ensure cooperation and sharing of telecommunications resources among USDA agencies. Requests which do not meet

TNSMP requirements are re-designed appropriately. Additionally, DR 3300-1 strengthens the requirement to share services.

USDA is also committed to implementing the USDA Enterprise Network -- EN, which will optimize the sharing of services across the Department. The first phase of the Enterprise Network implementation will be completed as a part of USDA's transitions to FTS2001.

Mr. Skeen: Will USDA resolve these problems before making a transition to FTS2001?

Response: The initial implementation of the USDA Enterprise Network -- EN -- will coincide with the USDA transition from FTS2000 to FTS2001. Transition and implementation of the USDA EN will be used to optimize and consolidate voice and data access arrangements at USDA locations Nationwide and specifically at those sites indicated in the TNSMP as Group One Cities. Because FTS2001 is a different contract with different access arrangement options, tariffs, and services, all sites, even those currently optimized, must be assessed.

SHARING TELECOMMUNICATIONS RESOURCES WITH DEPARTMENT OF THE INTERIOR

Mr. Skeen: What has USDA done to share telecommunications resources, including voice, data, video, and radio equipment and services with the Department of the Interior?

Response: In January of 1998, a Memorandum of Understanding -- MOU -- was signed between The Department of Agriculture and the Department of the Interior, outlining the agreements for optimizing and consolidating telecommunications, telephone services, and data networks where cost savings opportunities were identified. USDA, primarily the Forest Service, has established Telecommunications Management Improvement Program projects with the Department of the Interior -- USDO I. Together, USDA and USDO I identified collocated facilities where specific review was needed to determine the feasibility of sharing telecommunications services. We now share telephone systems, data networks, radio systems, and coordinate the acquisition of narrowband radios.

Following is a list of co-located sites where sharing of services or equipment has been implemented between the FS and USDO I -- Fish and Wildlife Service -- FWS, Bureau of Land Management -- BLM, US Geological Survey -- USGS, National Park Service -- NPS, and Bureau of Reclamation -- BOR.

California:

1. FS Redding sharing T1 channels and removing circuits with BLM
2. FS Arcata sharing T1 channels and removing circuits with BLM
3. FS Susanville sharing T1 channels and removing circuits with BLM
4. FS Cedarville sharing T1 channels and removing circuits with BLM
5. FS Alturas sharing T1 channels and removing circuits with BLM
6. FS Bishop sharing T1 channels and removing circuits with BLM
7. FS San Bernadino sharing T1 channels and removing circuits with BLM
8. FS Mare Island, CA sharing circuits and Internet access with USGS
9. Private virtual network between FS and BLM - Firewalls have been put in place to make trusted networks between BLM and FS, providing each agency access to the other's Intranet.

Colorado:

1. Craig Fire Dispatch Center sharing Telephone and LAN with BLM
2. Grand Junction Fire Dispatch Center sharing Telephone and LAN with BLM

3. Canon City sharing Telephone, Servers, Radio, Router, Front Desk with BLM
4. Montrose sharing telephone, Data, Front Desk with BLM
5. Durango sharing telephone, Radio, Router, Front Desk with BLM
6. Saguache sharing telephone, Radio, network, Front Desk with BLM
7. Del Norte sharing telephone, data, Radio and Front Desk with BLM
8. La Jara sharing telephone, data, Radio, and front desk with BLM
9. Gunnison sharing telephone, Radio, and Front Desk with BLM
10. FS Dolores sharing PBX with BLM
11. FS Monte Vista sharing PBX/LAN with BLM

Georgia:

1. FS Atlanta sharing fire dispatch office with NPS

Idaho:

1. Boise State BLM Office and Boise National Forest Office sharing telephone, LAN, data, and receptionist duties.
2. Challis Field Office co-locate with FS Office in Challis sharing telephone, data, and the receptionist.
3. Malad Field Office co-locate in local FS office sharing telephone, data, receptionist.
4. Twin Falls Office co-locate in local FS office sharing telephone, data, receptionist.
5. Boise, BLM and FS Shared dispatch center sharing telephone and LAN
6. Salmon, BLM and FS Shared dispatch center sharing telephone and LAN
7. Idaho Falls, BLM and FS Shared dispatch center sharing telephone and LAN
8. Orofino FS sharing FWS frame relay tunnel through FS network to FWS, Portland, OR

New Mexico:

1. BLM State Office and FS Region co-located in FS facility sharing BLM phone service in Albuquerque.
2. BLM Taos and FS Taos office co-location sharing voice and data network
3. FS Santa Fe sharing PBX with BLM
4. FS Las Vegas sharing PBX with BLM
5. FS Cuba sharing PBX with BLM

Oregon:

1. Prineville BLM District Office and FS Ochoco National Forest campus co-location where FS provided phone service, interconnected LANs via firewall.
2. BLM Lakeview District Office and FS Fremont Ranger District sharing FS voice.
3. BLM Klamath Resource Area and FS Klamath Falls Ranger District sharing FS voice.
4. BLM Burns District Office and FS Burns Ranger District co-location sharing FS voice.
5. BLM Baker Resource Area and FS Baker Ranger District co-located in FS facility sharing phone service.
6. Baker City, FS sharing PBX with BLM.
7. FS Central OR offices sharing voice, data with BLM Central OR Initiative -three National Forests and one BLM District office.
8. Klamath Falls, FS office sharing Voice with NPS, Crater Lake National Park
9. Hines, FS sharing voice with BLM

Wyoming:

1. FS Buffalo sharing PBX with BLM

Washington:

1. FS Olympia office sharing voice with NPS Olympic National Park
2. FS Vancouver and Mountlake Terrace offices sharing voice with NPS Mt. Rainier National Park.

At the following locations, sharing opportunities have been identified and are being implemented:

1. Portland, OR State Office and FS Region 6 Regional Office co-location in 1999 will share GSA voice services and data networks trusted networks between BLM and FS. We now access each other's Intranets.
2. FS Region 5 in California working with California BLM on FTS2001 Transition
 - sharing information and checking on what services they can combine to save money during transition.
3. Sharing Mountain Top Repeaters all over Western United States with BLM.

USDA placed a purchase moratorium on Forest Service radio systems in response to GAO/AIMD-97-67 recommendations to the Department of Agriculture and the Department of the Interior.

Forest Service provided additional guidance defining the extent of the radio system moratorium, and required their regions to submit plans for replacement or expansion of existing radio systems to the FS Washington Office -- WO -- for approval prior to procurement action. The purpose of the WO review and approval process was to assure that opportunities for sharing radio systems with other agencies were investigated and implemented when determined to be cost-effective and to have no negative impact on agency missions.

February 10-12, 1998 - DOI National Telecommunications Workshop.

Several FS headquarters and regional radio telecommunications managers attended the DOI workshop to work with the DOI and its bureaus to increase agency intercommunications involving resource sharing. The FS gave a presentation to the workshop covering its activities and direction. There were a number of opportunities for discussion and agreements were made to begin working together in several areas.

February 24-26, 1998 - FS National Radio Meeting Radio telecommunications managers attended the meeting from each FS region, the WO, the Bureau of Land Management -- BLM, and the USDOJ Headquarters. The meeting covered a number of radio program items; however, emphasis was placed on identification and development of radio system sharing opportunities. Each regional representative was provided with a listing showing all FS electronic sites within their regional boundaries having co-located USDA and/or USDOJ facilities on the site. Each representative was directed to conduct a sharing assessment of each forest radio system in their region relative to the sites having co-located facilities. The assessments were to be provided to the WO by July 31, 1998. Another subject discussed covered possible locations for immediate design and implementation of cost-effective shared radio systems. The intent of immediate design and implementation of a system was to provide a pilot system to be used as a guide for other areas of the organization. The Grand Mesa, Uncompahgre, and Gunnison National Forests, and the BLM Montrose District, in Southern Colorado, were identified and agreed to be the first pilot system design. The Modoc and Sierra National Forests in California were to also identified as additional locations to be considered for near-term sharing opportunities with BLM.

June 11, 1998 - Memo to field offices. Provided a reminder of the July 31, deadline for providing sharing assessments to the WO and additional guidance to assist regions in providing the required information.

July 20, 1998 - E-mail to field offices. Adjusted the sharing assessment reporting date from July 31, 1998, to August 29, 1998. Several FS regions were

unable to meet the earlier date due because a number of their telecommunications personnel were involved fighting the Florida wildfires.

Northern Region -- R-1 telecommunications personnel have attended several meetings held by the State of Montana investigating the possibility of a statewide radio system shared by state public safety entities and Federal agencies such as the FS and BLM. Montana is one of several states currently considering shared radio systems with Federal agencies.

The Rocky Mountain Region -- R-2 has completed a Strategic and Tactical Plan for transition to narrowband radio systems covering southwestern Colorado. This plan includes implementation of the pilot system identified at the February 1998, National Radio Meeting. The pilot system is intended to provide an assessment of problems associated with two agencies having different missions sharing the same radio system. It will also provide information related to possible problems associated with combined digital and analog operations on the same system.

The Southwestern Region -- R-3 has initiated preliminary discussions with other Federal agencies with the intent to work toward two statewide-shared radio systems -- New Mexico and Arizona.

Forests surrounding the National Park Service's Yellowstone National Park in both Inter-mountain -- R-4 and Northern -- R-1 -- regions have been working with the Park Service to share several repeater stations.

The Pacific Southwest -- R-5 -- and Pacific Northwest -- R-6 -- regions have completed and submitted their sharing assessments for all forests within their responsibility. All other regions have indicated they will provide their assessments by August 29. Following receipt and review of assessments in the Washington Office, Forest Service and USDOJ representatives will meet to discuss measures required to assure the sharing process moves forward as efficiently as possible.

The Sierra and Modoc National Forests -- R-5 have discussed sharing with BLM and have indicated their new forest radio system designs allow for providing communications support for BLM employees in the surrounding areas.

USDA COST SAVINGS FROM SHARING TELECOMMUNICATIONS SERVICES WITH USDOJ

Mr. Skeen: What total annual savings have been achieved by sharing these services?

Response: Total annual savings and cost avoidance across all sharing, cost reduction, and consolidation initiatives from FY 1996 to FY 1999 exceed \$4 million per year.

INCREASE IN Y2K REPAIR COSTS

Mr. Skeen: Your estimated costs for Y2K repairs has grown from about \$109 million in November 1998 to more than \$175 million in February 1999, a 60% increase. What accounted for this increase in cost?

Response: USDA has identified a need for additional supplemental funding for Year 2000 work planned for fiscal year 1999. These funds are to support remediation activities in our aggressive program to address Year 2000 computer and embedded chip problems and ensure the uninterrupted delivery of USDA programs and services. Remediation needs for additional systems and end-to-end testing, independent verification and validation, telecommunications and business continuity and contingency planning are areas where supplemental funding is

necessary. Identification of these cost increases occurred after the submission of the fiscal year 1999 budget.

We are very serious about business continuity and contingency planning, which is currently undergoing review in areas having a major potential impact on health and safety, financial impact, and economic repercussions for delivery of programs and services. As part of this effort, some agencies have identified technical assistance to states as an area of critical need to ensure uninterrupted program and service delivery. USDA is also expanding its outreach responsibilities based on representation on 17 of the President's Council on Year 2000 Conversion Sector Working Groups, including leadership of the Food Supply Working Group, raising awareness and working with industry partners to address potential Y2K-related problems in the farm-to-table food supply chain. Additional costs are associated with these efforts.

USDA is committed to leveraging whatever resources it can to achieve compliance while minimizing waste. The Department has controls in place to manage the emergency supplemental funds. The Office of the Chief Information Officer is working closely with the agencies' budget and finance offices to ensure accurate and timely reporting of the distribution and use of funds. All supplemental funding has been allocated to the CIO, who then gives a spending allowance to the agencies. Detailed spending plans with projected milestones from each agency are the basis for monitoring and oversight. To the extent possible, USDA is using existing Departmental or government-wide contracts to procure services and equipment.

TOTAL COST OF USDA YEAR 2000 EFFORT

What is USDA's estimate of the total costs for its Y2K effort? Have there been further increase? Why?

Response: Our current estimate of the total cost associated with the Year 2000 effort is approximately \$185 million. This amount includes a recently submitted request for supplemental emergency funding to OMB of \$8.4 million. Funding is requested for independent validation and verification, systems upgrades or replacements, and technical assistance.

ADDITIONAL FUNDS FOR FISCAL YEAR 2000

Mr. Skeen: Does USDA anticipate requesting any additional money from OMB in fiscal year 2000?

Response: Current base appropriation estimates for FY 2000 are \$10.2 million. USDA does not anticipate requesting additional money from OMB in fiscal year 2000, however in the event of unforeseen requirements, USDA will be able to request additional allocation from the FY 1999 Supplemental, which is a three-year appropriation.

USDA PROGRAMS DELIVERED THROUGH THE INTERNET

Mr. Skeen: Are any USDA programs being delivered through the Internet? If so, how many and which ones?

Response: All USDA Agencies and Staff Offices provide access to program and administrative information through the Internet. Five pages within the USDA Home

Page contain general information and assistance for the public. Within each of the Agency/Staff Offices Web-sites are multiple pages relating to individual programs. Some of the sites offer interactive forms for the public to use when applying for program assistance. Other sites include information on how to participate in a program, along with information on qualifications and benefits.

A sample of USDA Web-based applications that serve the public via the Internet is provided below:

Agricultural Marketing Service -- AMS developed a user friendly Internet Site to provide interested food suppliers and other customers with electronic access to a wide range of agricultural commodity information needed to sell commodities to USDA. Through Market News, AMS disseminates, via the Internet, information on prices, volume, quality, and other market data on domestic and international farm products within hours of collection. And, using the Internet, AMS conducted the first fully electronic rule-making for a major regulation in the history of the federal government. More than one quarter of a million comments for the National Organic Program proposed rule were received by fax, e-mail, and regular mail, and placed online. The ease of submitting comments encouraged more people to participate - you can call it an example of electronic democracy - making the process the most open, publicly accessible rule-making ever.

Farm Service Agency -- FSA consistent with the Federal Acquisition Streamlining Act, the Electronic Bid Entry System -- EBES -- was developed and implemented January 1998 to automate the bid entry portion of the commodity procurement process. The EBES application received a runner-up award in the "1998 Windows World Open" competition held in Chicago April 20-23, 1998. EBES also received a "Government Technology Leadership Award" December 1, 1998. The Financial Internet Site was developed in February 1999. FSA/CCC began officially using the FSA/Financial Internet site to announce the monthly interest rate changes related to price support and marketing assistance loans. This process replaced paper notifications that were mailed to the cotton, peanut and tobacco associations each month. The following information is also available to the general public: Farm Service Agency forms available on the FSA Web Site include Commodity Program Fact Sheets, Farm Loan Program Forms, FmHA 431-2 Farm and Home Plan, FmHA 440-32 Request for Statement of Debts and Collateral, FmHA 1940-20 Request for Environmental Information, FmHA 1945-22 Certification of Disaster Losses, FmHA 1980-25 Farmer Programs Application, and so forth.

Rural Development -- RD provides prospective sellers electronic access to its business opportunities through the OSDBU page of the USDA Departmental Administration home page. This site provides forecasted opportunities for the current fiscal year for USDA agencies.

Research, Education, and Economics Agency -- REE established a procurement Web-page to provide electronic access to facilitate government and private industry access to REE procurement opportunities, including on-line solicitation documents.

Food and Nutrition Service -- FNS -- Web-page provides Food Stamp Program Q's and A's. Information on the Food Stamp Program, including information on how to apply for benefits, and State and national hotline numbers, is also available on the World Wide Web at www.usda.gov/fcs/fs.htm.

The National Agricultural Library -- NAL, part of the Agricultural Research Service of the U.S. Department of Agriculture, is one of four National Libraries in the United States. NAL is a major international source for agriculture and related information. It provides Web access to many resources and a gateway to its associated institutions.

Office of Procurement and Property Management -- OPFM has defined requirements for a USDA-wide procurement system that includes the ability to identify buyers

and sellers in a secure environment. OPPM has begun evaluating a commercial procurement system software that provides electronic access to buyers and sellers in a secure environment.

ASSESSING THE COSTS AND BENEFITS OF USING THE INTERNET

Mr. Skeen: Has the department established performance measures to assess the costs and benefits of using the Internet?

Response: The Department has not established specific performance measures to assess the costs and benefits of using the Internet. As models are developed - in industry and in the public sector - to measure the costs and benefits of using the Internet, we will apply them to the delivery of USDA programs and services.

Mr. Skeen: What level of benefits and services in dollars and recipients are provided by agency?

Response: We are unable to directly correlate the use of the Internet with the delivery of benefits and services, in dollars. However, the Department does provide many services to the public through the Internet, including the production and distribution of information, a focus of the NAL and NASS, forms for participation in FSA, FS, and other agency programs, and the provision of benefits directly through the Electronic Funds Transfer program run by the National Finance Center. Additional benefits include a reduction in paperwork, more timely applications processing for program participation, quick access to USDA information, quick payment of benefits, faster procurement of goods and services, and better publicizing of program participation opportunities to the public.

SECURITY OF E-BUSINESS TRANSACTIONS AND MISSION CRITICAL IT SYSTEMS

Mr. Skeen: What steps has the department taken to ensure the security of its e-business transactions and safeguard mission critical IT systems and data?

Response: In addition to the comprehensive IT security policy development effort described in the previous response, USDA is exploring security options such as virtual private networks, encryption, and public key infrastructure offerings to ensure security of transactions and safeguard mission-critical systems and data. PDD 63 requires that agencies conduct vulnerability assessments of mission-critical IT systems, and these requirements have been integrated with annual security plan call requirements. During the 1999 IT security planning cycle, USDA agency owners of the 52 Year 2000 Priority Systems will be required to conduct vulnerability assessments of these systems, develop corrective action plans, and submit security plans for these systems as part of the annual agency IT security submission. USDA has also used the National Security Agency -- NSA -- to assess the security of the consolidated telecommunications link between Atlanta, GA, and Washington, DC. A report from NSA is expected during April 1999 detailing the results of this assessment. The Department is also evaluating the feasibility of requiring encryption of data transmitted over the Internet and USDA Intranet.

USDA PLANS DEVELOP OR SUPPORT ELECTRONIC-BASED SERVICES AND PROGRAM DELIVERY

Mr. Skeen: Does USDA plan to develop or support IT related or otherwise electronic-based services and program delivery?

Response: Agencies/Staff Offices are continually evaluating the use of the Internet to make information and services more available to the public and to other Federal agencies. OCIO recently submitted to OMB a report on USDA's accomplishments and plans for expanding the use of Electronic Commerce -- EC -- activity. The following are examples of these efforts by mission area/agency:

Agricultural Marketing Service -- AMS is developing an Electronic Bid Entry system. AMS Commodity Procurement Branches, in a joint project with FSA, will implement a bid entry system for vendors to submit bids electronically via an Internet Web page application.

Cooperative State Research, Education, and Extension Service -- CSREES is currently making Requests for Proposals -- RFP -- for competitive research, education, and extension activities available on the World Wide Web. This allows potential applicants the opportunity to readily obtain information about funding opportunities and the necessary application materials.

Farm Service Agency -- FSA is developing: a -- Domestic Electronic Bid Entry System -- DEBES -- cooperatively with USDA's Agriculture Marketing Service. This project will automate the bid entry portion of the Domestic, Dairy, and AMS commodity procurement processes. DEBES will capture vendor bid information for the competitive purchase of commodity for Domestic, Dairy, and the AMS food assistance programs. b -- Food Aid Request Entry System -- FARES -- a new Web-based application to automate the entry of commodity requests - Call Forwards - from U. S. Agency for International Development - AID, private voluntary organizations - PVOs, Foreign Agriculture Service - FAS, and the Farm Service Agency - FSA. FARES will capture the commodity order information, report on the information, and download the data to the Electronic Bid Entry System - EBES, PCIMS, the Ketrion LP, and AID and FAS internal systems.

Forest Service -- National Recreation Reservation Service -- In October, 1997, the Forest Service, in conjunction with the US Army Corps of Engineers, entered into a service contract with Park.Net, Inc. to allow the general public to make reservations for recreation activities in the national forests and waterways.

This service is known as the National Recreation Reservation Service -- NRRS. The government, through our contractor, sells reservations to the public via a call center, electronically through computers at field location sites, and through an interactive Internet web site. NRRS began operating in October 1998. The contract is for a potential 10 year period.

Office of Procurement and Property Management -- OPPM -- will continue to make contract formation and administration easier and more effective for buyers and sellers by using standard electronic interfaces between agency systems and commercial systems, and fostering government and commercial Electronic Commerce partnerships.

FY 2000 SERVICE CENTER MODERNIZATION INITIATIVE FUNDING

Mr. Skeen: The fiscal year 2000 budget proposes funding for the Service Center Modernization Initiative to come from individual agencies that are supported by the Support Services Bureau. How much of the fiscal year 2000 request represents a decrease from a supported agency in order to fund the Support Services Bureau request? What agencies took reductions for this request?

Response: The fiscal year 2000 budget request includes a \$31,050,000 reduction from the Natural Conservation and Resource Service to partially offset this request.

Mr. Skeen: How will the fiscal year 2000 funding decisions be made as they relate back to the ongoing work in individual agencies?

Response: To make all funding and managerial decisions under SSB, the Secretary has approved an organization which will establish a National Board of Directors. This Board is made up of the Administrator of the Farm Service Agency, the Deputy Under Secretary of Operations and Management of Rural Development, and the Chief of the Natural Resources Conservation Services. An Executive Director who reports to the Board will lead the SSB. In support of the national structure, each state will have a Board of Directors and a single Administrative Support Unit. In addition to the State units, four unique program units have been identified. These entities will also have a Board of Directors and a single Administrative Support Unit. To ensure a single point of accountability for the SSB, the National Board of Directors will allocate administrative funds and delegate administrative authorities to the SSB Executive Director which, in turn, will be reallocated to the State Board of Directors.

The Executive Director and other senior leaders of the SSB will be fully responsible to the National Board for ensuring that the needs and requirements of the serviced agencies are met.

Mr. Skeen: What will happen to the ongoing activities that are currently funded by the individual agencies?

Response: The requested funding for the Service Center Modernization Initiative will support the ongoing change management, customer service, business process reengineering, and enabling technology projects. For the past several years, this effort has been funded by individual appropriations to the partner agencies; however, fiscal year 2000 agencies budgets do not include funding for this initiative. This account will replace those individual funding sources and provide for improved management and accountability as this initiative moves forward with major activities to reengineer business processes, acquire a common computing environment, and create "one-stop service" for customers.

Mr. Skeen: Please provide a table comparing the ongoing activities versus the proposed activities by agency.

Response: Through the end of fiscal year 1999, funding for the activities performed within the Service Center Initiative -- SCI -- is provided by the participating agencies. The collective agencies determine the budget for each activity and the total amount of their contributions. The funds are then pooled and the budget executed. The agency funds are charged either on a pro-rata basis or directly, depending on the item and how each activity is best executed. For example, in fiscal year 1999, NRCS is funding and directly executing all of the base data acquisition which includes the purchasing of digital orthophography, and the digitizing of soil survey and other natural resource data. By contrast, since most BPR activities affect all the participating agencies, most BPR charges will be pro-rated between the funds transferred to the SCI account by these agencies. Given this method of financing and budget execution, any breakdown of the activities by agency for fiscal year 1999 would be arbitrary at this point.

For FY-2000, a direct appropriation is requested to fund the ongoing agency

funded SCI activities. Additional funding of \$16,231,000 will be provided by the CCC.

The following table provides a breakdown by ongoing activities and overall funding source for fiscal years 1999 and 2000:

Service Center Initiative - Ongoing Activity

-- Dollars in Thousands --

Activity	FY 1999	FY 2000
Program/Change Management	2,500	2,500
BPR	11,388	14,000
Common Computing Environment	9,332	48,231
LAN/WAN/Voice	11,400	0
Base Data Acquisition	15,050	25,550
TOTAL	\$49,670	\$90,281
Funding breakdown from all sources		
CCC	10,032	16,231
PSA	1,088	0
NRCS	31,050	0
RD	7,500	0
Support Services Bureau	0	74,050
TOTAL	\$49,670	\$90,281

EMPLOYEES TRANSFERRING TO SUPPORT SERVICES BUREAU

Mr. Skeen: How many employees from each of the representative agencies will likely transfer to the Support Services Bureau?

Response: The fiscal year 1998 estimated staffing data base determined during the SSB Planning Process indicated that 1,757 Farm Service Agency, 1,071 Rural Development, and 870 Natural Resources Conservation Service positions would transfer to the SSB. This data is being updated to reflect the FY 1998 end-of-year, and FY 1999 staffing allocation decisions.

Mr. Skeen: What job series will be represented in transfer?

Response: The positions that will transfer into the SSB will be from those job series included in the financial management, human resources, civil rights, procurement and property management, and information technology functional areas.

CONTRACTOR SUPPORT AND JOB ELIMINATION

Mr. Skeen: What are your plans for the use of contractor support? Will Federal jobs be eliminated and replaced with outside contracts?

Response: The establishment of the SSB does not necessitate any replacement of Federal employee jobs with contractor support. Contractor services currently being performed by the various agencies will transfer to the SSB in FY 2000. While the Secretary has provided employment targets for the SSB in the out years, the targets can be adjusted based on the program workload levels of the agencies.

FY 1998, 1999, 2000 OBJECT CLASS 25.0, OTHER SERVICES BREAKDOWN

Mr. Skeen: Please provide a detailed breakdown of the items included in

object class 25.0, Other Services for fiscal years 1998, 1999, and 2000.

[The information follows:]

ITEMS IN BOC 2500
-- Dollars in Thousands --

Item/Activity	FY 1998	FY 1999	FY 2000
Program Management	\$1,173	\$2,195	\$1,000
BPR	6,570	10,888	13,464
LAN/WAN/Voice	17,468	6,900	0
Base Data Acquisition	19,750	15,050	25,550
Common Computing Environment - CCE	1,645	3,562	2,450
TOTAL	\$46,606	\$38,595	\$42,464

The program management funding represents support contracts for the change management training, improvement of customer service, and overall program management. The BPR amount is for the development and pilot testing of reengineered processes. The LAN/WAN/Voice represents the contractor costs for installation and maintenance of equipment in LAN/WAN/Voice sites. The base data acquisition constitutes the digitizing of all soil, common land unit, and other data; and the purchase of othoimagery data from the Geological Survey Service. Finally, the CCE amount is for architecture, systems, and data integration studies.

FY 1998, 1999, 2000 OBJECT CLASS 31.0, EQUIPMENT BREAKDOWN

Mr. Skeen: Please provide a detailed breakdown of the items included in object class 31.0, Equipment for fiscal years 1998, 1999, and 2000.

[The information follows:]

ITEMS IN BOC 3100
-- Dollars in Thousands --

Item/Activity	FY 1998	FY 1999	FY 2000
Program Management	\$27	\$20	\$20
BPR	2,913	0	1,000
LAN/WAN/Voice	7,714	4,500	0
Base Data Acquisition	0	0	0
Common Computing Environment-CCE	31,891	5,770	45,761
TOTAL	\$42,545	\$10,290	\$46,781

The program management amount represents minor investments necessary to conduct day-to-day activities. BPR represents necessary acquisitions to equip the pilot sites and integration center. LAN/WAN/Voice represents all equipment acquisitions necessary for connectivity in all LAN/WAN/Voice approved sites. CCE represents the acquisition of year 2000 compliant workstations and servers.

WORKSTATIONS

Mr. Skeen: How many individual workstations will be supported by the fiscal year 2000 request?

Response: After our fiscal year 1998 and 1999 workstation procurements, we estimate that we will need about 16,000 additional units to complete the workstation replacement at all levels of these organizations. This is based on current projections of USDA staffing levels including units needed for partners and contractor personnel. Our plan is to acquire these during FY 2000 and FY 2001. This means we would acquire about 8,000 units in FY 2000. This figure may be adjusted, depending upon the total funding levels and investments needed in other components of the CCE.

Mr. Skeen: Through fiscal year 2000, how many workstations will have been purchased?

Response: Approximately 30,000 workstations will have been purchased.

Mr. Skeen: What will be needed in the outyears?

Response: The FY 2001 acquisition will total about 8,000 workstations.

Mr. Skeen: How have you taken into consideration the changing workforce and programmatic needs of the agencies supported by the Support Services Bureau?

Response: We have incorporated the current program requirements and current and projected workforce estimates into our planning and provided flexibility in our approach to accommodate changes in programs, workload, staffing, etc., in the future. Our multi-year, phased approach to completing BPR and modernizing the technology will provide us opportunities to reassess and adjust our plans as we go forward. For example, the acquisition of up-to-date, interoperable and interchangeable workstations began in FY 1999 but will be completed in increments over four fiscal years. This gives us the flexibility to adjust the total numbers and type of workstations based on personnel, program, or technology changes as we go forward. Our goals, in terms of modernization, are to provide a modern shared information system based on open systems that support current programs and can be modified as requirements change. This infrastructure would not only accommodate changes in programs, staffing or organization, it would also facilitate these changes and be able to respond much more quickly to change than the archaic, stovepipe systems that we currently have.

PROVIDING OIG DOCUMENTATION TO SUPPORT AN AUDIT OF THE WORKING CAPITAL FUND

Mr. Skeen: The Office of the Inspector General has informed the Committee that the annual financial statements prepared for the USDA's Working Capital Fund have not been auditable due to lack of supporting documentation. Please share with the Committee your plans for providing OIG with the necessary documentation to support an audit.

Response: The USDA Working Capital Fund -- WCF -- management is working with the Office of the Inspector General -- OIG -- to determine the specific supporting documentation required to facilitate the audit of the WCF. Once we have identified OIG's specific information requirements, WCF management, working with the USDA National Finance Center will develop an action plan to assure that the necessary documentation is provided to OIG to conduct the audit of the financial statements of the WCF for FY 1999.

RESPONSIBILITY AND COORDINATION OF CIO

Mr. Skeen: You have primary responsibility for supervision and coordination of the design, acquisition, maintenance, use, and disposal of information technology resources - \$1.2 billion according to the budget - by USDA agencies.

Tell us how your oversight role has evolved since you were named to the position and do you believe you have adequate authority and responsibility to manage these resources?

Response: Since being named CIO, my oversight role has evolved in several important respects. Secretary Glickman has clearly stated that I would have the requisite authority to provide leadership and structure to information management in the Department. In my first year we laid a foundation with the creation of the Executive Information Technology Investment Review Board and the emergence of new expectations in making capital investments. In the last year, this authority has proved critical as we have executed our plans to assure that the Department is Year 2000 ready. As we move into an electronic information age, the authority will be equally necessary to further the interoperability of systems and the capacity to share information, while protecting the security of the cyber systems and the privacy of individuals.

We are now utilizing key policy and management tools designed to help us achieve our objectives:

- We are now implementing the Capital Planning and Investment Control -- CPIC -- process to ensure that IT investments are made in direct support of business objectives, while maximizing the value and assessing and managing associated risks. In 1998, USDA became the first large Federal department to implement the Information Technology Portfolio System -- ITIPS, a web-based tool used to track IT projects as investments through the selection, control, and evaluation phases of the CPIC process.

- Independent Validation and Verification -- IV&V -- is now a standard policy tool that my office uses to manage all large-scale USDA IT investments. These reviews by independent experts ensure that IT investments are proceeding appropriately during project design, development, acquisition and implementation phases, and that they meet USDA's business objectives while being effectively and efficiently managed.

- Through the USDA IT investment moratorium, which requires the approval of all IT investments over \$25,000 by my office, we are now better able to manage agencies' use of IT funds while improving our IT decision-making processes.

- In addition, we have improved our oversight of the critical Service Center Modernization Initiative in our farm services agencies through the assistance of a senior executive dedicated full time to this effort. While clearly much credit for improved management in this area must go to the people on the Service Center Implementation Team, it is very clear that the investment in oversight and leadership from this office have been instrumental in shaping the direction and progress of this critical initiative.

- We have issued a initial Information Technology Strategic Architecture which will soon be updated and enhanced. This architecture begins to set the framework for interoperable systems and a more effective utilization of information so that we can reduce the paperwork burden on the public and assure a more effective and efficient information infrastructure.

We have instituted new procedures which better assure that telecommunications management is in the hands of key individuals within the agencies who are working collaboratively across the Department to optimize and consolidate where appropriate. This teamwork will pay off even more as we enter into the new FTS 2001 long distance telecommunications services contract recently awarded for the federal government.

USDA is well on the way to assuring that program delivery will continue unimpeded by the Year 2000 conversion. The guidance and oversight provided by this office has been critical toward achieving this objective.

While the authority has been instrumental in creating a new management environment, the fact is that most of the dollars appropriated to the OCIO do little more than pay for the salaries of employees. We now have a very strong management team in place, but to be more effective, we need to be able to draw on expert technical expertise to develop programs and processes which will pay off across the Department in terms of both efficiency and effectiveness.

We need to strengthen the capital planning process and to focus more explicitly on implementing a common architecture. We need to pay more attention to our information technology workforce with respect to project management training, as well as developing a strategy to attract and retain talent in a highly competitive job market. Information security is a priority which must not be ignored. The additional resources requested in the President's budget are key to my having the capacity to address these requirements. An investment in this Departmental oversight will be repaid in better service delivery and will help minimize costs for the agencies.

OFFICE OF COMMUNICATIONS

Questions submitted by Mr. Skeen

PUBLIC AFFAIRS ACTIVITIES

Mr. Skeen: Update the table that appears in last year's hearing record showing, by agency, the staff levels and dollars devoted to public affairs activities to include fiscal year 1999 actuals and fiscal year 2000 estimates.

[The information follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE
PUBLIC AFFAIRS ACTIVITIES
(Dollars in Thousands)

AGENCY	1998		1999		2000	
	Employment	Staff Years	Employment	Staff Years	Employment	Staff Years
Off. of Communications:						
Professional	80	79	82	82	82	82
Clerical	13	13	13	13	13	13
Budget Auth.	\$8,060		\$8,138		\$9,300	
Location of Staff:						
Washington	93	92	95	95	95	95
Field	0	0	0	0	0	0
Off. of Chief Economist:						
Professional	1	1	1	1	1	1
Clerical	0	0	0	0	0	0
Budget Auth.	\$78		\$82		\$85	
Location of Staff:						
Washington	1	1	1	1	1	1
Field	0	0	0	0	0	0
ARS:						
Professional	44	44	44	44	44	44
Clerical	5	5	5	5	5	5
Budget Auth.	\$3,212		\$3,660		\$3,660	
Location of Staff:						
Washington	49	49	49	49	49	49
Field	0	0	0	0	0	0
CSREES:						
Professional	3	3	3	3	3	3
Clerical	1	0.5	1	0.5	1	0.5
Budget Auth.	\$261		\$274		\$284	
Location of Staff:						
Washington	4	3.5	4	3.5	4	3.5
Field	0	0	0	0	0	0
FAS:						
Professional	15	15	15	15	17	17
Clerical	2	2	2	2	1	1
Budget Auth.	\$1,105		\$1,138		\$1,350	
Location of Staff:						
Washington	17	17	17	17	18	18
Field	0	0	0	0	0	0
FSA:						
Professional	12	12	9	9	9	9
Clerical	2	2	1	1	1	1
Budget Auth.	\$1,078		\$839		\$893	
Location of Staff:						
Washington	14	14	10	10	10	10
Field	0	0	0	0	0	0
RMA:						
Professional	5	4.125	7	5.25	6	6
Clerical	1	0.25	1	0.25	1	0.25
Budget Auth.	\$282		\$354		\$434	
Location of Staff:						
Washington	6	4.375	8	5.5	7	6.25
Field	0	0	0	0	0	0
RUS:						
Professional	1	1	1	1	1	1
Clerical	0	0	0	0	0	0
Budget Auth.	\$112		\$115		\$119	
Location of Staff:						
Washington	1	1	1	1	1	1
Field	0	0	0	0	0	0

UNITED STATES DEPARTMENT OF AGRICULTURE
PUBLIC AFFAIRS ACTIVITIES
(Dollars in Thousands)

AGENCY	1998		1999		2000	
	Employment	Staff Years	Employment	Staff Years	Employment	Staff Years
RHS:						
Professional	4	4	4	4	4	4
Clerical	1	1	1	1	1	1
Budget Auth.	\$335		\$345		\$356	
Location of Staff:						
Washington	5	5	5	5	5	5
Field	0	0	0	0	0	0
RBS:						
Professional	1	1	1	1	1	1
Clerical	1	0.5	1	0.5	1	0.5
Budget Auth.	\$112		\$115		\$119	
Location of Staff:						
Washington	2	1.5	2	1.5	2	1.5
Field	0	0	0	0	0	0
NRCS:						
Professional	83	83	84	84	85	85
Clerical	18	18	16	16	16	16
Budget Auth.	\$7,480		\$7,630		\$7,940	
Location of Staff:						
Washington	17	14	16	15	14	14
Field	84	87	84	85	87	87
APHIS:						
Professional	12	12	13	13	13	13
Clerical	2	2	2	2	2	2
Budget Auth.	\$654		\$710		\$717	
Location of Staff:						
Washington	12	12	12	12	12	12
Field	2	2	3	3	3	3
GIPSA:						
Professional	2	0.5	2	0.5	1	0.5
Clerical	0	0	0	0	0	0
Budget Auth.	\$41		\$42		\$43	
Location of Staff:						
Washington	2	0.5	2	0.5	1	0.5
Field	0	0	0	0	0	0
AMS:						
Professional	7	7	7	7	7	7
Clerical	1	1	2	2	2	2
Budget Auth.	\$443		\$557		\$572	
Location of Staff:						
Washington	8	8	9	9	9	9
Field	0	0	0	0	0	0
FSIS:						
Professional	27	30.8	9	9	9	9
Clerical	5	5	1	0.5	1	0.5
Budget Auth.	\$2,351		\$530		\$533	
Location of Staff:						
Washington	32	35.8	10	9.5	10	9.5
Field	0	0	0	0	0	0

UNITED STATES DEPARTMENT OF AGRICULTURE
PUBLIC AFFAIRS ACTIVITIES
(Dollars in Thousands)

AGENCY	1998		1999		2000	
	Employment	Staff Years	Employment	Staff Years	Employment	Staff Years
FNS:						
Professional	34	32.65	34	32.65	34	32.65
Clerical	9	8.27	9	8.27	9	8.27
Budget Auth.	\$2,534		\$2,627		\$2,742	
Location of Staff:						
Washington	19	18.17	19	18.17	19	18.17
Field	24	22.75	24	22.75	24	22.75
TOTAL, Agriculture Bill:						
Professional	331	330.075	316	311.40	317	315.15
Clerical	61	58.52	55	52.02	54	51.02
Budget Auth.	\$28,138		\$26,803		\$28,714	
Location of Staff:						
Washington	276	272.47	252	247.17	250	247.17
Field	116	116.13	119	116.25	121	119.00

RESOURCES AND STAFF LEVELS

Mr. Skeen: Provide an update on the description, resources, and staff levels that appeared in last year's hearing record.

Response: I will provide that information for the record.

[The information follows:]

DIRECTOR'S OFFICE: Provides information and networking as an internal support unit to all of USDA Communications. Also in the Director's Office is the Administration Unit which services the personnel and budget needs for OC, the Press Secretary and staff and the speech writing unit.

Staff: 22
Budget: \$2,763,844

PUBLIC AND MEDIA OUTREACH CENTER: Performs news, planning, placement and public liaison duties for the Office of Communications.

Staff: 15
Budget: \$1,124,515

VIDEO, TELECONFERENCE & RADIO CENTER: Provides video productions, live video conferences, audio conferences, and 24-hour availability service of seven to ten news items on USDA's radio news line. Also provides through the USDA television news service, news actualities and new feature stories covering Department policies and programs.

Staff: 13
Budget: \$1,065,803

DESIGN CENTER: Provides centralized design, leadership and creative services by establishing and monitoring the visual standards of USDA.

Staff: 8
Budget: \$ 450,900

PHOTOGRAPHY CENTER: Maintains an extensive centralized USDA Photographic Library of images of USDA activities and American agriculture in general. The collection includes captioned black and white negatives and color slides, the majority of which are available in digital formats. The Center provides photographic services including photojournalism and photo finishing.

Staff: 9
Budget: \$ 534,538

PRINTING MANAGEMENT CENTER: Provides centralized printing through the Government Printing Office--GPO, or through the USDA Duplicating Facility. During fiscal year 1994, the Printing Management Center instructed all offices to include the use of soy/vegetable based inks in all specifications for all USDA printing.

Staff: 8
Budget: \$ 524,478

COORDINATION AND REVIEW: Provides a desk system of vertical coordination within the Under or Assistant Secretary's respective program mission areas, and horizontal coordination with the other coordinators and other units within OC, which enables them to coordinate news and other printed and electronic information products of the Department for editorial content, design and quality.

Staff: 20
Budget: \$1,673,922

Total, Appropriated:
Staff: 95
Budget: \$8,138,000

MEDIA SERVICES

Mr. Skeen: Were any new media services provided in fiscal year 1998? Were any previous services deleted?

Response: Yes, new media services were provided in fiscal year 1998. To address important issues facing farmers and consumers, Secretary Dan Glickman began a biweekly radio address which is used as part of every other Monday's topics that are available on the daily radio newslane. The message is added to a weekly radio cassette service that is sent to nearly 700 subscribing station.

We are now providing daily fax notification of radio newslane topics to stations and networks who pay for their own calls to use this line.

The Photography Center began to provide digital images to the media from its new web site--usda.gov/oc/photo/opchomea.htm. The site, thus far, contains several hundred images on USDA activities and on American agriculture in general. As usual, we continue to provide those images in traditional formats, or as digital images via file transfer protocol or in special files on our web site.

No previous media services were deleted.

REIMBURSEMENTS FROM OTHER USDA AGENCIES

Mr. Skeen: Update the table from last year's hearing record showing reimbursements from other USDA agencies to include fiscal year 1998 actuals.

[The information follows:]

REIMBURSEMENTS TO OC FROM OTHER USDA APPROPRIATIONS
(In thousands of dollars)

	1994	1995	1996	1997	1998
Agricultural Marketing Service.....	\$99	\$88	\$191	\$177	\$158
Agricultural Research Service.....	367	379	508	429	463
Alternative Agricultural Research and Commercialization Center.....	0	0	0	0	30
Animal and Plant Health Inspection Service.....	255	326	487	486	426
Cooperative State Research, Education, and Extension Service	260	146	137	137	241
Departmental Administration	116	127	65	90	173
Economic Research Service.....	0	0	24	23	7
Executive Operations:					
Office of Budget and Program Analysis.....	6	2	16	8	7
Office of the Chief Economist.....	37	29	5	6	7
National Appeals Division.....	4	0	34	1	4
Farm Service Agency.....	968	1,202	191	228	282
Food and Nutrition Service.....	308	480	633	579	394
Food Safety and Inspection Service.....	255	248	164	248	135
Foreign Agricultural Service.....	117	343	427	422	321
Forest Service.....	816	925	768	589	552
Grain Inspection, Packers and Stockyards Administration.....	10	10	20	15	43
Natural Resources Conservation Service.....	347	502	293	246	497
National Agricultural Library.....	0	1	0	0	0
National Agricultural Statistics Service.....	0	24	18	19	22
Office of Communications.....	485	356	423	423	244
Office of the Chief Financial Officer.....	17	5	20	21	49
Office of the Chief Information Officer.....	0	0	3	4	14
Office of the General Counsel.....	11	5	6	6	6
Office of the Inspector General.....	17	11	11	10	39
Office of the Secretary.....	90	50	52	51	107
Risk Management Agency.....	0	1	116	114	118
Rural Business - Cooperative Service.....	53	78	88	120	1
Rural Housing Service.....	296	430	238	183	240
Rural Utilities Service.....	42	8	25	25	5
Non USDA.....	79	298	378	273	205
Total.....	5,055	6,074	5,341	4,933	4,790

1/ The amounts above do not include funds for capital equipment purchases. Amounts allocated to Video and Teleconferencing, and to Design Center will be recovered through the rates for these activities over the useful life of the purchased assets, consistent with Working Capital Fund practices for financing and recovery of cost for capital equipment.

USDA VISITOR CENTER

Mr. Skeen: What was the number of visitors to the USDA Visitors Center in fiscal year 1998?

Response: There were 14,305 visitors to the USDA Visitors Center in fiscal year 1998.

CONVERSION OF PHOTOGRAPHIC LIBRARY

Mr. Skeen: Have you completed the conversion of the entire working collection to photo CD?

Response: The conversion of the entire working collection to photo CD is nearly complete. We continue to acquire new images from assignments by our photojournalists in support of agency activities and from agencies wishing to retire their photo libraries. Nearly 75 percent of the material on CD is now captioned and in the data base. We hope to have our CD jukebox up and running within the next couple of months. The CD jukebox is a container holding 150 CD's, with 4 active CD heads that can be searched by multiple workstations. Digital images can be downloaded and provided to users of USDA photography. Using digital has significantly reduced our turn around time in providing photographs.

COMPUTER MATCHING AND PRIVACY ACT OF 1988

Mr. Skeen: Under the Computer Matching and Privacy Act of 1988, USDA has entered into a number of matching agreements to identify employees who may owe the Federal government money. Two of these agreements, one with the Postal Service and one with the Department of Defense, are salary offset initiatives. Please update the figures for collections and costs from Last year's hearing record.

Response: As of September 30, 1998, USDA's annual collection under the two agreements totaled \$550,000, and cost totaled \$139,000.

CREDIT ALERT INTERACTIVE VOICE RESPONSE SYSTEM

Mr. Skeen: Did you publish a final rule on the Credit Alert Interactive Voice Response System with the Department of Housing and Urban Development?

Response: In August 1998 USDA renewed its computer matching agreement with the U.S. Department of Housing and Urban Development for utilization of HUD's Credit Alert Interactive Voice Response System. The agreement extends through November 1999.

OFFICE OF COMMUNICATIONS' BUDGET REQUEST

Mr. Skeen: Please provide a detailed breakout of the Office of Communications budget request to the Secretary, the Secretary's request to OMB, and the OMB allowance.

[The information follows:]

OFFICE OF COMMUNICATIONS
(dollars in thousands)

Description	Request to Secretary	Secretary's Request to OMB	OMB Allowance
FY 1999 Estimate	\$8,319	\$8,173	\$8,138
Increases:			
Pay Costs	342	303	303
General Operating Costs	24	0	0
Program Increases	683	623	859
TOTAL	9,368	9,099	9,300

COST TO PRODUCE AGRICULTURE FACT BOOK

Mr. Skeen: What was the cost to produce the Agriculture Fact Book? How many copies were printed and distributed? What is the cost to purchase this book? Please submit a copy for the record.

Response: It cost \$16,676 to produce the 1998 Agriculture Fact Book. There were 7,857 copies printed and distributed. This book sells for \$14 per copy. A copy is being submitted for the record.

[The book is being retained in Committee files.]

SURVEY OF KNOWLEDGE OF USDA SERVICES

Mr. Skeen: Did OC conduct the survey of knowledge of USDA services? If so, please summarize the results.

Response: OC did not conduct a survey of knowledge of USDA services due to funding and staffing limitations. Weekly telephone outreach to new and established broadcasters is done to remind them or encourage them to use available daily radio newswire or weekly radio cassette services. Often these calls result in address updates and initiation of new use. Also, staff participation in national communication associations permits direct one-on-one feedback about the knowledge of such USDA services.

OBJECT CLASSES 25.2--OTHER SERVICES, 26--SUPPLIES AND MATERIALS, AND 31--EQUIPMENT

Mr. Skeen: Please provide explanations of the increases for fiscal year 2000 in the following Object Classes: 25.2, Other services; 26, Supplies and materials; and 31, Equipment.

[The information follows:]

<u>Object Class</u>	<u>FY 2000 Increase</u>	<u>Description</u>
<u>25.2 OTHER SERVICES</u>		
Electronic Access to Information	\$160,000	Research, development, training and to expand the Internet
Communications Evaluation	27,000	Research, data analysis and training
Outreach and Education Program for Underserved Groups	27,000	Material, design, translation And teleconferencing costs
Department Level Communications Coordination and Dissemination	<u>201,000</u>	Material, media production, Design, and satellite delivery Costs
TOTAL	<u>415,000</u>	
<u>26.0 SUPPLIES AND MATERIALS</u>		
Electronic Access to Information	<u>62,000</u>	computer software, design and Photographic supplies
<u>31.0 EQUIPMENT</u>		
Electronic Access to Information	<u>180,000</u>	to update computers and broadcasting equipment

CAPABILITY FOR PUBLIC ACCESS THROUGH THE INTERNET

Mr. Skeen: Page 6-6 of the budget justification states that "no capability now exists for the public to access this (USDA) information through (the) Internet." Isn't some of this information available on the USDA and agency home pages?

Response: Yes, we have printed materials available through the USDA and agency home pages, but the line in question referred to digital audio and video messages becoming available on Internet.

WAIVER TO ALLOW FIELD OFFICES TO PROCURE PRINT JOBS

Mr. Skeen: Did you make another request for a waiver from the Joint Committee on Printing to allow field offices to procure print jobs of up to \$2,500?

Response: A request for a waiver of \$2,500 was submitted on March 16, 1998 and was denied by the Joint Committee on Printing--JCP--on April 18, 1998. This is the only request the Office of Communications sent to the JCP.

OFFICE OF THE GENERAL COUNSEL

Questions submitted by Mr. Skeen

REGULATIONS

Mr. Skeen: Please update the Committee on your 1998 and 1999 progress in eliminating or revising USDA regulations.

Response: As of March 1999, action has been taken on 75 percent of the regulations identified by the Department for elimination or revision.

CIVIL RIGHTS ACTION TEAM

Mr. Skeen: Please update the Committee on your efforts in 1998 and 1999 to address concerns raised by the Civil Rights Action Team.

Response: One of the concerns raised by the Civil Rights Action Team (CRAT) was the development of an organizational structure that would ensure effective delivery of civil rights legal services. OGC's Civil Rights Division (CRD) was established in fiscal year 1998. The division is headed by an Associate General Counsel. This year we hired an experience attorney to serve as the Deputy Associate General Counsel for Civil Rights. Specifically, the individual selected for the Deputy position has over 20 years experience with employment and equal opportunity related work. Currently, the division also consists of five staff attorneys and one secretary. We are in the process of hiring two additional staff attorneys, a paralegal and a secretary for the division. All of the attorneys hired are specialized in civil rights law and are dedicated to civil rights compliance and enforcement. The division should be fully staffed by the end of June 1999.

With regard to diversification of staff, OGC's recruitment committee has been working with the management to increase diversity within OGC, starting at the highest levels, by ensuring a thorough dissemination of job announcements to minority law student associations and other minority professional legal organizations. Also, OGC conducted a workshop that required all OGC managers to receive training concerning management of a diverse work force.

Another concern raised by the CRAT related to improving working relationships with the Office of Civil Rights (OCR). That is an ongoing process. The CRD continues to work with OCR on drafting a number of departmental regulations and policies for civil rights.

USER FEE PROGRAMS

Mr. Skeen: Please update the table on pages 742 of last year's hearing record that lists all the user fee programs for which you receive a reimbursement and the amount of the reimbursement to include fiscal year 1998 actuals and estimates for fiscal years 1999 and 2000.

[The information follows:]

USER FEE PROGRAMS
FY 1998 ACTUALS AND FY 1999 and 2000 ESTIMATES

<u>Program</u>	<u>FY 1998 ACTUALS</u>	<u>FY 1999 ESTIMATES</u>	<u>FY 2000 ESTIMATES</u>
Perishable Agricultural Commodities Act	671,150	\$690,500	708,400
Agricultural Marketing Act	20,642	5,050	5,300
Tobacco Inspection Act	5,178	5,600	6,000
Cotton Standards Act	805	1,350	1,450
Plant Variety Protection Act	4,464	6,950	7,550
Voluntary Meat Services	12,112	1,400	1,500
Research and Consumer Information Act	38,730	63,100	67,600
Animal and Plant Health Inspection Service	185,298	224,850	231,440
United States Warehouse Act	14,872	14,700	15,000
United States Grain Standards Act	13,378	9,900	11,000
Food Safety and Inspection Service	<u>12,714</u>	<u>4,100</u>	<u>4,360</u>
	\$979,343	1,027,500	1,059,600

USER FEE HOURS

Mr. Skeen: Update the table that appears on page 742 of last year's hearing showing the attorney-hours spent on each user fee account to include fiscal year 1998 actuals and estimates for fiscal years 1999 and 2000.

[The information follows:]

OFFICE OF THE GENERAL COUNSEL
USER FEE HOURS

<u>Agency</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>Actual FY 1998</u>	<u>Estimated FY 1999</u>	<u>Estimated FY 2000</u>
AMS	10,440	12,528	12,528	12,528	12,528
APHIS	4,176	4,176	4,176	4,176	4,176
GIPSA	418	209	209	209	209
FSA	209	209	209	209	209
FSIS	<u>209</u>	<u>418</u>	<u>418</u>	<u>418</u>	<u>418</u>
Total	15,452	17,540	17,540	17,540	17,540

STAFF YEARS

Mr. Skeen: Please update the table that appeared on page 743 of last year's hearing record, showing staff years by appropriation and reimbursements, to include fiscal year 1998 actuals and fiscal year 1999 and 2000 estimates.

[The information follows:]

OGC Staff Years
By Appropriation and Reimbursements
FY 1996, 1997, 1998 Actuals and FY 1999 and 2000 Estimated

	Fiscal Year				
	1996	1997	1998	Estimated 1999	2000
Office of the General Counsel	328	328	323	351	354
Allocation from Hazard Waste Management...	7	10	9	15	17
Staff under other USDA appropriations:					
FS	10	5	--	--	--
AMS-User Fees	5	6	6	6	6
APHIS-User Fees	2	2	2	2	2
GIPSA-User Fees	.2	0	0	0	0
FSA-User Fees	.1	0	0	0	0
FSIS-User Fees	.1	0	0	0	0
Total, Other USDA Appropriations	18	13	8	8	8
Total, Office of the General Counsel	353	351	340	374	379

ATTORNEY HOURS BY CATEGORY

Mr. Skeen: Please update the table that appears on page 774 of last year's hearing report, showing attorney-hours worked by category, to include fiscal year 1998 actuals.

[The information follows:]

Attorney Hours Worked
Fiscal Years 1994 - 1998

Areas:	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
Administrative Cases.....	41,026	36,818	33,713	35,519	38,498
Civil Cases.....	127,408	123,616	114,866	110,216	109,120
Criminal Cases.....	11,584	7,162	6,615	6,387	8,967
Nonjudicial Foreclosures.....	5,554	4,406	3,568	3,596	4,187
Hearing Officer/Claims Adjudicator Cases.....	11,182	9,018	8,024	7,030	8,886
Regulations.....	21,155	16,209	18,370	20,113	20,560
Correspondence/Documents.....	100,381	95,478	90,060	90,271	86,750
Oral Opinions.....	52,622	52,572	54,659	54,938	57,240
Draft or Review Legislation, Legislative Reports, Testimony.....	8,400	7,810	6,504	5,037	8,002
Other.....	89,874	73,475	67,737	72,006	68,845
Total.....	<u>469,186</u>	<u>426,564</u>	<u>404,116</u>	<u>405,113</u>	<u>411,055</u>

ATTORNEY HOURS BY AGENCY

Mr. Skeen: Also update the table on page 745 of last year's hearing report showing a breakout by agency of the attorney-hours worked for fiscal year 1998.

[The information follows:]

ATTORNEY HOURS FOR FISCAL YEAR 1998
(By Agency)

	Hours	Percent
Agricultural Marketing Service.....	25,309	6
Animal and Plant Health Inspection Service.....	31,742	8
Farm Service Agency	46,627	11
Food and Nutrition Service	20,026	5
Food Safety and Inspection Service.....	9,940	2
Foreign Agricultural Service.....	5,934	1
Forest Service.....	119,127	29
Grain Inspection, Packers and Stockyards Administration...	7,729	2
Natural Resources Conservation Service.....	18,652	5
Rural Business Cooperative Service.....	4,753	1
Rural Housing Service.....	65,337	16
Rural Utilities Service.....	15,723	4
Other (includes OGC internal management and several USDA agencies where time spent is less than 1%).....	40,156	10
Total.....	<u>411,055</u>	<u>100</u>

PRIVATE COUNSEL

Mr. Skeen: Have you initiated the use of private counsel in fiscal year 1998? Are there any plans to use the authority in fiscal year 1999?

Response: The Department did not initiate the use of private counsel in any jurisdiction in fiscal year 1998 under the authority of either the Consolidated Farm and Rural Development Act nor the Housing Act of 1949. Discussions were held with the Department of Justice about the initiation of this program in several jurisdictions. However, either arrangements were worked out with the office of the United States Attorney in those jurisdictions to more expeditiously handle the Department's litigation or the Department of Justice initiated its private attorney program in those jurisdictions.

The expected increase in Rural Housing foreclosures in fiscal year 1999 makes it probable that we will initiate a private attorney program to handle that litigation in some states where judicial foreclosures are required.

ATTORNEY LOCATIONS

Mr. Skeen: Please update the table showing the number and locations of OGC attorneys appearing on page 746 of last year's hearing record.

Response: Following is a table showing our attorneys by location as of March 31, 1999

[The information follows:]

Attorney locations and positions

Washington, DC	129
Albuquerque, NM	3
Atlanta, GA	9
Boise, ID	1
Chicago, IL	5
Columbus, OH	2
Denver, CO	11
Greenwood, MS	1
Harrisburg, PA	6
Juneau, AK	3
Leawood, KS	7
Little Rock, AR	6
Milwaukee, WI	6
Missoula, MT	5
Montgomery, AL	3
Ogden, UT	3
Portland, OR	11
Richmond, VA	3
San Francisco, CA	11
St. Paul, MN	4
Temple, TX	5
Total	234

CIVIL AND CRIMINAL CASES

Mr. Skeen: Please update the table that appears on pages 747 of last year's hearing record, showing the number of new and pending civil and criminal cases, as well as the dollar value related to the pending cases, to include fiscal year 1998.

[The information follows:]

CIVIL AND CRIMINAL CASES

	New Cases Referred		Pending End of Fiscal Year	
	Civil	Criminal	Civil	Criminal
Fiscal Year:				
1994.....	10,449	257	20,715	413
1995.....	22,631	367	29,806	440
1996.....	8,221	156	23,871	389
1997.....	9,433	209	23,863	424
1998.....	9,587	231	22,493	453

DEBT COLLECTION

	Pending Cases	Dollar Amount
September 30, 1994.....	13,607	3,858,174,693
September 30, 1995.....	13,853	4,008,728,604
September 30, 1996.....	11,891	1,635,944,676
September 30, 1997.....	10,864	8,425,037,538
September 30, 1998.....	11,157	7,232,229,713

AUTHORITIES

Mr. Skeen: Please provide a list of all new authorities passed in the first session of the 105th Congress, as well as a brief description of any workload increase related to these new authorities. What has been the budget and staffing impact on OGC?

[The information follows:]

<u>New Authority</u>	<u>Description of Workload Effort</u>	<u>Estimated Attorney Staff Years</u>	<u>Dollars</u>
Agricultural Research, Extension, and Education Reform Act of 1998 (Pub. L. 105-185)	Provide legal advice on the revisions to existing programs, implementation of new programs, and implementation of new departmental review requirements, including rule making actions and the requisite delegations of authority	1.50	123,965
Joint Resolutions Making Continuing Appropriations for FY 1999 (Pub. L. 105-240, 105-249, 105-254, 105-257, 105-260, and 105- 273)	Provide legal advice on ramifications of continuing resolutions on agency operations, including contracts and grants programs	.05	4,132
Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 (Pub. L. 105-277)	Provide legal advice and interpretations of appropriations provisions	2.20	181,815
1998 Supplemental Appropriations and Rescissions Act (Pub. L. 105-174)	Provide legal advice and interpretations on appropriations provisions.	.80	66,114
National Drought Policy Act of 1998 — Advisory Commission	Provided assistance to the Farm Service Agency in establishing the Commission.	.05	4,132
Pub. L. 105-167 Exchange of Mineral Interests in the National Grasslands in North Dakota	Provide legal assistance related to the exchange of mineral interests.	.01	878
Pub. L. 105-208 Sale of land in the Tahoe National Forest	Provide legal assistance related to the conveyance of land.	.01	878

Pub. L. 105-210 Boundary Adjustment of the Devils Backbone Wilderness in the Mark Twain National Forest	Review legal instruments related to boundary adjustment.	.01	878
Pub. L. 105-224 Conveyance of Small Parcels to El Rito and Jamez Springs	Provide legal assistance related to the conveyance of land.	.01	878
Pub. L. 105-238 Transfer of Administrative Jurisdiction over Lake Chelan National Recreation Area	Provide legal assistance related to the transfer of administrative jurisdiction.	.01	878
Pub. L. 105-263 Acquisition of Environmentally Sensitive Lands in the State of Nevada	Provide legal advice related to the acquisition of land.	.01	878
Pub. L. 105-267 Gallatin II Exchange	Provide legal assistance related to the exchange of land and other assets.	.05	4,389
Pub. L. 105-277 Department of the Interior and Related Agencies Appropriations Act, 1999	Provide legal advice on, and interpretations of, appropriations provisions.	Listed below	
Sec. 323 Watershed Restoration and Enhancement Agreements	Provide legal advice on implementing program, and preparing agreements.	.02	1,755
Sec. 329 Prohibition of Timber Purchaser Road Credits	Provide legal advice on implementing prohibition on timber purchaser road credits.	.01	878
Sec. 339 Subsistence in Alaska	Provide legal advice on implementing provisions relating to subsistence uses in Alaska.	.05	4,389

Sec. 341 Skamania County Lands Transfer	Provide legal assistance related to the legislated conveyance of land and acceptance of title.	.03	2,633
Sec. 342 Lake Chelan Boundary Adjustment	Provide legal assistance related to the legislated transfer of administrative jurisdiction and the boundary adjustment.	.01	878
Sec. 343 Hardwood Technology Transfer And Applied Research	Provide legal assistance in preparing grants, contracts, and cooperative agreements, in acquiring corporate assets, and in utilizing these assets in the operation of a new institute.	.05	4,389
Sec. 347 Stewardship End Result Contracting Demonstration Project	Provide legal assistance in implementing new timber sale contracting authority.	.03	2,633
Sec. 348 Funding for Trappers Loop Road in Utah	Provide legal assistance relating to the construction of connector road.	.01	878
Sec. 350 Western Red Cedar	Provide legal advice on implementing export procedures for providing western red cedar that is surplus to Alaska to the lower 48 states before it may be exported.	.01	878
Sec. 354 Columbia River Gorge Boundary Adjustment	Review legal instruments related to boundary adjustment.	.01	878
Title IV Quincy Library Group	Provide legal advice on implementing a pilot project to demonstrate the effectiveness of certain resource management activities.	.15	13,166

Title V Land Between the Lakes	Provide legal assistance relating to the transfer of administrative jurisdiction from TVA to the Secretary over recreation area and relating to the management of the area.	1.00	87,770
Title VI I-90 Land Exchange	Provide legal assistance related to the exchange of land and other interests.	.01	878
Pub. L. 105-279 Acquisition of Mineral Interest within the Mount St. Helens National Volcanic Monument	Provide legal assistance related to the exchange of mineral and geothermal interests.	.01	878
Pub. L. 105-281 Demonstration Resource Management Project in the Stanislaus National Forest	Provide legal assistance in implementing contracting authority for demonstration project.	.01	878
Pub. L. 105-282 Conveyance of Administrative Site for the Rogue River National Forest	Provide legal assistance relating to conveyance of administrative site.	.01	878
Pub. L. 105-288 Land exchange in the Routt National Forest	Provide legal assistance related to the exchange of land.	.01	878
Pub. L. 105-321 Transfer of Administrative Jurisdiction over Certain Federal Lands Located Within the Rogue River National Forest	Provide legal assistance relating to the transfer of administrative jurisdiction between BLM and Forest Service and restoration of land to the status of the revested O&C Railroad grant lands.	.01	878
Pub. L. 105-326 Disposal of Certain Federal Properties located in Dutch John, Utah, to Assist the Local Government	Provide legal assistance relating to conveyance of land, structures, and community infrastructure facilities.	.01	878

Pub. L. 105-335 Exchange of certain lands within the State of Utah	Provide legal assistance to the exchange of Utah school trust lands.	.05	4,389
Bill Emerson Humanitarian Trust Act of 1998. 7 U.S.C. 1736f-1 (Pub.L. 105-385).	Advise agency on revised procedures.	.10	8,601
Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999 (Pub.L. 105- 277).	Provide legal advice on the implementation of a provision calling for the transfer of funds to States suffering commercial fishery-related disasters.	.02	1,720
	Provide legal advice on the implementation of a new loan program for honey.	.04	3,440
	Provide legal advice on the implementation of a new loan program for mohair.	.06	5,160
	Provide legal advice on the implementation of \$3 billion in supplemental Production Flexibility Contract payments.	.04	3,440
	Provide legal advice on the implementation of a new \$200 million program for livestock feed losses.	.08	6,880
	Provide legal advice on the implementation of provisions authorizing a new \$2 billion program for coverage of single and multi-year crop disaster losses.	.50	43,003
	Provide legal advice on the implementation of a new \$200 million aid package for dairy producers.	.10	8,601

William F. Goodling Child Nutrition Reauthorization Act of 1998 (Pub. L. 105-336).	Draft and review proposed bill language and provide legal advice regarding the implementation of provisions pertaining to the Special Supplemental Nutrition Program for Women, Infants and Children, and the National School Lunch, and School Breakfast Programs.	.50	43,003
Agricultural Research, Extension, and Education Reform Act of 1998 (Pub. L. 105-185).	Draft and review proposed bill language and provide legal advice regarding the implementation of provisions related to alien eligibility in the Food Stamp Program.	.12	10,321
Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999 (Pub. L. 105- 277).	Provide legal advice regarding the implementation of Food and Nutrition Service appropriations provisions.	.02	1,720
Pub. L. 105-379.	Provide legal advice regarding implementation of provisions requiring that food stamp benefits not be issued to deceased individuals and development of a national database to track participation in federal means-tested public assistance programs.	.02	1,720
Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999 (Pub. L. 105-277)	Provide legal advice on implementation of section 766 of title I of division A relating to designation of 20 new enterprise zones. Provide advice on implementation of the definition of rural areas for certain loan	.15	12,747

programs in section 735 of title I of division A.		
Provide advice on implementation of title VIII of division A concerning debt forgiveness, eligibility for emergency loans, borrower training and experience, guaranteed loan limits and cash flow.	.20	16,995
Provide advice on implementation of section 1102 of subtitle A of title IX of division A as it relates to crop insurance.	.05	4,249
Agricultural Research, Extension, and Education Reform Act of 1998 (Pub.L. 105-185)	Provide legal advice on implementation of sections 531-536.	.05 4,249
Quality Housing and Work Responsibility Act of 1998 (Pub. L. 105-276)	Provide advice on implementation of section 599C which amends rural housing programs, including providing permanent authority for certain multi-family housing programs and authorization of the use of rental assistance payments as operating subsidy for migrant farmworker projects.	.15 12,747
Section 741 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999, enacted in section 101(a), Division A, of the Omnibus Consolidated and Emergency Supplemental	Provide legal advice on implementation of statute, especially with respect to settlement of pending or filed claims. Representing USDA in administrative hearings. Working with DOJ attorneys representing the Department in federal court. Implementing	3.00 211,578

Appropriations Act,
1999, Pub. L. No.
105-277.

Implementing
regulation is 63
Fed. Reg. 67392-98
(Dec. 4, 1998).

Waiver of the
applicable statutes
of limitation for
farmers with long-
standing
administrative
complaints.

Section 742 of the
Agriculture, Rural
Development, Food
and Drug
Administration, and
Related Agencies
Appropriations Act,
1999, enacted in
section 101(a),
Division A, of the
Omnibus Consolidated
and Emergency
Supplemental
Appropriations Act,
1999, Pub. L. No.
105-277 (liability
for compensatory
damages for
violation of the
Rehabilitation Act
of 1973).

the consent decree in
Pigford v. Glickman,
No. 97-1978 (PLF)
(D.D.C.) and
Brewington v.
Glickman, No. 98-1693
(PLF) (D.D.C.).

Provide legal advice .50
on implementation of
statute, especially
with respect to
settlement of pending
or filed claims.
Representing USDA in
administrative
hearings.

35,263

Mr. Skeen: Also, please provide a list of all authorities that have resulted in decreases to your workload. Include the budget and staffing impacts.

Response: OGC did not have any authorities that resulted in a decrease in workload.

LAW LIBRARY

Mr. Skeen: Please update the law library expenditures table on page 753 of last year's hearing report to reflect 1998 actuals and fiscal years 1999 and 2000 estimates.

[The information follows:]

LAW LIBRARY COSTS

<u>Fiscal Year</u>	<u>Total Expenditures</u>
1988	\$537,826
1989	\$549,451
1990	\$608,280
1991	\$586,983
1992	\$454,518
1993	\$541,416
1994	\$407,885
1995	\$427,083
1996	\$471,977
1997	\$441,896
1998	\$519,639
1999 Estimate	\$418,208
2000 Estimate	\$480,305

FY 1999 BUDGET REQUEST BREAKOUT

Mr. Skeen: Please provide the Committee with a detailed breakout of your budget request to the Secretary, The Secretary's request to OMB, and the OMB allowance.

[The information follows:]

FY 2000 Budget Request

	<u>Agency</u>	<u>USDA</u>	<u>OMB</u>
<u>1999 Base:</u>			
1999 Budget Request	\$30,446	\$30,446	\$30,446
1999 Congressional Action	--	-50	-50
1999 Estimates	\$30,446	\$30,396	\$30,396
<u>Changes To 1999 Estimate:</u>			
Pay Costs	\$ 855	\$ 1,159	\$ 1,159
Salary Adjustments	307	--	--
Increased Operating Costs	57	--	--
Legal Services	419	182	182
Communications/Information Systems	725	701	701
Travel Requirements	70	--	--
Maintain Staff	--	237	237
Total	\$32,879	\$32,675	\$32,675

EXAMPLES OF RECENT PROGRESS

Mr. Skeen: For each of the examples of recent progress, provide an estimate of the cost and lawyer staff years associated with providing legal assistance, the number of cases involved, and the outcome of the OGC assistance.

[The information follows:]

Selected Examples Of Recent Progress	Estimated Cost	Staff Years	Number of Cases	Outcome of Assistance
Assisting United States Attorneys in the defense of 8 prepayment lawsuits involving approximately 350 multi-family projects.	8,498	.10	8	Litigation is still pending and a ruling on a motion which the Government won is being appealed.
Advice on implementation of title VIII of division A of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999.	16,995	.20	N/A	Final guaranteed loan regulation in compliance with statutory changes; various administrative notices on statutory changes.
Advice in connection with servicing relief for Indian Tribal Land Acquisition Loans.	8,498	.10	N/A	Advance Notice of Proposed Rulemaking published; preparation of proposed regulation.
Assistance to Rural Utilities Service (RUS) in corporate restructuring of power supply borrowers to respond to deregulation and market competition at wholesale and retail levels.	169,954	2.00	4	Closed 2 major restructurings involving disaggregation of generation and transmission assets, reform of power supply contracts, and alliances between power supply borrowers.
Assistance to RUS with respect to financially troubled power supply borrowers seeking debt settlements under 7 U.S.C. § 1981(b)(4) or in bankruptcy.	212,443	2.50	7	One bankruptcy completed with fully implemented plan of reorganization, one administrative debt settlement closed; negotiations and litigation continuing in other cases.

Legal advice, consultation, review and drafting with RUS to convert RUS mortgages of investment-grade generation and transmission cooperatives to utility bond indentures.	127,466	1.50	3	Two indentures closed securing debt aggregating nearly \$2.2 billion and pledging property in 11 states. A third is nearing completion. Two new projects are now pending.
Consultations with RUS on proposed transformation of Rural Telephone Bank into a performance based organization; prepare necessary legislation.	21,244	.25	1	Legislation drafted and under review within Government; coordination with other agencies in process.
Consultation with RUS on expediting loan procedures and revised loan documents; revisions will be drafted by OGC.	21,244	.25	1	Discussions of loan documents ongoing and RUS is considering a number of options.
Defense of JO's decision IBP, inc. case	21,062	.25	1	JO issued cease and desist order; IBP appealed to 8 th Cir., assisted in preparation of responsive briefs.
Concentration Issues/Mergers and Acquisitions	84,247	1.00	N/A	Reviewed and revised recommendations for legislative action; assisted in response to public concern about mergers and acquisitions in agriculture entities
American Federation of Government Employees lawsuit seeking an injunction against USDA regarding inspection pilot projects.	42,124	.50	1	Dispositive motions and supporting briefs were prepared and filed with Federal district court. Oral argument was held and further hearings may be scheduled.

James V. Hurson Associates, Inc., lawsuit seeking an injunction against USDA regarding changes to label review procedures:	12,637	.15	1	Dispositive motions and supporting briefs were prepared and filed with Federal district court. Oral argument was held and the case is under consideration by the court.
HACCP/Pathogen Reduction Final Rule Implementation	252,741	3.00	N/A	An array of rulemaking dockets and other documents explaining and clarifying requirements of the HACCP rule were prepared and issued. Final rules of practice to govern regulatory enforcement actions were developed. Assistance also was provided to FSIS to resolve compliance and enforcement matters.
Legal assistance in connection with proposed and final rules involving the importation of plants and animals and plant and animal products.	63,185	.75	N/A	Approximately 50 proposed and final rules published in the Federal Register dealing with importation of an array of products enabling APHIS to protect animal and plant health.
Criminal cases involving the illegal importation or exportation of animals and plants and animal and plant products	21,062	.25	8	Four have been successfully completed, prosecution of two cases was declined, and two cases are currently being prosecuted.
Review of marketing order dockets relating to the fruit and vegetable programs, the milk marketing order program, and the peanut marketing agreement program.	189,556	2.25	N/A	OGC review of almost 150 rulemaking actions, as well as many other documents relating to marketing orders, insured that regulatory actions necessary to the operation of these industry programs were consistent with legal requirements and were timely.

Assistance in connection with the implementation of the tart cherry marketing order.	21,062	.25	N/A	OGC has been involved with the drafting of and review of new regulations to further implement or revise the program after its first year of operation. OGC also assisted the agency in its review of possible amendments to the marketing order itself.
Assistance in connection with revision of the milk marketing order system.	63,185	.75	N/A	After issuing a proposed rule to revise the federal milk marketing order system, numerous comments were reviewed in response to the proposed rule. OGC advised the agency in the preparation of a final decision.
Minnesota Milk Case	8,425	.10	1	The Court of Appeals for the Eighth Circuit reversed the District of Minnesota and upheld the Secretary's system of milk pricing.
Research and Promotion Programs	42,124	.50	N/A	OGC attorneys continued to provide a wide range of legal services in connection with rulemaking actions and other issues arising under the research and promotion programs currently in effect. Legal services were provided in connection with the promulgation of a new national program for peanuts under the Commodity Promotion, Research and Information Act of 1996. This is the first of several new programs that are expected to be proposed under the Act.

Legal assistance in connection with constitutional challenge to the advertising and promotion provisions of the almond marketing order, the dairy promotion order, and the mushroom promotion order, and related cases.	54,761	.65	10	OGC has been successful in defeating attempts to distinguish these programs from the California tree fruit program, upheld last year by the Supreme Court. Appeals, however, continue, as do attempts to collect past due assessments.
Animal Welfare and Horse Protection Act Cases	336,988	4.00	55	OGC initiated 42 new Animal Welfare Act and 13 new Horse Protection Act cases during the year. OGC also resolved 47 pending AWA cases and 6 HPA cases, almost all on terms favorable to the Department.
Virus Serum-Toxin Act	21,062	.25	3	OGC reviewed a number of rulemaking actions under the Act. Several regulatory issues were under review to determine if changes to the regulatory scheme were necessary. OGC worked on several cases involving alleged violations of the Act, and assisted DOJ attorneys at the trial and appellate levels in litigation involving manufacturers of animals biologics.
Grain Standards Act and Related Programs	8,425	.10	N/A	OGC reviewed a variety of rulemaking and other documents for publication, including changes to the grain inspection fee schedules. OGC continued to work with and advise the agency concerning program changes to better serve the grain industry in a more cost effective and efficient manner.

Organic Foods Production Act	54,761	.65	N/A	OGC continued to provide legal assistance in connection with the issuance of a proposed rule to implement the Organic Foods Production Act of 1990. Publication of the Department's proposed rule on organic certification resulted in tens of thousands of comments from interested persons.
Transportation Issues	4,212	.05	N/A	OGC provided legal services concerning Surface Transportation Board filings in connection with severe rail service disruptions in the West, the ongoing adjustments related to the Union Pacific/Southern Pacific merger and rail access and competitive issues.
In FY 1998, GLD expended substantial resources in providing advice to REE agencies with respect to the legislative development and enactment of the Agricultural Research, Extension, and Education Reform Act of 1998, Pub. L. No. 105-185 (AREERA), and the issuance of legal opinions regarding provisions of AREERA such as the necessary delegations of authority, the development of regulations and procedures for land-grant college plans of work, matching and stakeholder input requirements of AREERA, and the impact of revisions on FY 1998 competitive grants programs	123,965	1.50	N/A	Implementation of revised and new authorities for research, extension, and education programs.

In FY 1998, USDA issued 15,037 contract actions obligating more than \$979 million for the acquisition of services, supplies, and construction to support agency operations. GLD and the OGC regional offices provided legal advice to all USDA agencies concerning these acquisitions. This assistance included drafting and reviewing regulations; reviewing solicitation documents; handling mistake-in-bid and protest matters; providing advice during all phases of the acquisition process; providing advice regarding performance matters; and providing the assistance necessary to assert or defend contract claims before the Agriculture Board of Contract Appeals and in the Federal Courts.	165,286	2.00	80	USDA completed 15,037 contract actions and resolved or made progress in resolving 80 contract disputes.
During FY 1998, GLD assisted the Office of Procurement and Property Management with a number of important initiatives, including a review and restructuring of the Department Central rent account, and the use of incentives in the leasing process. GLD also assisted in the revision of a number of Departmental Regulations involving procurement and property matters.	41,322	.50	N/A	Progress toward resolving long-standing issues regarding real property authorities and funding.

In FY 1998, GLD provided an increased amount of legal services to the National Appeals Division (NAD) particularly regarding the effects of Department of Treasury and USDA Debt Collection Improvement Act of 1996 implementation actions.	8,264	.10	N/A	Production of comprehensive legal opinion on debt collection through administrative offset and several supplemental opinions as guidance for NAD.
In FY 1998, GLD provided increased legal services in the coordination of OGC litigation work nationwide with respect to legal issues related to the NAD statute.	8,264	.10	5-10	Several judges of the Court of Claims and the D.C. Circuit have held that district courts have exclusive jurisdiction over judicial review of NAD decisions.
In FY 1998, GLD provided sustained advice to Office of the Chief Information Officer with respect to delegations of authority, legislation, and Y2K.	8,264	.10	N/A	Worked with Congress on language for USDA CIO legislation that may be reintroduced in the 106 th Congress. Memoranda and advice with respect to Y2K liability, appropriations limitations, and contract terms.
Provided assistance relating to the convergence of administrative support functions of the Rural Development mission area, the Farm Service Agency, and the Natural Resources Conservation Service.	41,322	.50	N/A	The Secretary established the Support Services Bureau (SSB) on February 3, 1999. The SSB will require the continued support of OGC in personnel, administrative, and fiscal law matters and the creation of a charter.
Reviewed and provided advice relating to the restructuring of the USDA Ethics Program.	16,529	.20	N/A	USDA created the Office of Ethics under the Assistant Secretary for Administration.

8,264	.10	N/A	Improved ability to collect debts owed to the Government including under the Debt Collection Act of 1996.
8,264	.10	N/A	With OGC assistance Agencies have and will continue to evaluate and, where necessary revise, their records disposition schedules.
8,264	.10	N/A	Advised OGC managers about certification and negotiating collective bargaining agreements under the Federal Service Labor Management Relations statute.
24,793	.30	121	64 new patent applications were filed at the U.S. Patent & Trademark Office on inventions made by Department employees. 57 patents were obtained on previously-filed patent applications.
21,501	.25	N/A	OGC provided assistance to USDA officials in drafting agreements entered into with the Russian government on key elements of a food assistance package totaling 3.1 million tons of agricultural commodities, including a donation of 1.5 million tons
8,264			Provided advice and services to USDA agencies regarding computer matching programs and release of information to Department of Treasury for debt collection purposes.
8,264			Provided legal advice and services to agencies regarding Federal Record Act issues particularly with regard to electronic recordkeeping in the wake of the ruling by the District Court for the District of Columbia in <u>Public Citizen v. Carlin</u> .
8,264			The American Federation of Government employees was certified as the exclusive representative of both professional and non-professional employees in the field regions of OGC.
24,793			Assistance in connection with obtaining patent protection.
21,501			Russian Assistance Program

of wheat under section 416(b) of the Agricultural Act of 1949, as well as concessional sales under P.L. 480 of corn, soybean meal, soybeans, wheat, rice, beef, pork, and nonfat dry milk totaling another 1.5 million tons. Another 100,000 tons of various commodities will be donated to private relief organizations.

OGC developed the legal framework to implement removal of surplus wheat from the domestic market under the authority of the Commodity Credit Corporation (CCC) Charter Act and the disposal of the commodities ultimately acquired by CCC under this surplus removal operation.

Three matters have been concluded through formal legal process; nine matters were concluded through negotiations or are currently in process.

New multi-million dollar Conservation Reserve Enhancement Program agreements have been entered between the USDA and four States (New York, Oregon, Washington, and North Carolina) with a new agreement still in the negotiation stage with Delaware. These agreements involve joint incentives to commit sensitive lands to environmental use.

N/A

.25

21,501

Wheat Initiative

12

3.00

258,015

International Trade Disputes

5

.20

17,201

Conservation Reserve
Enhancement Program

Tobacco Warehouse Cases	21,501	.25	100	In these ongoing cases, many administrative hearings have been held with more pending. These hearings have resulted in a number of findings of violations of provisions of the Agricultural Adjustment Act of 1938, as amended. Also, a number of major settlements of these cases have been negotiated and are in the clearance process. In the meantime, litigation on the statute of limitations issues raised by three warehouses in one case and a number of warehouses in another case has resulted in appeals to United States Courts of Appeal.
New "Disaster" Regulations	17,201	.20	6	Pub. L. 105-277 provided for many new programs to aid distressed farmers. Regulations and notices have already been cleared for new livestock disaster assistance provisions, and for new provisions for assistance for mohair, honey, and dairy operations. New regulations for disaster assistance for tree losses and for crop losses, both single year and multi-year, are in development with OGC assistance. The \$3 billion supplemental program for Production Flexibility Contract participants was implemented immediately with OGC's assistance and without the need for new rulemaking.

Suspension and debarment actions resulting from criminal prosecutions of agribusinesses.	64,504	.75	7	Two dairy operations entered compliance agreements in lieu of debarment following conviction for bid-rigging. Suspension of a dairy operation and first use of a compliance agreement for short-weighting of milk cartons sold to National School Lunch Program. Debarred one dairy operation and three individuals convicted of milk adulteration.
Provide legal services to the Antitrust Division of the Department of Justice (DOJ) in connection with proposed merger of two dairy operations.	8,601	.10	1	Information assisted DOJ in filing of opposition to the proposed merger.
Provide legal advice in connection with the implementation of, and litigation involving, the Food Stamp Program provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (Pub. L. 104-193).	124,707	1.45	7	Provided assistance in responding to litigation challenging the treatment of aliens in the Food Stamp Program. All decisions have been favorable.
Provide substantial assistance in preparation of required Departmental and agency regulations and policy advice regarding the Electronic FOIA	8,777	.10	N/A	Regulations to be published in proposed form within the next month
Provide legal advice on J-1 visa two year home country requirement for foreign medical doctors.	26,331	.30	N/A	USDA acted as "interested government agency" for over 1000 medical doctors in calendar year 1997.

Provision of litigation support in defaulted timber sale contract and long term Alaska timber contract litigation.	175,540	2.00	27	Engaged in discovery and filed dispositive motions aimed at narrowing the issues to be litigated and determining the possibility of settlement.
Provision of litigation support in suspended, modified, and canceled timber sale contract litigation.	175,540	2.00	20	Obtained judgements, engaged in discovery, filed dispositive motions, and settled several cases resulting in less litigation and reduced government liability
Provisions of legal advice in connection with rapidly expanding Forest Service recreation programs including implementation of ski area fee legislation (16 U.S.C. 497c), implementing and enforcement of Recreation Fee Demonstration Program legislation (Pub. L. 104-134), enforcement of the noncommercial group use rule, special uses reengineering and agency cost recovery.	105,324	1.20	N/A	Assistance to Forest Service in implementing of ski area permit fee policy, implementation and defense of Recreation Fee Demonstration Projects to fund recreation sites, defending constitutionality of noncommercial group use rule, addressing legal issues in connection with streamlining special uses program, and development of proposed cost recovery regulations.
Provision of increased legal services regarding hydro power relicensing issues for the Forest service at the field level through improved inter-office coordination and communication and use of team approach.	153,598	1.75	23	Improved response time, efficiency, and consistency in handling client agency legal service needs and protection of forest resources in hydro power relicensing applications. Indirect benefit through improved service by client agency to public and hydro power project operators/proponents.

Provision of legal assistance on the implementation of USDA easement programs administered by NRCS through the Wetlands Reserve Program and the Farmland Protection Program.	21,943	.25	629	Assisted in the contracting, drafting and closing of easement transactions for WRP, and negotiating the sufficiency of easement terms for the FFP.
Provision of legal assistance in the drafting of cost recovery regulations for the Forest Service	17,554	.20	N/A	Draft regulations are written and in the process of intra-departmental review.
Provision of legal assistance for major land acquisition initiatives including the Baca Ranch in NM, the Headwaters tract in CA and the New World Mine in MT.	87,770	1.00	N/A	The New World Mine and Headwaters transactions have been completed. The seller withdrew from the Baca sale.
Review for legal sufficiency proposed decisions by the Office of Civil Rights with respect to conducted (e.g. farm credit) discrimination claims	70,526	1.00	127 since March 1999	Ensures that any payment of compensatory damages is made in accordance with the statutes, case law, and opinions by the Department of Justice
Review for legal sufficiency proposed decisions by the Office of Civil Rights with respect to EEO compensatory damages claims	70,536	1.00	11	Ensures that any payment of compensatory damages is made in accordance with the statutes, case law, and opinions by the Department of Justice
EEO formal proceedings	141,052	2.00	6	Representing Department before EEOC in formal proceedings (some class proceedings).
EEO actions pending in Federal Court	141,052	2.00	4	Working with Department of Justice with respect to filings with the Federal

court, plotting the course of the litigation, and where appropriate, negotiating settlements.

Working with Department of Justice with respect to filings with the Federal court, plotting the course of the litigation, and where appropriate, negotiating settlements.

Clarify that the regulation applies to all USDA conducted programs and activities; add familial status and marital status to the protected classes contained in the regulation; add a provision concerning USDA agencies' compliance efforts; add sexual orientation to the protected classes contained in the regulation; add public assistance status, as well as marital status and familial status, as prohibited bases because these prohibited bases are contained in the Equal Credit Opportunity Act (ECOA); add a prohibition against reprisal; and reflect Secretary's Memorandum 1010-4 (May 16, 1997), which further delegated to the CR Director the authority to make final determinations on complaints and order corrective actions.

Actions in Federal Court alleging discrimination in farm programs

70,526

1.00

N/A

Drafted and reviewed published regulations reforming Departmental procedures in handling discrimination complaints with respect to conducted programs (Proposed 7 C.F.R. Part 15d, which will replace 7 C.F.R. Part 15, Subpart B, 63 Fed. Reg. 62962-64 (Nov. 10, 1998))

70526

1.00

N/A

Drafted and reviewed departmental (internal) regulations with respect to discrimination complaints regarding conducted programs, assisted programs, and employment	70,526	1.00	N/A	Clarify procedures and eliminate confusion with respect to handling discrimination complaints with respect to conducted programs, assisted programs, and employment
Pigford v. Glickman, No. 97-1978 (PLF) (D.D.C.) and Brewington v. Glickman, No. 98-1693 (PLF) (D.D.C.).	141,052	2.00	1,000	Helped negotiate consent decree to settle action and provide a procedure for the adjudication of long-standing claims of discrimination by African American farmers in the conduct of farm programs in a manner that is fair, efficient, and in accordance with the law
Donnelly v. Glickman, C-95-4389 DLJ (N.D. Ca.)	35,263	.50	1	Negotiating settlement of class action filed in Federal court on behalf of female employees of the Region 5 (California) of the Forest Service
Regional Hispanic Working Group.	352,630	5.00	N/A	Negotiating settlement of discrimination complaints of Hispanic employees of the Region 5 (California) of the Forest Service
Herron v. Glickman, EEOC No. 100-98-7120X	105,789	1.50	1	Litigating class action filed before EEOC on behalf of African American employees of FSA, alleging that African American employees at the GS 12, 13, and 14 levels were being prevented from obtaining promotions to the GS 13, 14, and 15 levels respectively.

Soon to be published regulations that will help ensure that insurance companies participating in the Federal Crop Insurance Program comply with Title VI and other statutes that prohibit discrimination by recipients of Federal financial assistance.

N/A

.10

7,053

At the request of the Risk Management Agency (RMA), CRD composed the initial draft of proposed published regulations that would require insurance companies participating in the Federal Crop Insurance Program to collect certain participation data on "protected classes," such as race, color, religion, national origin, sex, age, and disability.

OGC PRIORITIES

Mr. Skeen: Please provide the Committee with OGC's top priorities for fiscal years 1999 and 2000?

Response: OGC's top priorities for fiscal year 1999 and 2000 will include providing increased assistance to USDA agencies in response to a rising number of EEO complaints, and consulting with mission areas and agencies concerning allegations of discrimination in the conduct of USDA programs. Another priority will include assistance in the enforcement of the commitments received in the Uruguay Round Agreements and providing assistance in pursuing additional commitments in future negotiations. With respect to regulatory and marketing programs, priorities include concentration in the meat industry, dairy marketing order reform, publication of the organic standards rule, and the completion of Hazard Analysis and Critical Control Point implementation in all meat and poultry plants nationwide.

Emphasis will also be placed on providing assistance to the Executive Director of the Support Service Bureau in assuring that administrative convergence is implemented smoothly, developing regulations and providing guidance under the Agriculture Research, Extension and Education Reform Act of 1998, focusing on new agreements expanding the Conservation Reserve Enhancement Program, resolving cases related to tobacco warehouse administrative proceedings, debt collection activities and welfare reform issues.

LOAN RESOLUTION TASK FORCE

Mr. Skeen: What is the status of the 414 cases left to be resolved by the Loan Resolution Task Force?

Response: Of the 426 cases remaining at the time the Loan Resolution Task Force was dissolved, September 30, 1996, 230 cases remain. Of the 230 cases, 52 are in acceleration, 38 are in bankruptcy, 23 are in the process of being referred for litigation or are in litigation for collection, 48 are in foreclosure, 19 are open only for the purpose of collection when the shared appreciation agreement expires and 1 is presently in the process of servicing under the provisions of the Consolidated Farm and Rural Development Act and 7 C.F.R. part 1951, subpart S.

Mr. Skeen: How much time has OGC devoted to servicing the Loan Resolution Task Force?

Response: Since the Loan Resolution Task Force was dissolved, this class of cases has been handled by OGC as part of its regular litigation load. In addition, because of the Department's reporting of these cases as exceeding the \$1 million threshold upon the accrual of both principal and interest, additional cases are continually being added to the category and not reported as Loan Resolution Task Force cases. The Office of the General Counsel has no way of knowing whether the cases it

handles were old Loan Resolution Task Force cases or have been added recently to the \$1 million category. In addition, OGC does not maintain records by the time spent on cases of a certain dollar category of cases in litigation. As a result, we do not have the information you requested.

AMEX INTERNATIONAL, INC.

Mr. Skeen: Please provide the Committee an update of the contract with Amex International, Inc. for software development of a litigation tracking system?

Response: The enhancements to the litigation tracking system was completed by AMEX in FY 1996. The Office of the General Counsel (OGC) implemented the Paradox application database tracking system nationwide in fiscal year 1998. Eighteen field offices, as well as twelve Divisions in Headquarters, have the database application installed.

EEO COMMISSION

Mr. Skeen: Please update the table that appears on page 766 of last year's record showing the number of cases OGC represented before the EEO Commission to include fiscal year 1998.

[The information follows:]

FY 1994 - 47
 FY 1995 - 43
 FY 1996 - 34
 FY 1997 - 24
 FY 1998 - 79

HAZARDOUS WASTE

Mr. Skeen: Please describe for the Committee the work OGC does for Hazardous Waste. Where are the majority of OGC staff in this area located?

Response: OGC provides legal services to the Department and USDA agencies on issues relating to compliance with the requirements of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), and related state and local hazardous waste laws. OGC staff working on hazardous waste issues are located throughout Headquarters and the Regional offices of OGC. Generally, each Division and Regional Office of OGC has a staff attorney who is responsible for hazardous waste issues that arise within that Division's client agency or area. Some of these attorneys work full-time on these issues while other staff work on other issues as well. Approximately the same number of staff in headquarters and the field offices work on hazardous waste issues.

BENEFITS FORMER PERSONNEL

Mr. Skeen: Why does benefits to former personnel remain constant when your staff numbers are increasing?

Response: The amounts for benefits to former employees are estimates provided to OGC as part of Departmental assessments. Estimates are based on prior year actual usage, which have not been adjusted to reflect anticipated workload changes.

OBJECT CLASS BREAKOUT

Mr. Skeen: Provide a detailed breakout of Object Class 25.2 for fiscal years 1998, 1999, and 2000.

[The information follows]

Other Services Object Class Breakout

Services	FY 1998	FY 1999	FY 2000
Telephone Service Operations	\$ 34,689	\$ 34,689	\$ 34,689
NFC Services	140,916	140,916	140,916
Security	124,793	124,793	124,793
Preauthorized Funding	1,945	1,945	1,945
Financial Information Systems	21,682	21,682	21,682
Modernization of Administrative Processes	5,357	5,357	5,357
Central Imprest Fund	15,349	15,349	15,349
Excess Property Operations	17,900	17,900	17,900
Rehabilitated Furniture	27,939	27,939	27,939
Central Shipping and Receiving	6,010	6,010	6,010
Design Center & Teleconferencing Center	5,269	5,269	5,269
Executive Correspondence	5,144	5,144	5,144
Computer Services Unit	4,675	4,675	4,675
Equipment Maintenance	246,480	246,480	246,480
Training	55,200	55,200	55,200
EEO Investigations	9,000	9,000	9,000
OPM Federal Employment	681	681	681
Nontravel Expenses on Travel Vouchers	7,500	7,500	7,500
Contractual Services	12,000	12,000	12,000
Health Unit Services	15,096	15,096	15,096
1890 USDA Initiative	8,091	8,091	8,091
Hispanic Colleges/Universities.....	3,112	3,112	3,112
Target Center	2,225	2,225	2,225
Sign Language Services	3,885	3,885	3,885
Career Transition Center	1,213	1,213	1,213
Employee Counseling	3,923	3,923	3,923
Reimbursable Work Authorization	5,000	5,000	5,000
Service Advertising	3,345	3,345	3,345
Bank/Court Reporter Fees	<u>5,827</u>	<u>5,827</u>	<u>5,827</u>
Total, Other Services	\$794,246	\$794,246	\$794,246

EQUIPMENT PROCUREMENT PLANS

Mr Skeen: Object Class 31, equipment, increases by \$729,250. What are your equipment procurement plans should funds be appropriated for this increase?

Response: This increase would support OGC's objective to improve internal and external communications and information management within OGC. OGC anticipates migrating fully to Windows 98 to support current windows application, as well as continuing to replace older pentium computers nationwide. Approximately 65% of OGC's current pentium computers will need to be replaced to continue OGC's processing requirements into the year 2000 and beyond.

MAINTAIN STAFF

Mr. Skeen: In your justification, you state that you need \$371,000 to main staff. How does this differ from the \$1,159,000 increase for pay costs?

Response: The \$371,000 is required to maintain and support the current projected end of fiscal year 1999 staffing level. This amount is critically important because it will allow OGC to meet the current and projected increased demand in delivering predecisional legal advice, training, appeal and litigation legal services to agencies. The \$1,159,000 increase is for the pay raise which all OGC staff receive. This amount is for the annualization of the fiscal year 1999 pay raise and the anticipated fiscal year 2000 pay raise. OGC's budget does not have any flexibility for absorbing this mandated pay raise. Unlike large program agencies, which have more flexibility concerning budget implementation, OGC can only absorb these costs by reducing staff.

STAFF REQUIREMENTS

Mr. Skeen: Please provide for the record the staff requirements by full-time equivalent that are needed for the enhanced legal services for natural resources, trade practices, general law and regions.

Response: As a result of reductions in staff during FY 1997 and FY 1998, there are areas where staffing levels are insufficient to adequately meet the demands for legal services generated by the Department. OGC has been unable to fill key positions as they became vacant, resulting in OGC staff fallen far below the numbers necessary to provide the required legal services to USDA agencies. This enhanced staffing level will enable OGC to provide an additional 3 FTE's in the Natural Resources Division, Trade Practices Division and General Law. An additional 2 FTE's in two regional offices, Kansas City and San Francisco.

YEAR 2000 COMPLIANCE

Mr. Skeen: Please provide the Committee with an update on the status of the Year 2000 computer problem as it relates to OGC.

Response: The Office of the General Counsel (OGC) began replacing 386/486-based computers in fiscal year 1996. At this time, all OGC personal computers and file servers use Pentium processors. These computers have been tested for Y2K compliance, and with software files loaded, meet Y2K testing criteria. During fiscal year 1998, OGC began replacing approximately 38% of these Pentium computers with Pentium II 266 and 400 MHz computers. These systems have been tested to be Y2K compliant without software files loaded. OGC will continue to replace older Pentium computers as funding becomes available. In addition, OGC replaced older field office Novell Pentium file servers, with Pentium II processors, that meet Y2K criteria. All OGC workstations use Windows 95/98 operating system software that accepts four-digit dates, and OGC participates in USDA's Master Licensing Agreements (MLA's) with Corel Corporation, as well as, Novell, Inc. This provides OGC the necessary upgrades to Novell operating system software and WordPerfect Suite software necessary to remain Y2 compliant across OGC applications.

NATIONAL APPEALS DIVISION

Questions submitted by Mr. Skeen

LIST OF TRAINING COURSES

Mr. Skeen: Please provide a listing of training courses NAD employees receive to obtain and retain appeal competencies.

Response: The basic training courses identified as priority 1 training to obtain competency include computer operations, administrative law, writing, conduct of hearings, and analysis. We conducted National training at the National Judicial College in fiscal year 1998. The training topics were evidence--relevancy, credibility, documentary, testimonial, and physical; analytical decision making--burden of proof, substantial evidence review; and writing. In fiscal year 1999 we are conducting specialized training in the Farm Service Agency--FSA, Rural Development--RD, Risk Management Agency--RMA, and the Natural Resources Conservation Service--NRCS--programs. Training topics for FSA include the Conservation Reserve Program, New Disaster Relief Program, and Production Flexibility Contracts. Training topics for RD are the Guaranteed Farm Labor and Multi-Family Housing Programs. Training topics for RMA include ineligibility determinations, and New Insurance Programs. Training topics for NRCS include wetland and highly erodible land determinations.

TRAINING COSTS

Mr. Skeen: What is the cost per participant for the training proposed in fiscal years 1999 and 2000?

Response: The approximate cost per participant for fiscal year 1999 is \$2,000. Training costs will increase to approximately \$4,500 because NAD-wide training similar to that at the National Judicial College last year is planned. The training will be based on the diagnostic testing results obtained this year. We are also considering development of individualized training packages in a CD format.

LIST OF APPEALS PENDING RESOLUTION

Mr. Skeen: Please provide a listing and description of the appeals pending resolution.

Response: As of March 19, 1999, there are 66 cases listed below that were recently activated from prior years. They were inactive because they involved bankruptcy, mediation, litigation, civil rights, remands, or suspensions.

[The information follows:]

CASE #	Description	CASE #	Description
1999S000039	Farm Service Agency	1999S000310	Rural Development
1999S000188	Farm Service Agency	1999S000322	Farm Service Agency
1999S000208	Rural Development	1999S000328	Farm Service Agency
1999S000251	Rural Development	1999S000329	Rural Development
1999S000266	Rural Development	1999S000332	Farm Service Agency
1999S000285	Farm Service Agency	1999S000333	Farm Service Agency
1999S000297	Risk Management Agency	1999S000334	Farm Service Agency
1999S000302	Rural Development	1999S000343	Farm Service Agency
1999S000309	Farm Service Agency	1999S000344	Farm Service Agency

Case #	Description	Case #	Description
1999S000345	Farm Service Agency	1999S000466	Farm Service Agency
1999S000348	Farm Service Agency	1999S000467	Rural Development
1999S000350	Farm Service Agency	1999S000468	Farm Service Agency
1999S000351	Rural Development	1999S000469	Rural Development
1999S000352	Rural Development	1999S000470	Farm Service Agency
1999S000356	Rural Development	1999S000472	Rural Development
1999S000357	Rural Development	1999S000474	Farm Service Agency
1999S000361	Farm Service Agency	1999S000476	Farm Service Agency
1999S000363	Rural Development	1999S000477	Farm Service Agency
1999S000368	Farm Service Agency	1999S000479	Farm Service Agency
1999S000370	Farm Service Agency	1999S000481	Rural Development
1999S000377	Rural Development	1999S000483	Rural Development
1999S000378	Farm Service Agency	1999S000484	Rural Development
1999S000380	Farm Service Agency	1999S000485	Farm Service Agency
1999S000382	Farm Service Agency	1999S000486	Rural Development
1999S000383	Farm Service Agency	1999S000488	Rural Development
1999S000386	Farm Service Agency	1999S000492	Rural Development
1999S000388	Farm Service Agency	1999S000494	Rural Development
1999S000390	Farm Service Agency	1999S000495	Farm Service Agency
1999S000392	Farm Service Agency	1999S000496	Farm Service Agency
1999S000396	Rural Development	1999S000497	Farm Service Agency
1999S000399	Rural Development	1999S000498	Farm Service Agency
1999S000400	Rural Development	1999S000499	Farm Service Agency
1999S000402	Rural Development	1999S000500	Farm Service Agency
1999S000403	Rural Development	1999S000502	Farm Service Agency
1999S000407	Natural Resources	1999S000504	Farm Service Agency
	Conservation Service	1999S000505	Rural Development
1999S000408	Farm Service Agency	1999S000506	Rural Development
1999S000411	Farm Service Agency	1999S000507	Rural Development
1999S000417	Farm Service Agency	1999S000511	Farm Service Agency
1999S000419	Rural Development	1999S000512	Farm Service Agency
1999S000420	Rural Development	1999S000514	Farm Service Agency
1999S000421	Rural Development	1999S000515	Rural Development
1999S000422	Rural Development	1999S000516	Rural Development
1999S000423	Farm Service Agency	1999S000517	Farm Service Agency
1999S000425	Rural Development	1999S000518	Rural Development
1999S000428	Farm Service Agency	1999S000519	Rural Development
1999S000429	Rural Development	1999S000520	Rural Development
1999S000431	Farm Service Agency	1999S000521	Farm Service Agency
1999S000434	Farm Service Agency	1999S000522	Rural Development
1999S000436	Rural Development	1999S000523	Rural Development
1999S000437	Rural Development	1999S000524	Rural Development
1999S000438	Rural Development	1999S000525	Farm Service Agency
1999S000439	Farm Service Agency	1999S000526	Rural Development
1999S000440	Rural Development	1999S000535	Farm Service Agency
1999S000443	Rural Development	1999S000536	Farm Service Agency
1999S000444	Rural Development	1999W000085	Farm Service Agency
1999S000446	Rural Development	1999E000114	Farm Service Agency
1999S000447	Rural Development	1999S000182	Farm Service Agency
1999S000450	Farm Service Agency	1999W000103	Rural Development
1999S000452	Rural Development	1999E000146	Farm Service Agency
1999S000455	Natural Resources	1999S000124	Farm Service Agency
	Conservation Service	1999W000015	Farm Service Agency
1999S000456	Rural Development	1999W000025	Farm Service Agency
1999S000457	Rural Development	1999E000045	Farm Service Agency
1999S000458	Rural Development	1999E000337	Rural Development
1999S000463	Farm Service Agency	1999S009630	Farm Service Agency
1999S000464	Farm Service Agency	1999S000261	Farm Service Agency

Case #	Description	Case #	Description
1999S000288	Farm Service Agency	1999E000481	Rural Development
1999W000072	Farm Service Agency	1999E000482	Rural Development
1999W000027	Farm Service Agency	1999E000484	Farm Service Agency
1999W000129	Farm Service Agency	1999E000490	Rural Development
1999W000234	Farm Service Agency	1999E000492	Farm Service Agency
1999E000196	Rural Development	1999E000495	Farm Service Agency
1999E000214	Farm Service Agency	1999E000499	Farm Service Agency
1999W000120	Farm Service Agency	1999E000500	Farm Service Agency
1999W000048	Farm Service Agency	1999E000505	Farm Service Agency
1999S000158	Farm Service Agency	1999E000506	Farm Service Agency
1999S000024	Farm Service Agency	1999E000507	Rural Development
1999S000051	Farm Service Agency	1999E000509	Rural Development
1999E000004	Farm Service Agency	1999E000510	Rural Development
1999W000247	Farm Service Agency	1999E000511	Rural Development
1999E000081	Farm Service Agency	1999E000515	Farm Service Agency
1999E000296	Farm Service Agency	1999E000517	Rural Development
1999S000186	Rural Development	1999E000518	Rural Development
1999E000203	Farm Service Agency	1999E000519	Rural Development
1999E000113	Farm Service Agency	1999E000520	Rural Development
1999W000020	Farm Service Agency	1999E000521	Rural Development
1999E000203	Farm Service Agency	1999E000522	Farm Service Agency
1999E000221	Farm Service Agency	1999E000524	Rural Development
1999E000232	Farm Service Agency	1999E000527	Farm Service Agency
1999E000289	Rural Development	1999E000531	Farm Service Agency
1999E000313	Rural Development	1999E000532	Farm Service Agency
1999E000327	Rural Development	1999E000539	Farm Service Agency
1999E000333	Rural Development	1999E000541	Rural Development
1999E000350	Rural Development	1999E000543	Farm Service Agency
1999E000367	Farm Service Agency	1999E000546	Rural Development
1999E000368	Rural Development	1999E000548	Rural Development
1999E000377	Rural Development	1999E000549	Farm Service Agency
1999E000387	Farm Service Agency	1999E000551	Rural Development
1999E000390	Rural Development	1999E000553	Farm Service Agency
1999E000395	Farm Service Agency	1999E000557	Farm Service Agency
1999E000403	Rural Development	1999E000558	Rural Development
1999E000406	Rural Development	1999E000559	Rural Development
1999E000407	Farm Service Agency	1999E000560	Rural Development
1999E000408	Natural Resources	1999E000561	Rural Development
	Conservation Service	1999E000562	Rural Development
1999E000422	Farm Service Agency	1999E000563	Rural Development
1999E000425	Farm Service Agency	1999E000564	Farm Service Agency
1999E000426	Farm Service Agency	1999E000566	Farm Service Agency
1999E000427	Farm Service Agency	1999E000569	Rural Development
1999E000432	Rural Development	1999E000570	Rural Development
1999E000437	Farm Service Agency	1999E000571	Rural Development
1999E000444	Natural Resources	1999E000575	Farm Service Agency
	Conservation Service	1999E000577	Rural Development
1999E000446	Farm Service Agency	1999E000580	Rural Development
1999E000447	Natural Resources	1999E000581	Farm Service Agency
	Conservation Service	1999E000582	Farm Service Agency
1999E000448	Rural Development	1999E000586	Farm Service Agency
1999E000463	Farm Service Agency	1999E000591	Rural Development
1999E000465	Rural Development	1999E000596	Rural Development
1999E000469	Rural Development	1999E000597	Farm Service Agency
1999E000470	Rural Development	1999E000600	Farm Service Agency
1999E000472	Rural Development	1999E000605	Farm Service Agency
1999E000478	Farm Service Agency	1999E000606	Rural Development
1999E000479	Rural Development	1999E000607	Farm Service Agency

Case #	Description	Case #	Description
1999E000608	Farm Service Agency	1999W000205	Farm Service Agency
1999E000609	Farm Service Agency	1999W000216	Rural Development
1999E000614	Farm Service Agency	1999W000220	Farm Service Agency
1999E000616	Rural Development	1999W000225	Rural Development
1999E000620	Rural Development	1999W000235	Farm Service Agency
1999E000623	Farm Service Agency	1999W000237	Farm Service Agency
1999E000624	Farm Service Agency	1999W000238	Rural Development
1999E000625	Rural Development	1999W000240	Farm Service Agency
1999E000626	Rural Development	1999W000242	Rural Development
1999E000627	Farm Service Agency	1999W000242	Farm Service Agency
1999E000630	Farm Service Agency	1999W000245	Farm Service Agency
1999E000635	Farm Service Agency	1999W000251	Farm Service Agency
1999E000636	Farm Service Agency	1999W000254	Farm Service Agency
1999E000637	Rural Development	1999W000255	Farm Service Agency
1999E000641	Rural Development	1999W000258	Rural Development
1999E000642	Rural Development	1999W000262	Farm Service Agency
1999E000644	Farm Service Agency	1999W000264	Farm Service Agency
1999E000647	Rural Development	1999W000266	Farm Service Agency
1999E000649	Rural Development	1999W000274	Farm Service Agency
1999E000650	Farm Service Agency	1999W000276	Farm Service Agency
1999E000652	Rural Development	1999W000278	Farm Service Agency
1999E000653	Farm Service Agency	1999W000280	Rural Development
1999E000654	Rural Development	1999W000281	Farm Service Agency
1999E000662	Rural Development	1999W000283	Farm Service Agency
1999E000665	Rural Development	1999W000284	Farm Service Agency
1999E000666	Rural Development	1999W000285	Rural Development
1999E000669	Rural Development	1999W000286	Farm Service Agency
1999E000670	Farm Service Agency	1999W000288	Rural Development
1999E000671	Rural Development	1999W000291	Rural Development
1999E000815	Farm Service Agency	1999W000292	Rural Development
1999W000046	Farm Service Agency	1999W000293	Farm Service Agency
1999W000051	Farm Service Agency	1999W000297	Rural Development
1999W000052	Natural Resources	1999W000298	Farm Service Agency
	Conservation Service	1999W000300	Farm Service Agency
1999W000056	Farm Service Agency	1999W000300	Farm Service Agency
1999W000058	Farm Service Agency	1999W000309	Rural Development
1999W000076	Farm Service Agency	1999W000310	Farm Service Agency
1999W000089	Farm Service Agency	1999W000312	Rural Development
1999W000111	Farm Service Agency	1999W000314	Farm Service Agency
1999W000112	Farm Service Agency	1999W000359	Rural Development
1999W000115	Rural Development	1999W000363	Farm Service Agency
1999W000118	Farm Service Agency	1999W000364	Farm Service Agency
1999W000127	Farm Service Agency	1999W000365	Rural Development
1999W000137	Farm Service Agency	1999W000369	Farm Service Agency
1999W000142	Rural Development	1999W000370	Farm Service Agency
1999W000143	Farm Service Agency	1999W000371	Farm Service Agency
1999W000154	Farm Service Agency	1999W000372	Rural Development
1999W000155	Farm Service Agency	1999W000373	Rural Development
1999W000169	Farm Service Agency	1999W000376	Farm Service Agency
1999W000170	Farm Service Agency	1999W000377	Farm Service Agency
1999W000178	Farm Service Agency	1999W000380	Farm Service Agency
1999W000179	Farm Service Agency	1999W000380E	Farm Service Agency
1999W000183	Farm Service Agency	1999W000381	Farm Service Agency
1999W000184	Rural Development	1999W000382	Farm Service Agency
1999W000188	Rural Development	1999W000383	Farm Service Agency
1999W000189	Farm Service Agency	1999W000385	Farm Service Agency
1999W000194	Farm Service Agency	1999W000386	Farm Service Agency
1999W000199	Farm Service Agency	1999W000387	Farm Service Agency

Case #	Description	Case #	Description
1999W000389	Farm Service Agency	1999W000468	Rural Development
1999W000390	Rural Development	1999W000474	Farm Service Agency
1999W000391	Farm Service Agency	1999W000478	Farm Service Agency
1999W000392	Farm Service Agency	1999W000479	Rural Development
1999W000393	Rural Development	1999W000480	Farm Service Agency
1999W000394	Rural Development	1999W000481	Risk Management Agency
1999W000395	Farm Service Agency	1999W000482	Farm Service Agency
1999W000396	Farm Service Agency	1999W000483	Farm Service Agency
1999W000397	Farm Service Agency	1999W000484	Farm Service Agency
1999W000398	Rural Development	1999W000485	Rural Development
1999W000401	Farm Service Agency	1999W000486	Farm Service Agency
1999W000402	Rural Development	1999W000487	Farm Service Agency
1999W000403	Farm Service Agency	1999W000488	Rural Development
1999W000404	Rural Development	1999W000490	Farm Service Agency
1999W000405	Farm Service Agency	1999W000491	Rural Development
1999W000407	Farm Service Agency	1999W000492	Farm Service Agency
1999W000408	Rural Development	1999W000493	Rural Development
1999W000411	Farm Service Agency	1999W000494	Rural Development
1999W000412	Farm Service Agency	1999W000496	Rural Development
1999W000413	Farm Service Agency	1999W000497	Rural Development
1999W000414	Farm Service Agency	1999W000498	Rural Development
1999W000416	Farm Service Agency	1999W000499	Farm Service Agency
1999W000417	Rural Development	1999W000500	Rural Development
1999W000418	Farm Service Agency	1999W000501	Farm Service Agency
1999W000419	Farm Service Agency	1999W000502	Farm Service Agency
1999W000425	Farm Service Agency	1999W000503	Rural Development
1999W000426	Farm Service Agency	1999W000504	Farm Service Agency
1999W000427	Rural Development	1999W000505	Farm Service Agency
1999W000433	Rural Development	1999W000506	Farm Service Agency
1999W000434	Farm Service Agency	1999W000515	Farm Service Agency
1999W000435	Farm Service Agency	1999W000516	Farm Service Agency
1999W000436	Farm Service Agency	1999W000517	Risk Management Agency
1999W000437	Farm Service Agency	1999W000518	Farm Service Agency
1999W000438	Rural Development	1999W000520	Farm Service Agency
1999W000439	Farm Service Agency	1999W000521	Farm Service Agency
1999W000441	Rural Development	1999W000523	Farm Service Agency
1999W000442	Rural Development	1999W000524	Farm Service Agency
1999W000444	Farm Service Agency	1999W000525	Farm Service Agency
1999W000446	Farm Service Agency	1999W000539	Farm Service Agency
1999W000447	Farm Service Agency	1999W000541	Rural Development
1999W000449	Rural Development	1999W000542	Farm Service Agency
1999W000450	Farm Service Agency	1999W000544	Farm Service Agency
1999W000451	Rural Development	1999W000545	Farm Service Agency
1999W000452	Rural Development	1999W000547	Rural Development
1999W000453	Farm Service Agency	1999W000549	Farm Service Agency
1999W000454	Farm Service Agency	1999W000555	Rural Development
1999W000455	Farm Service Agency	1999W000559E	Farm Service Agency
1999W000456	Farm Service Agency	1999W000562	Farm Service Agency
1999W000458	Rural Development	1997S001252	Farm Service Agency
1999W000459	Farm Service Agency	1998S000332	Farm Service Agency
1999W000460	Risk Management Agency	1998S000583	Rural Development
1999W000461	Farm Service Agency	1998S009509	Farm Service Agency
1999W000462	Farm Service Agency	1998E000363	Farm Service Agency
1999W000463	Farm Service Agency	1998E009859	Rural Development
1999W000464	Farm Service Agency	1998E009875	Farm Service Agency
1999W000465	Farm Service Agency	1998E000229	Rural Development
1999W000466	Farm Service Agency	1998E000166	Farm Service Agency
1999W000467	Rural Development	1998E009642	Farm Service Agency

Case #	Description
1998000445	Farm Service Agency
1998W000901	Farm Service Agency
1997E000281	Rural Development
1998E009799	Farm Service Agency
1998W009346	Farm Service Agency
1998S009510	Farm Service Agency
1998W009537	Farm Service Agency
1998S000699	Rural Development
1998S009561	Farm Service Agency
1998E000598	Rural Development
1998W009310	Farm Service Agency
1998W009441	Farm Service Agency
1998E009763	Farm Service Agency
1998E009884	Farm Service Agency
1998W009474	Rural Development
1998E000735	Rural Development
1998E000631	Rural Development
1998E009561	Farm Service Agency
1998E009657	Farm Service Agency
1998E009720	Farm Service Agency
1998E000570	Rural Development
1998E000571	Rural Development
1998E000572	Rural Development
1998E000573	Rural Development
1996W001170	Farm Service Agency
1996W001472	Farm Service Agency
1996W001536	Farm Service Agency
1996W001677	Farm Service Agency
1996W001678	Farm Service Agency
1996W001679	Farm Service Agency
1996W001680	Farm Service Agency
1997W001087	Rural Development
1997W001203	Farm Service Agency
1997W001335	Farm Service Agency
1997W00750	Farm Service Agency
1997W00966	Farm Service Agency
1998W000001	Farm Service Agency
1998W000159	Farm Service Agency
1998W000399	Farm Service Agency
1998W000513	Farm Service Agency
1998W000702	Farm Service Agency
1998W000714	Farm Service Agency
1998W000805	Farm Service Agency
1998W000920	Farm Service Agency
1998W000943	Farm Service Agency
1998W000956	Farm Service Agency
1998W009301	Farm Service Agency
1998W009307	Rural Development
1998W009343	Farm Service Agency
1998W009392	Rural Development
1998W009425	Farm Service Agency
1998W009457	Farm Service Agency
1998W009458	Farm Service Agency
1998W009468	Rural Development
1998W009469	Rural Development
1998W009541	Farm Service Agency

Fiscal Year 2000 Hearing Questions

National Appeals Division

FINAL RULES AND REGULATIONS

Mr. Skeen: According to last year's testimony, the final rules and regulations to implement the appeals process were still under review within the Department. Have the rules and regulations been finalized? If so, Please provide a summary of the final rule and regulations for the record.

Response: The final rules remain under review within the Department.

COST AND AVERAGE LENGTH OF TIME FOR AN APPEAL

Mr. Skeen: Please update the table in last year's hearing record showing the cost and average length of time for an appeal to include fiscal year 1998.

Response: The information reported pertaining to the average length of time for an appeal in the table submitted in the fiscal year hearing record has been replaced by performance measures pursuant to the Government Performance and Results Act. Costs are not allocated on a per case basis in the Annual Performance Plans. In fiscal year 1998, there were 1,756 appeal determinations issued, and 763 review determinations issued.

[The information follows:]

AVERAGE LENGTH OF TIME FOR AN APPEAL

Performance Goals and Indicators	FY 1998 Actual
Increase the percent of hearings conducted within mandated time frame of 45 calendar days.	77.4%
All determinations are issued within statutory and regulatory time frames.	69.9%
Increase percent of review determinations issued in accordance with mandated time frames.	37.5%

ACTIVE APPEALS

Mr. Skeen: How many active appeals do you currently have ongoing?

Response: As of February 18, 1999, we had 246 active appeals and 65 active director reviews.

DESCRIPTION OF HEARING AND DIRECTOR REVIEW

Mr. Skeen: Please provide a brief description of an outstanding hearing and a brief description of a Director review.

Response: An outstanding hearing is an evidentiary proceeding before the Division to afford a participant the opportunity to present testimony or documentary evidence, or both, to prove an adverse determination was erroneous. A Director review is a review of the determination of the Hearing Officer using the agency record, the hearing record, the request for review, responses to a request for Director review, and such other arguments or information as may be accepted by the Director, in order to determine whether the decision of the Hearing Officer is supported by substantial evidence.

WAIVERS AND EXTENSIONS

Mr. Skeen: Have you implemented the new case tracking system? If so, please provide the number of waivers and extensions requested in fiscal year 1998 and the number of waivers and extensions granted in fiscal year 1998.

Response: We have implemented the new tracking system. The number of requests for waivers for conducting a hearing within 45 days after receipt of the request by the Appellant was 341. All requests for waivers were granted. The number of extensions of the 30 day limit for issuing a determination was 14. All requests for extensions were granted.

DIRECTOR APPEALS

Mr. Skeen: Of the total decisions issued in fiscal year 1998, how many were appealed with the Director?

Response: Of the 1,756 decisions issued, there were 763 appealed to the Director.

COST OF PHASE II TRACKING SYSTEM

Mr. Skeen: What was the total cost to implement phase II of the tracking system for participant appeals?

Response: The total cost to implement phase II of the tracking system was \$600,349.

CUSTOMER SURVEY

Mr. Skeen: Did you conduct the customer survey mentioned in last year's hearing record? If so, what were the results?

Response: The Office of Management and Budget has not yet approved the use of the customer survey. We expect to conduct the survey during the latter part of fiscal year 1999.

MANAGEMENT AND FINANCIAL ACCOUNTABILITY CONTROL PLAN

Mr. Skeen: Did you complete the Management and Financial Accountability and Control Plan in fiscal year 1998?

Response: We completed the plan and found no material weaknesses.

INCREASE IN TRAINING BUDGET

Mr. Skeen: What circumstances require the increase of \$589,000 in your training budget for FY 2000?

Response: NAD's operating environment is complex, and continuous training and development is essential to NAD's mission. Many hearing officers, who are dispersed throughout the United States, still need training in the basic curriculum developed last year. Basic training in the areas of administrative law, legal analysis, and judicial writing is very expensive and not readily available. For example, week-long training at the National Judicial College was conducted for all hearing and appeals officers in fiscal year 1998. Consequently, tuition and travel costs are high for NAD's training needs.

ASSISTANCE IN APPEAL PROCESS

Mr. Skeen: Is there any assistance available in the appeal process for persons who do not speak English or who must rely on sign language?

Response: The Notice of Hearing has an interpreter and other accommodations section. Any one needing assistance is to contact the hearing officer at least seven days prior to the scheduled hearing so that arrangements can be made for reasonable accommodations. NAD also provides TDD telecommunications service for the deaf and hard of hearing.

NAD's ROLE IN DISCRIMINATION CASES

Mr. Skeen: What was NAD's role in the discrimination cases brought by minority farmers against USDA prior to the settlement? Was the appeal process through NAD utilized by farmers who felt they were the victims of discrimination? Has NAD's role changed because of the civil rights settlement?

Response: NAD did not have a role in the discrimination cases brought by minority farmers against USDA prior to the settlement. Appeals are administered in accordance with NAD's rules of procedure, 7 C.F.R. Part 11. As such, a participant defined under 11.1 does not include persons whose claim (s) arises under discrimination complaints. These complaints are prosecutable under the nondiscrimination regulations at 7 C.F.R. parts 15, 15a, 15b and 15e. The role of NAD has not changed because of the civil rights settlement.

OFFICE OF THE CHIEF ECONOMIST**Statement of Keith Collins, Chief Economist**

Before the Subcommittee on Agriculture, Rural Development,

Food and Drug Administration, and Related Agencies.

This statement discusses the functions and fiscal year 2000 budget request of the Office of the Chief Economist, or OCE.

OCE is a small staff of analysts located in Washington, D.C., plus one weather officer field unit in Mississippi. OCE reports directly to the Secretary of Agriculture and has four primary missions: 1) provide economic analysis to the Executive Branch and Congressional policy officials on alternative policies, programs and regulations; 2) serve as a focal point for the collection and reporting of economic and weather data, forecasts and projections related to agricultural commodities, and the performance of the agricultural economy; 3) provide economic and policy analysis on issues related to energy and new uses in agriculture; and 4) conduct statutory review and oversight responsibilities related to risk assessment and cost-benefit analysis of major USDA regulations. OCE also coordinates several activities that cut across USDA mission areas, which include global climate change, sustainable development and agricultural labor.

Office of Energy Policy and New Uses, OEPNU. Some recent activities and accomplishments in each of these four areas are briefly discussed.

Immediate Office of the Chief Economist

The immediate office, with a staff of nine, directs a wide range of analysis related to policy, program and legislative proposals, and regulations. The focus is on the most substantial, complex and controversial issues, usually at the request of the Secretary, other Administration officials, or members of Congress. The most important products are briefings, and briefing and analysis papers prepared on tight deadlines. These analyses generally focus on short- to medium-term effects, involve staff from other agencies, and apply the results of existing, basic economic research to specific policy issues. The immediate office staff is also responsible for regulatory review. A key role of the staff is to coordinate analyses among USDA agencies.

Examples of key activities during the past year are:

OCE works with other agencies to assess program options and guide effective Departmental decision making with respect to key program provisions. OCE provided numerous assessments to the Secretary and the administration on the state of the farm economy as conditions eroded in many areas during 1998. OCE led the development of the USDA proposal to OMB for emergency assistance to producers in 1998. OCE worked closely with the Marketing and Regulatory Programs mission area to address issues in concentration. OCE helped develop program options and analyzed proposed regulatory actions submitted by the public on ways to deal with concentrated markets. OCE provided continual advice and analysis to the Secretary on dairy policy, including Federal Milk Marketing Order reform. OCE coordinated Departmental analysis of proposed settlement between tobacco companies and State

to the Secretary on dairy policy, including Federal Milk Marketing Order reform. OCE coordinated Departmental analysis of proposed settlement between tobacco companies and State Attorneys General and buyout proposals for tobacco producers. OCE continues to assist the Animal and Plant Health Inspection Service-- APHIS--in verifying compensation claims for producers, handlers and others affected by Karnal bunt regulations and assisted in drafting regulations, cost-benefit analyses, and decision memoranda dealing with Karnal bunt. OCE analyzed models of the Standard Reinsurance Agreement, or SRA, to assist the Risk Management Agency in their 1999 SRA negotiations with the crop insurance industry. The models were used to analyze the budget implications and industry rates of return of various reinsurance proposals, including reinsurance for catastrophic and revenue products.

OCE was an active member of the U.S. interagency group on climate change and was part of the country delegation attending meetings of the United Nations Framework Convention on Climate Change--FCCC-- in Buenos Aires, Argentina and Bonn, Germany. OCE was instrumental in elevating the issue of carbon sequestration in the UN Intergovernmental Panel on Climate Change and the FCCC Subsidiary Body for Scientific and Technical Advice. OCE took the lead to coordinate an interagency group to assess the potential of sequestering carbon through forest management and crop land practices.

In the area of small farm issues, OCE participated in a Departmental interagency task force established to review and provide advice on implementation of the recommendations from the National Commission on Small Farms. OCE participated in the Secretary's Transportation Summit and on a special task force created to monitor and improve the performance of the

OCE served on the Economic Options Committee of the United Nations Technical and Economic Assessment Panel for the Montreal Protocol. The Committee prepared a report on economic issues pertaining to implementation of the scheduled phase out of ozone depleting substances. Included in the report are analyses of various alternatives for reducing production and consumption of ozone depleting substances.

During the past year, the staff reviewed analyses supporting Significant and Economically Significant regulations issued by the Department. The staff provided critical review and guidance in the Department's regulatory analyses for regulation of retained water in poultry and meat, storage temperature for eggs and meat imports. In addition, the staff assisted the Forest Service in developing the supporting analyses for revisions of timber sale contracts regulations and the proposed road construction.

OCE worked with the Department of Labor, National Economic Council, and the Immigration and Naturalization Service to streamline and improve for farm employers and employees the H-2A temporary agricultural worker program. The staff helped to develop a new program to assist farm employer's in California meet their labor needs and prospective workers to find work under California's welfare reform act. OCE staff maintained an Internet web page to provide the public information on farm employment rules and regulations, farm safety, and worker protection from pesticides.

OCE coordinates sustainable development activities within USDA. This is done chiefly through USDA's Council on Sustainable Development, chaired by the Director of Sustainable Development, which develops, coordinates, and integrates the principles of sustainable development into policies and programs across all mission areas of the Department. During the

Development, which develops, coordinates, and integrates the principles of sustainable development into policies and programs across all mission areas of the Department. During the past year, the Director served as the lead USDA member of the U.S. delegation to the UN meetings on sustainable development. The Director also co-chaired USDA's Council on Sustainable Development, which implemented a Sustainable Agriculture Learning Initiative to bring together sustainable agriculture farmers with bankers and insurance specialists.

OCE advised Congress through testimony and staff briefings on the effects of the developments in markets, prices and income prospects and on global climate change.

World Agricultural Outlook Board—WAOB

The WAOB prepares world agricultural and weather assessments and coordinates USDA's work related to agricultural outlook, projections, weather, and remote sensing. The Board issues a monthly publication known as the *World Agricultural Supply and Demand Estimates* report and oversees long-term USDA forecasts required for preparation of the Federal budget. The Board also operates and manages the Joint Agricultural Weather Facility, JAWF, in cooperation with the National Oceanic and Atmospheric Administration, NOAA, and is home to the Department's Chief Meteorologist. In addition, the Board provides technical assistance and coordination for USDA's remote sensing activities.

Coordinating USDA Economic Forecasts. The WAOB plays a critical role in assuring that the Department's commodity information system responds to today's rapidly changing world. The Board's mission is to ensure that USDA's intelligence on domestic and foreign agricultural developments is timely, accurate, and objective, and to speed the flow of that information to producers, consumers, and policy makers.

Interagency Commodity Estimates Committees are chaired by staff of the WAOB. The purpose of these committees is to assure that sound information from domestic and international sources is fully integrated into the analytical process and that USDA's economic forecasts are objective, thorough, and consistent. The committees, with representatives from the Economic Research Service, Farm Service Agency, Foreign Agricultural Service, Agricultural Marketing Service, and WAOB, are responsible for developing official estimates of supply, utilization, and prices and reviewing economic reports issued by USDA agencies. In FY 1998, the Board reviewed and approved for release approximately 150 reports.

In addition, daily market highlights and weekly briefing reports were prepared for the Secretary and top staff, weekly weather and economics briefings were presented to the Under Secretary for Farm and Foreign Agricultural Services, and international weather highlights were published in the *Weekly Weather and Crop Bulletin*.

Each month, the WAOB publishes the *World Agricultural Supply and Demand Estimates-WASDE-Report*, which forecasts production, trade, utilization, prices, and stocks. Coverage includes U.S. and world grains, oilseeds, and cotton and U.S. livestock and poultry products and sugar. Release is simultaneous with the *U.S. Crop Production* report. *WASDE* is internationally viewed as a benchmark for agriculture and provides timely knowledge of world commodity markets that is increasingly critical to our export-led farm economy. Equally important, the *WASDE* report gives early warning of changing crop production and supply prospects in the United States and in other countries.

Oversight of Long-Term USDA Commodity Projections. WAOB chairs the Department's Interagency Agricultural Projections Committee that oversees preparation of long-term

Oversight of Long-Term USDA Commodity Projections. WAOB chairs the Department's Interagency Agricultural Projections Committee that oversees preparation of long-term projections for farm commodities, the U.S. agricultural economy, and world agricultural trade. The Economic Research Service has the lead role in preparation of the projections. WAOB's role is to ensure a strong multi-agency effort and sound analytical procedures for the projections. The projections are used for a variety of analytic and mandated functions of the Department, such as preparing the USDA portion of the President's budget. These "baseline" projections provide an objective, rigorous, and thorough view of the likely path of the farm sector over the long term.

The most recent set of long-term projections, *Agricultural Baseline Projections to 2008*, was publicly released in February 1999 at the Department's annual Agricultural Outlook Forum. The projections reflect the adverse impact that poor worldwide growth prospects and increasing world supplies have on prospects for U.S. agricultural trade in the near to medium term. Nonetheless, despite problems in the next few years, more favorable long-term world economic growth supports gains in exports and farm income as we pass 2000. The overall farm financial picture shows assets accumulating faster than liabilities throughout the projection period, a sign that the sector as a whole remains fundamentally sound.

The annual USDA Agricultural Outlook Forum, conducted under OCE's leadership, is a public meeting on farm, food, and trade prospects. The Forum was planned in consultation with a large number of agencies, making this a true USDA team effort. The Chief Economist invited, and sessions were organized by, the Agricultural Marketing Service; Animal and Plant Health Inspection Service; Grain Inspection, Packers and Stockyards Administration; Natural Resources

management, marketing, grain inspection, plant and animal health, and soil and water conservation.

Outlook Forum 1999, the seventy-fifth annual meeting, took place in late February 1999. Attendance, topping 1,100, was the highest in recent years. The program featured a spectrum of issues affecting the future of agriculture, discussed from many vantage points. In addition to near-term and long-range agricultural prospects, topics ranged from new marketing strategies to the impacts of biotechnology and environmental regulation. Speakers were drawn from farming, agribusiness, environmental groups, government, and academia. Extensive media coverage and posting of speeches on the Internet shortly after the Forum ensured the timely dissemination of information presented.

Monitoring Weather Impacts on Agriculture. USDA places a high priority on incorporating weather-based assessments into all analyses. The focal point for this activity is the Joint Agricultural Weather Facility, JAWF. JAWF staff continually monitor global weather and assess its probable impact on agricultural output. JAWF briefings, reports, and special alerts are key inputs to the development of USDA crop yield estimates for both competitor and customer countries. JAWF weather assessments are made available to the public through the *Weekly Weather and Crop Bulletin*, the WAOB home page, and the news media. WAOB's Chairperson and Chief Meteorologist briefed government officials and news media frequently on changing crop conditions.

Disseminating USDA Numbers to the Public. As commodity prices are affected less by Government programs and more by market forces, the need for objective and current market information is becoming especially critical. The WAOB recognizes the need for rapid

Disseminating USDA Numbers to the Public. As commodity prices are affected less by Government programs and more by market forces, the need for objective and current market information is becoming especially critical. The WAOB recognizes the need for rapid information dissemination and strives to place the *WASDE* report *Weekly Weather and Crop Bulletin* in the hands of farmers and other users as quickly as possible. The goal is to provide simultaneous access at a minimum cost to all market participants.

WAOB improved electronic access to the monthly *WASDE* report. The *WASDE* report is now posted instantly on the WAOB home page as well as forwarded to the USDA "Economics and Statistics" web site at Cornell University. In addition, WAOB took the lead in upgrading the usefulness of the Cornell University site for USDA information by overseeing a redesign and expansion of the help section.

Interagency Initiatives. The JAWF worked closely with the National Water and Climate Center of USDA's Natural Resources Conservation Service and with NOAA Regional Climate Centers on a Unified Climate Access Network to provide on-line access to weather and climate data from a variety of sources. At the request of the World Meteorological Organization, JAWF staff prepared and delivered a training course on agricultural data management procedures, attended by 17 participants from over 10 countries in Ljubljana, Slovenia. JAWF staff represented the United States at the WMO Commission for Agricultural Meteorology in Accra, Ghana.

Also, JAWF put updated sections of its popular handbook *Major World Crop Areas and Climatic Profiles* on the Internet, and is working with the U.N. Food and Agriculture

interchange has renewed cooperation in support of USDA weather needs. NOAA's National Weather Service recently announced that the agency will adopt USDA National Agricultural Weather Information System, NAWIS, language and accept it as the Administration's position with respect to authorizing this activity.

Weather Data Receiver Upgraded: WAOB established a satellite downlink for National Weather Service, NEWS data at the USDA's Kansas City computer center. This downlink gives access to more reliable and comprehensive data, helping to improve crop-weather analysis in support of USDA forecasts. It also will make it possible to share timely weather data with other agencies such as the Forest Service and with field offices in USDA's new agricultural weather observing network.

Remote Sensing Activities. At WAOB's request, the Defense Intelligence Agency--DIA--opened its archive of more than 10,000 satellite images to USDA and has agreed to provide scenes requested by the Department at no cost. Normally, such images would cost USDA \$400 to \$4,400 each. DIA now provides USDA with a list of new imagery acquisitions every two weeks. In addition, WAOB successfully negotiated an agreement with a private vendor to provide radar imagery to the Foreign Agricultural Service, Farm Service Agency, Forest Service, and the Natural Resources Conservation Service at no cost. In return, USDA will provide DIA with evaluations of the usefulness of radar imagery in fulfilling agency missions.

1890 Institution Partnership. For the third consecutive year, WAOB supported an ongoing partnership with the University of Maryland Eastern Shore, an 1890 Institution. The goal of this partnership has been to introduce UMES faculty and students to agriculture-related occupations.

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Technical Cooperation with China. WAOB continued an information exchange with China that has yielded substantial analytical benefits to the Department. The Chairperson traveled to Beijing, Guangxi Province, and Sichuan Province with specialists from the National Agricultural Statistics Service and the Economic Research Service. Through participation in this project, USDA has substantially improved its information base with respect to the present and future of China's agricultural sector.

Information Exchange with South Africa. WAOB continued an initiative with South Africa to share meteorological technologies and data, under the auspices of the United States/South Africa Bi-National Commission. WAOB arranged for a technical exchange between the developers of the "Oklahoma Mesonet" and scientists representing South Africa's Agricultural Research Council, and is now receiving real-time weather data collected by South African counterparts.

Understanding Grain Disease. Support provided by the JAWF was instrumental in helping to dispute non-tariff barriers to wheat trade with China and Brazil. USDA used JAWF's extensive weather and climate data base to show that neither China or Brazil have climatic conditions which would support the growth of TCK smut or Karnal bunt. This evidence has weakened the justification by both countries for restricting imports of U.S. wheat.

report. This report addressed the need to provide the transportation industry with timely information on crop supplies in an effort to avoid railcar shortages at the expense of agriculture, and to provide farmers with information on pressures facing the rail industry.

Office of Energy Policy and New Uses—OEPNU

The Office of Energy Policy and New Uses provides leadership, education, coordination, and evaluation for all Departmental energy and energy-related activities. The Office develops a unified presentation of the Department's energy activities to the Administration, Congress, other Federal Agencies, and the public. OEPNU provides analysis and information to support policies aimed at increasing farm income and rural economic growth. OEPNU initiated and coordinated research in electricity deregulation, climate change, biomass, and biodiesel issues:

Electricity Deregulation. Electricity deregulation that will change power rates in rural America presents the Department with an important policy issue and potential program concerns for the Rural Utilities Service. OEPNU initiated preliminary analysis that enabled the Department to include a rural "place holder" in the Administration's legislation submitted to Congress.

Ethanol Analysis. OEPNU developed a coordinated research plan with the Department of Energy and Argonne Labs to provide analysis on the net climate benefits of corn ethanol to environmental groups. This research was cited as part of the Administration's successful effort to extend the ethanol excise tax exemption. In addition, OEPNU initiated a research program with Department of Energy and the Environmental Protection Agency to examine opportunities to expand ethanol's market, especially with respect to a proposed low sulfur gasoline program and the reformulated gasoline program.

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Biomass Initiative. OEPNU coordinated and designed a biomass research component of the Climate Change Technology Initiative. To support the initiative, preliminary biomass economic analysis was completed. We have since expanded this work to look at agricultural residues with Iowa State University.

Biodiesel Research. OEPNU's work on biodiesel has produced a redirection of research resources, several publications, and citations of the work in congressional hearings. Our work influenced significant resource allocation in the joint USDA, the Department of Energy, and the American Soybean Association/United Soybean Board's program toward more coproduct development and the use of biodiesel as an additive. Three publications have been produced by research we used to examine the feasibility of biodiesel mandated under the Energy Policy Act of 1992. Results from this work were cited at Senate and House hearings to examine the feasibility of biodiesel as an alternative fuel.

Office of Risk Assessment and Cost-Benefit Analyses--ORACBA

The Office of Risk Assessment and Cost-Benefit Analysis exercises the responsibility for reviewing and approving risk analyses for all major USDA regulations. The Office serves as a focal point for Departmental activities related to risk analysis, including interdepartmental activities, risk communication, and education and training for improving risk analyses.

In the international animal trade arena, ORACBA has been involved in evaluating regionalization for the EU for classical swine fever; regionalization of Mexico for importation of pork and pork products from Yucatan and Sonora, of poultry and poultry products from Sonora and Sinaloa, and easing the restrictions on importation of ruminants and ruminant meat products from certain European countries.

In conservation and plant health, ORACBA reviewed the risk assessments in support of the interim rule on solid wood packing material, the final rule on Karnal bunt, the proposed rule for citrus from Argentina, and the draft final "plant pesticide" rule, so-called for plants containing a natural pesticide gene.

Risk Assessment Education and Training. ORACBA, in cooperation with the Food and Drug Administration and the USDA Graduate School, has developed a series of courses on risk analysis. These courses are organized into a curriculum for which the USDA Graduate School is developing a certificate program. Courses range from a basic introduction of risk analysis to an advanced quantitative modeling. A course, "Ecological and Environmental Risk Assessment" was piloted and final designs for permanent status of the course in the curriculum are being developed. The courses have serviced individuals from USDA and the Food and Drug Administration, but also from several universities, the private sector and foreign countries.

ORACBA sponsors two work groups, Interagency Food Risk Assessment Group and the Eco-Risk Group, which include scientists from USDA, other government agencies, and the private sector. ORACBA brings in special speakers to provide half-day or one-day workshops to focus on special methodological issues of concern to the groups.

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Program Guidance and Consultation. ORACBA continues to provide guidance and technical support to agencies responsible for USDA conservation programs. This includes a model case-history approach for the Environmental Quality Incentives Program, or EQIP, and a series of small case-histories for the Conservation Reserve Program, or CRP. An interagency team of environmental and ecological risk assessors led by ORACBA has worked closely with the agencies in developing these studies.

ORACBA has worked with the Natural Resources Conservation Service--NRCS--and CRP to develop case-studies to supplement the risk assessment that accompanied the original proposed rules. One case-study for NRCS has matured into a full-fledged research project involving several universities and the Agricultural Research Service. The team is tracking the flow of nutrients and five microbes from dairy cattle to manure storage and into the environment. These studies will be expanded to include swine and poultry operations in the future. The case study for CRP has led to proposing to include native honeybees as wildlife; heretofore, only vertebrate species have been identified as worthy of protection through the CRP.

ORACBA provides representation to the Risk Assessment Consortium--RAC--of the Food Safety Initiative. The RAC has focused its work on developing a web-based clearinghouse for food safety risk assessment information as well as a risk-based strategic planning project to provide insight in the development of the FY 2001 interagency food safety budget.

guidance for the Office of Pest Management Policy with respect to the pesticide risk assessments being developed by EPA for the Food Quality Protection Program.

Risk Analysis Coordination and Representation. ORACBA, working through its auxiliary Interagency Food Risk Assessment Group, coordinated the development of a farm-to-table model of the *E. coli* O157:H7 risk assessment subsequently being used by the Food Safety and Inspection Service to complete the risk assessment. ORACBA serves on the Office of Science and Technology Policy and the Council for Environment and Natural Resources Center Subcommittee on Toxics and Risk. ORACBA organized a written summary of rules dealing with animal manure which the Subcommittee issued as a CENR report. ORACBA staff facilitated a planning meeting of Animal and Plant Health Inspection Service managers to develop a strategy to review the entire program of safeguarding American plant resources from alien species.

Risk Communication. ORACBA continues to improve communication among USDA analysts through the monthly Risk Forum and the quarterly ORACBA Newsletter. The Forum brings together scientists from USDA, other government agencies, universities, and the private sector; the Newsletter has a mailed circulation of over 800 and is available on the USDA/OCE/ORACBA website.

1890 Institutions Partnerships. ORACBA has worked with several 1890 institutions, providing guest lectures for their students and faculty. ORACBA regularly invites 1890 faculty to attend education and training courses provided through the Graduate School. The participants do not pay any tuition. ORACBA has also facilitated a partnership between Tuskegee University

to attend education and training courses provided through the Graduate School. The participants do not pay any tuition. ORACBA has also facilitated a partnership between Tuskegee University and Harvard University for the BSE Risk Analysis. The results have been significant in the responsibility and funding for Tuskegee.

Fiscal Year 2000 Budget Request

For fiscal year 2000, OCE is requesting \$6,622,000 in direct appropriations. This request represents a net increase of \$211,000 over the fiscal year 1999 adjusted base (which includes the transfer of the Office of Energy from the Economic Research Service). The proposed budget includes an increase of \$45,000 for the annualization of the fiscal year 1999 pay raise and \$166,000 for the anticipated fiscal year 2000 pay raise.

OCE is a small office working under a demanding schedule with little flexibility to absorb pay and other cost increases. Salary and benefits plus required obligations make up 90 percent of OCE's budget with necessary, travel, equipment and contracts making up the remainder. Pay costs are needed to prevent a decline in weather and market analyses, which have been increased and improved as a result of increased appropriations the past two years. Without pay costs, the previous deficiencies in collection and reporting of global weather and economic information would reappear.

OFFICE OF COMMUNICATIONS

Statement of Tom Amontree
Director of Communications

Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration,
and Related Agencies

Mr. Chairman and members of the Subcommittee, I am pleased to discuss the fiscal year--
FY--2000 request for the Department of Agriculture's Office of Communications--OC.

As Congress defined in 1862 what would become today's U.S. Department of
Agriculture, a major goal of that law was to charge the Agriculture Department with the
responsibility to acquire and disseminate to the people of the United States information on
subjects connected with agriculture. The communication coordination that fully implements that
mandate is directed today by the Office of Communications.

The public learns about USDA's programs, functions and initiatives through a centrally
coordinated communications effort led by the Office of Communications. Customers and
constituency groups, who depend on the Department, are served directly by communication
activities that span all of USDA's seven major mission areas. At the same time, the Office of
Communications provides leadership and central services that enhance communications with
USDA's employees throughout the Nation.

The Office of Communications is adopting new technologies to meet the increased
demands for information. Using the Internet's world wide web, radio, television and
teleconference facilities, we are able to ensure that the millions of Americans whose lives are

affected by USDA's programs receive the latest and most complete information.

The Office of Communications' 5-year strategic goal is:

To support the Department in creating a full awareness among the American public about USDA's major initiatives and services. A complete knowledge by the general public—and specific publics, including USDA employees—about USDA initiatives, policies, and programs is essential to effective customer services and efficient program delivery and should result in more citizens—especially those in underserved communities and geographic areas—availing themselves of USDA services and information that will help them in their daily lives.

The Office of Communications will continue to take an active part in policy and program management discussions, coordinating the public communication of USDA initiatives. OC will continue to provide centralized operations for the production, review, and distribution of USDA messages to its customers and the general public, and OC will monitor and evaluate the results of these communications.

The Office of Communications will continue to acquire and instruct staff in using the most effective and efficient communications technology, methods, and standards in carrying out communications plans.

OC intends to improve communications with USDA employees, especially those away from headquarters. OC will help employees understand USDA's general goals and policy priorities, to become more familiar with USDA programs and services, and to understand initiatives, especially cross-cutting ones, and how they relate to each employee's specific job

duties.

Our office is working hard to ensure compliance with Government Performance and Results Act. We will work to update USDA regulations and guidelines for communications; conducting regular training sessions for USDA communications staffs about using communication technologies and processes to enhance public service; fostering accountability for communications management performance throughout USDA; and continuing to work to create a more efficient, effective and centralized Office of Communications.

The Office of Communications will provide equal opportunity for employment and promote an atmosphere that values individual differences. OC will continue to provide equal opportunity for contracting goods and services. OC will increase availability of USDA information to underserved communities and geographic areas to ensure equal opportunity in USDA's outreach efforts, and will continue to develop universally accessible information products.

Fiscal Year 2000 Budget Request

The Office of Communications is requesting a budget of \$9,300,000. This is a net increase of \$1,162,000 over our FY 1999 appropriation. The net increase would cover additional personnel costs of \$303,000 for pay costs, \$588,000 for Electronic Access to Information, \$70,000 for an Outreach and Education Program for Underserved Groups, and \$201,000 to cover increased costs of critical Department-level communications coordination and dissemination. This effort is directly related to OC's accomplishment of its annual performance goal to improve communication efforts with the public and agricultural industry through live satellite teleconferences, radio, and television special programs.

Without the funding for the Electronic Access to Information initiative, the Office of Communications will be seriously handicapped in providing information in the format and with the timeliness required by USDA clientele and the American public. Specialized computer and digital equipment are required to record, edit and prepare messages acceptable to the media and accessible to the public through the Internet. State-of-the-art computers are needed by the streamlined Office of Communications staff to effectively perform its internal communications coordination function, as well as to promptly and fully respond to this surge of interest to acquire audio, video and print information electronically.

As FY 2000 begins, we will be in the final, critical stages of information dissemination that will assure the American public that food security will not be adversely affected by year 2000 issues. The \$201,000 request is essential for us to expand the communications efforts that will let an informed public respond appropriately to this potential crisis. Additionally, we require \$70,000 for an expanded outreach and education program for underserved groups. The \$303,000 request for pay costs comes at the end of 3 years of straight-lined funding and is needed to maintain an already significantly downsized Office of Communications.

Office of Communications' initiatives are modest, but crucial requests that will place the Office of Communications in the best and most responsive position for meeting communications needs of our customers and the American public in the 21st Century.

This concludes my statement, Mr. Chairman. I will be pleased to respond to any questions.



Biographical Sketch

TOM AMONTREE

Director of the Office of Communications and Press Secretary

Tom Amontree was named the Director of the Office of Communications and Press Secretary for the U.S. Department of Agriculture on October 18, 1996. As the Director of Communications, he oversees a staff of 119, a budget of \$8.1 million and is responsible for coordinating media relations and communications of the Secretary of Agriculture and the 29 agencies of the Department.



Amontree advises the Secretary of Agriculture on message development and communicating with USDA customers on a wide range of issues, including agriculture, trade, natural resources, feeding programs, food safety, rural development, disaster assistance, and the reorganization and downsizing of the Department.

From July 1996 until his current appointment, Amontree served as Acting Director of Communications. Amontree was named Press Secretary in April 1995, and continues to function in that position while serving as Director of Communications. Amontree first began working for the Department in 1993 as a Deputy Press Secretary concentrating on environmental, commodity, and foreign trade issues.

Before coming to USDA, Amontree was a reporter and then spokesman for the Clinton/Gore 1992 campaign in Ohio where he handled media inquiries and on-the-record comment from the Clinton/Gore 1992 campaign. While a reporter for the ABC affiliate KATV-TV in Little Rock Arkansas from 1988 to 1992, Amontree covered lead stories and then Governor Bill Clinton, as well as, serving as a substitute anchor at the station. From 1982 through 1988, Amontree was Senior Reporter and Talk Show Host for the ABC affiliate WWSB-TV in Sarasota, Florida.

While attending Florida State University, Amontree also reported for a local television magazine show on WECA-TV in Tallahassee, Florida. A native of Sarasota, he holds a Bachelor of Science degree in Communications from Florida State University.

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OFFICE OF THE GENERAL COUNSEL
 STATEMENT OF CHARLES R. RAWLS, GENERAL COUNSEL
 UNITED STATES DEPARTMENT OF AGRICULTURE
 BEFORE THE
 HOUSE SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT,
 FOOD AND DRUG ADMINISTRATION
 AND RELATED AGENCIES

INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to present our fiscal year 2000 budget request and to also provide you with an overview of our agency to include some of the current activities and issues facing the Department.

MISSION

The Office of the General Counsel (OGC) is the law office for the Department. As an independent, central agency within the Department, OGC provides all legal services necessary to support the programs and activities of USDA. OGC provides legal advice and services to the Secretary of Agriculture and other officials of the Department of Agriculture with respect to all USDA programs and activities.

ORGANIZATION

OGC's services are provided through 12 Divisions in Washington and 18 field locations. The headquarters for OGC is located in Washington, D.C. The Office is directed by a General Counsel, a Deputy General Counsel, a Director for Administration and Resource Management, and six Associate General Counsels. The attorneys located in headquarters are generally grouped in relation to the agency or agencies served. Our field structure consists of five regional offices, each headed by a Regional Attorney, and 13 branch offices. The field offices typically provide legal services to USDA officials in regional, State, or local offices.

Currently, we have on-board, 234 attorneys and 113 support staff, including paralegals, in the Washington, D.C. headquarters and field locations. Approximately half of our personnel are located in the field.

CURRENT ACTIVITIES AND ISSUES

During the past year, OGC has supported the activities of the Foreign Agricultural Service (FAS) in the implementation of a number of major initiatives and we anticipate the need for significant continuing involvement in the coming year. Our involvement in these areas will include assisting the Office of the United States Trade Representative (USTR) and FAS officials with enforcement of the commitments received in the Uruguay Round Agreement on Agriculture and providing assistance in pursuit of additional commitments in future negotiations. We also anticipate extensive involvement in foreign assistance activities

as FAS carries out implementation of extensive humanitarian aid initiatives.

OGC will continue to play an instrumental role with respect to the formulation and implementation of international trade-related agreements such as the Mutual Recognition Agreement concerning veterinary biologics and the International Plant Protection Convention, as well as having a role in preparation for the World Trade Organization (WTO) Sanitary-Phytosanitary Committee meeting. OGC has been and will continue to be involved in the preparations for the new round of WTO negotiations to strengthen international trading rules and in addressing specific issues such as credit and credit guarantees and expanded free trade in the Americas.

OGC will continue to be actively involved in the development and application of present international trading rules. The United States has recently invoked the WTO dispute settlement procedures in several agricultural matters with significant OGC involvement. For example, we anticipate continued participation in WTO proceedings challenging the European Union's (EU's) export subsidy on processed cheese, Japanese phytosanitary issues and Canadian dairy export subsidies and access for U.S. products, as well as ensuring EU compliance with the WTO decision striking the ban on imports of meat produced with growth-promoting hormones. OGC has also been active in consultations with South Korea regarding access to its market and in connection with issues involving the Israel Free Trade Agreement.

During the past year, OGC has also been involved in the implementation of major initiatives relating to foreign

assistance that will continue to demand attention during the coming year. One of the major OGC accomplishments during this past year was the development of the legal framework for the removal of surplus wheat from the domestic market under the authority of the Commodity Credit Corporation (CCC) Charter Act and the subsequent disposal of these commodities by CCC in support of the "President's Food Aid Initiative." Under this initiative, CCC is exporting a large volume of wheat to meet humanitarian food needs overseas under section 416(b) of the Agricultural Act of 1949. Similarly, OGC provided extensive assistance to FAS officials as they concluded an understanding with the Russian government on key elements of a food assistance package totaling 3.1 million tons of agricultural commodities. The package includes a donation of 1.5 million tons of wheat under section 416(b) as well as concessional sale activity under P.L.83-480 involving a variety of U.S. agricultural commodities. In addition, OGC reviewed numerous documents relating to the donation of another 100,000 tons of various commodities to private relief organizations conducting operations in Russia.

OGC continues to be actively involved in other FAS and CCC foreign program areas, including export credit, supplier credit, and facilities guarantee programs. We anticipate that there will be significant increases in requests for OGC assistance in fiscal year 2000 due to the upcoming round of negotiations on agriculture in the WTO and the continued efforts of the Department to increase exports in response to the various financial crises around the world.

Attorneys in OGC have continued to provide assistance in the Production Flexibility Contract Program authorized by the Federal Agriculture Improvement and Reform Act of 1996. The sudden decline this past summer in commodity prices for the major grains and oilseeds resulted in a substantial increase in the need for OGC assistance with respect to numerous issues related to marketing assistance loans and loan deficiency payments. Similarly, OGC attorneys have worked closely with officials of the Department, particularly with personnel of the Farm Service Agency (FSA), to implement the various disaster and marketing loss assistance provisions of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999. These new authorities involve more than \$5.5 billion in expenditures. Furthermore, OGC worked with FSA and other agencies in crafting a means of providing aid to hog producers who have suffered through disastrously low prices during this past year. This included developing a program to make \$50 million in payments available to hog producers using authority provided for in section 32 of the Act of August 24, 1935, which had not been utilized since 1961.

OGC continues to provide FSA with needed assistance in connection with conservation programs such as the Conservation Reserve Program, which is in the midst of another successful sign-up. Additionally, during this year, OGC helped FSA draft and finalize new Conservation Reserve Enhancement Program (CREP) agreements with the States of North Carolina, New York, Oregon, and Washington.

The tobacco program and tobacco-related issues have continued to raise difficult legal issues. After a very successful series of criminal prosecutions involving a widespread problem with tobacco marketings that took place in 1990-1992, FSA, with OGC assistance, has now begun to initiate civil actions to collect monies from warehouses where over-quota tobacco may have been marketed. Also, OGC has provided needed advice on issues arising out of the various proposed "national settlements" for tobacco which have come before the agency. OGC attorneys are assisting the Department of Justice in responding to an appeal filed in the United States Court of Appeals for the Fourth Circuit by tobacco warehouse operators challenging administrative penalties imposed upon them.

With respect to USDA's domestic food assistance programs, OGC has been heavily involved in efforts related to the implementation and enforcement of new legislation aimed at welfare reform and other program improvements, as well as the ongoing program integrity and compliance initiatives. We expect the demand for legal services in connection with these activities to remain constant in fiscal years 1999 and 2000.

More specifically, during this past year, OGC attorneys worked closely with the Food and Nutrition Service (FNS) to develop the Administration's proposals for and/or implement the provisions of: the Agricultural Research, Extension, and Education Reform Act of 1998 (AREERA), P.L. 105-185; the William F. Goodling Child Nutrition Reauthorization Act of 1998 (Goodling Act), P.L. 105-336; the Balanced Budget Act of 1997, P.L. 105-33; and the Illegal Immigration Reform and Immigrant

Responsibility Act of 1996, Division C of P.L. 104-208. In particular, OGC is providing assistance in connection with the implementation of the food stamp administrative payment reduction provisions of AREERA and the changes to the Child Nutrition programs brought about by the Goodling Act, such as new services for at-risk school children and others up to 19 years of age and revisions to eligibility and reimbursement provisions of the Child and Adult Care Food Program. Challenges have been raised by potential food stamp participants concerning the implementation by some States of certain welfare reform provisions initiated by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), P.L. 104-193. These issues concern State food stamp policies with respect to applicant awareness and access to the Food Stamp Program. It is expected that similar "welfare-to-work" issues may be raised as States continue to reform their welfare policies.

The implementation of the alien provisions of the PRWORA continues to generate litigation in several States. OGC is representing USDA's interests in ongoing inter-agency discussions aimed at providing a uniform and predictable test for determining when the receipt of benefits renders an alien deportable, inadmissible or ineligible for adjustment of alien status as a result of being likely to become a public charge.

In addition, OGC coordinated USDA's legal work in connection with the first suspension action taken against a dairy operation determined by State weights and measures inspectors to have provided under-filled (shortweighted) half pints of milk to schools participating in the National School Lunch Program. The

shortweighting results, in some cases, half pint cartons lacked as much as half an ounce of milk, prompted a closely orchestrated effort by State weights and measures officials, State procurement officials, USDA agency personnel and OGC attorneys to institute corrective and prospective action by the dairy operation.

OGC continued to address numerous issues arising from the nationwide rollout of electronic benefit transfer (EBT) in the Food Stamp Program and demonstrations of the use of EBT in other food assistance programs. Electronic delivery of benefits has shown significant results in terms of reduced costs and improved program integrity, as well as other improvements. For these reasons, the use of EBT systems are a top priority of the Food Stamp Program.

We have provided substantial support to the Department's food safety activities. Last year as you know, the HACCP rule was implemented in the nation's largest meat and poultry plants. In January of this year, HACCP became operational in over 2800 additional plants nationwide. We have worked very hard with the Food Safety and Inspection Service (FSIS) over the last year to ensure successful implementation of these pathogen reduction and HACCP system requirements. We provided daily support to FSIS not only for implementation of HACCP inspection procedures but also on an array of rulemaking initiatives to improve and streamline the food safety and inspection system regulations. These regulatory initiatives have included a proposal to permit the use of ionizing radiation to treat refrigerated and frozen uncooked meat food products to reduce levels of food-borne pathogens in these products; the finalization of rules that would eliminate

highly prescriptive sanitation regulations and replace them with performance standards giving plants flexibility to innovate and better ensure good sanitation practices tailored to each establishment; and a proposed rule governing retained water in poultry that would eliminate unnecessary differences between meat and poultry processing requirements.

We also provided legal support for enforcement actions under the meat and poultry inspection laws. We have handled an array of criminal, civil and administrative cases involving violations of those laws and as well as actions for the withdrawal and suspension of inspection services, or termination of the custom exemption, from meat and poultry establishments where compliance was lacking. OGC assisted the Department of Justice (DOJ) in appellate litigation which challenged the Department's application of meat and poultry inspection laws to retail stores that seek to distribute meat and poultry products to kiosks located in shopping malls. We are currently working with DOJ in a lawsuit filed in the U.S. District Court for the District of Columbia by the American Federation of Government Employees, the Community Nutrition Institute and eight FSIS food inspectors, challenging the validity of the Pathogen Reduction/HACCP regulations and FSIS' decision to test new inspection models that we believe will lead to more effective inspection and better use of scarce inspection resources.

In the past year, OGC has provided extensive legal services to the Agricultural Marketing Service (AMS) in various matters and will continue to work closely with AMS on some of these

matters as well as new issues that will arise in the year ahead. OGC continues to provide assistance in the reform and consolidation of federal dairy marketing orders. A proposed rule was issued on January 21, 1998, after extensive review and revision by our office. AMS is currently evaluating and considering thousands of comments submitted in response to the proposal. The Department is required by Congress to issue a final decision between February and April 1999, and to implement the final rule on October 1, 1999.

The organic standards rulemaking will continue to be an OGC priority during the coming year. On December 16, 1997, a proposed rule was published that would establish a National Organic Program under the Organic Foods Production Act of 1990. The proposal generated over 275,000 comments. These comments ranged from simple opposition to all or portions of the proposal to more complex and substantive comments, raising a variety of policy and legal issues concerning the proposal and issuance of a final rule. Currently, we are working with the organic program staff on drafting a revised proposed rule that will address concerns raised by the comments.

The Commodity Promotion, Research, and Information Act of 1996 provides general authority for the Secretary to issue orders establishing new research and promotion programs. Prior to enactment of this statute, research and promotion programs were authorized under individual statutory authorities. The 1996 Act provides authority to tailor a program according to the

individual needs of an industry. On November 6, 1998, a proposed rule was published in the Federal Register that would provide for an industry funded promotion, research and information program for peanuts, and representatives of the olive oil, dry bean, seafood, asparagus, forestry products, macadamia nuts and sweet corn industries have expressed interest in establishing programs. We will continue to work with AMS as these new research and promotion programs develop.

In 1998, the Supreme Court denied the motion for reconsideration in Glickman v. Wileman, thus ending the First Amendment constitutional challenge to the tree fruit advertising program. On the basis of the decision in Wileman, the United States Court of Appeals for the Ninth Circuit dismissed Cal-Almond v. United States Department of Agriculture and the Supreme Court subsequently declined to review that dismissal. The challenge to the almond advertising program, and the argument that it is significantly different than the tree fruit program since it allows credit for a handler's branded advertising, also has been rejected. The Supreme Court's rulings in Wileman and Cal-Almond raised several dormant legal matters. Almost \$7,000,000 of assessments held in a trust fund were turned over to the tree fruit administrative committee. An audit was conducted and it was found that approximately \$11,000 was still owed by various handlers. The Department is in the process of obtaining a judgment for the remainder and seeking collection. Motions will also be heard in early 1999 to collect the remaining

unpaid assessments under the almond marketing order. The handlers are resisting collection with various technical arguments and a significant amount of the funds are held by the Saulsbury Almond bankruptcy trustee. Finally, there are on-going challenges to several other advertising and promotion programs which claim to be distinguishable from Wileman because these programs were created by free-standing legislation and not by marketing orders. So far the Tenth Circuit Court of Appeals and District Courts in California, Michigan, and Tennessee have rejected these challenges. Despite a complete lack of success by the handlers, it is expected that the challenges will drag-on as appeals are pursued.

We work very closely with Animal and Plant Health Inspection Service (APHIS) in connection with its regulatory activities related to the development of regulations that will allow new commodities to enter U.S. markets while ensuring that America's agricultural resources are not impaired and that plant and animal health in the U.S. are not compromised. These regulations have included requirements for an array of commodities, ranging from fruits and vegetables, to animals and animal products. They include the importation of pork from Yucatan and Sonora, Mexico, importation of ruminants and ruminant products from South Africa, and the importation requirements for animal and animal products from the European Union.

We dedicated significant resources to defending a lawsuit brought by several environmental groups for alleged violations of the National Environmental Policy Act in connection with APHIS

regulations governing the importation of logs, lumber, and unmanufactured wood products. In the early phase of the lawsuit, the plaintiffs obtained an injunction that prevented APHIS from issuing permits for the importation of certain wood products until a supplemental environmental impact statement (SEIS) was prepared. Our attorneys assisted APHIS in preparing an exceptionally comprehensive SEIS and ensuring that it was responsive to the Court's order. The SEIS was issued by APHIS in May of 1998. I am pleased to report that the district court accepted and approved the SEIS findings, dissolved the injunction, and dismissed the case.

APHIS' work on the SEIS led to the identification of additional import issues involving wood and wood products that needed to be addressed because of their significant pest risk potential. Principal among these issues was the pest risk posed by solid wood packing material. We assisted in the preparation of an interim rule, promulgated on September 18, 1998, prohibiting solid wood packing materials (SWPM) from China, and with an advance notice of proposed rulemaking published in the Federal Register in January of 1999 dealing with SWPM from all countries.

We also handled a variety of administrative and federal court cases on behalf of APHIS to enforce its regulations. These cases have included prosecutions for violations of the standards for accredited veterinarians, the illegal importation of fruits and vegetables through Canada, and violations of regulations

governing the importation of Haas avocados from Mexico into the United States.

We assisted APHIS with the development of a new international agreement permitting the construction of a sterile screwworm production facility in Panama that will help ensure the continued success of the screwworm eradication program.

OGC continues to provide significant legal services to the Animal and Plant Health Inspection Service (APHIS). In 1995 and 1996 APHIS conducted a negotiated rulemaking involving the complete revision of the regulations governing the humane handling, care, treatment, and transportation of marine mammals held in captivity. OGC provided substantial legal services to APHIS throughout the negotiated rulemaking process, and recently, provided substantial drafting and review services to APHIS in preparation for the publication of the proposed rule. Because all of the stakeholders participated in the formulation of the proposed rule, we do not expect that this rulemaking will be as controversial as other animal welfare rulemakings. We do expect, however, that this rulemaking will require the need for continued legal services in fiscal year 1999.

In 1995 APHIS also published a proposed rule to develop new regulations for marine mammals used in human-dolphin interactive programs. This program is popularly known as Swim-with-the-Dolphin or SWTID. The final rule became effective on October 5, 1998. OGC has provided substantial legal services to APHIS throughout this rulemaking. OGC continues to provide

substantial legal assistance to APHIS because of subsequent concerns raised by the marine mammal public display industry regarding the scope of the final rule. APHIS will be publishing in the near future a notice seeking comment from the industry on all aspects of the rule. We anticipate that this process will be very contentious because of the number of interest groups involved, and we expect that APHIS will have to engage in further rulemaking, which will require the need for continued legal services.

In the Trade Practices area, we are continuing to give assistance and counsel to the Secretary on issues of concentration in agriculture and the continuing response of the Department to recommendations of the Advisory Committee on Agricultural Concentration. We prosecuted the nation's largest packer administratively on allegations that the packer gave an undue or unreasonable preference to certain feedlots in the procurement of cattle. The Department's Judicial Officer dismissed the majority of the case, but found one provision of the procurement agreement to be in violation of the Packers and Stockyards Act and issued a cease and desist order. That decision is now before the U.S. Court of Appeals for the 8th Circuit for decision. We are working with agency personnel on a number of investigations into procurement, pricing and competition in areas of production where there are high levels of concentration. We are continuing to prosecute cases involving financial or payment violations and we provide legal services in a number of investigations and enforcement actions involving

allegations of false or misleading statements or representations or commercial bribery in the marketing of agricultural products.

OGC also provides legal services to agencies which manage some of America's largest lending portfolios. The ongoing implementation of the Centralized Processing Center (CSC) for Single Family Rural Housing loans continues to require substantial legal resources. OGC continues to be heavily involved in debt collection and foreclosure work with many cases going back to the emergency loan programs of the 1970's and 1980's. Implementation of the Debt Collection Improvement Act of 1996 and the flexibility gradually being made available under the Rural Community Advancement Program of the 1996 Act also requires substantial legal resources. OGC also is providing legal advice concerning the designation of five additional empowerment zones authorized by the Taxpayer Relief Act of 1997 and 20 additional rural enterprise communities authorized by the Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act of 1999.

The Secretary is committed to regulatory reform. We continue to work with Department officials to implement the President's regulatory reform package. This is a significant undertaking as we work with agencies throughout USDA to reduce regulatory burdens, eliminate obsolete or unnecessary regulatory requirements, and streamline regulations, particularly in the areas of rural, farm and utility lending. This year we look for a substantial push in this area from the Rural Utilities

Service (RUS), Farm Service Agency (FSA), Rural Business-Cooperative Service (RBS), and Rural Housing Service (RHS).

OGC provided considerable assistance to RUS on a range of matters related to the changing electric and telecommunications industries. In particular, the introduction of competition in the electric industry has resulted in increased demand for legal services by RUS on a number of key electric program matters. For example, OGC has provided legal services in connection with the restructuring of borrowers' power supply arrangements through mergers, alliances, and other types of reorganizations and through the renegotiation of borrowers' power supply contracts. OGC has also dedicated substantial resources to the negotiation and drafting of new security arrangements for some large power supply borrowers. These arrangements, patterned after indentures used in the private sector, will provide borrowers with more flexibility in operating in the new competitive environment while facilitating access to private market financing.

As a result of the Telecommunications Act of 1996, which introduced deregulation and competition to the telecommunications industry, the RUS telecommunications program is facing a wide range of issues and concerns requiring legal services. These include issues of loan purposes, loan security and borrower structure as well as the impact of FCC orders implementing the Telecommunications Act on RUS borrowers and program interests. RUS for the first time made distance learning and telemedicine (DLT) loans in addition to its DLT grants. Legal assistance is required both in the promulgation of new regulations implementing

the DLT program and in developing the documents for these loans and grants. One should not underestimate the legal resources which will be required by the movement to deregulate in the rural electric and telecommunications area.

In the natural resources area, we have been involved in a number of extremely significant undertakings concerning national forest management and natural resources conservation programs. We also assisted our clients, the Forest Service and the Natural Resources Conservation Service, daily in legally advancing their program goals.

We have provided assistance nationally to the Natural Resources Conservation Service in implementing a number of conservation programs, including the Environmental Quality Improvement Program (EQIP), the Wildlife Habitat Incentive Program, the Wetlands Reserve Program (WRP), the Farmland Protection Program, the Conservation Farm Option and Emergency Watershed Protection Program. In addition, we have provided legal services in support of the Clean Water Action Plan, including the EPA/USDA Joint Strategy for Animal Feeding Operations and the Watershed Approach for Management of Federal Lands.

Management of our National Forests is a subject of intense debate and litigation, with a great deal of legal work generated by the impact of new scientific information on ongoing Forest Service projects and commitments. Legal questions include interpretation of the nature of forest planning in light of the recent Supreme Court ruling (Ohio Forestry Association v. Sierra

Club), the relationship of the Endangered Species Act to the forest planning process, and revisions and appeals of the second generation of forest plans. OGC provided assistance to the Department of Justice regarding the scope of the government's obligations under the Endangered Species Act. The U.S. Court of Appeals for the 5th Circuit held that federal agencies are required by the Act to implement programs to conserve endangered and threatened species and to consult with the Fish and Wildlife Service as to individual species.

Further, we are defending against numerous timber sale claims arising from contract modifications and suspensions to protect the habitat of endangered species and assisting the Forest Service with new timber sale contracting authority commonly referred to as stewardship contracting. We also successfully defended challenges in several places in the West by local governments and individuals under the so called "County Supremacy" movement disputing federal ownership or jurisdiction over public lands. We are currently involved in appeal of a district court decision involving a land claim of the Pueblo of Sandia to thousands of acres of the Cibolla National Forest north of Albuquerque, New Mexico.

We have also devoted substantial resources to other legislative and regulatory initiatives, such as land exchanges, relicensing of hydro electric projects, grazing reform, reauthorization of the Endangered Species Act, the Safe Drinking Water Act and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Litigation which

raises a question regarding application of a statute of limitations to CERCLA natural resource damages claims by federal trustees is pending before the Court of Appeals for the 9th Circuit. OGC also provided the Forest Service with support in the administration of the National Forest lands as they are affected by the complex statutes related to mineral exploration.

In addition, we regularly provide advice on compliance and litigation arising under the pollution control laws. Most frequently, pollution control issues involve abandoned and inactive mines and landfills on federal lands, the use and storage of agricultural chemicals, and management of hazardous waste at agricultural research facilities. We have worked with other federal resource management agencies on implementation of executive authority under CERCLA to address cleanup of hazardous substances affecting federal resources.

As the Administration and the Congress continue their efforts to re-invent the Federal government, and as the Department takes its own initiatives to make its delivery of services more efficient, streamlined, and customer friendly, we anticipate greater demands on the General Law Division. These range from providing legal services regarding personnel and labor matters; increased legal services in relation to the Freedom of Information Act and the Privacy Act; debt collection initiatives; Year 2000 compliance; and legal support for creative approaches of doing more with less through mechanisms such as partnering.

Among its many responsibilities, the General Law Division provides legal services to the National Appeals Division (NAD).

Agency implementation of new administrative offset procedures pursuant to the Debt Collection Improvement Act of 1996 continue to resonate in numerous appeals to NAD, resulting in legal questions regarding the intersection of the offset process and the NAD appeal process.

As NAD determinations begin to be challenged in the district and appellate courts, novel issues have begun to arise regarding exhaustion of administrative remedies, district versus claims court jurisdiction, implementation of NAD determinations, and discovery.

With regard to the procurement of property and services, the Clinger-Cohen Act of 1996 set in motion many changes still in evolution regarding the acquisition, use, and disposal of information technology by the Federal Government. In particular, the General Law Division will continue to devote substantial resources to assist the Chief Information Officer created by the Act in fulfilling her duties both under the Act, and under separate Secretarial mandates, to improve information technology management in the Department.

Also, with regard to procurement, since the 1996 revision of the General Accounting Office protest rules, which in effect requires agency legal representation, the General Law Division has provided an enhanced level of legal representation of USDA agencies in such matters.

As its name implies, the Agricultural Research, Extension, and Education Reform Act of 1998 contained numerous provisions regarding priority-setting, public input, and greater

accountability in research, education, and extension programs, both within the Department and among our land-grant partners. Those reform provisions with the greatest impact become effective on October 1, 1999. Considerable resources will be expended in fiscal year 1999 and fiscal year 2000 to ensure that this deadline is met and to ensure a smooth transition to the applicable requirements to research, extension, and education grant funds awarded in fiscal year 2000.

Over the past few years the Department has taken measures to improve the operations of its agencies and improve how its agencies service their customers. In February 1999, USDA took another significant step in that direction by converging the administrative support functions of the Rural Development mission area, the Farm Service Agency, and the Natural Resources Conservation Service into a single entity, the Support Services Bureau ("SSB"). The General Law Division provided legal advice with respect to the formulation of the SSB. It is anticipated that as the SSB is implemented, significant attorney resources will be required to address numerous legal issues involving labor law, personnel law, administrative law, fiscal law, and leasing of office space.

Besides the labor law issues that will be attendant to restructuring and downsizing, changes have occurred in the OGC itself that will require the attorney resources of the General Law Division in the coming year. Last year the American Federation of Government Employees was elected as the exclusive representative under the Federal Service Labor Management

Relations Statute ("FSLMR") of both professional and non-professional employees of OGC in field locations. During this process, General Law Division attorneys advised OGC managers regarding issues under the FSLMR. It is anticipated that General Law Division assistance will continue to be required in implementing management responsibilities under the FSLMR and negotiating collective bargaining agreements with the new units.

We continue to provide legislative drafting and related assistance to the Department and Congress on major legislative activities that involve the Department. Extensive assistance was provided to Department policy officials and Congressional staffs in drafting and analyzing various legislative proposals recently considered by Congress, including proposals in connection with the Goodling; AREERA; the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999 (Pub. L. No. 105-277); and the Plant Protection Act (HR 3766). We are preparing legislation to improve the Department's conservation and trade assistance programs. In addition, we are participating in the preparation of legislation in a number of areas in support of the President's Fiscal Year 2000 budget request for the Department.

Over the past two years the Department has engaged in massive efforts to reform its civil rights performance. The Secretary wants to ensure that all of our customers and employees are treated with dignity and respect and are afforded equal employment opportunity and equal access to all USDA programs. Critical to the achievement of these goals was the creation of

the Civil Rights Division (CRD) within OGC, staffed with attorneys who have specialized expertise in civil rights law, and are charged with providing legal services to the Secretary and all agencies of the Department on civil rights legal issues.

The CRD played a very critical role in the settlement of the Pigford and Brewington litigation. Both cases are class actions filed by African American farmers who have filed administrative complaints of discrimination with USDA since 1981 alleging race discrimination in Farm Service Agency programs. The consent decree received preliminary approval on January 5, 1999. A fairness hearing on the settlement was held on March 2, 1999. When the consent decree is given final approval by the court, it will provide a framework for the adjudication of claims of African American farmers who believe they suffered discrimination by the Department in connection with USDA credit and benefit programs during the period January 1, 1981 through December 31, 1996. The settlement will help the Department open a more constructive front in its efforts to be the Federal civil rights leader in the 21st century.

Key to settlement of the Pigford and Brewington cases was the enactment last year the waiver of various statutes of limitations, that allows farmers with long-standing discrimination complaints to have their claims finally heard. Section 741 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999, enacted in section 101(a), Division A, of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999,

Pub. L. No. 105-277. The Associate General Counsel for Civil Rights and the Assistant General Counsel for Legislation worked with Departmental officials, members and staffs of the House and Senate, DOJ officials, and White House officials to bring about enactment of the statute of limitations waiver language in the budget bill. CRD also worked some with GLD and the Associate General Counsel for Legislation, Litigation, and General Law in drafting regulations to implement the new law. 63 Fed. Reg. 67392 et seq. (Dec. 4, 1998) (codified at 7 C.F.R. Part 15f).

The success of this work shows the potential when the different divisions work in cooperation. cooperation.

Settlement of the Pigford and Brewington and any case in which a farmer alleges discrimination can only include damages if the claim alleges credit discrimination and the Department or the courts find that discrimination occurred in our credit programs. The limitation on the Department's ability to award damages in conducted discrimination cases was made clear by the 1994 Opinion of the Office of Legal Counsel (OLC), Department of Justice entitled *Authority of USDA to Award Monetary Relief For Discrimination*. In its opinion, OLC ruled that, in cases of alleged discrimination in a USDA conducted program, such as FSA farm loan programs, the Secretary has authority to award monetary relief, attorneys' fees, and costs if a court could award such relief in an action by the aggrieved person. However, after examining Title VI of the Civil Rights Act of 1964, the Fair Housing Act, the Rehabilitation Act, and the Equal Credit Opportunity Act (ECOA), OLC concluded that only ECOA waives

sovereign immunity with respect to monetary relief, authorizing imposition of compensatory damages by the Department. In light of this opinion, OGC issued memoranda to the Office of Civil Rights that made clear that CR can settle farmer discrimination case for monetary damages only if the case involves credit discrimination and only to the extent a court could award damages given the facts of the case.

With respect to the Pigford and Brewington settlement, CRD will take the leading role to ensure that USDA meets its commitments under the consent decree, particularly with respect to the production of relevant documents and necessary legal analysis related to each claim filed pursuant to the consent decree. CRD is working with the FSA, the Office of Civil Rights (CR), and the DOJ to develop rapid responses to claims and to help ensure that the Government's responses are timely and appropriate.

With respect to farmer discrimination claims not covered by the Pigford and Brewington settlement, CRD will work with CR to ensure that all claims, including those filed pursuant to the statute of limitations waiver, receive expeditious and fair consideration, within the bounds set by applicable law.

The number of employment discrimination cases filed against the Department has increased dramatically. CRD and OGC field offices are defending the Department in administrative litigation before the Equal Employment Opportunity Commission (EEOC) and are working with DOJ to ensure the best possible defense in court.

In Donnelly v. Glickman, C-95-4389 DLJ, a class action filed in Federal district court on behalf of female employees of the Region 5 (California) of the Forest Service, a negotiated settlement is near. In a related matter, the Government is negotiating with the Forest Service Region 5 Regional Hispanic Working Group to negotiate settlement of issues similar to those raised in Donnelly before litigation is filed. In both negotiations, CRD attorneys are working with the OGC Regional Attorney, DOJ, and Departmental officials in Washington, chiefly in developing settlement proposals for the negotiations and participating in the negotiations. CRD is performing the Department's goals of addressing legitimate concerns of the plaintiffs and addressing systemic issues that will hopefully prevent future litigation.

Similarly, in Herron v. Glickman, EEOC No. 100-98- 7120X, a class action pending before EEOC in Washington, filed on behalf of African American employees of FSA, alleging that African American employees at the GS 12, 13, and 14 levels were being prevented from obtaining promotions to the GS 13, 14, and 15 levels respectively, CRD has completed several months of discovery and is now discussing litigation and settlement options with the FSA Administrator and the Under Secretary.

To address other employment issues, CRD will intensify its efforts to provide training and technical assistance to OGC field attorneys and to Department officials, civil rights directors, and employee relations specialists. The goal is to identify and address issues before they become litigation. Where issues are

identified, CRD will bring the issues to the attention of appropriate Department officials, with legal analysis and recommendations for addressing the issues.

Drafting and reviewing nondiscrimination regulations is part of CRD's mission. In 1998, CRD drafted a proposed published regulation governing nondiscrimination in programs and activities conducted by USDA which will delete 7 C.F.R. Part 15, Subpart B, which deals with programs and activities receiving Federal financial assistance from USDA-- and create a new 7 C.F.R. Part 15d that will deal exclusively with conducted programs. CRD is in the process of finalizing the regulation for publication. The new 7 C.F.R. Part 15d would clarify that the regulation applies to all USDA conducted programs and activities; add familial status, marital status and sexual orientation to the protected classes contained in the regulation; add a provision concerning USDA agencies' compliance efforts; add public assistance status as a prohibited basis under authority in the Equal Credit Opportunity Act (ECOA); add a prohibition against reprisal; and reflect Secretary's Memorandum 1010-4 (May 16, 1997), which further delegated to the CR Director the authority to make final determinations on complaints and order corrective actions. The regulation has been published, the comment period has ended and the final regulation will be published soon.

In 1998, CRD worked with CR on a number of nondiscrimination Departmental Regulations (DRs) to further the effort to reform the Department's civil rights enforcement program: DR 1614, Processing EEO Complaints of Discrimination; DR 4330-2,

Nondiscrimination in USDA Conducted Programs and Activities; and DR 4330-1, Nondiscrimination in Programs and Activities Receiving Federal Financial Assistance from USDA. The Departmental regulations are near completion.

CRD is assisting more and more agencies in developing proposed regulations that would require recipients of Federal financial assistance to collect certain participation data on "protected classes," such as race, color, religion, national origin, sex, age, and disability. This work is critical to ensuring compliance with Title VI of the Civil Rights Act of 1964 and other statutes that prohibit recipients of Federal financial assistance from discriminating with respect to the programs for which they are receiving Federal financial assistance.

CRD drafted a Secretary's Memoranda and Secretary's Decision Memorandum creating a uniform policy on adverse actions against individuals who have filed complaints of discrimination against USDA. These documents are near completion and will begin the clearance process shortly.

CRD will continue to write memoranda giving advice and legal opinions on a number of civil rights topics. A current project relates to the Department's authority to provide compensatory damages in discrimination cases arising in Federally conducted programs:

CRD's most important work is in assisting agencies and administrators in complying with the letter and spirit of civil rights laws, thereby avoiding unnecessary litigation, in providing training and ongoing advice and other legal service.

Training, however, is just one component. The development of ongoing working and collaborative relationships between CRD and agency officials is critical and will be a great part of CRD's work this year.

FY 2000 BUDGET REQUEST

For fiscal year 2000, OGC is requesting \$32,675,000 in direct appropriations. This request represents a significant increase of \$3,481,000 over the fiscal year 1999 appropriation. The requested increase is needed to support and maintain current staffing levels to meet the current and projected increased demand in delivering pre-decisional legal advice, training, appeal and litigation legal services to agencies. The majority of the increase consists of \$1,159,000 for pay costs, which OGC does not have any flexibility for absorbing and \$1,621,000 to maintain current staff and provide enhanced legal services in specific areas where staffing is insufficient to adequately meet demands for legal services generated by the Department. The remaining \$701,000 is necessary for the office to meet processing requirements into the year 2000 and beyond. OGC anticipates migrating fully to Windows 98, replacing and or upgrading 15 file servers along with 50 percent of the personal computers. The requirement to upgrade the hardware will be a continuing process as the technology continues to change.

CLOSING

That concludes my statement, Mr. Chairman. We very much appreciate the support this Subcommittee has given us in the past. Thank you.

NATIONAL APPEALS DIVISION

Statement of Norman G. Cooper, Director

Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the fiscal year 2000 budget request for the National Appeals Division.

INTRODUCTION

The National Appeals Division (NAD) was established by the Secretary of Agriculture pursuant to the Reorganization Act of 1994. The Act consolidated the appellate functions and staffs of several USDA agencies to provide for hearings on appeal of adverse agency decisions, and review of appeal determinations by the NAD Director. NAD appeals currently involve program decisions of the Farm Service Agency, Risk Management Agency, Natural Resources Conservation Service, Rural Business-Cooperative Service, Rural Housing Service, and Rural Utilities Service. NAD is headquartered in Alexandria, Virginia, and has regional offices located in Indianapolis, Indiana; Memphis, Tennessee; and Lakewood, Colorado. NAD's staff of 133 includes 75 hearing officers Nationwide.

MISSION

Our mission is to conduct evidentiary administrative appeals hearings and reviews arising out of program decisions of specific USDA agencies. Our strategic goal is to conduct timely hearings and issue timely and well-reasoned determinations that correctly interpret applicable regulations. In addition, in States covered by the United States Court of Appeals 8th Circuit, NAD Hearing Officer's adjudicate applications for fees under the Equal Access to Justice Act (EAJA). NAD's mission is statutorily specific, but the administration is dynamic and challenging, given the complexities of changing laws, regulations and policies.

FISCAL YEAR 2000 BUDGET REQUEST

NAD is requesting \$12,699,000 in direct appropriations for fiscal year 2000. This request represents an increase of \$981,000 over the fiscal year 1999 appropriation. The increase is comprised of \$392,000 for pay costs and \$589,000 for training costs.

NAD employees must possess a broad, in-depth knowledge of many areas, including adjudication procedures as well as the laws and regulations of subject agencies. The hearing and review officers must stay abreast of changes in the law, regulations and agency policies, in order to issue determinations that are legally correct. Continuous training and development is essential to providing the public a competent and fair administrative appeal system that recognizes the rights of program participants and promotes the lawful operations of agency programs. NAD's budget request for training will be used to sustain high-quality training that is critical to accomplishing our goal.

We are also requesting \$392,000 to offset the anticipated fiscal year 2000 federal pay raise. Our budget has remained fixed at the current level since fiscal year 1997. We cannot continue to absorb pay cost increases without jeopardizing our ability to provide an effective administrative appeals system.

CONCLUSION

NAD's administrative appeals process is a cost-effective service for program participants to have adverse agency decisions fairly and impartially adjudicated in a timely manner consistent with the intent of Congress. The initiatives in the fiscal year 2000 budget will help ensure that we accomplish our mission in a more efficient and effective manner, making correct determinations and continuing to assure the rights of all participants in appeals. The initiatives provide the groundwork for accomplishing the goals and objectives outlined in NAD's Strategic Plan and annual performance plan. More importantly, these initiatives assure farmers, ranchers, cooperatives, agencies, and others an avenue to a fair and equitable adjudicative process. I would like to provide for the record a copy of the brochure that describes these initiatives.

That concludes my statement, and I am looking forward to working with the Committee on the FY 2000 National Appeals Division budget.



Office of Communications

If you disagree...

USDA

A large, stylized graphic of the USDA logo, featuring the letters "USDA" in a bold, sans-serif font above a stylized graphic of three horizontal wavy lines representing a landscape or water.

This brochure provides a brief overview of the options you have as a program participant when you do not understand or you disagree with a decision made by the:

- ▶ Farm Service Agency
- ▶ Natural Resources Conservation Service
- ▶ Risk Management Agency
- ▶ Rural Business-Cooperative Service
- ▶ Rural Housing Service
- ▶ Rural Utilities Service

When one of these U.S. Department of Agriculture (USDA) agencies makes a decision on your request for USDA services or application, you will receive a letter that will inform you of this decision and your choices if you disagree. Generally, program participants have three choices—an informal review with the original agency decision maker, an opportunity for mediation, and appeal to the USDA National Appeals Division (NAD).

Informal Review

An informal review or hearing is your opportunity to speak directly with the USDA employee who made the decision you're questioning. This person will explain in more detail why the decision was made and listen to why you believe the decision is incorrect. After this informal review, the agency will give you a second written decision.

You may request an informal review by writing to your agency office, the address of which is on the decision letter. Your request for an informal review must be made in writing by the deadline set by the agency that made the decision.

If the informal meeting does not resolve your questions on the agency's decision, you may still choose to enter mediation or appeal to NAD.

Mediation/Alternative Dispute Resolution

Certain decisions may be resolved through the use of a neutral mediator or some other form of alternative dispute resolution (ADR), such as settlement negotiation. Mediation and ADR are informal processes that encourage the participant and agency to resolve the matter by mutual agreement. You may be required to contribute to or pay in full the cost of these services.

The agency that made the original decision will advise you in writing if mediation or other forms of ADR are available.

If you select mediation or ADR and are not successful, you may still appeal to NAD.

Remember, if you ask for mediation or ADR, the 30-day time frame in which you must request an appeal to NAD stops. If mediation is unsuccessful and closed, the clock restarts. For example, if you ask for mediation on the 20th day, the clock stops. If mediation is unsuccessful and closed, the clock starts again with 10 days remaining to appeal.

Appeal to NAD

NAD is an independent USDA division created by Congress to review agency decisions. The Director of NAD reports to the Secretary of Agriculture and is independent of the agency that made the decision with which you disagree.

You must request an appeal before NAD in writing within 30 days of the date you received the final decision from the agency. The agency decision letter will contain the address of the appropriate NAD office where you will send your appeal request. Your letter to NAD must contain all the reasons why you believe the agency's decision is incorrect.

After NAD receives your appeal request, a NAD hearing officer will be assigned to your case. The hearing officer will contact you and the agency that issued the decision to explain how to submit additional information, evidence, or facts. In most cases, the hearing officer will schedule a pre-hearing telephone conference with you and a representative of the agency.

The law governing NAD requires that you - the appellant - prove that the agency decision is incorrect. Therefore, you should have all the information you believe shows that the agency was wrong to provide to the hearing officer. For example, if the agency determined that you did not have adequate credit history for a loan, you could bring credit references or other proof of a good record to the hearing.

The hearing officer will listen to both you and the agency, review any materials and then decide whether or not the agency decision was correct. The hearing officer will explain your opportunity to request a review by the Director of NAD should the agency's decision be determined correct. (The agency also has the opportunity to request a review if the hearing officer determines the decision was incorrect.)

A review by the Director is based on the record before the hearing officer who considered the claim, plus any explanation by either you or the agency of why the hearing officer's decision was incorrect. There is no hearing under a director review process. In the request for review by the Director, you or the agency must include an explanation of why you disagree with the hearing officer's decision. You and the agency, if the other requests a review, also have the opportunity to present the Director, in a timely manner, with an explanation of why you believe the hearing officer's decision should stand.

The final determination made by NAD is a final USDA decision, and the agency will have 30 days to implement that decision. If you still disagree with this final NAD decision, you may appeal the decision to the appropriate Federal District Court.

Discrimination Complaints

There is a separate procedure for appealing a decision if you believe that the decision was based on discrimination or retaliation for filing a discrimination complaint. In this case, you may:

- ▶ Request a Program Discrimination Complaint form and information sheet from our nearest office;
- ▶ Write a letter of complaint to the USDA Office of Civil Rights, 1400 Independence Avenue SW, Room 326-W, Washington D.C., 20250, or
- ▶ Call the Office of Civil Rights at (800) 358-4309

A Final Note

Agency employees are trained to follow program rules and regulations, and they work hard to do just that. However, when you disagree with a decision, USDA is committed to providing you with a fair and workable appeals process. If you believe a decision is incorrect, please feel free to use that process.

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, genetic information, marital status, or family status. (Not all prohibited bases apply to all programs.) Persons who wish to file a complaint must contact their nearest USDA Office of Civil Rights, Room 326-W, 1400 Independence Avenue, SW, Washington, DC 20250-4101 or call (800) 795-2847 (toll free) or TDD. USDA is an equal opportunity provider and employer.

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, 1400 Independence Avenue, SW, Washington, DC 20250-4101 or call (800) 795-2847 (toll free) or TDD. USDA is an equal opportunity provider and employer.

Norman G. Cooper
Director
National Appeals Division

Norman Cooper was appointed by Secretary Glickman and assumed responsibilities as Director, National Appeals Division (NAD), effective October 15, 1995. Prior to joining USDA, Mr. Cooper served since 1992 as assistant general counsel with the Department of Veterans Affairs, representing the Secretary of Veterans Affairs before the U.S. Court of Veterans Appeals.

From 1989 to 1991, Mr. Cooper was the senior legal officer for the Commander-in-Chief of the United States Forces in Korea and was recognized by the Department of Defense and the Republic of Korea for his efforts in negotiating modifications to the Status of Forces Agreement.

Mr. Cooper served in the Army Judge Advocate General's Corps for over 25 years, retiring in the grade of Colonel. Among his many key military assignments, he was Chief, Criminal Law Division and Chief, Government Appellate Division. During his army career, he managed several legal offices, including those at Fort Lee, Virginia, and Fort Polk, Louisiana. He also served as a military circuit judge, associate professor of law, special hearing officer, and a trial lawyer. Mr. Cooper is a Vietnam veteran and was awarded the Bronze Star Medal and the Air Medal for Service with the 1st Cavalry Division (Airmobile).

Mr. Cooper and his wife, Kay, reside in Burke, Virginia, with their children, David and Katherine.

Academic and Publication Background

- **Academic Degrees/Certifications** Mr. Cooper is a graduate of The Citadel, received a Masters Degree in international relations from the University of Southern California and earned his law degree at Duke University. Mr. Cooper is a graduate of the Judge Advocate General's School and received special academic recognition at the Industrial College of the Armed Forces.
- **Publications** Mr. Cooper has authored a number of legal articles, which have been published and cited in textbooks and judicial decisions.

Professional Affiliations

Mr. Cooper is a member of the bars of the United States Supreme Court, the Court of Appeals for the Federal Circuit, the United States Court of Veterans Appeals, the United States Court of Appeals for the Armed Forces, and is an active member of the bar in the District of Columbia.

[The justifications of the budget estimates follow:]

2000 Explanatory Notes
Departmental Administration

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DEPARTMENTAL ADMINISTRATION

Purpose Statement

Departmental Administration, under the leadership of the Assistant Secretary for Administration, (ASA) was established to provide leadership and direction to ensure that the USDA is managed effectively, efficiently, and fairly in its administrative programs and services. Departmental Administration is comprised of Staff Offices and activities that report to the Assistant Secretary for Administration. The Assistant Secretary for Administration has the responsibility for administering the DA Staff Offices and program activities under authority contained in 7 U.S.C. 2202. The DA Staff Offices provide support to the top policy officials of the Department and overall direction and coordination to the work of the Department. The DA activities, including the new civil rights policy, oversight, and program responsibilities, are carried out by the Office of Human Resources Management, Office of Ethics, Office of Civil Rights, Office of Property and Procurement Management, Office of Operations, Management Support Staff, Office of Small and Disadvantaged Business Utilization, and Office of Outreach. In addition to the Staff Offices, DA activities include the Office of Administrative Law Judges/Judicial Officer, and the Board of Contract Appeals.

Departmental Administration. This account finances the day to day activities of the above offices.

Agriculture Buildings and Facilities and Rental Payments. This account finances the appropriated portion of payments to the General Services Administration for rental of leased space and related services. Funding is not provided for payments to GSA made by the Forest Service, since the Forest Service is funded in the Interior and Related Agencies Appropriation Act.

This account also finances operations, repair, improvement, and maintenance activities at the USDA Headquarters Complex. Since 1989, when the GSA delegation expired, USDA has been responsible for managing, operating, maintaining, repairing, and improving the Headquarters Complex, which encompasses 14.1 acres of ground and 4 buildings containing approximately 3 million square feet of space occupied by approximately 8,000 employees.

Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers. Section 2501 of the Food, Agriculture, Conservation, and Trade Act of 1990 (Public Law 101-624) requires the Secretary of Agriculture to provide outreach and technical assistance to socially disadvantaged farmers and ranchers. Administration of the program was transferred from the Natural Resources Conservation Service to Departmental Administration beginning in fiscal year 1998.

The overall goal of the program is to increase the number of small or limited resource and minority producers and directly improve the farm income of these producers. Objectives are to make grants and enter into agreements with community-based organizations and educational institutions to provide outreach and technical assistance.

Not all Departmental Administration activities are financed from direct appropriations. The central services financed under the Department's Working Capital Fund (7 U.S.C. 2235) provide operational services and some management services to USDA agencies and Departmental staff activities respectively. A detailed description of these activities is provided under the Purpose Statement of the Working Capital Fund.

Reimbursable Activities. Under the Economy Act, 31 U.S.C. 1535, Departmental Administration is also reimbursed for services provided to USDA and non-USDA agencies. The following activities are financed through other reimbursements: day to day activities of the Board of Contract Appeals, travel and printing for the Administrative Law Judges, miscellaneous personnel details, selected short-term activities, as well as administrative and operational support to Working Capital Fund activities.

Headquarters. The majority of the Departmental Administration functional activities are located in Washington, D.C.

As of September 30, 1998, there were 781 employees, of which 663 were full-time permanent employees and 118 were other than full-time permanent employees included under Departmental Administration. These employees were assigned as follows:

<u>Location</u>	<u>Full-time Permanent</u>	<u>Other</u>	<u>Total</u>
Washington, D.C.	629	113	742
Field Units	34	5	39
Total	663	118	781

OIG Reports

#50099-5-AT March 18, 1998: Biological Material and Waste Management by USDA Agencies

#5009-11-FM March 25, 1998: Review of Controls in the Payroll/Personnel and Time and Attendance System-Phase I

#50601-3-AT March 31, 1998: Radioactive Material and Waste Management

#23801-0001-HQ August 20, 1998: Review of Office of Operations Contract with B&G Maintenance, Inc.

#60801-002-HQ: Evaluation of Office of Civil Rights Management of Settlement Agreements

#50099-0009-AT: Control of Workers Compensation Costs

GAO Reports

#GAO/RCED-99-38, code 150740: Draft report December 4, 1998 - U.S. Department of Agriculture: Problems Continue to Hinder the Timely Processing of Discrimination Complaints

#GAO/RCED-99-34: U.S. Department of Agriculture: Administrative Streamlining Is Expected to Continue Through 2002

DEPARTMENTAL ADMINISTRATION

Available Funds and Staff Years
1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation:						
Departmental Administration	\$26,989,478	318	\$32,168,000	345	\$36,117,000	374
Ag. Bldgs. & Fac. & Rental						
Payments.....	130,257,400	77	137,184,000	86	166,364,000	86
Outreach Grants.....	3,000,000	--	3,000,000	--	10,000,000	--
Total Direct.....	160,246,878	395	172,352,000	431	212,481,000	460
Obligations under other						
USDA appropriations:						
Departmental Administration:						
Radiation Safety.....	860,883	10	895,000	12	950,000	12
Honor Awards.....	78,167	--	90,000	--	90,000	--
Industrial Hygienist.....	80,644	1	106,000	1	108,000	1
Safety & Health Conf.....	28,200	--	--	--	--	--
Career Management.....	35,000	--	30,000	--	30,000	--
Time & Attendance Project..	624,706	--	264,000	--	268,000	--
Employee Express.....	349,000	--	--	--	--	--
HRSD with NAD.....	97,012	--	102,000	--	106,000	--
Payroll Development.....	107,756	1	110,000	1	114,000	1
SES Candidate Program.....	--	--	500,000	--	--	--
Automated Payroll Serv.....	--	--	464,000	--	482,000	--
Investigator Training.....	10,875	--	20,000	--	20,000	--
Procurement Modernization..	1,902,000	--	1,698,000	--	1,409,000	--
EEO Investigations.....	8,471,123	--	4,117,000	--	4,117,000	--
Special Emphasis Programs..	17,700	--	26,000	--	30,000	--
TARGET Center.....	422,198	4	572,000	4	751,000	4
ADP Procurement.....	150,001	--	150,000	--	150,000	--
Interpreter Service.....	175,636	2	219,000	2	231,000	2
Travel to Admin. Hearings...	22,946	--	44,000	--	44,000	--
Board of Contract Appeals...	1,000,901	8	1,458,000	10	1,511,000	10
BRAVO Initiative.....	--	--	65,000	--	--	--
Other Miscellaneous.....	1,017,109	2	477,000	2	407,000	2
Management Support to						
WCF Activities.....	3,503,831	39	3,443,000	46	3,543,000	46
Subtotal, DA Reim.....	18,955,688	67	14,850,000	78	14,361,000	78

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
<u>Ag. Bldgs. & Fac. & Rental</u>						
<u>Payments:</u>						
Security Services.....	3,228,000	—	5,108,000	—	5,200,000	—
Other Building Services.....	563,822	—	850,000	—	750,000	—
Subtotal, Ag. Bldgs. & Fac. & Rental Payments Reim.	3,791,822	—	5,958,000	—	5,950,000	—
Total, Reimbursements.....	22,747,510	67	20,808,000	78	20,311,000	78
<u>Working Capital Fund:</u>						
Supply & Other Centrl Svs..	23,415,000	187	21,518,000	192	21,719,000	192
Modernization.....	3,392,000	—	1,962,000	—	1,677,000	—
Purchase of Equipment.....	324,000	—	604,000	—	683,000	—
Total, WCF.....	27,131,000	187	24,084,000	192	24,079,000	192
Total, USDA Funds.....	210,125,388	649	217,244,000	701	256,871,000	730
<u>Other Federal Funds:</u>						
Federal Mines.....	55,000	—	—	—	—	—
Total, Departmental Administration.....	210,180,388	649	217,244,000	701	256,871,000	730

DEPARTMENTAL ADMINISTRATION

Permanent Positions by Grade and Staff-Year Summary
1998 Actual and Estimated 1999 and 2000

Grade	1998			1999			2000		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
ES-6	1	—	1	1	—	1	1	—	1
ES-5	2	—	2	2	—	2	2	—	2
ES-4	1	—	1	1	—	1	1	—	1
ES-3	4	—	4	4	—	4	4	—	4
ES-2	1	—	1	1	—	1	1	—	1
ES-1	2	—	2	2	—	2	2	—	2
CA-01	1	—	1	1	—	1	1	—	1
CA-02	1	—	1	1	—	1	1	—	1
AL-3	3	—	3	3	—	3	3	—	3
AL-2	1	—	1	1	—	1	1	—	1
SL-1	1	—	1	1	—	1	1	—	1
GS-15	33	1	34	33	1	34	37	1	38
GS-14	93	2	95	93	2	95	95	2	97
GS-13	100	6	106	105	6	111	114	6	120
GS-12	57	8	65	57	8	65	59	8	67
GS-11	36	6	42	36	6	42	37	6	43
GS-10	9	—	9	9	—	9	9	—	9
GS-9	21	2	23	21	2	23	23	2	25
GS-8	16	—	16	16	—	16	18	—	18
GS-7	59	2	61	78	2	80	83	2	85
GS-6	31	1	32	31	1	32	31	1	32
GS-5	27	—	27	27	—	27	27	—	27
GS-4	56	—	56	56	—	56	56	—	56
GS-3	14	—	14	14	—	14	14	—	14
GS-2	12	—	12	12	—	12	12	—	12
GS-1	4	1	5	4	1	5	4	1	5
Other Graded Pos..	43	13	56	43	19	62	43	21	64
Total Perm. Pos.....	629	42	671	653	48	701	680	50	730
Unfilled Positions end-of-year.....	—	-8	-8	—	—	—	—	—	—
Total, Permanent Full-Time Employment, end-of-year.....	629	34	663	653	48	701	680	50	730
Staff Year Ceiling	601	48	649	653	48	701	680	50	730

DEPARTMENTAL ADMINISTRATION
CLASSIFICATION BY OBJECTS
1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, D.C.	\$17,156,282	\$22,304,000	\$25,059,000
11 Total personnel compensation	17,156,282	22,304,000	25,059,000
12 Personnel benefits	3,203,866	3,959,000	4,583,000
13 Benefits for former personnel	126,993	18,000	18,000
Total pers. comp. & benefits	20,487,141	26,281,000	29,660,000
Other Objects:			
21 Travel	368,343	915,000	1,162,000
22 Transportation of things	23,480	60,000	63,000
23.3 Communications, utilities, and misc. charges	800,867	733,000	752,000
24 Printing and reproduction	491,906	279,000	287,000
25.2 Other services	3,281,518	1,034,000	1,095,000
25.3 Purchases of goods and services from Government Accounts	—	1,570,000	1,748,000
26 Supplies and materials	339,017	319,000	343,000
31 Equipment	952,460	735,000	765,000
42 Insurance claims and indemnities	—	242,000	242,000
43 Interest and dividends	905	—	—
Total other obligations	6,258,495	5,887,000	6,457,000
Total direct obligations	26,745,636	32,168,000	36,117,000
Position Data:			
Average Salary, ES positions	\$115,795	\$119,964	\$120,890
Average Salary, GS positions	55,884	66,778	69,033
Average Grade, GS positions	12.7	13.5	13.5

DEPARTMENTAL ADMINISTRATION

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Departmental Administration:

For Departmental Administration, [~~\$32,168,000~~] \$36,117,000, to provide for necessary expenses for management support services to offices of the Department and for general administration and disaster management of the Department, repairs and alterations, and other miscellaneous supplies and expenses not otherwise provided for and necessary for the practical and efficient work of the Department, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), of which not to exceed \$10,000 is for employment under 5 U.S.C. 3109: *Provided*, That this appropriation shall be reimbursed from applicable appropriations in this Act for travel expenses incident to the holding of hearings as required by 5 U.S.C. 551-558.

DEPARTMENTAL ADMINISTRATION

Appropriations Act, 1999	\$32,168,000
Budget Estimate, 2000	<u>36,117,000</u>
Increase in Appropriation	<u>+3,949,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	1999 <u>Estimated</u>	Pay Costs	Program <u>Changes</u>	2000 <u>Estimated</u>
Departmental Administration.....	<u>\$32,168,000</u>	<u>+\$1,050,000</u>	<u>+\$2,899,000</u>	<u>\$36,117,000</u>

PROJECT STATEMENT
(On basis of appropriation)

	1998 Actual		1999 Estimated		Increase or Decrease	2000 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
1. Departmental Administration	\$26,745,636	318	\$32,168,000	345	+33,949,000	\$36,117,000	374
Unobligated Balance	243,842	-	-	-	-	-	-
Total available or Estimate	26,989,478	318	32,168,000	345	+3,949,000(1)	36,117,000	374
Transfer from:							
NRCS for the 2501 Program Staff	-482,000	-8					
Agriculture Buildings and Facilities and Rental Payments	-530,000	-					
Transfer to:							
USDA Agencies for EEO Counselors	+2,475,277	+38					
CIO	+778,245	+4					
Total, Appropriation	29,231,000	352					

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of \$3,949,000 for Departmental Administration (\$32,168,000 available in 1999) consisting of:

- (a) An increase of \$931,000 and 11 staff years for the Office of Outreach to continue to implement recommendations from the Civil Rights Action Team (CRAT) report, the National Commission on Small Farms report, the Secretary's Farmworker Initiative, and other projects inherent to the responsibilities of the office.

This increase will support the Departmental Administration Strategic Plan Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout USDA; Objective 1.2(b): Increase opportunities for and participation of historically under-served rural populations and small limited resource farmers in USDA programs.

The mission of the Office of Outreach is to, through leadership and partnership with USDA agencies, ensure the provision of information, technical assistance, and training to USDA customers with emphasis on under-served populations and to assure that they have full access to all USDA programs and services as well as encouraging agriculture related education and employment. The responsibilities of this office include continued implementation of 27 CRAT recommendations, providing outreach training and technical assistance to colleges and universities, community based organizations, tribal organizations, farmers, etc., ensuring that materials are available to all customers in appropriate languages and media, gathering information on outreach needs of different customer groups and developing methods to address those needs, and providing leadership and coordination as well as oversight for the Department.

With this increase the Office of Outreach will fill 11 vital positions including Deputy Director, Farmworker Coordinator, two Outreach Coordinators, Community Liaison, Grant Management Specialist, and five administrative and support personnel necessary for the efficient management of outreach initiatives. The Farmworker Coordinator will develop policy, build relationships with community-based organizations and develop and participate in the development of initiatives for farmworkers with other Federal agencies and non-government organizations. The Outreach Coordinators will monitor, analyze, and evaluate policies and procedures including outreach, training, and technical assistance programs to ensure delivery of program services to targeted populations. The Community Liaison will communicate and coordinate outreach aspects of all USDA programs and activities through mission area strategic plans, agency liaisons, and state outreach councils. These staff will assure that USDA can improve service to the currently under-served customers being reached with full services.

- (b) An increase of \$1,639,000 and 17 staff years for Civil Rights.

This increase will support the Departmental Administration Strategic Plan Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout USDA; Objective 1.1: Change the USDA culture to one that values diversity and treats its employees and customers with dignity and respect; and Goal 2: Deliver timely, reliable and efficient services to Departmental Administration customers; Objective 2.2: Provide timely and equitable resolution of employment and program complaints.

The Office of Civil Rights (CR) will dedicate eight new staff members to Equal Employment Opportunity (EEO) complaint processing. Between January 1, 1997 and June 2, 1998, almost 1,200 formal EEO complaints were filed. During that time the Office of Civil Rights Employment

Complaints Division (ECD) closed 1,183 EEO cases. Of these, 786 were closed by settlement agreements, 79 were withdrawn, and 318 were closed by decisions. The cases closed by decision include cases which were dismissed because the allegations did not come within the scope of the law, or where investigation findings of either discrimination or no discrimination were made. If complaints continue at the present rate, ECD anticipates 920 new cases in FY 1999 and more than 1,000 new cases in FY 2000. The additional staff will enable ECD to process the incoming case load in a timely fashion. In addition, ECD can begin to develop the capacity, in-house, to investigate complaints and improve the quality, timeliness, and cost effectiveness of EEO investigations.

CR will dedicate three new staff members to information technology. Building an infrastructure to ensure that accurate and reliable information is available to track complaint information and provide effective management of the complaint process is a critical function for CR. A state-of-the-art complaint tracking system is being built, and the first phase of the system for program complaints will be completed in June 1999. The second phase of the system for employment complaints is scheduled for completion in December 1999. This new system will provide instant reporting on the status of both program and employment complaints. A data warehouse is also being constructed to integrate data that is generated by other government and private sources with data collected by CR so that statistical analyses can be performed. The requested staff members will develop, maintain and utilize these systems, as well as maintain and address telecommunication issues for the entire CR.

Finally, CR will dedicate six new staff members and \$837,000 to completing the processing of 500 - 800 cases anticipated under the change to the statute of limitations for program civil rights complaints enacted in the Omnibus Consolidated and Emergency Supplemental Appropriations Act.

(c) An increase of \$90,000 for Federal Emergency Management Agency (FEMA) rent charges.

This increase will support the Departmental Administration Strategic Plan Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout USDA; Objective 1.5: Increase USDA's preparedness for emergency operations by ensuring that the costs of Federal Emergency Management Agency (FEMA) rent charges are adequately covered by USDA appropriations. FEMA operates a secure site for Federal agencies to continue essential operations during a national emergency. This increase will provide USDA the means to reimburse FEMA for the USDA share of the cost for maintaining this site.

(d) An increase of \$45,000 for procurement training to meet required standards from the Office of Federal Procurement Policy and the Clinger-Cohen Act.

This increase will support the Departmental Administration Strategic Plan Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout USDA; Objective 1.3(d): Ensure consistent and uniform key administrative policies to provide modern, efficient, and cost effective procurement and property systems. The Office of Procurement and Property management will oversee the development and implementation of a new Procurement Performance Measure and Assistance Program to measure and improve the performance of USDA procurement activities, in accordance with the Government Performance Results Act, P.L. 103-62, as well as a new Acquisition Workforce development program patterned in compliance with the Clinger-Cohen Act, P.L. 104-106. This program will establish cross-agency program management of required training courses, including implementing one key course for USDA agencies. OPFM will also implement a workforce career management

training program for USDA agency acquisition personnel. Given that the USDA acquisition workforce handles over 1 million transactions per year totaling in excess of \$1.6 billion, this program is important to the overall success of procurement support to USDA's mission delivery.

- (e) An increase of \$194,000 and 1 staff year for the BRAVO (Bringing Rural America Venture Opportunities) initiative to be coordinated by the Office of Small and Disadvantaged Business Utilization (OSDBU).

This increase will support the Departmental Administration Strategic Plan Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout USDA; Objective 1.2(a): Increase opportunities for and participation of small, disadvantaged, and women-owned businesses to participate in USDA contract and program activities. The President has strongly endorsed this program as a way of addressing equal opportunity for American Indians. With this initiative the Office of Small and Disadvantaged Business Utilization will increase the use of American Indian owned business by USDA. Currently, the Department is falling short of its goal in this area.

The BRAVO initiative will partner rural communities, Indian nations, 1890, Hispanic Association of Colleges and Universities (HACU), and Native American educational institutions, small disadvantaged companies, private corporations, and government organizations. Large technology companies currently doing business with USDA will provide mentoring and support. Initial projects will focus on establishing businesses to provide software development, maintenance, and technical support to USDA. For instance, tribal entities (Indian Nations) will establish small start-up technology companies to provide software development for USDA. Employees will be recruited/trained from Indian Reservations and economically disadvantaged surrounding areas. 1890 universities, 1994 universities, HACU's and other learning institutions will aid USDA and companies to provide education and training. Universities will work to ensure that resources are available to develop skills and maintain currency. Participating USDA agencies will direct a small percentage of already budgeted and approved software development contracts to this initiative. Follow-on efforts will expand to include other areas such as food processing, energy saving contracting, supply services, fleet services, and financial services.

- (f) An increase of \$1,050,000 for pay costs which includes \$188,000 for annualization of fiscal year 1999 and \$862,000 for anticipated fiscal year 2000 pay raise.

Over 82 percent of DA's obligations are for salaries and benefits. This leaves little flexibility for absorbing increased costs. DA cannot absorb these additional salary costs without placing severe constraints on its daily operations.

DEPARTMENTAL ADMINISTRATION

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
District of Columbia	\$26,642,636	316	\$32,059,000	343	\$36,001,000	372
Maryland	103,000	2	109,000	2	116,000	2
Subtotal, Available or Estimate	26,745,636	318	32,168,000	345	36,117,000	374
Unobligated Balance	243,842	--	--	--	--	--
Total, Available or Estimate	26,989,478	318	32,168,000	345	36,117,000	374

DEPARTMENTAL ADMINISTRATION

Departmental Administration (DA) provides overall direction and coordination for the Department in the areas of human resources, civil rights, and procurement and property management. DA also provides direct staff support in these areas. DA activities are executed by the Office of Human Resources Management, Office of Ethics, Civil Rights Office, Office of Procurement and Property Management, Office of Operations, Management Support Staff, Office of Small and Disadvantaged Business Utilization, and Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers. In addition, DA activities include the Office of Administrative Law Judges/Judicial Officer, and the Board of Contract Appeals.

OFFICE OF HUMAN RESOURCES MANAGEMENT

The Office of Human Resources Management (OHRM) provides Departmentwide leadership, consultation, policy development, analysis, guidance, coordination, oversight for USDA human resources management programs and initiatives, and represents USDA in Governmentwide initiatives which include liaison and coordination with the Office of Personnel Management (OPM) and other central guidance agencies. OHRM programs include employment, recruitment, merit promotion, compensation, payroll/personnel processing, classification, position management, employee and executive development, employee assistance, retirement, benefits, workers' and unemployment compensation, employee & labor relations, personnel and classified information security, executive resources, safety and health, and organizational development, and automated personnel systems. In consultation with USDA agencies, OHRM establishes policy for the USDA payroll/personnel system at the National Finance Center (NFC) which services 450,000 Federal employees, in both USDA and the cross-serviced agencies.

OHRM also provides day-to-day operating personnel services for the Office of the Secretary and Departmental Staff Offices.

Goal 1: Provide leadership, policy, oversight, and coordination to improve the management of programs and administrative processes throughout DA.

Current Activities:

Human Resources Initiatives. OHRM is increasing the effectiveness and improving the efficiency of USDA human resources management programs and service delivery by (1) updating and developing new Departmentwide human resources policy and guidance, (2) increasing oversight with additional personnel management evaluations, (3) developing baselines of service to measurable efficiency and cost, and (4) automating and streamlining administrative processes and systems.

Time and Attendance Initiatives. OHRM is leading three major time and attendance (T&A) initiatives: (1) reduction in the T&A error rate for USDA, (2) development of recommendations to address leave administration difficulties within USDA, and (3) development of a comprehensive specifications package for a timekeeper-less front-end option to the T&A system. These initiatives will result in a cost avoidance of approximately \$5.3 million per year. This cost avoidance is comprised of \$2.3 million for T&A errors from NFC data, \$2 million for leave administration, and \$1 million for a time-keeper-less front end option.

Welfare to Work. OHRM has Departmentwide leadership responsibility to develop and implement this Presidential Initiative. OHRM is working with the National Performance Review (NPR) and OPM to refine requirements, identify barriers and challenges, and develop appropriate regulations. As of December 31, USDA hired 374 employees, as part of this initiative, just one less than the goal of 375 for December 31, 2000.

Selected Examples of Recent Progress:

NPR Activities/Reinventing HR. During 1998, OHRM worked with the Governmentwide Employee Express project team to enhance the services available to employees utilizing this self-service Web application. Employee Express allows employees to use a touch tone phone or the World Wide Web to make changes to their personnel records, such as address changes, tax withholdings and pay allotments. Under OHRM leadership, Employee Express is now available to all USDA employees.

Employment Verification System. OHRM led the implementation of "The Work Number for Everyone," a state-of-the-art, automated employment verification system. Use of "The Work Number" has improved the timeliness and accuracy of employment verification services provided to employees.

Workers' Compensation Cost Control. OHRM conducted two Departmentwide training sessions to provide USDA agency personnel with the knowledge and skills to control escalating costs. One of these, the USDA Occupational Safety and Health conference focused on cost control through injury and illness prevention, while a separate USDA Workers' Compensation conference focused on managing existing claims and related costs. Over 400 USDA agency personnel were trained at these sessions.

USDA/1890 National Scholars Program. In cooperation with the 1890 Historically Black Land-Grant Institutions, the USDA/1890 National Scholars Program continued to attract outstanding students to careers in Agriculture. After six years, 141 students are pursuing bachelors degrees at one of the seventeen 1890 Institutions with a retention rate of over 91 percent. Thirty-four new scholars were accepted into the National Scholars Program for fiscal year 1998.

OFFICE OF ETHICS

The newly established Office of Ethics (OE) manages the Departmentwide ethics program and oversees its administration. The goal of the office is to assure that all USDA staff members are trained on, and compliant with, the law and regulations governing standards of conduct, conflicts of interest, and political activity. Direction and support of mission area ethics programs are provided through training programs, staff development, uniform procedures, program review, and technical advice. This office also directly services higher level staff throughout the Department in the review of their public financial disclosure reports and the provision of one-on-one counseling and advice.

Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout DA.

Current Activities:

Establishment. OE is establishing itself as a viable organization by securing the necessary staff, office space, and equipment; and by setting up preliminary procedures to govern both its own internal operations and its interaction with the mission and agency level ethics programs.

Training. OE is developing a wide range of multimedia instructional materials to train Departmental staff members worldwide on their obligations under the Standards of Conduct and related statutory requirements. In order to avoid costly replication of similar work accomplished elsewhere within the Federal Government, OE is adapting other Departments' and agencies' materials to the USDA environment.

Program Development. OE is performing an internal review of the ethics program at USDA in order to make concrete recommendations for supplemental regulations tailored to the unique requirements within each mission area. This review will yield recommendations as to the staffing and structure of the ethics programs

within each mission area and agency. It is being performed in close coordination with the mission area management, the Office of the General Counsel, and the US Office of Government Ethics.

OFFICE OF CIVIL RIGHTS

The Office of Civil Rights (CR) provides overall leadership responsibility for all Departmentwide civil rights activities including both employment opportunity and program discrimination policy development, analysis, coordination, and compliance activities. Employment: CR is responsible for reducing under representation and under utilization in the work force and for providing leadership in the implementation of best practices that will create an environment where diversity is valued as a source of strength. CR provides consultation and works in collaboration with appropriate USDA officials in implementing best practices with respect to recruiting, hiring, promoting, utilizing, and managing a diverse work force that is representative of America at all levels. Civil Rights Program Delivery: CR provides consultation and work in collaboration with appropriate USDA officials in implementing best practices designed to enhance delivery of USDA's programs and services to historically under serviced groups, including small limited resource farmers and ranchers. CR has responsibility for monitoring the delivery of program activities to ensure that all USDA programs are delivered in a non-discriminatory manner.

Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout DA.

Goal 2: Deliver timely, reliable, and efficient services to Departmental Administration customers.

Selected Examples of Recent Progress:

Policies and Procedures. CR has completed and sent forward for Federal Register publication revisions of its regulations for ensuring nondiscrimination in USDA-conducted programs and activities. The revisions incorporate the particulars and specific prohibitions against discrimination cited in the Secretary's February 27, 1997, Civil Rights Policy Statement. In addition, Departmental Policies have been developed that set forth guidance, instructions and directions for accomplishing the Department's civil rights compliance and enforcement responsibilities for USDA conducted and financially assisted programs, and for ensuring nondiscrimination in employment within and by USDA.

Civil Rights Impact Analysis. CR released to USDA's various agencies guidance for completing civil rights impact analyses of all proposed agency rules, regulations, committee appointments, and other major agency programs and activities. Technical guidance meeting their civil rights impact analysis obligations is provided to agencies upon request. As a follow up, a comprehensive civil rights impact analysis training seminar is being developed for agency program and civil rights personnel.

Staff Training. Between July 6, 1998, and September 11, 1998, Policy and Planning Division conducted weekly 4-hour training seminars for staff assigned to CR's Program Investigations and Policy and Planning Divisions. Attendance was mandatory. The seminar training materials and sessions were developed, prepared, planned, organized and conducted by subject matter experts employed by USDA and other Federal agencies. They focused on the technical, substantive, legal standards and requirements for each of the civil rights statutes and regulations for which USDA has enforcement and compliance responsibilities. Follow-up seminars that will include up-dates based on the changes in civil rights statutes and regulations and standards set forth in case decisions are being planned as part of CR's annual work program for ensuring that all CR staff members have and maintain the required levels of skill and technical competency.

OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT

The Office of Procurement and Property Management (OPPM), provides Departmental policy, oversight and guidance for acquisition and procurement, management of real and personal property, transportation, supply, motor vehicles, aircraft, recycling and energy conservation, and coordination of Department of Agriculture (USDA) disaster management and emergency planning and response activities.

Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout DA.

Current Activities:

Promoting Executive Order (EO) 13101. The President issued Executive Order 13101, "Greening the Government through Waste Prevention, Recycling and Federal Acquisition" to strengthen the environmental policies of the Administration. USDA joined in this current initiative with its own biobased products to be promoted as environmentally preferable products. USDA is linking rural job growth, agricultural production, and the use of agricultural waste products to the sale of environmentally preferable products. OPPM is working with the Federal Environmental Executive to develop the Federal Strategic Plan to implement this order. One element of the EO encourages other Departments to apply the voluntary preferences for USDA invested biobased products. USDA has issued its own procurement regulation to invoke these preferences and is prepared to expand these to Governmentwide coverage during the next year.

Purchase Card and Fleet Card Consolidation Utilizing PCMS. In August 1998, OPPM coordinated the award of a USDA task order to NationsBank to replace the current purchase card and fleet card service contracts. This award provides streamlined credit card services to the cardholders of USDA, and utilizes the USDA developed state-of-the-art Purchase Card Management System (PCMS) allowing USDA employees to quickly buy and reconcile purchases while avoiding substantial administrative processing costs. Full implementation of the new cards Departmentwide was accomplished by December 1, 1998. OPPM continues to manage PCMS software deployment, training and maintenance. PCMS, upon full deployment, will offer approximately 18,000 purchase cardholders and 40,000 fleet cardholders an on-line reconciliation system that eliminates monthly statement and invoice processing, provides improved management oversight, demonstrates a user friendly environment, and offers continued administrative cost avoidance in the future years.

Real Property Management Information System (RPMIS). OPPM, in support of Year 2000 (Y2K) compliance requirements was granted a waiver from the Information Technology Moratorium in order to accomplish necessary system/software upgrades for the Real Property Management Information System. This system captures data relevant to USDA controlled and/or occupied land, buildings and other structures. It serves as a management tool and is instrumental in responding to inquiries about the Department's real property from the Congress, the General Accounting Office, the Office of Management and Budget, the General Services Administration, private institutions and concerns. Conversion from the failing HP 3000 platform to the Y2K compliant National Information Technology Center platform in Kansas City is anticipated in fiscal year 1999.

USDA Continuity of Operations Plan (COOP). OPPM, in coordination with other USDA offices, is revising and issuing a new USDA Headquarters COOP in fiscal year 1999 as mandated by Presidential Directive #67, "Ending Constitutional Government and Continuity of Government Operations." Once the Headquarters COOP has been approved, OPPM will provide assistance to USDA agencies in developing Continuity of Operations plans nationwide.

Selected Examples of Recent Progress:

Jobs Created for Persons with Disabilities. During fiscal year 1998, USDA achieved its strongest results to date providing a wide variety of jobs to persons with disabilities. Under the Javits-Wagner-O'Day Act

Program, OPPM provided critical staff assistance, in conjunction with the Office of Operations, to USDA's achievement of creating more than 75 new full time jobs for persons with disabilities. The single largest contract of fiscal year 1998 under this program provided more than 60 jobs performing the facilities management services at USDA's new Beltsville Office Complex. More importantly, this contract served as a hallmark action, opening a new service industry with potentially hundreds of jobs nationwide for persons with disabilities.

Contract Award Process Streamlined with 8(a) Vendors. During May 1998, representatives from OPPM, the Office of Small Disadvantaged Business Utilization (OSDBU), and the Small Business Administration (SBA) established streamlined procedures for USDA contracts awarded to Section 8(a) vendors. These new procedures helped to reduce the time it takes to award contracts to socially and economically disadvantaged firms by eliminating SBA's review and written approval of the contract package. With the assistance of the USDA Acquisition Toolkit, these functions can now be performed within individual USDA agencies. The number of future USDA contract awards to 8(a) vendors should increase based on this streamlining initiative.

Deployment of the USDA Acquisition Toolkit. OPPM continued USDA's acquisition modernization program by developing and deploying the USDA Acquisition Toolkit via the Internet in March 1998. This new Toolkit offered the users and customers of the USDA acquisition community a suite of tools selected from identified commercial and Government acquisition solutions. OPPM entered into licenses with several Federal Departments during fiscal year 1998 to populate the Toolkit with innovative Government owned acquisition tools. One significant tool provided direct electronic access to the Department of Labor Service Contract and Construction wage determinations. This tool gave agency procurement personnel immediate access to wage determinations that could be incorporated as official determinations in contract solicitations with downloading time averaging five minutes. Previously, acquisition personnel had to request such determinations manually with administrative lead times averaging thirty days. Additional tools included access to PRO-Net which supports strong outreach to the small business community, and a National Institute of Health Past Performance System link that provides USDA's acquisition users the capability to review and identify quality vendors for pending program requirements. The USDA Acquisition Toolkit can be found currently on the USDA Procurement Home page at www.usda.gov/da/procure.html.

Purchase Card Management System Deployment. In fiscal year 1998, OPPM managed the full deployment of the Purchase Card Management System (PCMS) throughout the Agricultural Research Service and the Forest Service. Statistics through September 30, 1998 demonstrated a master file inclusive of 14,048 cardholder accounts, of which 5,332 cardholders actively used their purchase cards. These cardholders completed 217,859 transactions during fiscal year 1998, with a total dollar volume of \$71.3 million.

Departmental Collocation Project. A ribbon cutting ceremony was held on October 16, 1998 to celebrate the opening of the new facility in Davis, California. This project collocates three USDA State offices (Farm Service Agency, Natural Resources Conservation Service, and Rural Development), the Risk Management Agency regional office, and four additional agency locations (Agricultural Research Service, Food Safety and Inspection Service, Grain Inspection, Packers and Stockyards Administration, and the Office of the Inspector General) in space leased by the General Services Administration. This facility is the first multi-agency project completed under the Department's new resource sharing guidance and in accordance with the Federal Crop Insurance Reform and Department of Agriculture Act of 1994. This Act directs collocated agencies to jointly use office space, equipment, personnel, office supplies and other resources in order to reduce personnel and duplicated overhead expenses.

New Fleet, Purchase and Travel Credit Card Contract Awarded. OPPM represented the Department on the General Services Administration's Source Selection Board to evaluate and award new contracts for purchase, fleet and travel services. Five vendors were awarded contracts and USDA selected NationsBank for all three business lines. A decision was made to eliminate a costly older payment system for credit cards and to use the more modern Purchase Card Management System (PCMS). This will result in a cost avoidance of

approximately \$800,000 annually. OPFM worked closely with the National Finance Center and the bank to assure a smooth transition from the current vendors to NationsBank.

OFFICE OF OPERATIONS

The Office of Operations (OO), in support of its mission of delivering services and promoting programs and policies that impact the safety and health of our employees, operates the health unit at the Headquarters Complex and at existing USDA offices in Riverdale and the Beltsville Agricultural Research Center. A new unit was established in 1998 to service the new USDA Beltsville Office Facility. The health units provide medical care to those employees who become injured or ill during working hours. OO's primary health services are administered through the South Building Health Unit, that serves over 8,000 employees and is staffed by three nurses and one Medical Officer. Services at all locations include preventive health maintenance and screening programs, health education and awareness activities, and responding to health emergencies arising during the work day.

Goal 2: Deliver timely, reliable, and efficient services to Departmental Administration customers.

Current Activities:

New Beltsville Unit. The Beltsville unit was opened in January 1998 with one nurse. This health unit will provide the same functions as the South Building and Riverdale units, including a separate Nursing Mothers' Room.

Selected Examples of Recent Progress:

Nursing Mothers' Rooms. The South Building, Riverdale, and Beltsville health units each have a Nursing Mothers' Room. The South Building Nursing Mothers' Room is equipped with chairs, a refrigerator, a table, a bookcase, and breast pumps. The field health units are equipped with chairs, educational materials, and other materials; however, the mothers provide their own breast pumps. Approximately 20 mothers have used the rooms in all the health unit locations.

Blood Drives. The American Red Cross holds blood drives in USDA locations at Riverdale, Beltsville, and the South Building. The South Building and field health units have six blood drives annually. The total number in 1998 of blood donors for all health units was approximately 2,500.

Health Fairs. In fiscal year 1998, approximately 2,000 employees attended the annual health fair in Riverdale, Beltsville, and the South Building. The health fair consists of blood screenings, vision, glaucoma testing, hearing, back posture evaluation, oral checkups, podiatrist, etc.

Flu Shots. In fiscal year 1998, the Medical Officer oversaw the flu immunization of 3,600 USDA employees during the months of October, November and December.

MANAGEMENT SUPPORT STAFF

Management Support Staff (MSS) provides central support to the Office of the Secretary, DA, and other staff offices reporting to the Secretary. Its functions include finance and planning, senior management support activities, information technology, and conflict resolution. These functions were previously handled by the DA, Office of Administrative Support (OAS).

The mission of the Conflict Prevention and Resolution Center (CPRC) is to provide Departmentwide leadership, guidance, coordination and support in the effective prevention and resolution of conflict impacting

USDA employees and customers through the use of appropriate dispute resolution techniques and the development of conflict management skills. This is a new function established in fiscal year 1999 at USDA.

Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout USDA.

Current Activities:

Establishing the Office. USDA officially established the Conflict Prevention and Resolution Center (CPRC) in October 1998. Current staff includes the Office Director and Secretary. The position of Senior Conflict Management Specialist was advertised in December 1998.

Workplace Conflict Management. The Conflict Prevention and Resolution Center (CPRC) is developing guidance on the effective management of USDA workplace conflict. This guidance will elaborate on the Secretary's Conflict Management Policy. The policy and guidance will establish requirements that managers and supervisors be skilled in managing workplace conflict and that employees have access to alternative dispute resolution (ADR) to achieve early resolution of workplace conflicts. To ensure that the guidance meets USDA's needs, CPRC is gathering input from a wide range of perspectives, such as unions, agency conflict resolution program managers, agency heads, and employee organizations.

President's Interagency Alternative Dispute Resolution (ADR) Working Group. USDA is actively participating in each of the four sections of the President's Interagency ADR Working Group which was established to promote greater use of ADR by Federal agencies to resolve disputes of all kinds. CPRC is working with the Counsel to the Secretary to identify key USDA personnel that will ensure a successful ADR program.

Selected Examples of Recent Progress:

Conflict Management Policy. A directive from the Secretary that established a new USDA policy on effective management of conflict in the USDA workplace was issued by the Secretary on December 21, 1998. The policy establishes a new direction at USDA by emphasizing managers' people skills and greater reliance on ADR.

Secretary's Alternative Dispute Resolution (ADR) Memorandum. The Secretary wrote each member of the USDA Subcabinet requesting that they designate at least two senior representatives from each agency within the mission area to ensure successful participation in the President's ADR initiative.

Workplace Violence Handbook. The importance of using Alternative Dispute Resolution (ADR) to resolve conflicts is highlighted in the December 1998 USDA Handbook On Workplace Violence Prevention and Response, which was distributed to all employees.

Goal 2: Provide timely, reliable, and efficient services to Departmental Administration customers.

Current Activities:

Y2K Compliance. The activities to ensure Year 2000 (Y2K) compliance of the technology supporting the staff offices of DA also provide the means to improve the effective use of that technology. The telecommunications infrastructure enables critical voice and data links between USDA employees, other organizations, and the public. Up-to-date Y2K compliant software facilitates the productivity and interaction of employees. Specific problems to which efforts are now being directed are assessment, renovation or replacement, and testing of voice and data telecommunications components to ensure uninterrupted service into the year 2000; and

upgrading Y2K compliant system software on effective desktop and corporate equipment to ensure improved productivity into the year 2000.

Selected Examples of Recent Progress:

Y2K Compliance Activities. Compliance activities have been ongoing for both desktop and application systems. Inventory and testing of desktop systems identified 150 personal computers as non-Y2K compliant. An additional 170 personal computers have been identified as inadequate to effectively run compliant software and must also be replaced. Of the six mission-critical applications, three were originally compliant and three have been repaired and are now compliant. All six of the mission critical applications were independently validated & verified by a contractor by January 31, 1999. Seven non-mission-critical applications were certified as compliant, eighteen retired, and the remaining eight are on schedule to be compliant by March 30, 1999.

Financial Management. The Financial Management Division is continuing its efforts to review and analyze financial transactions for the activities and programs conducted by Departmental Administration.

OFFICE OF ADMINISTRATIVE LAW JUDGES/JUDICIAL OFFICER

The **Office of Administrative Law Judges** consists of four Judges, who conduct rulemaking and adjudicatory hearings throughout the United States in proceedings subject to the Administrative Procedure Act (APA), 5 U.S.C. 554 *et seq.* There are approximately 37 statutes administered by agencies within the Department of Agriculture requiring APA hearings. The Judges issue initial decisions and orders in adjudicatory proceedings, which become final decisions of the Secretary unless appealed to the Secretary's Judicial Officer by a party to the proceedings. Final consent orders are issued by the Judges following hearings or upon waiver of hearing. In addition, the Judges perform related duties, which are consistent with their duties under the APA, such as the Chief Judge's performance of administrative duties and the conduct of appropriate non-APA hearings.

The **Judicial Officer** serves as final deciding officer, in place of the Secretary, in regulatory proceedings of a quasi-judicial nature. These include appeals from the Administrative Law Judge's initial decisions, and reparation proceedings under the Perishable Agricultural Commodities Act and the Packers and Stockyards Act, which do not require hearings before Administrative Law Judges under the APA. Any party to a proceeding may appeal an Administrative Law Judge's initial decision to the Judicial Officer. Oral argument before the Judicial Officer is discretionary. The Judicial Officer also rules upon matters arising in proceedings that are certified by the Administrative Law Judges.

The **Office of the Hearing Clerk** receives, files and serves pleadings, briefs, and decisions. It maintains the official records of the Department (including the transcripts of adjudicatory and rulemaking hearings) and in the event of an appeal, certifies such records to the Court of Appeals or District Court for subsequent review. The Hearing Clerk is responsible for publication of Agriculture Decisions, which is the official compilation of quasi-judicial and judicial decisions issued under regulatory laws administered by the Department.

Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout DA.

In addition to processing cases that come before Administrative Law Judges, the Hearing Clerk's Office processed the following in fiscal year 1998:

Perishable Agricultural Commodities Act:	
Reparation Cases	180
Packers and Stockyards Act Reparation Cases	1
Certification and Authentication of Documents	38

Certification of Administrative Records to	
Federal Courts	35
Board of Contracts Appeals:	
Scheduling/Canceling Reporting Service	40

The following table indicates the number of hearings held by Administrative Law Judges during the past three fiscal years, together with the number of initial decisions after hearings, initial decisions upon default, and final consent orders following hearing or upon waiver of hearing.

HEARINGS AND DISPOSITIONS
(Adjudicatory; Unless Otherwise Indicated)

Type of Proceedings	FY 1996		FY 1997		FY 1998	
	Hear-ings	Dispo-sitions	Hear-ings	Dispo-sitions	Hear-ings	Dispo-sitions
Agricultural Marketing Agreement Act	2	10	—	4	—	6
Agricultural Marketing Agreement Act (Rule-Making)	5	5	—	6	1	1
Animal Quarantine	1	34	1	28	—	10
Animal Welfare Act	7	66	10	95	6	68
Beef Promotion & Research Act	—	—	—	3	—	—
Debarment (Non-Procurement)	—	8	—	6	—	5
Egg Research & Consumer Information Act	—	1	—	11	—	3
Federal Crop Insurance Act	—	2	—	1	—	28
Forest Service	—	1	1	2	—	—
Forest Service Sourcing Area Applications	—	4	—	1	—	2
Fresh Cut Flowers & Fresh Cut Greens Promotion	—	—	—	—	—	14
Grain Standards Act	—	2	2	14	—	1
Horse Protection Act	1	16	1	16	2	14
Inspection & Grading	—	1	—	—	—	—
Meat/Poultry Inspection Acts	—	16	—	24	—	7
Mushroom Promotion, Research & Consumer Information	—	2	—	—	—	1
National Dairy Promotion & Research	1	2	—	1	—	1
Packers & Stockyards Act	1	62	3	56	1	35
Perishable Agricultural Commodities Act	9	49	6	33	4	24
Perishable Agricultural Commodities Act Appeal	—	3	4	9	1	7
Plant Quarantine Act	1	52	—	33	—	19
Pork Promotion & Research Act	—	1	—	—	—	—
Sheep Promotion, Research & Information	—	1	—	1	—	—
Tobacco Inspection/Price Support (Rule-Making)	3	3	2	2	2	2
Veterinary Accreditation	—	—	—	1	—	—
Totals	31	341	30	347	17	248

OUTREACH FOR SOCIALLY DISADVANTAGED FARMERS

CLASSIFICATION BY OBJECTS1998 Actual and Estimated 1999 and 2000

	1998	1999	2000
Other Objects:			
41 Grants, Subsidies, & Contribution	<u>\$3,000,000</u>	<u>\$3,000,000</u>	<u>\$10,000,000</u>

OUTREACH FOR SOCIALLY DISADVANTAGED FARMERS

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Outreach for Socially Disadvantaged Farmers:

For grants and contracts pursuant to section 2501 of the Food, Agriculture, Conservation, and Trade Act of 1990 (7 U.S.C. 2279), [~~\$3,000,000~~] \$10,000,000, to remain available until expended.

Appropriations Act, 1999	\$3,000,000
Budget Estimate, 2000	<u>10,000,000</u>
Increase in Appropriation	<u>+ 7,000,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	1999 <u>Estimated</u>	Program <u>Changes</u>	2000 <u>Estimated</u>
Outreach for Socially Disadvantaged Farmers	<u>\$3,000,000</u>	<u>+\$7,000,000</u>	<u>\$10,000,000</u>

OUTREACH FOR SOCIALLY DISADVANTAGED FARMERS

PROJECT STATEMENT
(On basis of appropriation)

Program	1998 Actual		1999 Estimated		Increase or Decrease	2000 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Outreach for Socially Disadvantaged Farmers.....	\$3,000,000	--	\$3,000,000	--	+\$7,000,000(1)	\$10,000,000	--

JUSTIFICATION OF INCREASES AND DECREASES

- (1) An increase of \$7,000,000 for the Outreach for Socially Disadvantaged Farmers program (\$3,000,000 available in 1999).

This increase will support the Departmental Administration Strategic Plan Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout USDA; Objective 1.2(b): Increase opportunities for and participation of historically underserved rural populations and small limited resource farmers in USDA programs. Section 2501 of the Food, Agriculture, Conservation, and Trade Act of 1990 (U.S.C. 2279) authorizes this program to enhance the ability of small and minority producers to operate farming and ranching enterprises independently and produce income adequate to service debts, maintain farm operations, and provide a reasonable standard of living. This program is carried out through 1890/1862 Land Grant Institutions, American Indian community colleges, post-secondary educational institutions servicing Hispanics, and community-based organizations with demonstrated experience in providing agricultural education or service to socially disadvantaged farmers and ranchers. Cooperative agreements are made with these entities to enable them to provide small farmers and ranchers with intensive training and management assistance. Each participant in the program is visited one to three times a month by a farm specialist with expertise in farm management and production. Assistance provided includes developing individualized custom farm plans, improving production and marketing skills, and implementing farm accounting and record keeping systems as well as helping farmers and ranchers better understand USDA programs and opportunities to participate in them.

The additional funding will allow Departmental Administration to fulfill the Civil Rights Action Team Report recommendation to fully fund the Outreach for Socially Disadvantaged Farmers program. The proposed increase will enable support of approximately 35 projects that will serve more than 10,000 small producers with the goal of turning them into solvent enterprises, and stemming the continual reduction of the number of minority farmers and ranchers.

Through the assistance offered by this program, more socially disadvantaged farmers and ranchers will become aware of the various programs and assistance available to them from USDA. This will allow them to have more productive farms and fiscal solvency.

OUTREACH FOR SOCIALLY DISADVANTAGED FARMERS
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama	\$220,000	--	\$266,500	--	\$795,000	--
Arkansas	380,000	--	252,150	--	850,000	--
Delaware	23,648	--	100,363	--	226,585	--
Florida	--	--	106,600	--	350,000	--
Georgia	200,000	--	343,490	--	993,078	--
Kentucky	66,640	--	94,300	--	350,000	--
Louisiana	200,000	--	102,500	--	400,000	--
Maryland	15,015	--	50,107	--	168,415	--
Minnesota	66,500	--	82,000	--	400,000	--
Mississippi	250,800	--	205,000	--	600,000	--
Missouri	50,000	--	102,500	--	300,000	--
North Carolina	150,000	--	91,430	--	400,000	--
North Dakota	220,000	--	141,040	--	450,000	--
Oklahoma	275,000	--	248,183	--	1,030,946	--
South Carolina	422,397	--	164,082	--	580,976	--
South Dakota	60,000	--	97,580	--	300,000	--
Tennessee	60,000	--	102,258	--	300,000	--
Texas	90,000	--	169,306	--	550,000	--
Vermont	170,000	--	120,663	--	310,000	--
Virginia	--	--	73,800	--	375,000	--
Wisconsin	80,000	--	86,148	--	270,000	--
Subtotal	3,000,000	--	3,000,000	--	10,000,000	--
Total, Available or Estimate	3,000,000	--	3,000,000	--	10,000,000	--

OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION

The Office of Small and Disadvantaged Business Utilization (OSDBU) provides Departmentwide leadership in the implementation and execution of programs under sections 8(a) and 15 of the Small Business Act, as amended, as well as numerous Executive Orders, to promote the growth and competitiveness of small, minority-owned and women-owned business through equitable participation in the Department's procurement and program activities.

Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout DA.

Current Activities:

Business Development. The OSDBU initiated the Bringing Rural America Venture Opportunities (BRAVO) business development program. BRAVO is designed to increase the number of American Indian owned Information Technology (IT) firms that do business with USDA. BRAVO utilizes mentoring partnerships to create and support technology-based jobs on Indian Lands and in surrounding economically disadvantaged rural areas. Tribal entities (Indian Nations) will establish small start-up technology companies. Initial services provided will be software development for USDA. Employees will be recruited/trained from Indian Reservations and economically disadvantaged people from surrounding areas.

Non-manufacturer's Rule Pilot. OSDBU, in conjunction with the Agricultural Marketing Service and the Farm Service Agency, is negotiating an Agreement with the Small Business Administration (SBA) to conduct a two-year pilot to waive the SBA's non-manufacturer's rule. The non-manufacturer's rule requires any small business receiving a Federal contract under a set-aside program to acquire any principal products it obtains to fulfill that contract from a small business manufacturer. This waiver is expected to greatly enhance the acquisition of food commodities procured from small businesses.

Small Business Outreach. OSDBU, co-sponsored with the Latin American Management Association (LAMA), a procurement conference targeting Hispanic small businesses, one Subcontracting Forum for USDA prime contractors, one forum for the National Black Business Council, and one regional training conference for small minority firms located in the mid-west region of the United States. During fiscal year 1999, OSDBU will co-sponsor three procurement conferences, one targeting Hispanic small businesses, one targeting small businesses owned and operated by women, and one targeting small food manufacturers. OSDBU will establish partnerships with National Associations representing Asian, Hispanic and African Americans, American Indians, Women and small business food processors. Partnerships will link OSDBU's web page to the Association's web page.

Selected Examples of Recent Progress:

Policy. OSDBU issued three Department Regulations (DR). DR's 5090-2 and 5090-3 prescribe policies, responsibilities and procedures for developing small business program goals and procurement forecasts. DR 5090-4 requires contracting officers to ensure the full integration of small, small disadvantaged and small women-owned concerns into the competitive mix of the Department's contracting activities when simplified acquisition procedures are used.

Small Business Recognition Awards Program. OSDBU held its first Small Business Recognition Awards Program since 1992. Awards were given to small businesses, 8(a) firms and woman-owned businesses that provided quality products and services to the Department of Agriculture. Awards were also given to USDA employees who demonstrated exemplary service to the small business community and the Department.

Expedited Procedures for Contracting with 8(a) Firms. OSDBU, in conjunction with the OPPM, signed an MOU with the Small Business Administration to utilize expedited procurement procedures in awarding 8(a) contracts.

Small Business Procurement Preference Program Goals and Procurement Forecasts. OSDBU, in conjunction with the Department's contracting activities, completed and published onto its web page its fiscal year 1999 Small Business Program Goals and Procurement Forecast.

OUTREACH AND ASSISTANCE FOR SOCIALLY DISADVANTAGED FARMERS AND RANCHERS

Section 2501 of the Food, Agriculture, Conservation, and Trade Act of 1990 (1990 Act) Public Law 101-624 requires the Secretary of Agriculture to provide "outreach and technical assistance to socially disadvantaged farmers and ranchers." The program is designed to reverse the decline of socially disadvantaged farmers and ranchers across the United States, overcome adversities in their farm operations, encourage them to own and operate their own farms and ranches, and increase participation in agricultural programs. "A socially disadvantaged farmer and rancher is defined as a member of any group that has been subjected to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities."

In order to obtain adequate funding, avoid duplication, and service all small scale farmers, the "Small Farmer Outreach Training and Technical Assistance Program" and the "Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program," (Section 2501) were consolidated. In fiscal year 1998, administration of this program was transferred to Departmental Administration, Office of Outreach, to reflect the program's USDA-wide objectives. The program, hereafter referred to as the "Small Farmer Outreach Training and Technical Assistance Program (SFOTTAP)," will assist small, limited resource, economically, and socially disadvantaged farmers and ranchers who own and operate farms and ranches to participate in agricultural programs.

The Secretary of Agriculture may make grants and enter into contracts and other agreements with community-based organizations and educational institutions, such as 1890/1862/1994 Land-Grant Colleges, Indian tribal community colleges, Hispanic serving post secondary educational institutions, etc., to provide outreach, training and technical assistance to small, limited resource, economically, and socially disadvantaged farmers and ranchers.

Goal 1: Provide leadership, policy, oversight and coordination to improve the management of programs and administrative processes throughout DA.

Selected Examples of Recent Progress:

Conferences. SFOTTAP concentrated on strengthening partnerships with USDA and accelerating program outreach initiatives in 1998. SFOTTAP co-hosted 12 Program Outreach Initiatives across the country that were attended by over 7,500 participants. The Field Day activities were a strategic objective which combined Team USDA outreach to provide a forum for farmers and ranchers and other interested persons an opportunity to network, discuss the latest research findings, marketing opportunity assessments, and to provide career awareness for the youth participants. SFOTTAP partnered with other USDA agencies, selected community-based organizations and 1890/1862/1994 Land Grant Institutions to conduct outdoor field activities, demonstrate new technologies, show and inform participants about progressive farmer and rancher initiatives, and farm and pesticide safety.

Grants. There are 27 projects funded at an average of \$250,000 annually per project in 22 States. The program employs over 284 service providers consisting of project directors, farm management specialists, market specialists, and administrative support at the field level by the project entities. SFOTTAP has approximately 8,686 participants with a service area of 394 counties. The number of people communicated with through

outreach is 107,566 through town-hall meetings, workshops, farmer-field days activities, and newspaper, radio and television advertising. Through combined efforts of Team USDA agencies and other organizations, SFOTTAP funded over 35 new projects, and an additional 12,761 rural constituents will be reached through the program.

Land Loss. SFOTTAP has been successful in reducing the rate of land loss among the small, limited resource, economically, and socially disadvantaged farmers and ranchers. It has helped participating farmers and ranchers repay their loans and become more successful in their marketing, increase productivity and profitability in their farming and ranching enterprises.

Loan Default Rates. USDA loan default rates for small, limited resource, economically and socially disadvantaged farmers and ranchers within program project boundaries have improved. Of the 2,133 Farm Service Agency (FSA) borrowers originally identified as delinquent and/or in danger of becoming delinquent, 929 are current on their accounts and 1,109 were able to bring their accounts from delinquent to current status. Only 4.4 percent of the borrowers failed to reduce their delinquency.

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS

CLASSIFICATION BY OBJECTS1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, D.C.....	\$3,692,000	\$4,959,000	\$5,165,000
11 Total personnel compensation.....	3,692,000	4,959,000	5,165,000
12 Personnel benefits.....	733,000	945,000	984,000
13 Benefits for former personnel.....	3,000	4,000	4,000
Total personnel compensation & benefits..	4,428,000	5,908,000	6,153,000
Other Objects:			
21 Travel.....	10,000	50,000	50,000
22 Transportation of things.....	2,000	8,000	6,000
23.1 Rental payments to GSA.....	98,318,702	108,057,000	115,542,000
23.3 Communications, utilities, and misc. charges	7,436,000	4,888,000	4,888,000
24 Printing and reproduction.....	34,000	176,000	176,000
25.2 Other services.....	35,305,531	28,538,092	39,231,000
26 Supplies and materials.....	656,000	94,000	94,000
31 Equipment.....	1,879,000	24,000	24,000
32 Land and structures.....	116,000	200,000	200,000
Total other objects.....	143,757,233	142,033,092	160,211,000
Total direct obligations.....	148,185,233	147,941,092	166,364,000
Position Data:			
Average Salary, GS positions.....	\$46,446	\$48,390	\$49,452
Average Grade, GS positions.....	10.7	10.7	10.7

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS
(INCLUDING TRANSFERS OF FUNDS)

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

For payment of space rental and related costs pursuant to Public Law 92-313, including authorities pursuant to the 1984 delegation of authority from the Administrator of General Services to the Department of Agriculture under 40 U.S.C. 486, for programs and activities of the Department which are included in this Act, and for the operation, maintenance, and repair of Agriculture buildings, [\$132,184,000] \$140,364,000: Provided, That in the event an agency within the Department should require modification of space needs, the Secretary of Agriculture may transfer a share of that agency's appropriation made available by this Act to this appropriation, or may transfer a share of this appropriation to that agency's appropriation, but such transfers shall not exceed 5 percent of the funds made available for space rental and related costs to or from this account. In addition, for construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities as necessary to carry out the programs of the Department, where not otherwise provided, [\$5,000,000] \$26,000,000, to remain available until expended; making a total appropriation of [\$137,184,000] \$166,364,000.

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS

Appropriations Act, 1999.....	\$137,184,000
Budget Estimate, 2000.....	<u>166,364,000</u>
Increase in Appropriation.....	<u>+29,180,000</u>

SUMMARY OF INCREASES AND DECREASES
(on basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Pay Cost</u>	<u>Program Changes</u>	<u>Other Changes</u>	<u>2000 Estimated</u>
Rental Payments.....	\$108,057,000	—	+\$7,485,000	—	\$115,542,000
Buildings Operations and Maintenance.....	24,127,000	+\$245,000	—	+\$450,000	24,822,000
Strategic Space Plan.....	5,000,000	—	+21,000,000	—	26,000,000
Total Available.....	<u>137,184,000</u>	<u>+245,000</u>	<u>+28,485,000</u>	<u>+450,000</u>	<u>166,364,000</u>

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS

PROJECT STATEMENT
(On basis of appropriation)

	1998 Actual		1999 Estimated		Increase or Decrease	2000 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
1. Rental Payments.....	\$98,302,400	-	\$108,057,000	-	+\$7,485,000 (1)	\$115,542,000	-
2. Building Operations and Maintenance.....	24,255,000	77	24,127,000	86	+695,000 (2)	24,822,000	86
3. Strategic Space Plan.....	5,000,000	-	5,000,000	-	+21,000,000 (3)	26,000,000	-
4. Relocation Expense.....	2,700,000	-	-	-	-	-	-
Total available or estimate..	130,257,400	77	137,184,000	86	+29,180,000	166,364,000	86
Transfer to:							
NRCS.....	+189,900	-	-	-			
NASS.....	+107,700	-	-	-			
DA.....	+530,000	-	-	-			
Total Transfers.....	+827,600	-	-	-			
Total Appropriation.....	131,085,000	77	137,184,000	86			

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS

PROJECT STATEMENT
(On basis of available funds)

	1998 Actual		1999 Estimated		Increase or Decrease	2000 Estimated	
	Amount	Staff- Years	Amount	Staff- Years		Amount	Staff- Years
1. Rental Payments.....	\$98,318,702	-	\$108,057,000	-	+\$7,485,000	\$115,542,000	-
2. Building Operations and Maintenance.....	24,356,994	77	24,127,000	86	-8,125,713	24,822,000	86
3. Strategic Space Plan.....	22,817,172	-	32,947,713	-	+19,445,375	26,000,000	-
4. BARC.....	103,882	-	6,554,625	-	-270,137	-	-
5. Relocation Expense.....	2,588,383	-	270,137	-	-111,517	-	-
Total, Direct Obligations.....	148,185,233	77	147,941,092	86	+18,422,908	166,364,000	86
Unobligated Balance start of year.....	-28,684,925	-	-10,757,092	-	+10,757,092	-	-
Unobligated Balance end of year.....	+10,757,092	-	-	-	-	-	-
Total available or estimate.....	130,257,400	77	137,184,000	86	+29,180,000	166,364,000	86
Transfer to:							
NRCS.....	+189,900	-	-	-			
NASS.....	+107,700	-	-	-			
DA.....	+530,000	-	-	-			
Total Transfers.....	+827,600	-	-	-			
Total Appropriation.....	131,085,000	77	137,184,000	86			

AGRICULTURE BUILDINGS AND FACILITIES

JUSTIFICATION OF INCREASES AND DECREASES

- (1) A net increase of \$7,485,000 for Rental Payments to GSA for a total fiscal year 2000 level of \$115.5 million.

(a) An estimated increase of \$7,485,000 is required to pay the General Services Administration the full cost of USDA's space inventory Nationwide in fiscal year 2000.

This is the estimated increase required to pay the General Services Administration for the cost of USDA's space inventory Nationwide. It is based on current GSA bills and not the GSA budget run that provides the fiscal year 2000 cost of the adjusted inventory. It includes a reserve of \$5 million to ensure that sufficient funds are available to pay the estimated space bill when the fiscal year 2000 budget is executed. In addition, these funds can be used to ensure that the Department's goals for collocation and consolidation are achieved.

The Department's headquarters staff was housed in a four-building government-owned complex in downtown Washington, D.C. and in leased buildings in the metropolitan Washington area. In 1995, USDA initiated a plan to improve the delivery of USDA programs to the American people, including streamlining the USDA organization. To implement this goal, the four-building D.C. complex was removed from the inventory when USDA assumed responsibility for these buildings. Beginning in fiscal year 1998, GSA has adjusted its space bill to remove the cost of this complex. The rental payment will be increased to pay the space bill at rates supplied by GSA.

- (2) An increase of \$895,000 for Operations and Maintenance, consisting of the following:

(a) An increase of \$245,000 for pay cost increases, including \$195,000 for the fiscal year 2000 pay increase, and \$50,000 for annualization of the fiscal year 1999 pay raise.

This increase is necessary to meet rising costs for operating and maintaining the Headquarters Complex. The Agriculture Building and Facilities activity cannot absorb these additional salary costs without placing severe constraints on its daily operations. Without this increase, delays in building repairs and improvements will occur.

(b) An increase of \$450,000 for costs related to the Fair Labor and Service Contract Acts.

This increase implements the Departmental Administration's Strategic Objective 3.2 by covering yearly pricing adjustments required by the Fair Labor Standards Act and the Service Contract Act, as well as other costs that will increase when the building operations and maintenance contracts are renewed. The funds will be used for payment of service contract that will allow the same level of service activity as in fiscal year 1999 for operations and maintenance of the Washington, D.C. complex and the Beltsville campus.

- (3) An increase of \$21,000,000 for the continuation of the implementation of the Washington Strategic Space Plan.

This increase implements the Departmental Administration's Strategic Objective 3.2 by continuing to implement the Strategic Space Plan in the National Capital Region.

The Strategic Space Plan includes the new USDA Office Facility on Federal land at the Beltsville Agricultural Research Center in Prince George's County, Maryland and the modernization of the Agriculture South Building in downtown Washington, D.C. The Plan, when completed, will result in consolidating USDA's Washington area agencies and

employees in modern, safe, and efficient office facilities at two government-owned locations, reducing operation and rental costs, and improving USDA program delivery.

The construction of the Beltsville Office Facility started in June 1996 and was substantially completed in December 1997. Occupancy began on January 30, 1998 and will be completed in 1999.

The 2 million gross square foot South Building is over 60 years old, eligible for listing on the National Register of Historic Places, and in dire need of repair and renovation to make it safe, efficient, and functional. The required renovation work includes fire protection systems; abatement of hazardous materials such as asbestos, PCB light fixtures, and lead paint; replacement of old, inefficient heating, ventilation and air conditioning systems for improved energy conservation and air quality; upgrade of electrical and plumbing systems; improved accommodations for disabled persons; and accommodation of modern office telecommunication systems. The construction contract for Phase 1 of the modernization was awarded in July 1998 after resolution of a legal suit brought by the low bid contractor who was found not to meet competency requirements.

The fiscal year 1999 appropriation of \$5 million includes funds necessary to continue the South Building Modernization, including architect-engineering services, construction, moving, tenant fit-out, and other costs related to the modernization program.

In fiscal year 2000, funds are requested for the construction of Phase 2, which will include the modernization of Wing 4, architect-engineering services, moving, tenant fit-out and other costs related to the continuing modernization program. The design for Phase 2 has been substantially completed, and a construction contract for Phase 2 will be awarded as soon as funds are available. All funds shall remain available until expended.

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS 1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
District of Columbia.....	\$148,081,251	77	\$136,913,863	86	\$166,364,000	86
Beltsville, Maryland (ARS).....	103,982	—	270,137	—	—	—
Subtotal, Available or Estimate.....	148,185,233	77	137,184,000	86	166,364,000	86
Unobligated Balance.....	10,757,092					
Total, Available or Estimate.....	158,942,325	77	137,184,000	86	166,364,000	86

AGRICULTURE BUILDINGS AND FACILITIES

STATUS OF PROGRAM

Current activities, progress, and current programs under the Agricultural Buildings and Facilities strategic goal are outlined below:

Goal 2: Deliver timely, reliable, and efficient services to Departmental Administration customers.

Since October 1984, the Department of Agriculture (USDA) has operated and maintained the four building Headquarters Complex which is located on the south side of the Mall. The Complex is composed of historic buildings built between 1879 and 1936. In fiscal year 1985, USDA began a proactive maintenance and construction program to repair, improve, and restore the facilities. The funding level for major repairs and improvements in the Complex was reduced beginning in fiscal year 1995, under the assumption that the planned South Building modernization would address major repair needs. In fiscal year 1998, USDA continued its reduced repair and improvement program, while maintaining the integrity of the buildings in the headquarters complex and keeping them safe and operational while the proposed (8)-phase modernization of the South Building continues under the Strategic Space Plan (SSP).

USDA's SSP combines the proposed modernization of the South Building with the construction of a new facility on Government-owned land in Beltsville, Maryland. The goals of the plan are to consolidate USDA agencies into the Government-owned facilities at Beltsville and the downtown Headquarters Complex and reduce our reliance on costly leased space; to house USDA agencies and employees in modern and safe facilities; to reduce facility costs; and to enhance USDA mission accomplishment. The construction of the Beltsville Office Facility (BOF), a four-building facility of about 350,000 gross square feet, is completed. Occupancy by selected USDA tenant agencies started in February 1998 and will be completed in 1999. The construction contract for Phase 1 of the South Building Modernization in Wing 3 was awarded on July 30, 1998. The design for Phase 2 of the Modernization in Wing 4 was substantially completed in fiscal year 1998. Funds for the construction of Phase 2 and other costs related to the SSP are included in our fiscal year 2000 budget request.

In fiscal year 1998, USDA began operations and maintenance of BOF. Services provided include a Credit Union, a full-service cafeteria, as well as security and operations and maintenance for the four-building campus facility. Final plans include a Child Development Center, a sundry store, and a Fitness Center.

The Beltsville Agricultural Research Center (BARC), established in 1910 in Beltsville, Maryland, is the Agricultural Research Service's largest laboratory. In fiscal year 1994, the Congress appropriated \$19,700,000 in this account to modernize BARC's laboratory facilities. Since then these funds have been used to design, renovate, or upgrade laboratories or building systems in Beltsville. Prior to and subsequent to fiscal year 1994, the Congress provided funding for other BARC renovation projects in the Agricultural Research Service's Buildings and Facilities Appropriation.

Current Activities:

Strategic Space Plan. The SSP is our plan to consolidate USDA agencies into modern, safe, and efficient Government-owned facilities over the next nine years, and to reduce our operation and leasing costs. The progress of the implementation of the SSP was substantial in fiscal year 1998 and continues in fiscal year 1999.

Tenant occupancy of the newly completed Beltsville Office Facility began on January 30, 1998. The facility was designed as a four-building campus on a 45-acre wooded site. Tenants for the facility were approved on June 19, 1997, by the Acting Assistant Secretary for Administration. The process for selecting the tenants resulted in a strategy of consolidating agencies in Maryland leased space into the Beltsville facility, with some

movement from the DC Headquarters Complex. The Agricultural Research Service (ARS) (556 persons), the Natural Resources Conservation Service (NRCS) (149 persons), the Food Safety and Inspection Service (FSIS) (87 persons), the Office of the Inspector General (OIG) (81 persons), the Service Center initiative (88 persons) and Departmental Administration (DA) (38 persons) staff along with telecommuting and support staff (95 persons) are the primary tenants. The base construction contract work was substantially completed in December 1997. Interior construction work for tenant fit-out has been completed as space plans for each tenant are completed. Occupancy of the buildings will reach about 1,200 in 1999. The road improvements for Sunnyside Avenue have been completed for direct access to the facility. The second phase of road work to improve Edmonston Road will start in fiscal year 1999. The permit was obtained from the U.S. Army Corps of Engineers and Maryland Department of the Environment in December 1998.

The concept design for the South Building Modernization, prepared by a joint venture of Shalom Baranes, Architects/Syska and Hennessy Engineers in 1997, resulted in the development of a plan of eight discrete phases. The phasing is based on the physical configuration of the building and associated zoning of the existing heating, ventilation, and air conditioning systems. Phase 1 design was completed in 1997 and working drawings were advertised for a construction contract on November 12, 1997. The construction contract was not awarded until July 30, 1998 because of a legal suit filed in Federal Court by a contractor. Phase 1, which consists of modernization of Wing 3, began in September 1998. Three of the seven floors have been totally vacated for construction as of the end of November 1998. Work will begin on the remaining floors of Wing 3 when the relocation of occupants, now underway, has been completed in March 1999. The design for Phase 2 of the Modernization in Wing 4 is now completed. Construction work for Phase 2 is planned in fiscal year 2000, after Phase 1 construction is completed.

Security. The security and protection of U.S. Government employees and property are of paramount concern at USDA. Initiatives are being planned and others are underway to reduce risks and to create a safe workplace for employees and visitors. Most significant among those initiatives is the upgrade of electronic physical security systems in the Headquarters Complex, at BOF and at selected leased locations in the National Capital Region; the design of a proactive, state-of-the-art USDA Security Control Center; and security enhancements in the Office of the Secretary for high risk personnel.

Environmental Protection, Safety and Health Program. Protection of the environment and the safety and health of the occupants of the Headquarters Complex are a major concern for the Office of Operations. Numerous initiatives are ongoing to reduce the probability of injury and loss of life and to protect the environment. In fiscal year 1999, the program will concentrate on health issues at the Headquarters Complex. The results of the Environmental, Health and Safety Audit will outline needed enhancements for managing and operating health related activities.

Repair and Alterations. In fiscal year 1999, Washington Area Service Center will begin implementing numerous flat roof repair projects that were identified in a comprehensive flat roof survey that was completed in fiscal year 1998. In addition, Washington Area Service Center is planning on upgrading the drinking water filtration systems in the South, Cotton Annex, Sidney R. Yates and Jamie L. Whitten Buildings, replacing Cooling Tower #2 in Sub-Central Chilled Water Plant and replacing the deteriorated South Building cafeteria skylights with energy efficient skylights. The Washington Area Service Center will also act as a coordinator for various General Services Administration (GSA) Projects including the Site Improvements at the Sidney R. Yates Building. In addition, numerous small purchase and minor repair and alterations projects throughout the complex will be done to ensure proper building operation and to support customer agency needs.

Building Operations. In fiscal year 1998, a number of operations and maintenance programs were delayed while DA adjusted its fiscal alignment. Subsequently, many of the programs scheduled for fiscal year 1998 will now be scheduled for fiscal year 1999. Under the Water Management Program, we will continue our efforts to upgrade the drinking water filtration systems throughout the facility. The fiscal year includes surveys of the steam system and implementing numerous repairs/upgrades to improve the steam system performance.

In fiscal year 1999, a program to eliminate electrical hazards and abandoned electrical systems in the complex will be implemented starting with the Wing 5 sub-basement. In addition two sewage ejector systems that are a potential health hazard are scheduled to be replaced.

Space Management. Activities in the Space Management Program include:

1. Relocation Space, Phase 1 (Wing 3), South Building Modernization Project.

In fiscal year 1999, Space Management plans to complete the occupancy of approximately 47,000 occupiable square feet of relocation space in two leased buildings in the District of Columbia (D.C.). One building, located at 1280 Maryland Avenue, S.W., has approximately 17,000 square feet of vacant space intended for use by tenants from wing 3 of the South Building. Another building, located at 300 7th Street, S.W., has approximately 30,000 square feet of space under construction for personnel being displaced by the wing 3 renovation. Space Management will also conduct moves in the South Building which are needed to completely vacate Phase 1. All of the moves should be completed during March 1999.

2. Lease Recompitions, Renewals, Releases.

In fiscal year 1999, Space Management plans to conduct the following lease actions in Virginia: vacate and release a 9,000-square foot building; possibly add 16,000 square feet to another building for the Forest Service; and continue the renovation and realignment of a 165,000 square foot building. In D.C., Space Management plans to acquire a 15,000 square foot building, and may relocate tenants to another building due to a prohibitively costly lease renewal and to collocate and consolidate USDA agencies closer to the headquarters complex. In Maryland, Space Management plans to release approximately 30,000 to 50,000 square feet at a leased building. The tenants have recently moved to the newly constructed Beltsville Office Facility (BOF). USDA also plans to work with the General Services Administration to recompile the leases for the Landover warehouses and possibly relocate them closer to the BOF.

Energy Management Program. In fiscal year 1999, the energy management program will focus on constructing/commissioning Phase I of the South Building Modernization. Phase I includes the replacement of the inefficient lighting and HVAC system with efficient systems in Wing 3. The energy management program will also continue focusing on operations, maintenance, and repair opportunities to reduce energy consumption. With the complete replacement in the South Building scheduled over the next ten years, investments in major system replacements in the South Building are not anticipated at this time. Smaller energy management projects will be implemented in the Cotton Annex, Jamie L. Whitten and Sidney R. Yates Buildings. The energy management program includes continuing to survey and repair the steam and chilled water systems to reduce energy consumption. In fiscal year 1999, we will be implementing numerous flat roof repair projects throughout the facility. These roofing projects will include replacement of insulation systems that are no longer effective. The lighting program to phase out inefficient incandescent lighting systems with long life energy efficient systems will also continue.

Beltsville Operations. The Office of Operations, USDA Office Facility in Beltsville, Maryland is completed. Facility and Security Managers and various selected contract personnel are on site providing services and support for all USDA occupying agencies.

Selected Examples of Recent Progress:

Strategic Space Plan. During fiscal year 1998, the construction of BOF was substantially completed, featuring brick facades, low-emissivity thermal windows, and sloped roof lines, nestled amongst the wooded areas of the gently sloping site. State-of-the-art energy-efficient building electrical, lighting, plumbing and mechanical systems were installed. As construction for the facility was completed, tenants were selected for the buildings, and programming and space planning to meet the tenants' specific needs was done, construction drawings for

tenant build-out were completed, construction of tenant build-out was completed, and various tenants were moved to the facility. By October 1998 approximately 800 people occupied the facility.

The Concept design for the South Building Modernization was completed in 1997. This design developed the Master Phasing Plan, life cycle cost analyses for engineering systems, and architectural-engineering studies of all modernization needs of the South Building. The construction work includes abatement of hazardous materials, seismic bracing and other structural repairs, upgraded energy-efficient mechanical and electrical systems, improved accommodations for disabled persons, fire protection and zoned evacuation, interior space alterations to suit the needs of the selected tenants and achieve space efficiency, upgraded security systems, and upgraded telecommunications systems. The construction contract for Phase 1 of the Modernization in Wing 3 was procured during fiscal year 1998 and awarded on July 30, 1998. Construction started on September 21, 1998. The design for Phase 2 of the Modernization in Wing 4 was completed and approved by the National Capital Planning Commission, the District of Columbia Historic Preservation Officer, and the Advisory Council on Historic Preservation.

Security. During fiscal year 1998, accomplishments in the physical security functional area included the installation of a fully renovated and updated closed circuit television system; the development of a physical security master plan; improved access control procedures and electronic screening devices for visitor access; refinement of the complex wide design for enhanced electronic systems for access control and intrusion detection; and the implementation of innovative acquisition and contractual procedures for physical security requirements.

Environmental Protection Safety and Health Program. During fiscal year 1998, accomplishments in the area of environmental protection, safety, and health included the establishment of a hazardous waste/material storage room at BOF, the approval of hazardous waste procedures for the Headquarters Complex and BOF, the creation of an indoor air quality baseline for BOF, the development of a Respiratory Protection Program, and the development of a mechanism to monitor asbestos and lead abatement projects at the Headquarters Complex.

Repair and Alterations. In fiscal year 1998, the replacement of HVAC and Lighting in S-310 and the Roof Repairs for the Cotton Annex Building were completed. In fiscal year 1998 the Electrical Grounding System Project for the complex and the Replacement of the Flat Roof at 1406 were substantially completed. In addition numerous smaller roof repair projects and abatement projects were completed.

Building Operations. Approximately 18,000 hours of preventive maintenance were performed on building mechanical equipment during fiscal year 1998. As a result of the preventive maintenance programs, there were no major mechanical failures experienced. In fiscal year 1998, several Building Operations improvements were implemented through the Operations and Maintenance Contractor. One improvement was implementing a computerized Building Operations and Maintenance. This program will among other things improve tracking of repair projects, equipment inventory, occupant complaints and optimize scheduling of Preventive Maintenance Program. To improve reliability of the building systems, a Quality Control Program was also implemented. This program includes the installation of bar codes on key building systems

Space Management

1. Relocation Space, South Building Modernization Project.

In fiscal year 1998, Space Management determined future relocation locations for Wing 3 South Building tenants and began moving them. Space Management finalized a lease deal with GSA for space at 1280 Maryland Avenue, S.W., and began moving tenants into a portion of that space (approximately 5,000 square feet). Tenants were also relocated from the South Building into 300 E Street, S.W. (approximately 50,000 square feet). Internal swing space moves were also begun within the South Building. Finally, Space

Management oversaw the completion of space, furniture design, and construction plans for approximately 30,000 square feet of space to be renovated at 300 7th Street, S.W.

2. Lease Recompensations, Renewals, Releases.

In Virginia, the phased renovation of a 165,000-square foot leased building began after Space Management acquired 14,000 square feet of swing space from GSA. Space Management also released a 54,000-square foot building back to GSA. In DC, Space Management oversaw the renovation of approximately 10,000 square feet of space at 500 School Street, S.W. and began working on plans to renovate approximately 4,000 additional square feet of space in this building. Space Management worked with GSA to acquire approximately 15,000 square feet at 1325 G Street, N.W., into which tenants from the Lynn building in Virginia will be moved. In Maryland, Space Management released back to GSA approximately 14,000 square feet at one building and 110,000 square feet at another building after the tenants moved to the BOF. Space Management also began working to release approximately 30,000 to 50,000 square feet at another building after occupants moved to the BOF.

Energy Management Program. In fiscal year 1998, electric use in the headquarters facility was down by over 200,000 kWh. This was the sixth straight year electrical use decreased in the facility. The chilled water consumption in fiscal year 1998 was higher than fiscal year 1997, however, fiscal year 1997 was an unusually cool summer. In May 1998, the Washington Area Service Center's Energy/Facility Management Program was highlighted as a case study in a publication sponsored by the Facility Maintenance and Operations Council, a body operating under the auspices of the National Institute of Building Sciences that provides industry-wide, public and private support for the creation of higher quality facilities through improved maintenance and operations. Recently, the Department of Energy designated the new Beltsville Office Facility as an Energy Saver Showcase Facility. In addition the engineering/architectural team that worked on the Beltsville Office Facility was selected as one of the 1998 Federal Energy and Water Management Award Winners sponsored by the Department of Energy. In fiscal year 1998, the construction phase of the Replacement of the HVAC and lighting system for S-310 was completed. In addition, numerous smaller projects were completed including reinsulation projects, replacement of lighting systems in the Jamie L. Whitten Building Jefferson Drive entrance, and upgrades to the South Building attic lighting system.

Beltsville Agricultural Research Center Modernization. In fiscal year 1998, approximately \$124,000 was used to continue the work on the BARC-East Potable Water System. The BARC-West electrical distribution system and the renovation of Building 001 has been completed. The construction contract for the Renovation of Building 004 was awarded in 1997 and it is anticipated that this will be complete in early 1999. Prior to and subsequent to fiscal year 1998, the Congress provided funding for other BARC renovation projects in the Agricultural Research Service's Buildings and Facilities Appropriation.

HAZARDOUS WASTE MANAGEMENT

PURPOSE STATEMENT

This program provides for Departmental compliance with the requirements of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA or Superfund), the Resource Conservation and Recovery Act (RCRA), the Oil Pollution Act (OPA), and the Pollution Prevention Act (PPA).

In August 1985, USDA initiated a Nationwide survey to determine the overall scope of the problems associated with past unregulated hazardous waste disposal and compliance with current regulation of hazardous substances and waste disposal. The initial survey identified a number of hazardous waste problems, including improper handling and disposal of chemicals at research facilities, inadequate storage of pesticides and other hazardous substances, and leaking underground storage tanks. Based upon the anticipated magnitude of the costs of compliance and the need for prompt action, a central fund was created from which resources are reallocated to the USDA agencies according to established need.

The Hazardous Waste Management Group (HWMG) manages the Hazardous Waste Management Account (HWMMA), a line item appropriation started in FY 1988. The Fiscal Year 1999 Appropriation is \$15.7 million for this account. The current request for FY 2000 is \$22.7 million. As we move out of the study phase and begin conducting the actual cleanup work, costs are also increasing. In addition to program management, the HWMG provides guidance and oversight in the hazardous waste area, including conducting oversight reviews of USDA programs and facilities. Other USDA agencies and the Office of the General Counsel also play an integral part in the Department's hazardous waste management activities. The HWMMA funds are distributed to the Forest Service, Agricultural Research Service, Farm Service Agency, Rural Development, Office of the General Counsel, and also some of the smaller programs within Animal and Plant Health Inspection Service and Food Safety and Inspection Service.

CERCLA (Superfund) Program - Prior year activities have concentrated on identifying contaminated sites, assessing the problems and developing cleanup strategies. Increasingly, we are moving out of the investigation phase of these sites and are conducting removal actions or remedial actions. By encouraging private parties to do the work, the Forest Service may redirect the funds allocated for a particular cleanup project to other cleanup projects that need funding or help other USDA agencies with their backlog of projects. HWMG also assists in responding to oil spills under the Oil Pollution Act as part of our responsibilities to represent USDA on the National Response Team for oil and hazardous substances.

RCRA Program - Much of the activity under this program has been directed toward compliance with underground storage tank (UST) requirements. In addition to UST compliance, RCRA activities include the disposal of hazardous wastes. Local and regional solid waste landfills, abandoned and illegally disposed wastes, illegal drug laboratories, and shooting ranges are also RCRA issues for the National Forests.

PPA Program - The USDA agencies and facilities participating in the Department's pollution prevention source reduction program reported considerable progress toward toxic reduction goals for the year 2000. Projects conducted under this authority typically will have a payback of under 10 years and not only reduce the generation of hazardous waste but also can reduce or eliminate the use of hazardous materials thereby creating a safer working environment.

Mission

Improve the quality of the USDA work environment of all employees by providing a safe, healthful

environment through the reduction of environmental and health hazards and by increasing employee environmental awareness. Improve and restore the environmental condition of facilities and lands under the custody, jurisdiction and control of the Department, and seek compensation from those responsible for the contamination.

OIG and GAO Reports

There are no OIG and GAO reports to report.

HAZARDOUS WASTE MANAGEMENT

Available Funds and Staff-Years
 1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation.....	\$15,700,000	3	\$15,700,000	4	\$22,700,000	4
Deduct allotments to other agencies:						
Commodity Credit Corporation.....	-3,000,000	-	-3,000,000	-	-4,500,000	-
Rural Housing Service.....	-77,300	-	-75,000	-	-59,800	-
Forest Service.....	-7,155,300	-	-6,900,000	-	-11,265,000	-
Agricultural Research Service.....	-3,700,000	-	-3,666,000	-	-4,145,000	-
Farm Service Agency.....	0	-	0	-	-150,000	-
Office of the General Counsel.....	-1,082,000	-	-1,379,000	-	-1,569,000	-
Food Safety and Inspection Service.....	-235,400	-	-230,000	-	-230,000	-
Animal and Plant Health Inspection Service.....	0	-	0	-	-210,000	-
Program Administration.....	-450,000	-	-450,000	-	-571,200	-
Total Allotments.....	-15,700,000	-	-15,700,000	-	-22,700,000	-
Total, Direct Appropriation.....	0	3	0	4	0	4
Recoveries to Appropriations:						
Forest Service.....	699	-	-	-	-	-
Total, Hazardous Waste Management.....	699	3	0	4	0	4

HAZARDOUS WASTE MANAGEMENT

CLASSIFICATION BY OBJECTS

1998 Actual and Estimated 1999 and 2000

	1998	1999	2000
Personnel Compensation: g/ b/			
Washington, D.C.....	\$2,563,000	\$2,887,000	\$3,765,000
11 Total personnel compensation.....	2,563,000	2,887,000	3,765,000
12 Personnel benefits.....	556,000	648,000	909,000
Total personnel compensation & benefits.....	3,119,000	3,535,000	4,674,000
Other Objects:			
21 Travel.....	232,000	236,000	347,000
22 Transportation of things.....	6,000	4,000	9,000
23.2 Rent Paid to Others.....	45,000	52,000	59,000
23.3 Communications, utilities, and misc. charges.....	19,000	21,000	23,000
24 Printing and reproduction.....	6,000	9,000	13,000
25.2 Other services.....	16,150,915	12,413,385	17,270,000
26 Supplies and materials.....	75,000	85,000	104,000
31 Equipment.....	183,000	175,000	201,000
Total other objects.....	16,716,915	12,975,385	18,026,000
Total direct obligations.....	19,835,915	16,510,385	22,700,000

g/ Funds for hazardous waste management activities are allotted directly to the USDA agencies identified in the Available Funds and Staff-Years Exhibit. This approach allows these agencies to charge the central account directly for in-house staff time used for cleanup projects, when they undertake cleanup in-house rather than through outside contractors.

b/ The President's Budget Appendix does not reflect obligations for personnel compensation for this appropriation because there are no staff years assigned to this appropriation. Only personnel compensation that supports the staff years in the Personnel Summary can be reflected in the President's Budget. As a result of this requirement, costs incurred by USDA agencies for salaries and benefits of in-house staff engaged in cleanup projects are reflected in Object Class 25 in the President's Budget instead of Object Classes 11, 12, and 13. The Explanatory Notes provide a clearer portrayal of the actual obligations incurred for hazardous waste management cleanup. Four staff years for the Forest Service are charged to the Hazardous Waste Management appropriation.

HAZARDOUS WASTE MANAGEMENT

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Hazardous Waste Management:

For necessary expenses of the Department of Agriculture, to comply with the requirement of section 107(g) of the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, 42 U.S.C. 9607 (g), and section 6001 of the Resource Conservation and Recovery Act, 42 U.S.C. 6961, [~~\$15,700,000~~] \$22,700,000 to remain available until expended: Provided, That appropriations and funds available herein to the Department for Hazardous Waste Management may be transferred to any agency of the Department for its use in meeting all requirements pursuant to the above Acts on Federal and non-Federal lands.

HAZARDOUS WASTE MANAGEMENT

Appropriations Act, 1999.....	\$15,700,000
Budget Estimate, 2000.....	<u>22,700,000</u>
Increase in Appropriation.....	<u>+ 7,000,000</u>

SUMMARY OF INCREASES AND DECREASES
(On basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Program Changes</u>	<u>2000 Estimated</u>
Hazardous Waste Management.....	\$15,700,000	+ \$7,000,000	\$22,700,000

HAZARDOUS WASTE MANAGEMENT

PROJECT STATEMENT
(On basis of appropriation)

	1998 Actual		1999 Estimated		Increase or Decrease	2000 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Hazardous Waste Mgmt.....	\$15,700,000	3	\$15,700,000	4	+\$7,000,000 (1)	\$22,700,000	4

PROJECT STATEMENT
(On basis of available funds)

	1998 Actual		1999 Estimated		Increase or Decrease	2000 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Hazardous Waste Management.	\$19,835,915	3	\$16,510,385	4	+\$6,189,615	\$22,700,000	4
Unobligated Balance start of year.....	-4,130,452	-	-810,385	-	+\$10,385	-	-
Recoveries.....	-725,681	-	-	-	-	-	-
Reimbursements.....	-80,197	-	-	-	-	-	-
Unobligated Balance end of year.....	+\$10,385	-	-	-	-	-	-
Total Appropriation.....	15,700,000	3	15,700,000	4	+\$7,000,000	22,700,000	4

HAZARDOUS WASTE MANAGEMENT

JUSTIFICATION OF INCREASES AND DECREASES

- (1) An increase of \$7,000,000 for Hazardous Waste Management Appropriation (HWMA)
 (\$15,700,000 available in 1999) consisting of:

(a) An increase to support the investigation and cleanup of over 1,800 Forest Service (FS) sites identified in the inventory process. At each of these sites, the agency and the Department may be subject to environmental enforcement actions and lawsuits by private parties. The FS has completed most of the cleanup actions at sites where it was the only responsible party. Now, FS is implementing an environmental initiative and enforcement program in response to the President's August 1996 environmental cleanup challenge and in response to the White House Clean Water Initiative. Cleanup and natural resource restoration costs at these 1,800 plus sites are estimated to approach \$2 billion. In 1995, USDA set the year 2045 as the goal for cleanup of these sites. That goal requires close to a \$40 million funding level each year. The FS has received an average of \$7.1 million for fiscal years 1997-1999 and has also used FS funds for this effort.

The goal for 2045 was set because of the Department's commitment to environmental protection and the potential for enforcement activity by states and other parties. Fines and penalties could exceed \$25,000 per day and lawsuits could cost, in some cases, more than the funding needed to perform a timely cleanup action. The agency environmental initiative provides another source of funding by pursuing parties to fund or conduct cleanup projects on sites where they are responsible for the contamination. We estimate that these activities could provide over 30 percent of the future needed funding. Funding and work performed by responsible parties exceeds \$100 million over the past three years. Without the requested increases, the FS will not be able to continue to effectively implement this program and address sites in a timely manner. The FS is also requesting an increase to fund the share of needs at sites where responsible parties cannot be located or are no longer financially viable. Ultimately, the agency will need to address cleanup on lands under its jurisdiction, custody, and control even if the contamination is the result of actions by others.

(b) An increase to continue and accelerate investigative and cleanup activities at Agricultural Research Service (ARS) sites, primarily at the Beltsville Agricultural Research Center (BARC) and the Plum Island Animal Disease Center (PIADC). BARC is on the Superfund National Priorities List (NPL) and has requested HWMA funding for a remedial investigation/feasibility study (RI/FS) and response actions for source control or elimination. Earlier this year, USDA and the Environmental Protection Agency (EPA) signed an interagency agreement governing cleanup of this facility, which is located in the metropolitan Washington area. Failure to comply with the provisions of the agreement will result in enforcement action against USDA.

PIADC has recently completed a preliminary assessment and site investigation which is currently under EPA review. PIADC is the former Fort Terry which was transferred to USDA by the Army. PIADC has multiple areas of concern that will likely require cleanup actions to be conducted by USDA and the Department of Defense. Currently USDA is negotiating a Consent Agreement with EPA regarding past RCRA noncompliance at PIADC. Under the Consent Agreement, ARS will conduct a supplemental environmental project as part of the proposed penalty. ARS has already implemented a RCRA closure plan in response to the notice of violation issued by EPA. Given the facility's location off the eastern tip of Long Island and the nature of the work conducted there, ARS requested HWMA funding for

RCRA closure and removal/remedial design. ARS also requested HWMA funds for removal actions at the Grazing Lands Research Laboratory in El Reno, Oklahoma. This facility is a historical site of significant local interest.

(c) An increase is requested to support an increased workload in the Office of the General Counsel (OGC) to continue to provide legal assistance and advice to USDA mission areas and agencies for hazardous waste management. The workload for OGC has increased many-fold over the past five years and is continuing to increase as the agencies enter into investigation and cleanup actions. These activities require involvement with legal counsel from other departments, EPA, and the Department of Justice (DOJ). The FS and ARS cleanup programs currently require significant legal assistance in connection with cleanup agreements, including negotiations with responsible parties and coordination with DOJ. This work will continue to increase as we clean up more sites with the assistance of the parties responsible for the environmental harm. OGC attorneys are essential to the team process required to ensure that USDA has a pro-active and timely hazardous waste management program.

(d) An increase is requested to accelerate investigation activities and meet USDA responsibilities for cleanup actions concerning former Commodity Credit Corporation (CCC) involvement at grain storage bins. Some of these activities will be quite costly and the requested increases reflect funding needed to ensure that enforcement actions are not brought against the Department and that we meet the health needs of citizens affected by the contamination, including potential drinking water concerns. State environmental enforcement agencies and the EPA are closely monitoring our progress and have threatened action against CCC.

(e) Increases for the remaining USDA agencies in HWMA funding for investigation and cleanup actions as site work moves from the inventory phase. A number of the sites involved will have very costly cleanup actions and these activities must be funded to ensure that USDA protects human health and the environment and that enforcement actions are not brought against these agencies.

HAZARDOUS WASTE MANAGEMENT

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS 1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>
District of Columbia.....	\$14,889,615	3	\$16,510,385	4	\$22,700,000	4
Unobligated Balance.....	810,385					
Total, Available or Estimate.	15,700,000	3	16,510,385	4	22,700,000	4

HAZARDOUS WASTE MANAGEMENT

STATUS OF PROGRAM

This program provides for facility compliance with the requirements of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA or Superfund), the Resource Conservation and Recovery Act (RCRA), and the Pollution Prevention Act (PPA).

In August 1985, USDA initiated a nationwide survey to determine the size and scope of existing and potential environmental problems associated with hazardous substances on facilities and lands under the jurisdiction, custody, and control of the Department. The inventory also identified numerous issues concerning agency management of the storage, handling, and disposal of hazardous substances and wastes. The inventory also identified thousands of potential sites with releases or potential releases of hazardous substances, including underground fuel and chemical storage tanks, abandoned mines, landfills, dumps, trespass dumps, and drug lab wastes. Many of these site problems are attributed to the activity of non-USDA parties on lands under Department jurisdiction, custody, and control. Critical funding is provided by the Hazardous Waste Management Appropriation (HWMA).

The HWMA was established in 1988 to provide funding for priority hazardous waste cleanup projects. Annually, USDA agencies request funding for current year activities to address priority facilities and sites and develop project planning and funding needs from the HWMA for future years. Agencies also update accomplishment information and report on compliance with applicable regulations.

Current activities, progress, and current programs under the Hazardous Waste Management Appropriation strategic goal are outlined below:

Goal 3: Ensure responsible management and cleanup of hazardous materials and waste and the responsible and efficient use of USDA buildings and space. Provide services and products that meet or exceed customer expectations at a reasonable cost. (DA and USDA-wide goal)

CERCLA Program

Prior year activities have concentrated on identifying contaminated sites, assessing the problems, and developing cleanup strategies. Increasingly, we are moving out of the investigation phase of these sites and are conducting response actions. By encouraging private responsible parties to do the work, the Department may redirect funds currently allocated for a particular cleanup project to other priority cleanup projects or redirect funds where USDA is the responsible party. The Forest Service completed the inventory process for abandoned/inactive mines and landfills in December 1998.

The Farm Service Agency (FSA) has provided alternate drinking water sources to communities with water supplies contaminated with carbon tetrachloride from past grain storage operations in Kansas and Nebraska. FSA is assessing the sources of the contamination and developing cleanup strategies for the 44 sites.

In fiscal year 1998, USDA agencies initiated or continued investigations at approximately 100 CERCLA sites. This work includes preliminary assessments (PAs), site investigations (SIs), and engineering evaluation/cost analysis (EE/CAs).

Cleanup actions were completed at 25 sites and are opening at approximately another 60 sites. Of equal importance are the projects conducted by potentially responsible parties (PRPs) and overseen by the Forest Service. The total value of these actions in fiscal year 1998 exceeded \$100 million. The Agricultural Research Service (ARS) continued to conduct cleanup actions at Beltsville, MD., Plum Island, NY, and El Reno, Oklahoma.

RCRA Program

The activity under this program has primarily been directed towards compliance with underground storage tank (UST) requirements. This includes repair, modification, or replacement to meet standards for USTs to remain in service, removal of USTs no longer in service, and cleanup of contaminated soil and ground water if required. Actions in fiscal year 1998 included removal and cleanup of 55 USTs, with post-removal cleanups on another 17 sites.

EPCRA Program

In 1986, Congress amended CERCLA by passing the Superfund Amendments and Reauthorization Act (SARA). Title III of SARA, known as the Emergency Planning and Community Right-to-Know Act (EPCRA), requires many private-sector facilities to report on the their use, release, and offsite transfer of chemicals appearing on a list published by EPA. It also requires facilities to notify State and local authorities if they use or maintain inventories of many other common hazardous chemicals and fuels above established thresholds. Although Federal facilities were not originally required to comply with EPCRA, the President extended virtually all of this law, as well as the Pollution Prevention Act of 1990, to Federal facilities by Executive Order 12856 (E.O. 12856) in 1993. At the very least, agencies with facilities exceeding the Toxic Release Inventory (TRI) thresholds are required to set the "voluntary goal" of reducing their releases and offsite transfers by at least 50 percent by the year 2000; others are "encouraged" to voluntarily pursue similar reductions. Annual reports to EPA on pollution prevention progress have been required since 1994.

Nearly 200 USDA facilities are "covered facilities" under E.O. 12856. These facilities were required to prepare and implement pollution prevention plans by the end of 1994, notify State and local planning commissions, and take other measures required under EPCRA. Additionally, two USDA agencies (ARS, FS) have a total of about a dozen facilities (the number varies slightly from year to year) subject to the annual TRI reporting requirements of EPCRA. These facilities, like those subject to TRI reporting in the private sector, must file what are known as Form Rs with EPA and their States each July for the previous year. These reports, which are made public the following April, disclose the amount of certain toxic chemicals the reporting facilities released to the environment or transferred offsite. The purpose of these reports is to inform the community of the toxic materials to which they may be being exposed. USDA's TRI facilities reported a combined increase of 49,375 pounds (8.7 percent) in 1997 releases and offsite transfers of toxic chemicals from USDA's combined 1994 baseline of 566,011 pounds.

As noted, non-TRI facilities are encouraged to voluntarily set reduction goals and to report their progress as well. In the non-TRI toxics reduction program, three USDA agencies (AMS, FS, FSI¹⁹) reported a combined reduction in their participating facilities' releases and offsite transfers of 34,306 pounds (23.2 percent) between 1996 and 1997. Through 1997, a reduction of 238,545 pounds (67.7 percent) from the 1994 non-TRI baseline of 352,351 pounds has been achieved and reported to EPA.

The Department also encourages USDA agencies to participate in the Code of Environmental Management Principles (CEMP) EPA was directed to promulgate under E.O.12856. Most Federal agencies, including USDA, signed the CEMP charter and pledged to implement these principles, which parallel private-sector initiatives to improve environmental compliance and environmental quality.

Office of the General Counsel

The Office of the General Counsel (OGC) provides legal assistance and advice to USDA agencies for the CERCLA and RCRA programs. In fiscal year 1998, OGC provided legal support and opinions for 366 cases. The size and complexity of cases have significantly increased. The role of OGC in the hazardous waste management program is expanding as additional PRPs are identified and negotiations with PRPs are initiated for cost recovery of past USDA performed work or for work to paid for or performed by PRPs.

USDA ADVISORY COMMITTEES			
Policy Area and Committee Title	1998 Actual	1999 Estimate	2000 Estimate
FOOD, NUTRITION AND CONSUMER SERVICES:			
National Advisory Council on Maternal, Infant and Fetal Nutrition.....	\$30,000	\$50,000	\$50,000
FOOD SAFETY:			
National Advisory Committee on Meat and Poultry Inspection.....	49,318	60,000	64,000
National Advisory Committee on Microbiological Criteria for Foods.....	36,000	75,000	40,000
Total, Food Safety.....	85,318	135,000	104,000
RESEARCH, EDUCATION AND ECONOMICS:			
Forestry Research Advisory Council.....	21,862	25,100	26,100
National Agricultural Research, Extension, Education, and Economics Advisory Board.....	252,430	0 a/	0 a/
Strategic Planning Task Force on Research Facilities.....	148,367	64,050	0
USDA/Hispanic Association of Colleges and Universities.....	11,750	18,900	19,500
USDA/American Indian Higher Education Consortium.....	0	57,800	59,000
Subtotal, CSREES.....	434,409	165,850	104,600
National Genetic Resources Advisory Council.....	14,950	16,000	16,500
Dietary Guidelines Advisory Committee.....	10,206	123,600	123,600
Subtotal, ARS.....	25,156	139,600	140,100
Census Advisory Committee on Agriculture Statistics.....	34,647	25,000	26,000
Total, REE.....	494,212	330,450	270,700
MARKETING AND REGULATORY PROGRAMS:			
Advisory Committee on Foreign Animal and Poultry Diseases.....	17,457	21,000	18,900
General Conference Committee of the National Poultry Improvement Plan.....	0	11,300	9,930
National Wildlife Services Advisory Committee (formerly the National Animal Damage Control Advisory Committee).	17,490	18,100	18,100
Subtotal, APHIS.....	34,947	50,400	46,930
National Organic Standards Board.....	27,781	50,000	50,000

USDA ADVISORY COMMITTEES			
Policy Area and Committee Title	1998 Actual	1999 Estimate	2000 Estimate
Subtotal, AMS	27,781	50,000	50,000
Federal Grain Inspection Advisory Committee.....	25,113	30,000	31,000
Total, MRP	87,841	130,400	127,930
FARM AND FOREIGN AGRICULTURAL SERVICES:			
Agricultural Policy Advisory Committee for Trade.....	14,120	14,120	14,120
Ag. Tech. Adv. Comm. For Trade in:			
Animal & Animal Products.....	14,110	14,110	14,110
Fruits and Vegetables.....	14,110	14,110	14,110
Grains, Feed, and Oilseeds.....	14,110	14,110	14,110
Sweeteners and Sweetener Products.....	14,110	14,110	14,110
Tobacco, Cotton, and Peanuts.....	14,110	14,110	14,110
Emerging Markets Advisory Committee.....	14,000	14,000	32,700
Edward R. Madigan Agricultural Export Excellence Award Board.....	0	14,110	15,000
Subtotal, FAS	98,670	112,780	132,370
Advisory Committee on Beginning Farmers and Ranchers....	0	26,640	28,000
Subtotal, FSA	0	26,640	28,000
National Drought Policy Commission.....	0	443,000	157,000
Advisory Committee on Risk Management.....	0	60,000	60,000
Subtotal, RMA	0	503,000	217,000
Total, FFAS	98,670	642,420	377,370
NATURAL RESOURCES AND ENVIRONMENT:			
Task Force on Agricultural Air Quality Research.....	42,000	50,000	50,000
National Commission on Small Farms.....	58,400	36,000	25,000
USDA/1890 Task Force.....	4,000	15,000	15,000
Total, NRE	104,400	101,000	90,000

USDA ADVISORY COMMITTEES			
Policy Area and Committee Title	1998 Actual	1999 Estimate	2000 Estimate
OFFICE OF THE CHIEF ECONOMIST:			
Commission on 21st Century Production Agriculture.....	17,205	275,000	275,000
DEPARTMENTAL ADMINISTRATION:			
Secretary's Small Business Advisory Committee.....	0	30,000	25,000
Subtotal, Advisory Committees.....	917,646	1,694,270	1,320,000
Contingencies/Reserve.....	82,354	105,730	480,000
TOTAL, ADVISORY COMMITTEES.....	1,000,000	1,800,000	1,800,000

a/ The Agriculture Research, Extension, and Education Act of 1998, P.L. 105-185, exempts this committee from the USDA Advisory Committee limitation.

ADVISORY COMMITTEES

STATUS OF PROGRAM

From fiscal year 1983 through fiscal year 1996, this appropriation provided for direction and financial support of all authorized USDA Advisory Committee activities other than those included in the Forest Service and those financed from user fees. Beginning in fiscal year 1997, language in the General Provisions of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act permits agencies funded in the Act to finance the activities of selected committees that advise them from their own funds, subject to a limitation on total obligations for these committees. These Explanatory Notes provide information on the activities of committees during fiscal year 1998 and planned activities for fiscal year 1999'.

FOOD, NUTRITION AND CONSUMER SERVICES:National Advisory Council on Maternal, Infant and Fetal Nutrition

The Council is mandated to make a continuing study of the operation of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and related programs, such as the Commodity Supplemental Food Program (CSFP), to determine how the programs may be improved. The law requires that the Council submit biennially to the President and Congress a written report of the results of its study with such recommendations for administrative and legislative changes as it deems appropriate. The Council includes representatives of the Federal Government, State and local governments, the medical field, industry, WIC and CSFP parent participants, and advocacy groups.

The Council met at Food and Nutrition Service (FNS) Headquarters in Alexandria, Virginia on May 27-29, 1998, to develop its 1998 biennial report to the President and the Congress. A total of 52 individuals attended the meeting, including 16 Council members, the general public, and FNS' staff. To ensure that its recommendations reached the Congress while reauthorization language for the WIC Program was being developed, the Council elected to present its recommendations in the form of a letter which would be more timely for congressional consideration. The letter report, containing five recommendations and addressing three areas of concern, was hand-carried to selected members of the Congress on June 2. The Council also directed four additional recommendations to the Department of Agriculture under a separate letter to Secretary Glickman.

A meeting is tentatively planned for fiscal year 1999 during which the Council will discuss general program issues and consider possible recommendations for its Year 2000 report.

FOOD SAFETY:National Advisory Committee on Meat and Poultry Inspection

The Committee was established to provide the Secretary input on product standards, labeling changes, or on matters affecting Federal and State inspection program activities. Other functions of this Committee include reviewing initiatives, helping develop standard descriptive terminology, and recommending when the regulatory policies need to be reexamined.

The 16 new members of the Committee represent interests from State inspection programs, meat and poultry processors and producers, consumer interests, food marketing, and technology expertise. The new charter has enabled significant public participation in the development of the Department's food safety initiatives. The Committee met in January and May 1998, as well as participated in an audio teleconference in July to consider issues affecting the implementation of major food safety initiatives including HACCP, voluntary and mandatory inspection, exemptions, Federal, State and local government roles in farm-to-table food safety, recall of foods, pathogen testing, USDA food safety research, and strategic planning. The Committee made

ten specific recommendations to the Secretary that affect the implementation of the Pathogen Reduction, HACCP Final Rule and the Department's farm-to-table food safety initiatives.

National Advisory Committee on Microbiological Criteria for Foods

The National Advisory Committee on Microbiological Criteria for Foods (NACMCF), established under Department Regulation 1043-28, is currently co-sponsored by the Food Safety and Inspection Service (FSIS), the Food and Drug Administration (FDA), National Marine Fisheries Service (Department of Commerce), and the Office of the Surgeon General, Department of the Army (DOD). The Committee reestablished its charter, Department Regulation 1043-28, August 25, 1998 and increased its membership to 35.

The recommended membership consists of renowned microbiologists, epidemiologists, food scientists and veterinarians representing industry, consumers, academia, Federal and State Governments. The Committee provides advice on the development of microbiological criteria by which the safety and wholesomeness of the Nation's food supply can be assessed including criteria for microorganisms that indicate whether foods have been adequately processed using good manufacturing practices. The Committee provides advice on factors that need to be controlled to maintain high food safety standards.

There were two full committee meetings in fiscal year 1998, four subcommittee meetings, three Executive Committee Meetings, one field trip and several ad hoc meetings.

For fiscal year 1999 one Executive Committee Meeting and three Full Committee Meetings are planned. These meetings have been scheduled for completion and/or continuance of ongoing projects as well as for responding to new food safety issues associated with the President's Food Safety Initiative that will be brought before the Executive Committee by other agencies.

The Fresh Produce paper and others that are completed by the Committee are scheduled for printing in fiscal year 1999.

RESEARCH, EDUCATION, AND ECONOMICS:

National Agricultural Research, Extension, Education, and Economics Advisory Board

The National Agricultural Research, Extension, Education, and Economics Advisory Board was established pursuant to section 802 of the Federal Agriculture Improvement and Reform Act of 1996. The Board was formed from nominations from more than 600 organizations, associations, societies, councils, federations, groups, and companies that represent a wide variety of food and agricultural interests. The 30 members were selected by the Secretary of Agriculture based on the 30 categories delineated in the 1996 Farm Bill. In addition to these 30 members, ex officio members are defined in the legislation to include: The Secretary; Under Secretary for Research, Education, and Economics (REE); Administrators: Agricultural Research Service (ARS); Cooperative State Research, Education, and Extension Service (CSREES); Economic Research Service (ERS); and National Agricultural Statistics Service (NASS). The current Charter was approved on November 25, 1998 and will be in effect until November 25, 2000.

The National Agricultural Research, Extension, Education, and Economics Advisory Board held five meetings in fiscal year 1998. A combined meeting was held on October 14-15, 1997 with the Performance Assessment and Public Education Working Group to receive briefings by USDA staff on existing communications activities and with the Working Group on REE Priority Planning to plan fiscal year 2000 priority setting procedures. The first general meeting was held in November, 1997 in Washington, D.C. The agenda included election of the Officers and Executive Committee for fiscal year 1998, updates on REE legislation and budget, a REE priority setting session, a status report on the Fund for Rural America, long-term fund design and operating issues, Board approval of a "white paper" on Improving Public Understanding and Appreciation of Agriculture, and a status report on the REE Strategic Planning Task Force on Agricultural Research Facilities.

The second general meeting was held in March, 1998 in Washington, D.C., and included the 2nd National Stakeholder Symposium, to elicit critical input from stakeholder groups on priorities for agricultural research, extension, education, and economics programs. Approximately 125 individuals participated in the Stakeholder Symposium and 30 panelists provided formal statements. The general Advisory Board meeting accomplished the following: provided a review of and advice on the portfolio of proposals for the Fund for Rural America; reviewed stakeholder and board input to the draft REE priorities discussion paper and fiscal year 2000 recommendations; reviewed the Rural Development mission area programs such as an update on the Civil Rights actions by USDA, CROP '99 activities, and food safety issues. OSTP/OMB guidelines for REE priority setting were requested by the Board and were provided.

In July 1998 in Park City, Utah, the Advisory Board held a regional stakeholder "Listening Session" on agricultural research priorities for the Western Region in conjunction with the Western Regional Meeting. The attending members reported the results of that session at the July Executive Committee Conference Call meeting. Findings were summarized and will be published as a Proceedings and companion Executive Summary with the assistance of Purdue University's Agricultural Communications Department under a cooperative agreement and will be distributed to USDA, Congress, and to stakeholders in the United States. A special Annual Report of fiscal year 1998 activities will be developed for national distribution.

In addition to the already established Executive Committee, the "Performance Assessment and Public Education Working Group," and the "Working Group on REE Priority Planning," the Advisory Board also established a Working Group on REE Priority Setting to finalize the recommendations to USDA. A new Ad Hoc Committee was established for advising USDA on merit review procedures under the Agricultural Research, Extension, and Education Reform Act of 1998. The Executive Committee held six additional monthly meetings and the Working Groups held additional meetings by conference call to finalize recommendations.

The Board has recommended that three general Board meetings be held in fiscal year 1999. Included will be a 3rd National Stakeholder Symposium; a possible Northeastern Region stakeholder "Listening Session" and a Southern Regional "Listening Session." The Advisory Board will begin addressing its mandatory requirements under the new legislation, Agricultural Research, Extension, and Education Reform Act of 1998. It plans to review ARS National Program Statements, the CSREES merit review procedures, and appoint another Ad Hoc Committee to address relevancy and the adequacy of funding of priorities with regard to the REE portfolio. The 1998 Reform Act also re-emphasizes the need for stakeholder input into programs across the broad spectrum of agricultural research and education and the Board will respond.

Strategic Planning Task Force on Research Facilities

This 15-member task force was appointed by Secretary Glickman in May 1997 from a list of 45 nominations supplied by the National Agricultural Research, Education, and Economics Advisory Board. The Task Force is charged by the Federal Agriculture Improvement and Reform Act of 1996 to develop a 10-year Strategic Plan to assure a "comprehensive research capacity" for the conduct of agricultural research.

The Task Force has met a total of five times since appointed and plans three more meetings before completing its report by May 1999. It is the intention of the Task Force to focus the report around a set of principles on which federally funded research should be managed. In addition to the principles and related recommendations, the report will include an inventory of the current intramural and extramural research system. The legislation mandates that the report be concurrently submitted to both the Secretary of Agriculture and relevant Committees of Congress.

National Genetic Resources Advisory Council

The National Genetic Resources Advisory Council was established to advise, consult with and make recommendations to the Secretary of Agriculture and the Director of the National Genetic Resources Program regarding the policies and operations of the National Genetic Resources Program. Membership consists of nine members from the public representing important disciplines such as agronomy, horticulture, genetics, entomology, pathology and forestry. Members are appointed by the Secretary, primarily from State and private industry. Ex-officio members are from other interested agencies of government. One meeting was held in Washington, D.C., on September 29-30, 1998. All members were in attendance or via conference call. The purpose of the meeting was to review genetic resources programs and policies of the Department as administered by the Agricultural Research Service. The meeting notes include a number of recommendations to the Secretary in this regard. Two meetings are planned in fiscal year 1999 to review policies and activities.

Dietary Guidelines Advisory Committee

The Dietary Guidelines Advisory Committee is established for the single, time-limited task of reviewing the 1995 edition of Nutrition and Your Health: Dietary Guidelines for Americans and determining if, on the basis of current scientific and medical knowledge, revision is warranted. If so, the Committee will develop recommendations for revisions in a report to the Secretaries of USDA and HHS.

Section 301 of Public Law 101-445, the National Nutrition Monitoring and Related Research Act of 1990, directs the U.S. Secretaries of the Department of Agriculture and Health and Human Services to issue jointly at least every five years a report entitled Dietary Guidelines for Americans. The law instructs that this publication shall contain nutritional and dietary information and guidelines for the general public, shall be based on the preponderance of scientific and medical knowledge current at the time of publication, and shall be promoted by each Federal agency in carrying out any Federal food, nutrition, and health programs.

The first meeting of the Committee was on September 28-29, 1998, in Washington, D.C. The Committee reviewed the current guidelines and voted that a revision was warranted based on the current scientific and medical knowledge. The Committee initiated the revision.

The second meeting is planned for March 8-10, 1999. The Committee plans to have a first draft of the revision ready for review and discussion by March 1999. The Committee plans to hold two additional meetings in fiscal year 1999, and complete a major part of the revision process.

National Nutrition Monitoring Advisory Council

The purpose of the National Nutrition Monitoring Advisory Council is to provide scientific and technical advice on the development and implementation of the coordinated National Nutrition Monitoring and Related Research Program and the Ten-Year Comprehensive Plan for National Nutrition Monitoring and Related Research Program and to serve in an advisory capacity to the Secretaries of the Departments of Agriculture and Health and Human Services

The National Nutrition Monitoring Advisory Council was established by Executive Order of the President of the United States on January 25, 1991. Establishment of the Advisory Council is required by Section 201 (a)(1) of Public Law 101-445, the National Nutrition Monitoring and Related Research Act of 1990.

The Advisory Council consists of nine members - five Presidential and four Congressional appointees. The Council did not meet in the fiscal year 1998.

Forestry Research Advisory Council (FRAC)

The Forestry Research Advisory Council (FRAC) was authorized by the 1995 Farm Bill for the purpose of providing the Secretary of Agriculture with recommendations and advice on regional and national planning

of forestry research supported by the McIntire-Stennis Cooperative Forestry Program. The Council also provides advice on the Forest Service research program authorized by the Forest and Rangeland Renewable Resources Research Act. The Council is comprised of members appointed by the Secretary and drawn from Federal, university, state, industry, and non-governmental organizations.

In November 1997, the Secretary announced the appointment of 20 members to serve on FRAC and on January 12-13, 1998, a meeting took place in Washington, D.C. The Council recommended that the Secretary take the lead in establishing "a forestry research initiative for non federal lands" with a focus on: increasing science based information for forest management with emphasis on sustainability, productivity, and environmental quality across the full breadth of ownerships, types of forest, and watersheds; improving the timeliness and precision of inventory and monitoring information for all forest lands, emphasizing both ecological and economic data; and increasing the flow of forest management options and research results, to non-industrial private forest (NIPF) landowners and the public. The agenda for this meeting included a review and critique of FRAC operations and consideration of how the Council might be most effective.

The Council has recommended that at least one, three-day meeting be budgeted annually, held early in the year, as the timing of the meeting is crucial to providing timely advice to the Secretary, particularly as related to budget. As requested by the Forest Service and CSREES, the Forestry Research Advisory Council will provide ongoing advice with regard to planning, budgets, and other activities as they occur during the year.

USDA/Hispanic Association of Colleges and Universities Leadership Group

The Secretary of Agriculture signed a formal Memorandum of Understanding with the Hispanic Association of Colleges and Universities (HACU) to ensure that the Hispanic community equitably participates in USDA employment, programs, resources, and services. The USDA/HACU Leadership Group, consisting of an equal number of members from USDA and HACU member Institutions, is a national body appointed by the Secretary and the President of HACU. It is USDA's primary organization for recommending department-wide policies and programs to strengthen USDA partnerships with Hispanic Serving Institutions.

The Leadership Group concentrates its efforts on ensuring the fulfillment of objectives of the MOU, which are consistent with President Clinton's Initiative on Educational Excellence for Hispanic Americans. The Leadership Group meets biannually and the two meetings in fiscal year 1998 were October 23-24, 1997 in San Antonio, Texas and September 23-25, 1998 in San Diego, California. USDA has made significant progress in implementing the recommendations of the Leadership Group.

Advisory Committee on Agriculture Statistics

The Advisory Committee on Agriculture Statistics was established on July 16, 1962 in the Department of Commerce. The Committee was moved to USDA in fiscal year 1997 when responsibility for the census of agriculture was transferred from the Department of Commerce to the Department of Agriculture. The census of agriculture is conducted every 5 years; results of the 1997 Census of Agriculture will be released in February 1999.

The Committee consists of members who represent both the public and private sectors of the agricultural community: State organizations, academia, private enterprise, and trade organizations. Once the Committee was transferred to USDA, the scope of the Committee was expanded beyond the census of agriculture to include USDA's entire agricultural statistics program.

The Committee makes recommendations on questionnaire content and design, publicity, publication plans, data dissemination, and virtually all areas related to the conduct of the census of agriculture. In addition, the Committee provides input for USDA's ongoing agricultural statistics program which helps ensure that the information provided to the public is consistent with current data needs. Meetings are generally held annually; the last meeting of the Committee was on February 24-25, 1998, in Louisville, Kentucky. Official proceedings

from the meeting were issued outlining 12 recommendations from the Committee. The recommendations covered the following topics: initiate research to study reasons for nonresponse to census and surveys; establish supplementary data collection instruments and methodologies for areas with below-average educational levels and areas with many small farms; incorporate recommendations for the census of aquaculture, census of horticultural specialties, and the farm and ranch irrigation survey; and continue efforts to enhance the census rural database. In fiscal year 1999, the Committee will focus on a review of agricultural statistics programs other than the census of agriculture.

USDA/American Indian Higher Education Consortium Leadership Group

Section 882 of the Federal Agriculture Improvement and Reform Act of 1996 required the Secretary of Agriculture to develop and implement a formal Memorandum of Agreement (MOA) with the 1994 Institutions to establish programs to ensure that tribally controlled colleges and Native American communities equitably participate in USDA employment, programs, services, and resources. USDA has developed a MOA with the American Indian Higher Education Consortium (AIHEC) which represents the 1994 Institutions as defined in section 532 of the Equity in Educational Land-Grant Status Act of 1994 and on February 3, 1998, the Secretary of Agriculture and the President of AIHEC signed the MOA.

The MOA between USDA and AIHEC establishes a cooperative framework for the parties to conduct USDA 1994 Land-Grant Institutions programs and activities that will enhance the capability of American Indians to attain educational excellence and to contribute to the fulfillment of USDA's mission. It creates a USDA/AIHEC Leadership Group to serve as an advisory body for all partnership initiatives and will ensure that mutual benefits and interests are served. The Leadership Group will consist of an equal number of members from USDA and employees or officials of AIHEC member institutions.

In fiscal year 1999, three meetings are planned. The Leadership Group will develop recommendations on how to achieve the full integration of the 1994 institutions into the land-grant system and ensure their full participation in USDA's land-grant programs, on Departmental programs in an effort to coordinate activities to increase employment and educational opportunities in USDA for students and educators of AIHEC member institutions, and on ways target and provide USDA resources for strengthening the 1994 Institutions.

MARKETING AND REGULATORY PROGRAMS:

Federal Grain Inspection Advisory Committee

The Grain Inspection, Packers and Stockyards Administration's (GIPSA) Grain Inspection Advisory Committee was established under section 20 of the United States Grain Standards Act (USGSA) on September 19, 1981, and was reauthorized through the year 2000 by Public Law 203-156, U.S. Grain Standards Act Amendments of 1993. The Committee is chartered with advising the GIPSA Administrator on the implementation of the USGSA and the Agricultural Marketing Act of 1946. The Committee is comprised of members who represent all segments of the U.S. grain industry. Committee members include producers, processors, handlers, exporters, grain inspection agencies, and scientists.

The Committee counsels GIPSA on a variety of important issues affecting the agency and the official grain inspection and weighing system. In fiscal year 1998, the Committee met twice, once on November 19-20, 1997, in New Orleans, Louisiana, and again on May 13-14, 1998, in Kansas City, Missouri. At the November 19-20 meeting, topics of discussion included: GIPSA's financial status and the agency's strategic and moisture meter implementation plans. At the May 13-14 meeting, topics of discussion included: GIPSA's financial status, moisture meter implementation plan, strategy for implementing corn protein, oil, and starch testing, and wheat research results. GIPSA issued a summary report for each of the meetings.

In fiscal year 1999, the Committee met on November 3-4, 1998, in Washington, D.C., and will likely meet once during spring 1999. At the November 3-4 meeting, the agenda included a review and discussion of biotechnological developments in agriculture, export projections, GIPSA's financial status, the new moisture meter programs, geographic restrictions on designated agencies, and the Agency's strategy for implementing barley protein testing.

Advisory Committee on Foreign Animal and Poultry Diseases (FAPD)

This Committee advises the Secretary regarding the prevention, suppression, control or eradication of an outbreak of foot-and-mouth disease or other destructive foreign animal diseases should such diseases enter the United States. Committee duties involve advising and counseling on policy and regulatory action with regard to dealing with an outbreak, changing practices in the production and marketing of animals, the importation of animals and animal products, and the handling and treatment of unusual, suspicious animal or poultry problems.

The Committee met on May 5-7, 1998, in Riverdale, Maryland and approved 15 recommendations: (1) APHIS establish an Emergency Operations Center equipped with state of the art systems and staffed with appropriate professional staff, (2) Veterinary Services (VS) take the lead role in developing educational material on foreign animal and poultry disease for continuing education of producers and animal health professionals, (3) APHIS establish a formal coordinating mechanism for establishing research needs and priorities between itself, the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES), (4) USDA provide full-time leadership at the national level to ensure effective preparedness and response of the Regional Emergency Animal Disease Eradication Organization, (5) the State Departments of Agriculture and the State Veterinarians be on the list for preliminary notification of a positive finding of Bovine Spongiform Encephalopathy (BSE) and that livestock commodity representatives be included in any public notification of a BSE incident be added to the BSE response plan, (6) USDA expand facilities and personnel within USDA dedicated to FAPD research, surveillance, and diagnosis, (7) USDA work with State Governments and industry to establish uniform legislative and State authority necessary for effective animal health emergency management systems, (8) USDA develop a generic memorandum of understanding which can be used as a model for agreements between APHIS and State governments, (9) APHIS compile a list of technical experts for each major FAPD, (10) APHIS keep industry representatives and veterinary professional associations informed of current FAPD issues, (11) appropriate resources be allocated to enhance risk assessment capabilities for APHIS, VS and convene workshops to explain APHIS's risk assessment methodology to industry, State animal health officials, academia, practitioners, and other stakeholders, (12) veterinary accreditation include FAPD recognition, diagnostics, and continuing education, (13) the Secretary support APHIS, VS with necessary resources to develop a world class animal health emergency management system and expedite the implementation of APHIS, VS response to the Quadrilateral Review of the U.S. Animal Health Emergency System, (14) a comprehensive review of import inspection procedures, and (15) USDA funds be identified to support emergency purchase of pesticides for continuation of project to eradicate *Amblyomma variegatum* from the Caribbean.

National Wildlife Services Advisory Committee

This Committee provides advice to the Secretary on policies, program issues, and research needed to conduct the Wildlife Services (WS) program (formerly the Animal Damage Control program). Members represent a broad spectrum of agricultural, environment and conservation groups, academia, and other interests. During fiscal year 1997, 20 new committee members were selected and appointed by the Secretary. Their terms of service expired in June 1998.

The Committee met on May 27-28, 1998, in Riverdale, Maryland. Discussion topics included: (1) cooperative funding, (2) interstate shipment of wildlife, (3) oral rabies vaccination programs, (4) wolf reintroduction and management, (5) research priority/depredation, (6) assistance to airports, (7) program funding, (8) depredation problems caused by fish-eating birds, (9) aerial operations, (10) WS activities in States with trapping bans, (11)

use of foothold traps for wolf control, (12) National Trap Testing Program, (13) cooperator-employed methods, and (14) status of trap research.

Twenty-one recommendations were put forth by the committee. Twenty of the recommendations were accepted or received concurrence, including (1) future committee meeting sites, (2) no rigid program cost-sharing formula, (3) interstate shipment of wildlife, (4) funding of oral rabies vaccination programs, (5) cost-sharing of wolf reintroduction and management, (6) aquaculture and livestock depredation research, (7) assistance to airports, (8) sources of program funding, (9) National Piscivorous Bird Management Plan research, (10) aerial operations safety initiative, (11) cormorant population management, (12) modification of double-crested cormorant depredation order, (13) need for South Dakota field personnel, (14) compliance with the United States-European Union Agreed Minute, (15) data collection, (16) increased aquaculture line item funding, (17) regional office relocation, (18) communications and outreach, (19) control and elimination of wildlife-borne diseases, and (20) overhead charges on cooperative funds. In addition, seven of the recommendations had been previously submitted by the advisory committee and continue to be acted upon by the program.

General Conference Committee of the National Poultry Improvement Plan (NPIP)

The committee represents cooperating State agencies and poultry industry members, and serves as a liaison between the poultry industry and the United States Department of Agriculture on matters pertaining to poultry health.

The official delegates to the 34th Biennial Conference of the NPIP recommended the following changes to the provisions of the NPIP. (1) Adding a "U.S. Avian Influenza Clean" classification for primary and multiplier egg- and meat-chicken breeding flocks, (2) Adding an official laboratory protocol for the agar gel immunodiffusion (AGID) test for avian influenza, (3) Approving two tests for avian influenza; (a) AGID test, (b) Enzyme linked immunosorbent assay (ELISA), (4) Using a FDA-approved sanitizing agent in egg-type breeding chicken mash, (5) Using a FDA approved salmonella control product in finished-feed meat-type breeding chickens, (6) Establishing a "U.S. Mycoplasma meleagridis Clean State, Turkeys" classification in the NPIP, and (7) Establishing technical protocol for culturing chick meconium.

National Organic Standards Board (NOSB)

The NOSB was established to provide recommendations to the Secretary on implementing the Organic Foods Production Act of 1990, which authorizes a national organic program establishing national standards for the production and certification of organically produced foods.

The Agricultural Marketing Service recently published in the Federal Register a proposed rule addressing all aspects of the National Organic Program. The NOSB provided recommendations regarding all provisions of the proposed rule and reviewed more than 170 substances for inclusion in the proposed National List, as required by statute. During fiscal year 1998, the NOSB conducted two public meetings. In these meetings the NOSB reviewed committee reports; continued work on livestock production issues, including aquaculture; elected new officers; appointed committee chairpersons; recommended that the Department prepare a proposal that is more consistent with the needs of organic producers and consumers; and planned future activities of the Board.

FARM AND FOREIGN AGRICULTURAL SERVICES:

Agricultural Policy Advisory Committee for Trade

Agricultural Technical Advisory Committees for Trade (5)

Pursuant to Departmental Regulation 1042-68, USDA currently administers the Agricultural Policy Advisory Committee for Trade (APAC), and five Agricultural Technical Advisory Committees for Trade (ATACs). All

members are recognized leaders in their field, and are able to represent those interests with balance and fairness.

The APAC and the ATACs are jointly chartered by the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative (USTR). The committees provide a formal mechanism to ensure ongoing liaison between the Federal government and private sector regarding international agricultural trade matters. Through the APAC and ATACs, USDA and USTR seek information and advice from representatives of the private sector on U.S. negotiating objectives and bargaining positions on agricultural issues before entering into trade agreements, and on the operation of any trade agreement once entered into. The APAC provides advice regarding overall agricultural trade issues while the ATACs provide detailed technical advice, recommendations, and information on their respective commodities. The Committees routinely provide advice during meetings and in response to written requests for information. At the conclusion of trade negotiations, the APAC and ATACs are required by statute to prepare reports to the Congress, to the President, and to the U.S. Trade Representative.

All six committees met during fiscal year 1998: the APAC met on May 1, 1998 and on July 10, 1998, (21 members in attendance); the Fruits and Vegetables ATAC met on May 9, 1998, and on July 9, 1998; the Grains, Feed, and Oilseeds ATAC met on May 1, 1998 and on September 29, 1998 and on September 29, 1998; and the Sweeteners ATAC met on May 1, 1998.

In fiscal year 1999 the APAC met on October 2, 1998 and December 11, 1998. The Fruits and Vegetables ATAC met on November 16, 1998; and the Tobacco, Cotton and Peanuts met on November 5, 1998. All of these meetings were held in the U.S. Department of Agriculture in Washington, D.C.

In fiscal year 1998, the Committees focused on issues involving sanitary and phytosanitary issues; enforcement of the Uruguay Round Agreement and the Veterinary Equivalency Agreement; the Asian financial crises; Chinese accession to the World Trade Organization (WTO); and preparations for the 1999 WTO Negotiations. The Committees also discussed regional trade initiatives such as the Asia Pacific Economic Cooperation and the Free Trade Area of the Americas Agreement. U.S.-EU bilateral issues were discussed at length as were issues involving biotechnology, food safety, labeling, the President's food safety initiative; and disaster relief. Other significant issues discussed included regional trade issues such as Tobacco Blue Mold and China, Japan and peanuts, peanut quota assigned to Israel; WTO dispute settlement case with Japan on varietal testing; Korean Beef Import Agreement compliance; dairy issues with Canada; Turkey's ban on cattle and meat imports; Mexico and Avian Influenza situation; continuing TCK issues with China; and grain issues with Canada.

The Committees face a demanding schedule during fiscal year 1999. One of the top priorities will be preparation for the new round of WTO agricultural negotiations that begin in fiscal year 2000. The industries' input is critical to the U.S. Government presenting the best possible proposals. The USDA and the USTR will need Committees guidance on developing a negotiating mandate, i.e., the scope and structure of the negotiations, the range of issues to be covered, and building country alliances. As the negotiations proceed, USTR and USDA will rely on the industries' technical assistance and guidance on specific agricultural trade issues and concerns.

The Committees will also continue their supportive role on regional initiatives such as the Asia Pacific Economic Cooperation as well as the Free Trade Area of the Americas Agreement. The negotiations on U.S.-EU bilateral issues as well as other bilateral agreements will also require the continuing input from the private sector. As a result, it is anticipated that the Committees will meet at least three times during fiscal year 1999.

Emerging Markets Advisory Committee

The committee provides information and advice to help the USDA, and specifically the Foreign Agricultural Service (FAS) develop strategies for providing technical assistance and enhance markets for U.S. agricultural products in developing market economies. Committee members review from a business perspective exporting

and marketing proposals developed and initially approved by FAS as appropriate for funding under the Emerging Markets Program. Members' views and advice are considered prior to submitting a proposed export and market access/promotion program to the Under Secretary for approval and funding commitments. Members have in the past had difficulties with certain proposals, and these were revised to meet member concerns, always to the good of the proposed project. A total of \$10 million in emerging markets projects are developed, approved and funded each fiscal year.

The Committee represents a cross-section of the agricultural industry, and also of geographic and ethnic diversity. Of the 16 members, 7 are from the East, 6 from the Mid-West, 2 from the South/Southeast, and 1 from the West. Two are African-American, and 2 are women. Sectorial expertise is in agricultural policy; banking and finance; marketing; production and processing of food and feed; livestock; seeds; forestry; commodity exchanges; farm cooperatives and management; transport; storage and handling; and project development. All members perform essentially the same function except for the Co-chairperson, who helps plan and oversee Committee meetings.

Frequency of meetings varies, depending upon the issues to be considered and the range and importance of activities under consideration by FAS at any given time. On average, the Committee meets two to three times each fiscal year. Meetings always stimulate dialogue between the Committee members and FAS staff and are therefore almost a prerequisite to a successful functioning of the Advisory Committee. There is also written and telephone communication among the members and with FAS staff in between formal sessions of the Committee.

The Committee review of and advice concerning proposed activities under the Emerging Markets Program balances private sector perspectives with government views on proposed projects and activities, an important consideration since the program encourages, indeed emphasized the participation of private industry. The Committee represents a wide range of the U.S. agribusiness and farming industry, and members have been trained in and have knowledge of FAS programs and objectives and of the operation and goals of the Emerging Markets Program, an ingredient crucial to the Committee's purpose of assisting FAS to carry out its mission to emerging markets. Private sources without such specific exposure to and experience with the program is of little use of the agency in developing strategies and determining priorities in emerging markets.

All Committee meetings have to date been open to the public.

Edward R. Madigan Agricultural Export Excellence Award Board

Section 261 of the Federal Agricultural Improvement and Reform Act of 1996 ("the FAIR Act"), authorized the establishment of the Edward R. Madigan Agricultural Export Excellence Award to honor those who substantially encourage entrepreneurial efforts in the food and agriculture sector for advancing United States agricultural exports. The FAIR Act provides for the establishment of a board of evaluators to make recommendations to the Secretary concerning the selection of award recipients and other matters relating to the making of the award.

The Edward R. Madigan Agricultural Export Excellence Award Board was established by Departmental Regulation 1042-27 on June 17, 1997. Ten candidates for the nine-member board have been contacted. Once all information has been collected, the candidates' names will be sent to the Secretary for approval. The Board should be in place by December 1998 and a meeting should be scheduled for February 1999 in order to evaluate nominees for the Madigan Award. Board members will serve until June 17, 1999, when the current charter expires. At that time, the Secretary may decide to reappoint members for an additional two years, or to appoint new members.

Advisory Committee on Beginning Farmers and Ranchers

The Committee will advise the Secretary on the administration of the Farm Service Agency's (FSA) beginning farmer programs and methods to increase participation between Federal and State programs to provide joint financing to beginning farmers and ranchers.

The Advisory Committee on Beginning Farmers and Ranchers was established by section 5 of the Agricultural Credit Improvement Act of 1992 (Pub. L. 102-554). The charter was established on September 13, 1996, and expired on September 13, 1998. Committee members have not yet been selected, so no meetings were held in fiscal year 1998.

One meeting is planned for fiscal year 1999.

NATURAL RESOURCES AND ENVIRONMENT:

Task Force on Agricultural Air Quality Research

The Task Force on Agricultural Air Quality Research was established by statute in 1996 to oversee and review research relating to agricultural air quality in order to ensure intergovernmental cooperation in research activities. The Task Force advises the Secretary of Agriculture on his role in providing oversight and coordination related to agricultural air quality.

The Task Force on Agricultural Air Quality Research held two meetings in fiscal year 1998. The first meeting was on October 29-30, 1997 in Washington, D.C. and the host was the Natural Resources Conservation Service. During the meeting, public comment was taken on Agriculture Air Quality Issues. Recommendations went to Secretary Glickman on a draft MOU between USDA and EPA. Secretary Glickman signed the MOU on January 14, 1998, and Carol Brauner signed on February 25, 1998. The second Task Force meeting was held in Amarillo, Texas (April 8-9, 1998).

On August 23, 1998, the first two-year Charter of the Agricultural Air Quality Task Force expired. On September 25, 1998 a new charter was approved. New task force members have been nominated.

National Commission on Small Farms

The purpose of the National Commission on Small Farms is to gather and analyze information regarding small U.S. farms and ranches and recommend to the Secretary of Agriculture a national strategy to ensure their continued viability, including specific measures the public, nonprofit and private sectors can take to enhance the economic livelihood of small farms. The 30 member commission was appointed by Secretary Glickman in July 1997. Members represent small farms and ranches, finance, rural communities, nonprofit organizations, academia, state and local governments, Native Americans, and farm workers. In fiscal year 1998 the commission held meetings in Washington, D.C., October 14-15, 1997 and December 10-12, 1997 to finalize its recommendations. The commission's report, "A Time to Act, A Report of the USDA National Commission on Small Farms, was published January 22, 1998.

The commission met October 6-8, 1998 in Washington, D.C., to receive an implementation progress report from USDA on the commission's report, "A Time to Act," and to discuss future actions of USDA and the commission. A resolution was approved by the commission that provided its opinion of the Department's implementation progress report and identified priorities for implementation. The Commission has tentatively planned a spring 1999 meeting to receive an updated implementation progress report.

USDA/1890 Task Force

The USDA/1890 Task Force was established in 1988 to create a closer partnership between the USDA and the 1890 Land Grant Institutions; to strengthen the 1890 institutions' facilities; to upgrade the physical facilities

on the campuses; to broaden the research capabilities of the institutions; and to attract more minorities and outstanding students to professional careers in agriculture, forestry, and related areas.

Originally the Task Force's membership consisted of five USDA officials and five 1890 presidents. The membership has since been restructured to have a representative from each mission area within the Department. The Task Force customarily meets three times a year; once at the Department and twice on the 1890 campus.

This year's accomplishments include:

- USDA/1890 National Scholars Program. Thirty-four scholars were sponsored for the 1998 year, making a total of approximately 234 scholars since the inception of the program in 1993.
- Capacity Building Grants Program - fiscal year 1998 appropriation was \$9,200,000. Forty-two grants were awarded in 1998; 25 teaching and 17 research. Fifteen institutions were recipient.

Two meetings were held in 1998, February in Washington, DC and at Kentucky State University in May. February meetings are scheduled in Washington, DC in conjunction with an 1890 Congressional breakfast. Three meetings are scheduled for 1999: February, Washington, DC; June, Delaware State University; and September (location to be announced). Planned meetings are to resume strategic planning for strengthened partnerships for the new millennium.

OFFICE OF THE CHIEF ECONOMIST:

The Commission on 21st Century Production Agriculture

The Commission on 21st Century Production Agriculture was established by the Federal Agriculture Improvement and Reform Act of 1998 to conduct a comprehensive review of changes in the condition of production agriculture under the FAIR Act and to review the future of production agriculture in the United States and the appropriate role of the Federal Government in support of production agriculture. Responsibility for the Commission has been assigned to the Office of the Chief Economist. Departmental Regulation 1042-129, dated January 16, 1998, established the Charter for the Commission, as required by the Federal Advisory Committee Act. Eleven members selected by the President and the House and Senate agriculture committees were appointed to the Commission, as required by the legislation.

The Commission met on February 2-3, 1998 to consider organizational matters, operational procedures, and personnel matters. The Commission met again on July 9-10, 1998 to discuss organization of the Commission's first mandated study on the condition of production agriculture under the FAIR Act. The first study, which has not yet been completed, was due on June 1, 1998. The second study is due by January 1, 2000.

AUTHORITY AND COMPOSITION OF USDA ADVISORY COMMITTEES IN EXISTENCE BETWEEN FY 1998 AND FY 1999				
Committee Title	USDA Agency	Authority Statutory (S) or Discretionary (D)	Committee Membership	Status Continuing (C) Terminated (T)
FOOD, NUTRITION AND CONSUMER SERVICES:				
National Advisory Council on Maternal, Infant and Fetal Nutrition	FNS	S 42 U.S.C. 1786	24	C
FOOD SAFETY:				
National Advisory Committee on Meat and Poultry Inspection	FSIS	S 21 U.S.C. 601	16	C
National Advisory Committee on Microbiological Criteria for Foods	FSIS	D Departmental Regulation 1043-28	35	C
RESEARCH, EDUCATION AND ECONOMICS:				
National Agricultural Research, Extension, Education, and Economics Advisory Board	CSREES	S 7 U.S.C. 3103(1)	30	C
Strategic Planning Task Force on Research Facilities	CSREES	S P.L. 104-127	15	C
National Genetic Resources Advisory Council	ARS	S 7 U.S.C. 5843	9	C
Dietary Guidelines Advisory Committee	ARS	D Departmental Regulation 1042-94	11	C
National Nutrition Monitoring Advisory Council	ARS	S P.L. 101-445	9	C
Forestry Research Advisory Council	CSREES	S 16 U.S.C. 582a	20	C
USDA/Hispanic Association of Colleges and Universities	CSREES	D Memorandum of Agreement dated 10/96	18	C
Advisory Committee on Agriculture Statistics	NASS	S 5 U.S.C. App. 2	25	C
USDA/American Indian Higher Education Consortium	CSREES	S P.L. 104-127	30	C
MARKETING AND REGULATORY PROGRAMS:				
USDA/1890 Task Force	APHIS	D Deputy Secretary's Memorandum dated 8/29/88	14	C

AUTHORITY AND COMPOSITION OF USDA ADVISORY COMMITTEES IN EXISTENCE BETWEEN FY 1998 AND FY 1999				
Committee Title	USDA Agency	Authority Statutory (S) or Discretionary (D)	Committee Membership	Status Continuing (C) Terminated (T)
Federal Grain Inspection Advisory Committee	GIPSA	S 7 U.S.C. 87i	15	C
Advisory Committee on Foreign Animal and Poultry Diseases	APHIS	D Secretary's Memorandum 1991	20	C
National Wildlife Services Advisory Committee (formerly the National Animal Damage Control Advisory Committee)	APHIS	D Departmental Regulation 1041-1	20	C
General Conference Committee on the National Poultry Improvement Plan	APHIS	D Secretary's Memorandum 1758	7	C
National Organic Standards Board	AMS	S 7 U.S.C. 6518	14	C
FARM AND FOREIGN AGRICULTURAL SERVICES:				
Agricultural Policy Advisory Committee for Trade	FAS	D Departmental Regulation 1042-68	44	C
Ag. Tech Adv. Comm. for Trade in:				
Animals & Animal Products	FAS	D Departmental Regulation 1042-68	24	C
Fruits and Vegetables	FAS	D Departmental Regulation 1042-68	20	C
Grains, Feed & Oilseeds	FAS	D Departmental Regulation 1042-68	28	C
Sweeteners	FAS	D Departmental Regulation 1042-68	14	C
Tobacco, Cotton & Peanuts	FAS	D Departmental Regulation 1042-68	21	C
Emerging Markets Advisory Committee	FAS	Statutory (Congress created)	16	C
Edward R. Madigan Agricultural Export Excellence Award Board	FAS	S P.L. 104-127	9	C
Advisory Committee on Beginning Farmers and Ranchers	FAS	S P.L. 102-554	20	C

AUTHORITY AND COMPOSITION OF USDA ADVISORY COMMITTEES IN EXISTENCE BETWEEN FY 1998 AND FY 1999				
Committee Title	USDA Agency	Authority Statutory (S) or Discretionary (D)	Committee Membership	Status Continuing (C) Terminated (T)
FARM AND FOREIGN AGRICULTURAL SERVICES:				
Task Force on Agricultural Air Quality Research	NRCS	D Departmental Regulation 1042-126	17	C
National Commission on Small Farms	NRCS	D Departmental Regulation 1043-43	30	C
OFFICE OF THE CHIEF ECONOMIST:				
Commission on 21st Century Production Agriculture	OCE	S P.L. 104-127	11	C
DEPARTMENTAL ADMINISTRATION:				
Secretary's Small Business Advisory Committee	OSDBU	To be established	10	C

2000 Explanatory Notes
Office of the Chief Financial Officer

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OFFICE OF THE CHIEF FINANCIAL OFFICER

Purpose Statement

Under authority provided in Reorganization Plan No. 2 of 1953 (7 U.S.C. 2201), the Secretary of Agriculture established the Office of the Chief Financial Officer (OCFO) in fiscal year 1995. The Chief Financial Officers Act of 1990 established a Chief Financial Officer to provide overall direction and leadership in the development of modern Federal financial management structures and systems.

The purpose of the OCFO is to:

Shape an environment in which USDA officials have and use high quality financial and performance information to make and implement effective policy, management, stewardship and program decisions.

OCFO is responsible for:

- Financial management system policy and the provision of timely, accurate, and reliable information from financial systems.
- Development of financial statements, cost accounting policy and financial management budgets.
- Policy guidance and oversight of the Department's internal controls and management accountability programs and reporting to ensure adequate controls over Department assets.
- Oversight of the Departmental Working Capital Fund (WCF).
- Coordinating implementation of the Government Performance and Results Act (GPRA) in USDA, including strategic planning and performance planning.
- Providing policy guidance and oversight of the travel system, grants management, cash and credit management operations and other financial management functions.
- Budget support for Departmental Offices and the Office of the Secretary.
- Operation of the National Finance Center (NFC).

OCFO operations at NFC and the approximately 69 employees at headquarters are led by the CFO, who is assisted by the Deputy CFO, and the Associate CFO. The Deputy CFO shares responsibility with the CFO for all OCFO policy and operations. The Associate CFO is responsible for management of operations, including oversight of the National Finance Center (NFC) in New Orleans. NFC employs approximately 1,650 staff years in the operation of centralized, automated, and integrated financial, payroll, personnel, administrative payments, and central accounting systems which serve more than 40 Departments, independent agencies, and congressional entities, including USDA. Operations at NFC are financed entirely by fee-for-service contracts with customers, with daily operations financed through the USDA WCF. No direct appropriated funding for NFC is reflected in the OCFO operating budget.

The headquarters Office is located in Washington, D.C. As of September 30, 1998 there were 1,724 employees, of which 1,651 were full-time permanent employees and 73 other than full-time permanent employees. These employees were assigned as follows:

<u>Location</u>	<u>Full-time Permanent</u>	<u>Other</u>	<u>Total</u>
Washington, D.C.	69	2	71
Field Unit, New Orleans, LA	1,582	71	1,653
Total	1,651	73	1,724

Office of the Inspector General Reports

Audit Reports Released During 1998:

#11-401-0003-FM 02/25/98 FY 1997 National Financial Center Review of Internal Control Structure
 #50-099-0011-FM 03/25/98 Verification of Data Input into NFC Payroll/Personnel System

#50-401-0024-FM 07/16/98 FY 1997 USDA Financial Statements
#50-801-0004-FM 03/11/98 Implementation of the Foundation Financial Information System
#50-801-0005-FM 06/02/98 Material Control Weaknesses Will Continue to Impact Departmental Financial Operations

Audits in Process as of September 30, 1998:

#11-401-0004-FM 3/30/98 FY 1998 National Finance Center Review of Internal Control Structure
#50-099-0017-FM 2/3/98 Review of Year 2000 Renovation Phase
#50-099-0018-FM 2/18/98 Review of Controls in the Payroll/Personnel and Time and Attendance Systems
- Phase II
#50-401-0023-FM 9/08/97 FY 1997 USDA Working Capital Fund Financial Statements
#50-401-0030-FM 7/06/98 Fiscal Year 1998 USDA Consolidated Financial Statements

General Accounting Office Reports:

#901767 Debt Collection Management (Debt Collection Improvement Act)
#T-RCED-98-17-98-001 Results Act: Observations on USDA's Draft Strategic Plan
#AIMD-98-98-004 Observations of the Department of Agriculture's Strategic Plan
#RCED-98-29R-98-005 U.S. Department of Agriculture: Working Capital Fund and Modernization of Administrative Processes Program
#GGD-98-41-98-014 Managing for Results: Experiences of Selected Credit Programs
#AIMD-98-14-98-026 Credit Reform: Greater Effort Needed to Overcome Persistent Cost Estimation Program
#RECD-98-212R-98-078 Results Act: Observations on the U.S. Department of Agriculture's Annual Performance Plan for Fiscal Year 1999

OFFICE OF THE CHIEF FINANCIAL OFFICER

Available Funds and Staff Years1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation:	\$4,283,000	53	\$4,283,000	53	\$6,288,000	67
<u>Obligations Under Other</u>						
<u>USDA Appropriations:</u>						
Management, Oversight, and Administrative Services (provided to WCF Activities).....	1,475,066	13	1,676,817	18	1,727,121	18
Financial Development...	--	--	200,000	1	210,000	1
Subtotal, Appropriated and Reimbursement.....	5,758,066	66	6,159,817	72	8,225,121	86
<u>Working Capital Fund:</u>						
National Finance Center	115,233,000	1,213	125,521,000	1,114	133,445,000	1,085
Thrift Savings Plan.....	35,659,000	421	42,447,000	545	46,277,000	585
Purchase of Equipment..	8,554,000	0	9,535,000	0	9,128,000	0
Total, Working Capital Fund.....	159,446,000	1,634	177,503,000	1,659	188,850,000	1,670
Total, Office of the Chief Financial Officer.....	165,204,066	1,700	183,662,817	1,731	197,075,121	1,756

OFFICE OF THE CHIEF FINANCIAL OFFICER

Permanent Positions by Grade and Staff Year Summary1998 Actual and Estimated 1999 and 2000

Grade	1998			1999			2000		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
Exec Level IV	1	0	1	1	0	1	1	0	1
ES-6	1	0	1	1	0	1	1	0	1
ES-5	1	0	1	1	1	2	1	1	2
ES-4	0	1	1	0	0	0	0	0	0
ES-3	0	3	3	0	3	3	0	4	4
ES-2	0	0	0	0	1	1	0	0	0
ES-1	0	1	1	0	1	1	0	0	0
GS-15	6	12	18	6	11	17	6	12	18
GS-14	11	49	60	11	54	65	11	49	60
GS-13	44	123	167	39	133	172	40	137	177
GS-12	6	246	252	2	211	213	6	209	215
GS-11	3	177	180	2	207	209	4	176	180
GS-10	1	31	32	1	31	32	1	31	32
GS-9	2	101	103	0	121	121	5	101	107
GS-8	2	31	33	2	31	33	2	31	33
GS-7	6	273	279	6	275	281	8	302	309
GS-6	0	218	218	0	211	211	0	227	227
GS-5	0	151	151	0	168	168	0	185	185
GS-4	0	101	101	0	112	112	0	117	117
GS-3	0	47	47	0	47	47	0	47	47
GS-2	0	41	41	0	41	41	0	41	41
Ungraded Positions.....	0	27	27	0	0	0	0	0	0
Total, Permanent Positions.....	84	1,633	1,717	72	1,659	1,731	86	1,670	1,756
Unfilled Positions end-of-year...	-15	-51	-66	0	0	0	0	0	0
Total, Permanent Full-Time Employment, end-of-year..	69	1,582	1,651	72	1,659	1,731	86	1,670	1,756
Staff Year Ceiling.....	65	1,635	1,700	72	1,659	1,731	86	1,670	1,756

OFFICE OF THE CHIEF FINANCIAL OFFICER
CLASSIFICATION BY OBJECTS
1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, D.C.....	\$3,096,968	\$3,376,000	\$4,688,000
11 Total personnel compensation.....	3,096,968	3,376,000	4,688,000
12 Personnel benefits.....	564,930	635,000	1,000,000
Total personnel compensation & benefits..	3,661,898	4,011,000	5,688,000
Other Objects:			
21 Travel.....	5,868	11,000	11,000
22 Transportation of things.....	3,855	1,000	1,000
23.3 Communications, utilities, and misc. charges.....	109,116	109,000	150,000
24 Printing and reproduction.....	40,971	43,000	63,000
25.2 Other services.....	281,379	95,000	305,000
26 Supplies and materials.....	73,337	13,000	13,000
31 Equipment.....	64,769	0	57,000
Total other objects.....	579,295	272,000	600,000
Total direct obligations.....	4,241,193	4,283,000	6,288,000
Position Data:			
Average Salary, ES positions.....	\$125,900	\$125,900	\$125,900
Average Salary, GS positions.....	\$56,427	\$56,053	\$58,571
Average Grade, GS positions.....	12.47	12.10	12.16

OFFICE OF THE CHIEF FINANCIAL OFFICER

The estimates include appropriation language for this item as follows (new language underscored, deleted matter enclosed in brackets):

For necessary expenses of the Office of the Chief Financial Officer, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), of which not to exceed \$10,000 is for employment under 5 U.S.C. 3109, [~~\$4,283,000~~] \$6,288,000: Provided, That the Chief Financial Officer shall actively market cross-servicing activities of the National Finance Center.

OFFICE OF THE CHIEF FINANCIAL OFFICER

Appropriations Act, 1999.....	\$4,283,000
Budget Estimate, 2000.....	<u>6,288,000</u>
Increase in Appropriation.....	<u>+2,005,000</u>

SUMMARY OF INCREASES AND DECREASES
(On basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Program Changes</u>	<u>2000 Estimated</u>
Chief Financial Officer.	\$4,283,000	+\$2,005,000	\$6,288,000

Project Statement
(On basis of appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease</u>	<u>2000 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Chief Financial Officer.....	\$4,241,193	53	\$4,283,000	53	+\$2,005,000	\$6,288,000	67
Unobligated Balance.....	41,807						
Total Appropriation.....	<u>4,283,000</u>	<u>53</u>	<u>4,283,000</u>	<u>53</u>	<u>+2,005,000(1)</u>	<u>6,288,000</u>	<u>67</u>

Justification of Increases and Decreases

(1) An increase of \$2,005,000 for the Office of the Chief Financial Officer (\$4,283,000 available for fiscal year 1999) to restore USDA financial credibility and accountability consisting of:

- (a) An increase of \$2,005,000 and 14 staff years for Restoring USDA Financial Credibility and Accountability. This initiative will also fund 5 unfunded staff years, which are included in FY 1999 staff year ceiling.

The Office of the Chief Financial Officer (OCFO) needs the increase to adequately lead, assist and monitor the Department's financial management activities. OCFO must ensure that sound business practices are established, that valid and reliable data are available to support decision-making processes, and that financial expertise is available to all component agencies. OCFO must certify that the Department is compliant with all Congressional mandates, relevant laws and regulations regarding financial management.

Except for an increase of \$68,000 and two staff years in 1990, OCFO or its predecessor agency, Office of Finance and Management, has not received any program increases this decade. OCFO has not received full funding for pay costs, and inflation has eroded the resource base to such a degree that the Office has gone from a high of funding 64 staff years in FY 1993 to funding 48 staff years in FY 1999 from funds appropriated to the office. During this same period, the Congress has produced a series of mandates with which OCFO must lead the Department in complying. OCFO is currently not fulfilling its obligations and cannot do what is required to assist agencies and mission areas in complying with these responsibilities as long as this discrepancy between funding and responsibilities exists.

OCFO must establish good business practices that are followed by the implementation of sound systems producing accurate and timely data. Program managers, Departmental and Administration officials, members of Congress, and others often do not have the reliable and timely information that is needed to support essential decisions regarding the efficiency and the costs of program outcomes.

USDA's Inspector General issued a disclaimer of opinion on the Department's consolidated financial statements for FY 1997. In this report, the Inspector General cited specific instances where the Department has not achieved full compliance with relevant laws and regulations. First, OCFO has failed to fully implement an integrated financial management system that complies with all federal requirements and that provides complete, reliable, consistent, and timely information that is responsive to management's financial management needs. OCFO also failed to comply with the appropriate timetable for releasing the Department's consolidated financial statements. In fact, OCFO's financial statements were four months late because we lacked both the resources to provide oversight and guidance to the component agencies and the definitive plan to address the issues. The Inspector General's report also cited other weaknesses, some of these weaknesses have had a material impact on the consolidated financial statements of the Government and will result in a qualification to future statements unless the problems are corrected. Additional resources will address these issues, which support OCFO strategic Goal 1 - promote sound financial management through leadership, policy, and oversight.

In the Office of the Inspector General Audit Report No. 50401-24-FM on consolidated financial statements for fiscal year 1997, the Inspector General has stated that "...a stronger CFO oversight process is needed to assure that these long-standing problems are resolved on a coordinated Departmentwide basis. In support of OCFO strategic Goal 3, a CFO-led

approach is also needed to assure that long-standing credit reform problems dealing with system, resource, and budget versus financial processes, are resolved." OCFO concurs strongly with this opinion but lacks the resources to effectively establish and maintain the needed oversight. Out of necessity, OCFO activities have been limited to the collection and consolidation of information to meet external requirements. OCFO does not have the resources to provide value-added guidance.

The additional resources will be used for four primary purposes. First, OCFO will focus on defining those actions needed to achieve compliance with financial management related laws and regulations. OCFO, then, will assist agency managers in designing a plan to ensure that sound business practices are adopted, provide an educational process, and then implement the OCFO comprehensive financial information architecture currently being developed. This coordinated approach is needed to ensure a uniform and consistent standard within USDA. This level of guidance and specificity is especially critical as the State-based farm service agencies carry out their administrative convergence plan. OCFO will accomplish these specific goals: (1) releasing financial statements on time, (2) correcting the material deficiencies cited in the recent report by the Inspector General on the audit of the 1997 Consolidated Financial Statement, (3) adequately implementing Congressionally mandated debt collection provisions, (4) properly implementing a financial information architecture that fully complies with Federal requirements, (5) maintaining guidelines for cost distribution processes to include guidelines for the establishment of fees, (6) assuring compliance with the Single Audit Act and non procurement debarment and suspension/drug-free workplace requirements, and (7) participating as a key player in Governmentwide efforts to continually define and refine financial information requirements.

Second, the OCFO needs additional resources to comply with new reporting requirements, such as the accountability report to provide useful information to Departmental managers as well as to external recipients. If additional resources are not provided to fulfill these requirements, USDA will not be able to issue the report or will be forced to divert even greater resources from audit resolution.

Third, OCFO needs resources to ensure that all agencies, including OCFO, develop and retain a level of expertise to ensure the effective and efficient use of financial management information. A portion of the new resources would be used to form a team to provide guidance and assistance to agency program and financial managers. The team will work collaboratively with personnel from the component areas to ensure that agency specific problems are resolved consistently throughout the Department in a consistent manner.

As part of OCFO's effort to assist agencies, a portion of the new resources will be used to establish a Departmentwide financial management training program. The Inspector General has criticized OCFO for failing to carry out a requirement of the CFO Act relating to professional development and for failing to implement the CFO plan issued in April 1997 that described a financial management professional development program in USDA. OCFO concurs with the Inspector General's observations and agrees strongly with the report's recommendations. However, OCFO lacks the financial resources needed to fund this effort.

Fourth, OCFO has responsibility for (1) conducting oversight and providing expert guidance within the Department to ensure that the strategic planning function is carried out in a manner consistent with the intent of the legislation; (2) compiling and publishing of the Department's Strategic Plans and the annual performance reports; and (3) ensuring that a demonstrated linkage exists between annual performance plans and the strategic plan and that cost data are aligned with performance goals and correlate with budget requests. Without the requested resources, OCFO may not be able to produce an accurate and timely

performance report without redirecting staff resources from other essential management activities.

The recent revision to the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," implemented the 1996 Amendments to the Single Audit Act and incorporated OMB Circular A-128, "Audits of States, Local Governments and Indian Tribal Governments." As specified in Circular A-133, OMB is required to issue a compliance supplement each year. This compliance supplement contains guidance for non-Federal auditors to use when performing audits of entities receiving Federal financial assistance. The program specific guidance to be included in the supplement allows the auditors to evaluate the extent to which Federal funds were used in accordance with Federal requirements. OCFO is responsible for ensuring that the Compliance Supplement for each fiscal year contains current and accurate information for all USDA programs affected by the Single Audit Act. OCFO diverted staff from other critical activities to coordinate and resolve issues regarding the one program currently in the supplement and the publication of the associated guidance. There are not sufficient resources available to determine whether all programs have been identified for inclusion in future Compliance Supplements. In fact, OMB identified for OCFO officials three additional USDA programs that need to be included in the 1999 Compliance Supplement. OCFO recognized the weaknesses in the plans, but did not have adequate resources to work with program managers to bring about the needed improvements.

Without the requested resources, this important oversight, guidance and coordination function cannot be fully executed. As a result, the misuse of Federal funds may go undetected and instances of program abuse and fraud may not be addressed by Government managers in a timely fashion.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
District of Columbia..	\$4,241,193	53	\$4,283,000	53	\$6,288,000	67
Unobligated balance..	41,807	--	--	--	--	--
Total, Available or Estimate.....	4,283,000	53	4,283,000	53	6,288,000	67

OFFICE OF THE CHIEF FINANCIAL OFFICER

STATUS OF PROGRAM

The Office of the Chief Financial Officer (OCFO) through partnerships with the United States Department of Agriculture (USDA) mission/agencies and other USDA service organizations promotes and provides financial management services and leadership to support quality program delivery in all USDA program areas. The CFO organization has Departmentwide leadership responsibility for financial operations, activities, systems, and personnel. The CFO is the USDA's chief financial management policy officer and as such is the chief financial management advisor to the Secretary and his mission area heads.

Goal 1: Promote sound financial management through leadership, policy or oversight.

Current Activities:

Financial Management Systems. OCFO actively participates on the Governmentwide CFO Council Financial Systems Committee to promote the interests of USDA in providing its managers and officials with consistent, reliable, timely, and useful information and service.

Financial Statements. The Chief Financial Officers Act and the Government Management Reform Act require that USDA prepare and audit financial statements on an annual basis. USDA's consolidated financial statements for FY 1997 cover total revenues and other financing sources of approximately \$59 billion and total assets of approximately \$140 billion. The audits of the FY 1997 financial statements resulted in unqualified audit opinions for the Commodity Credit Corporation (CCC), Federal Crop Insurance Corporation, and the Rural Telephone Bank; qualified opinions for the Food and Nutrition Service (FNS) and the Rural Development (RD) mission area; and disclaimers of opinion on the FS and USDA as a whole. The less than favorable audit opinion for FNS was due to program-related deficiencies at the State administering agencies rather than to FNS financial management. This problem may be resolved before the next audit is completed. FS and RD are making substantive progress to overcome deficiencies related to their implementation of new accounting standards. Although RD may resolve its problem before the next audit is completed, FS is likely to require an additional year. USDA's goal is to make enough substantive progress to obtain an unqualified audit opinion on its financial statements for FY 2000.

The CFO has participated on the 11-member Governmentwide Accounting and Auditing Policy Committee (AAPC) and chaired subcommittees as needed. The AAPC addresses emerging accounting and auditing implementation issues, such as those impacting the preparation and audit of USDA financial statements.

Cost Accounting. OCFO continues to work with the USDA agencies to implement the Government's new cost accounting standards so that consistent, reliable, timely, and useful information on the full cost of goods and services can be provided to program managers and officials for informed decisionmaking. OCFO participated on an agency activity-based costing team and leads USDA Cost Accounting Task Force efforts to (1) identify agency programs and outputs to be costed, (2) define agency responsibility segments and cost centers, and (3) identify processes and methodologies to accumulate, measure, and assign direct and indirect costs to reporting periods and costs objects. OCFO has drafted a policy to identify the types of costs and specific cost elements that managers should consider when making decisions on how to improve asset management and operating efficiency, evaluate cost-effectiveness, and establish user charges for goods and services. In addition, OCFO participated on the Board of Directors of the Governmentwide CFO Council's Cost Accounting Work Group and its subgroups to (1) establish authoritative guidance for the Department on the implementation of legislative and regulatory cost accounting requirements and (2) promote the concept, value, and use of cost information for informed decisionmaking.

Audit Followup. As required by the Single Audit Act and the Inspector General Act Amendments of 1998, the OCFO is responsible for: codifying into regulations and interpreting revisions to OMB Circulars A-50, "Audit Follow-up," and A-133, "Audits of States, Local Governments, and Non-Profit Organizations," as well as researching and analyzing audits, determinations on final actions, monitoring management's actions on audits, tracking individual audit recommendations, and reporting semiannual results to the Congress. The OCFO also serves agencies by providing assistance on technical matters, policy guidance and interpretation. Specific efforts are now focusing on:

- Increasing management awareness of open audit issues with a goal of reducing the number of outstanding audit recommendations that are not completed in a timely manner.
- Working with management and the Office of Inspector General (OIG) to ensure that actions agreed to in management decisions are appropriate and achievable, will correct the identified deficiencies, are cost effective, and provide an action plan with milestones for completion.
- Continuing to streamline the semiannual reporting process to provide information that is more useful to management and to the Congress for decision making and resource allocation.
- Developing and implementing an audit tracking system that will facilitate semiannual reporting and provide information on systemic weaknesses that cut across mission areas that may require Departmental action.
- Defining and implementing the added responsibilities of the revisions to the Single Audit Act and OMB Circular A-133.

Management Accountability and Control. The OCFO is responsible for management accountability and control under the CFO Act and the Federal Managers Financial Integrity Act (FMFIA) for ensuring that USDA agencies comply with the requirements of FMFIA, and for determining the material weaknesses to be included in the Secretary's annual report to the President and the Congress. OCFO is working with agencies to integrate FMFIA with the strategic planning and annual performance planning processes to ensure that material weaknesses and nonconformances are addressed during the planning and budgeting processes. Current efforts focus on training and outreach. During FY 1998, the Departmental directive on management control was revised, and the directive now includes an explicit linkage between material deficiencies and strategic and performance planning. The directive requires the program agency to include a goal or other reference to address the correction of any material weakness or nonconformance reported to the President. Specific ongoing efforts include:

- Increasing management awareness of open material deficiencies with a goal of increasing the timely correction of material weaknesses and nonconformances.
- Working with management and the OIG to verify the continued materiality of reported deficiencies.
- Streamlining the annual reporting process to eliminate redundant and unnecessary efforts.

Government Performance and Results Act (GPRA). The OCFO is responsible for coordinating the implementation of the requirements of GPRA Departmentwide. GPRA establishes guidelines and time frames for developing outcome/results oriented strategic plans, annual performance plans, and reporting results throughout the Federal Government. The OCFO continues to work with the mission areas' and agencies' representatives and the Office of Budget and Program Analysis (OBPA) in the following activities to implement GPRA requirements:

- Enhancing and refining agency performance goals and indicators to reflect the results of program operations with an orientation to the customer.
- Developing compliant annual performance plans for the Department that clearly demonstrate the linkages to the strategic plan.
- Developing and implementing reliable data systems to support performance measurement and reporting.
- Coordinating efforts within USDA and with other Federal agencies to ensure that cross-cutting functions and programs are complementary, appropriate in scope, and not unnecessarily duplicative, and that common goals and performance measures are developed, where appropriate.
- Continuing consultations with the Congress as the Department further enhances and refines its strategic plan and performance measures.
- Developing strategies and methodologies to change the orientation for strategic planning from process to results.

Grants and Cooperative Agreements Management. The OCFO develops, coordinates, and oversees the implementation of Departmentwide Federal assistance administrative regulations and processes. For the past several years the primary effort has been focused on ensuring a reasonable level of uniformity in the administrative processes utilized by various Federal Departments. Special emphasis is being placed on gaining uniformity to decrease the burden recipients face when they have to respond to a wide variety of administrative methodologies.

Debt Management. The OCFO is responsible for coordinating and guiding USDA agencies in the credit management and debt collection program. As of June 30, 1998, USDA had \$105 billion in receivables, up from \$104.8 billion the previous year. Delinquencies were about \$5.7 billion as of June 30, 1998, down from \$7.7 billion the previous year. OCFO's current efforts are focused on assisting the agencies in implementing the systems changes, regulations, and changes to current systems of records for Treasury's Administrative Offset Program and the referral of debt to Debt Collection Centers.

Electronic Funds Transfer (EFT). The OCFO provides direction to USDA agencies in the use of electronic collection and payment mechanisms for its customers. With the EFT provisions of the Debt Collection Improvement Act of 1996, USDA is planning and implementing actions to provide efficient and timely EFT disbursements as required. USDA continues to expand the use of EFT mechanisms such as Automated Clearing House, Fedwire, Plastic Card Collection Network, Government Purchase Card, and Travel Card. OCFO efforts have focused on providing direction to agencies in (1) switching from more expensive forms of EFT to less expensive forms, and (2) expanding the use of EFT mechanisms in place of cash or checks.

Travel Management. Travel management continues to be a high priority, especially policy development and management and oversight of travel management initiatives; e.g., travel and transportation payment and expense control system, travel management center program, and relocation services program.

Budget and Fiscal Services. A wide variety of budget and fiscal services are provided to the Office of the Secretary, Executive Operations, the Office of Communications, the Office of the Chief Information Officer, and Departmental Administration offices. These services include: (1) the preparation of detailed tables, computer print materials, and supporting justification for the FY 2000 budget request to the Office of Management and Budget and the Congress; (2) preparation of materials relating to implementation of the USDA Streamlining Plan; (3) financial advice and assistance to policy and program officials relating to

ongoing operating programs, including analysis of issues, monitoring of resource utilization, and development of alternatives and recommended courses of action. This service covers 20 appropriation accounts, and up to 20 subprograms, which encompass diverse functions or programs, each of which require technical service at a level equivalent to the operation of a separate appropriation.

Selected Examples of Recent Progress:

Cost Accounting. OCFO recently developed and is in the process of implementing new USDA cost accounting standards and a new Statement of Net Cost for the Department that complies with central authoritative requirements. In addition, OCFO compiled a comprehensive list of user fees and charges for the various goods and services that USDA provides and included the identification of opportunities for charging fees where none currently exist. This should be useful in the Department's efforts to recover the full costs of its goods and services.

Management Accountability and Control. OCFO accomplishments in this area include: (1) prepared analysis and made the case for achieving qualified assurance with Section 2 of FMFIA and obtained OIG concurrence (noncompliance had been reported for at least 6 of the prior years), (2) streamlined the data call process for the 1998 annual FMFIA report to eliminate confusion about reporting requirements for component agencies as well as logistical problems in responding to past data calls, (3) revised Management Control Directive and included first explicit linkage between FMFIA and GPRA, (4) prepared analysis of 1997 reported material weaknesses to determine if accomplishment of planned corrective actions would reduce materiality of weaknesses sufficiently to no longer require reporting in the Secretary's FMFIA report, and as a result several long-standing weaknesses were closed, and (5) evaluated agencies' strategic plans and annual performance plans to ensure that reported weaknesses were adequately addressed.

Audit Follow-up. OCFO accomplishments in this area include the following items. OCFO developed new reporting format for presentation of management information on audit tracking to focus executive attention to troubled areas. This report isolates audits where action is not being completed on schedule. OCFO continued its emphasis on long standing open audits by elevating them to agency heads and subcabinet officials. As a result, final action was reached on several extremely old audits. Other activities include: (1) worked actively with agency personnel and OIG to achieve changes in management decisions where appropriate, (2) drafted revision of audit follow-up directive, (3) implemented new reconciliation practices for semiannual reporting, which reduced effort and increased accuracy of information, (4) identified for the first time since 1988, instances where management decision information reported by OIG differs from information reported by OCFO, (5) identified long-standing processing errors in audit tracking and implemented compensating controls, (6) identified systemic errors in data received from OIG and implemented compensating controls, and (7) developed requirements for new audit tracking system and report formats that focus on management information and accountability needs.

Government Performance and Results Act. OCFO worked closely with OBPA to coordinate GPRA implementation including (1) working with agencies during development of annual performance plans (APP), (2) reviewing and providing comments on draft plans to ensure consistency with strategic plans, (3) providing portions of Departmental budget guidance pertaining to annual performance plans, as well as input for Department's overview to the APP, (4) posting the Strategic Plan and APP to the OCFO homepage and responded to internal and external requests for information on the Strategic Plan and APP, (5) meeting with external groups including representatives from Israel and Canada, as well as other Federal agencies to discuss USDA strategic planning efforts, (6) participating in numerous USDA and Federal interagency forums related to GPRA and performance management which included planning and presentation of numerous government-wide training sessions, (7) developing a matrix of USDA financial management goals for FY 2000 to easily communicate information to component agencies (the matrix depicted explicit requirements for agency performance plans in order to link financial management activities in component agencies to departmental goals), and (8) initiating consultation process with

Congressional committees on USDA strategic planning efforts and worked with individual agencies to prepare managers for the sessions.

Grants Management Rules. OCFO and Food and Consumer Services are proposing regulatory amendments that will provide administrative consistency for both entitlement and non-entitlement programs. These amendments will also offer a level of regulatory simplification relief to entitlement program recipients which currently must comply with older, less flexible rules.

Debt Management. During FY 1998, USDA agencies collected more than \$78.3 million through tax refund offsets, up from \$54 million for the previous year. OCFO is working with agencies to improve the reporting of write-offs to the Internal Revenue Service (IRS), identifying delinquent and defaulted applicants applying for direct and guaranteed loans, and increasing the number of delinquent accounts referred to the Treasury Offset Program for offset against IRS tax refunds and other Treasury payments.

Electronic Funds Transfer (EFT). During FY 1998, about 62 percent of the amount USDA disbursed was by EFT. About 89 percent of the amount USDA collected was by improved cash management mechanisms. The dollar amount by major category of mechanism is as follows:

- \$32.6 billion by electronic funds transfer disbursements, up 26.8 percent from FY 1997.
- \$6.7 billion from concentration banking system collections, up 9.8 percent from FY 1997.
- \$6.0 billion from electronic funds transfer collections, down 1.6 percent from FY 1997.
- \$3.7 billion from lockbox and credit card collections, down 17.7 percent from FY 1997.

Prompt Payment. During FY 1998, USDA paid \$693,197 in interest penalties on \$15.5 billion of payments that were subject to the Prompt Payment Act (PPA). For FY 1998, USDA paid on-time 98.8 percent of payments subject to the PPA, up 0.2 percent from the previous year. USDA's penalty occurrence rate was 0.4 percent in FY 1998, down 0.1 percent from the previous year. USDA's penalty occurrence rate continues to be one of the lowest of all Federal agencies.

Goal 2: Create an infrastructure to carry out financial management policies.

Financial and Administrative Systems. OCFO continues to (1) assist the USDA mission areas and agencies in converting to, or interfacing with, FFIS and NFC's other systems; (2) monitor USDA mission areas' and agencies' efforts to modernize or replace business processes applicable to financial, administrative, and mixed systems; and (3) evaluate USDA's financial management systems and initiatives to determine if they comply with all applicable standards and requirements.

Selected Examples of Recent Progress:

Financial Systems. As examples, OCFO has updated the USDA Financial and Accounting Standards Manual, implemented a configuration management policy and version control process for the Department's foundation system baseline software, monitored mission area and agency initiatives to ensure consistency with the Department's goals and objectives, and participated in Departmental efforts to reengineer and/or modernize administrative processes such as implementing a state-of-the-art credit card system for tracking, reconciling, and paying Government credit card purchases.

OCFO has made significant progress in recent years toward implementing an integrated system for the Department. OCFO has installed the base software for the Department's new Foundation Financial Information System (FFIS) at NFC and implemented it for OCFO headquarters appropriated funds as well as for the Forest Service's (FS) two largest regions and one experiment station. In addition, OCFO has configured FFIS application images for nine agencies, developed a kit for small agencies to use as an aid in accelerating the implementation of FFIS, developed and implemented interfaces for 15 systems plus 8

applications of another system, implemented a reports warehouse, and placed 2 additional agencies in a production simulation mode. The plan is to have FFIS substantially implemented throughout the Department by FY 2002.

Central Billing of Transportation Accounts. Reconciliation and payment of centrally-billed transportation accounts have been a matter for concern for a number of years. Through the joint endeavors of the OCFO and American Express, work continues with the agencies and Travel Management Centers to reconcile the centrally billed accounts. OCFO has encouraged agencies to reduce or eliminate their centrally billed accounts and have their employees use individual Government charge cards to procure official transportation expenses.

Administrative Systems. Considerable progress was made in working with users in enhancing the administrative systems. Most notably was the completion of the development and the implementation of the Purchase Card Management System which provided automated tools to greatly simplify the use of the government credit card. The team working on the project received the Hammer Award. Other enhancements included the implementation of a new automated travel system and significant progress in upgrading the payroll/personnel system and developing additional systems to automate the work of personnel offices.

Goal 3: Operate a financial center that produces timely and reliable information, and provide oversight of the operation of financial and related systems to ensure production of auditable data and information.

Operating Systems. USDA maintains and operates 70 financial and administrative systems with a total of 146 applications. These systems service 29 USDA agencies that have an estimated program level of approximately \$90 billion for FY 1998 and assets of approximately \$140 billion. In addition, the systems at OCFO's NFC are used to cross-service 43 Federal departments and agencies. For instance, NFC currently processes the payroll every 2 weeks for approximately 430,000 employees and supports the Federal Retirement Thrift Savings Plan with more than 2 million accounts.

Selected Examples of Recent Progress:

National Finance Center Achieves Year 2000 Compliance Goal. OCFO's NFC in New Orleans met a self-imposed deadline to make all its systems Year 2000 compliant. The NFC provides payroll/personnel services to 435,000 employees from USDA and 100 other Federal agencies, accounting for one-fifth of the entire Federal Government. NFC's systems include the Federal Government's Thrift Savings Plan, which is the \$67 billion 401(k) retirement plan with 2.3 million participants.

Employee Personal Page Attracts More than 13,000 Users. The Employee Personal Page gives the 435,000 employees who receive payroll/personnel service from the NFC access to their earnings and leave, travel, and other personal data via the Internet. This innovation earned the National Finance Center's development team a place as finalist for the Government Technology Leadership Award.

OCFO's National Finance Center Marks Civil Rights' Progress. OCFO's NFC unveiled Inclusion University, a self-paced optional program for employees who want to expand their understanding of diversity issues in the workplace. An NFC original, this program is the first of its kind in the Federal Government. This effort and other initiatives contributed to a 36 percent decline in informal EEO complaints and a 41 percent decline in formal EEO complaints.

Thrift Savings Plan Division Earns Software Engineering Certification. The National Finance Center's Thrift Savings Plan Division achieved a Level 2 ranking of the Software Engineering Institute's (SEI) Capability Maturity Model (CMM), joining the top 30 percent of Federal and military software engineering organizations nationwide in terms of measured capability maturity.

Selected Workload Indicators are as follows:

- Payrolled approximately 438,000 employees biweekly, with an average of only 5 employees remaining unpaid through the automated system each payroll cycle;
- Issued 523,141 1997 W-2's; released 100 percent of all system-generated payroll W-2's by January 6, 1997;
- Issued and mailed 27,853 Forms 1099 for 1997 by January 13, 1998;
- Processed over 11,700 retirement claims;
- Processed approximately 6.8 million documents (in addition to payroll documents) through various administrative payment applications (approximately 7.9 million lines of transactions);
- Responded to approximately 109,000 written and telephone inquiries with an average turnaround of 1.04 days (telephone) and 3.52 days (written), which exceeds the established standards of 3 and 7 days, respectively;
- The Purchase Order Voice Response System responded to 12,756 calls in FY 1998, of which 7,275 needed assistance from technicians;
- Processed approximately 593,572 collections, totaling approximately \$1.2 billion;
- Collected over \$752,000 via the IRS Offset and the DOD Federal Salary Offset Programs; and
- Collected over \$1 million in late penalties and interest fees.

Expanding the User Base. Implemented four new Payroll/Personnel System customers (an additional 1900 employees): the U.S. Capitol Police, Senate Serviced, National Endowment for the Humanities, Institute of Museums and Library Services, and International Boundary and Water Commission. The NFC is currently working to bring 4 additional agencies into the Payroll/Personnel System, totaling 70,000 employees. To inform customers on the status and the direction that NFC is taking and also to obtain customer satisfaction on how to accommodate their needs, NFC was active in either participating and/or hosting a number of conferences, seminars and customer service focus groups.

WORKING CAPITAL FUND

Purpose Statement

The USDA Working Capital Fund (WCF) was established in legislation appropriating funds to the Department for FY 1944. Language is codified at 7 U.S.C. 2235. The mission of the WCF is to provide an effective financing mechanism to support those services the Secretary, with the approval of the Director of the Office of Management and Budget, determines may be performed more advantageously as central services and to make unnecessary the maintenance of separate like services in the agencies of the Department. The WCF is used to finance services provided to USDA and non-USDA agencies on a centralized basis. The costs of providing services to all WCF clients are recovered on the basis of the level of service each client receives. Services to non-USDA agencies reduce the share of fixed costs for WCF-supported services as the number of agencies sharing those costs expands. Centrally managed operations provide efficient, economical services through economies of scale, extensive management attention, and high-level, regular fund control reviews. Users benefit from cost avoidances for administrative and support services.

The Office of the Chief Financial Officer (OCFO) performs duties of the WCF Controller, including monitoring and supervising fund management activities. Activities financed under the WCF are managed in five organizations, as follows:

1. OCFO manages the National Finance Center (NFC), which provides financial and administrative management services to USDA agencies and more than 30 non-USDA entities. Services provided by NFC fall into three broad categories: USDA Services, External Support (services to non-USDA/non-Thrift Savings Plan agencies), and Thrift Savings Plan (TSP) Support. Also under the OCFO is the Foundations Financial Information System (FFIS) Project to replace the current accounting system at the NFC.
2. The Office of Communications manages 2 WCF activities -- Video and Teleconferencing Services (V/T), and the Design Center. V/T provides video production services to USDA agencies, and studio and production facilities for teleconferences in which USDA agencies participate. The Design Center provides USDA agencies with exhibit design and visitor center support services.
3. Departmental Administration (DA) manages 10 activity centers in three broad categories. The categories and services are as follows:

Landover Service Center:

- Central Supply Stores
- Consolidated Forms and Publications Distribution Center
- Central Excess Property Operation

Central Supply Stores and Consolidated Forms and Publications Distribution Center provide centralized supply and forms management, as well as warehousing and inventory services. The Central Excess Property Operation unit provides Departmental agencies with excess and surplus property disposition services in addition to furniture rehabilitation services.

Mail and Reproduction Management:

- Central Mail Unit
- Departmental Mailing List Service
- Duplicating Unit

- Copier Service

The Central Mail Unit furnishes USDA agencies with door-to-door mail pick up and delivery services, updating and maintenance of Departmental mailing lists, high-volume headquarters local printing services for National Finance Center reports, and mail preparation services. Duplicating Services provides walk up and short order copier services, as well as special order duplicating services.

Other Central Services include:

- Central Shipping and Receiving
- Central Imprest Fund
- Agriculture Contract Automation System

The Central Shipping and Receiving, Central Imprest Fund, and Agriculture Contract Automation System offer a variety of executive support services to USDA agencies. These include cash disbursements for small purchases and travel, receipt and shipment of parcels, and maintenance of a procurement language software system.

Under DA there are two modernization initiatives – procurement modernization and the time and attendance pilot project. These initiatives are among those that follow from the Modernization of Administrative Processes (MAP) Project. The MAP Project Office was closed as an organizational entity in October 1997. However, the importance of modernization suggested continuance of initiatives already underway. Costs for these initiatives are managed as a reimbursement between “process owners” managing the projects and the WCF and are included under the line item “Modernization” shown in the project statements accompanying these explanatory notes.

4. The Office of the Chief Information Officer manages information technology services under 6 activity centers:

- National Information Technology Center/Mainframe (NITC/MF)
- National Information Technology Center/Applications Services Division (NITC/ASD)
- Telecommunications Services Division (TSD)
- Customer Services Unit
- Telephone Services Operation
- Local Area Network

The NITC/MF provides mainframe computing services, ADP training, and other ADP services to USDA agencies and non-USDA entities. Estimates for FY 1999 and FY 2000 include estimates of costs to support mainframe services to the Federal Aviation Administration. Such estimates were not included in the FY 1999 estimates developed last year. NITC/ASD supports systems and software development services to USDA agencies and non-USDA users. TSD manages telecommunications services on behalf of USDA agencies (includes Internet, electronic mail, and FTS2000 billing services, among others). The Customer Services Unit provides information technology services to the Office of the Secretary and Departmental staff offices. The Telephone Services Operation unit is responsible for equipment and telephone system maintenance, as well as voice mail services. The Local Area Network unit operates and maintains the local area network system serving the Headquarters buildings complex.

Under OCIO there is one modernization initiative – the telecommunications online billing and inventory project. This initiative is similar to those noted above in Departmental Administration and is included under the line item “Modernization” shown in the project statements accompanying these explanatory notes.

5. The Office of the Executive Secretariat provides correspondence management, tracking, and recordkeeping services to the Department.

Management of the WCF through the Office of the Chief Financial Officer is accomplished in Washington, D.C. Of the 20 entities financed through the WCF, 13 are operated in Washington, D.C., 3 are operated in Landover, Maryland; 2 are operated in Fort Collins, Colorado, and 1 each in Kansas City, Missouri, and New Orleans, Louisiana. The current personnel estimate for FY 1999 for the WCF is 2,078 FTEs. Of the total FTEs, 1,894 are located in field offices (including Landover, Maryland), and 184 are located in Washington, D.C.

OIG Reports

Audit No. 50099-9-FM (completed August 1997, management decisions completed March 1998); "Working Capital Fund (WCF) Operations – Phase II;" Audit of the Working Capital Fund

WORKING CAPITAL FUND

Available Funds and Staff Years1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff- Years	Amount	Staff- Years	Amount	Staff- Years
<u>Working Capital Fund</u>						
Recurring Oper. (USDA)						
Administration	\$21,542,000	157	\$20,019,000	158	\$19,904,000	158
Communications	4,199,000	24	4,265,000	28	4,447,000	28
Fin. & Mgt.	71,370,000	750	80,677,000	710	88,484,000	668
Info. Technology	40,291,000	175	43,163,000	181	47,068,000	180
Exec. Secretariat	<u>1,753,000</u>	<u>17</u>	<u>1,433,000</u>	<u>18</u>	<u>1,470,000</u>	<u>18</u>
Subtot. (Rec Op)	139,155,000	1,123	149,557,000	1,095	161,373,000	1,052
Purch of Equip.	<u>14,667,000</u>	<u>0</u>	<u>22,281,000</u>	<u>0</u>	<u>20,156,000</u>	<u>0</u>
Subtotal (USDA)	153,822,000	1,123	171,838,000	1,095	181,529,000	1,052
Recurring Oper. (Non-USDA)						
Administration	3,512,000	13	2,028,000	16	2,022,000	16
Communications	204,000	2	186,000	0	191,000	0
Fin. & Mgt.	43,863,000	463	44,844,000	404	44,961,000	417
Info. Technology	13,285,000	17	12,364,000	18	11,689,000	19
Exec. Secretariat	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtot. (Rec Op) (Non-USDA)	60,864,000	495	59,422,000	438	58,863,000	452
Recurring Oper. (Non-Federal) Thrift Svgs Plan	35,659,000	421	42,447,000	545	46,277,000	585
Total, WCF	250,345,000	2,039	273,707,000	2,078	286,669,000	2,089

WORKING CAPITAL FUND
Permanent Positions by Grade and Staff Year Summary
1998 Actual and Estimated 1999 and 2000

Grade	1998			1999			2000		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
ES-6	0	0	0	0	0	0	0	0	0
ES-5	0	0	0	0	1	1	0	1	1
ES-4	0	1	1	0	0	0	0	0	0
ES-3	0	3	3	0	3	3	0	3	3
ES-2	0	0	0	0	0	0	0	1	1
ES-1	0	2	2	0	3	3	0	2	2
GS-15	1	19	20	2	19	21	2	19	21
GS-14	10	68	78	12	74	86	12	69	81
GS-13	12	178	190	12	188	200	16	191	207
GS-12	19	311	330	22	282	304	22	282	304
GS-11	10	194	204	11	224	235	8	188	196
GS-10	0	31	31	0	31	31	1	31	32
GS-9	11	113	124	12	130	142	13	110	123
GS-8	0	41	41	1	45	46	2	45	47
GS-7	10	289	299	12	288	300	16	315	331
GS-6	17	220	237	18	212	230	15	228	243
GS-5	12	155	167	8	173	181	7	190	197
GS-4	35	101	136	40	112	152	48	117	165
GS-3	10	47	57	10	47	57	2	47	49
GS-2	6	41	47	0	41	41	0	41	41
GS-1	3	0	3	1	0	1	1	0	1
Other Gr.Pos.	23	46	69	23	21	44	23	21	44
Ungr.Pos.	0	0	0	0	0	0	0	0	0
Total Perm.Pos.	179	1,860	2,039	184	1,894	2,078	188	1,901	2,089
Unf. Pos. eoy	8	75	83	0	0	0	0	0	0
Total, Perm. Full-Time Emp. End-of-year	171	1,785	1,956	184	1,894	2,078	188	1,901	2,089
Staff Yr. Ceiling	179	1,860	2,039	184	1,894	2,078	188	1,901	2,089

WORKING CAPITAL FUND

CLASSIFICATION BY OBJECTS1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, D.C.	\$7,198,000	\$7,609,000	\$8,023,000
Field	<u>84,307,000</u>	<u>90,122,000</u>	<u>96,256,000</u>
11 Total personnel compensation	91,505,000	97,731,000	104,279,000
12 Personnel benefits	16,121,000	17,949,000	19,122,000
13 Benefits for former personnel	19,000	38,000	39,000
Total personnel comp. & benefits	<u>107,645,000</u>	<u>115,718,000</u>	<u>123,440,000</u>
Other Objects:			
21 Travel	1,683,000	2,193,000	2,238,000
22 Transportation of things	1,242,000	831,000	923,000
23.1 Rental payments to GSA	4,048,000	3,333,000	3,345,000
23.2 Rental payments to others	2,048,000	2,032,000	2,079,000
23.3 Communications, utilities, and misc. charges	19,842,000	21,617,000	21,828,000
24 Printing and reproduction	1,350,000	1,582,000	1,616,000
25.2 Other services	54,235,000	64,776,000	72,667,000
25.3 Purchases of goods and services from Government Accounts	7,240,000	3,214,000	3,247,000
25.4 Operation and maintenance of facilities	385,000	662,000	666,000
25.7 Operation and maintenance of equipment	23,159,000	25,822,000	25,459,000
26 Supplies and materials	7,945,000	6,925,000	7,007,000
31 Equipment	19,509,000	24,999,000	22,150,000
43 Interest	<u>14,000</u>	<u>3,000</u>	<u>4,000</u>
Total other objects	<u>142,700,000</u>	<u>157,989,000</u>	<u>163,229,000</u>
Total direct obligations	<u>250,345,000</u>	<u>273,707,000</u>	<u>286,669,000</u>
Position Data:			
Average Salary, ES positions	\$110,000	\$112,000	\$116,000
Average Salary, GS positions	\$33,000	\$34,000	\$35,000
Average Grade, GS positions	8.6	8.7	8.5

WORKING CAPITAL FUND

<u>Recurring Operations</u>		
Current Estimate, 1999	.....	\$251,426,000
Budget Estimate, 2000	.....	<u>266,513,000</u>
Increase in Estimate	.....	<u>+15,087,000</u>
<u>Capital Acquisitions</u>		
Current Estimate, 1999	.....	\$22,281,000
Budget Estimate, 2000	.....	<u>20,156,000</u>
Increase in Estimate	.....	<u>-2,125,000</u>

WORKING CAPITAL FUND

SUMMARY OF INCREASES AND DECREASES
(Program Activity)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2000 Estimated</u>
1. Administration:	\$22,047,000	+\$193,000	-\$314,000	\$21,926,000
CS-Stores	2,448,000	+12,000	-12,000	\$2,448,000
CFPDC	3,632,000	+33,000	-125,000	3,540,000
CEPO	1,900,000	+15,000	+4,000	1,919,000
Cent. Ship./Rec.	467,000	+2,000	+10,000	479,000
Imprest Fund	266,000	+6,000	+2,000	274,000
AGCAS	362,000	+5,000	+5,000	372,000
Central Mail Unit	4,286,000	+70,000	+131,000	4,487,000
Dupl. Unit	1,365,000	+17,000	+38,000	1,420,000
Copier Service	5,075,000	+29,000	-89,000	5,015,000
Dept. Mailing List Svc.	284,000	+4,000	+7,000	295,000
Modernization	1,962,000	0	-285,000	1,677,000
2. Communications:	4,451,000	+47,000	+140,000	4,638,000
Video & Tele.	2,527,000	+28,000	+40,000	2,595,000
Design Ctr.	1,924,000	+19,000	+100,000	2,043,000
3. Finance & Mgt.:	167,968,000	+1,878,000	+9,876,000	179,722,000
NFC/USDA Svcs.	80,677,000	+804,000	+7,003,000	88,484,000
NFC/Ext. Supp.	44,844,000	+457,000	-340,000	44,961,000
NFC/TSP Supp.	42,447,000	+617,000	+3,213,000	46,277,000
4. Info. Technology:	55,527,000	+335,000	+2,895,000	58,757,000
NITC/MF	35,782,000	+162,000	+117,000	36,061,000
NITC/ASD	5,778,000	+90,000	+267,000	6,135,000
TSD	5,470,000	+57,000	+3,043,000	8,570,000
Cust. Svc. Unit	1,097,000	+13,000	+31,000	1,141,000
Tel. Svc. Oper.	2,049,000	+8,000	+46,000	2,103,000
Local Area Net.	4,674,000	+5,000	-609,000	4,070,000
Modernization	677,000	0	0	677,000
5. Executive Secretariat	1,433,000	+29,000	+8,000	1,470,000
Total Rec. Oper.	251,426,000	+2,482,000	+12,605,000	266,513,000
Capital Equip. Acquis.	22,281,000	0	-2,125,000	20,156,000
Total	273,707,000	+2,482,000	+10,480,000	286,669,000

PROJECT STATEMENT
(Program Activity)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease</u>	<u>2000 Estimated</u>	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
1. Admin.:	\$25,054,000	170	\$22,047,000	174	-\$121,000 (1)	\$21,926,000	174
CS-Stores	3,082,000	10	2,448,000	10	0	\$2,448,000	10
CFPDC	4,309,000	23	3,632,000	27	-92,000	3,540,000	27
CEPO	2,387,000	10	1,900,000	11	+19,000	1,919,000	11
CSR	785,000	1	467,000	1	+12,000	479,000	1
Imprest Fund	229,000	4	266,000	4	+8,000	274,000	4
AGCAS	378,000	2	362,000	2	+10,000	372,000	2
Cent. Mail	3,900,000	83	4,286,000	79	+201,000	4,487,000	79
Dupl. Unit	1,094,000	12	1,365,000	13	+55,000	1,420,000	13
Copier Svc.	5,301,000	23	5,075,000	24	-60,000	5,015,000	24
DMLS	197,000	2	284,000	3	+11,000	295,000	3
Modernization	3,392,000	0	1,962,000	0	-285,000	1,677,000	0
2. Comm:	4,403,000	26	4,451,000	28	+187,000 (2)	4,638,000	28
Video & Tele.	2,371,000	15	2,527,000	15	+68,000	2,595,000	16
Design Ctr.	2,032,000	11	1,924,000	13	+119,000	2,043,000	12
3. Fin. & Mgt.:	150,892,000	1,634	167,968,000	1,659	+11,754,000(3)	179,722,000	1,670
NFC/USDA	71,370,000	750	80,677,000	710	+7,807,000	88,484,000	668
NFC/Ext.Sup.	43,863,000	463	44,844,000	404	+117,000	44,961,000	417
NFC/TSP	35,659,000	421	42,447,000	545	+3,830,000	46,277,000	585
4. Info. Tech.:	53,576,000	192	55,527,000	199	+3,230,000 (4)	58,757,000	199
NITC/MF	35,279,000	115	35,782,000	120	+279,000	36,061,000	114
NITC/ASD	5,477,000	41	5,778,000	43	+357,000	6,135,000	44
TSD	5,327,000	27	5,470,000	24	+3,100,000	8,570,000	25
Comp. Svcs.	1,105,000	5	1,097,000	6	+44,000	1,141,000	6
Tel. Svc. Oper	1,803,000	2	2,049,000	3	+54,000	2,103,000	3
LAN	3,915,000	2	4,674,000	3	-604,000	4,070,000	7
Modernization	670,000	0	677,000	0	0	677,000	0
5. Exec. Secr.:	1,753,000	17	1,433,000	18	+37,000 (5)	1,470,000	18
Total Rec. Oper.	235,678,000	2,039	251,426,000	2,078	+15,087,000	266,513,000	2,089
Capital Equip.	14,667,000	0	22,281,000	0	-2,125,000 (6)	20,156,000	0
Tot. Avail. or Est.	250,345,000	2,039	273,707,000	2,078	+12,962,000	286,669,000	2,089

PROJECT STATEMENT
(USDA Activity)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		Increase or Decrease	<u>2000 Estimated</u>	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
1. Admin.:	\$21,542,000	157	\$20,019,000	158	-\$115,000 (1)	\$19,904,000	158
CS-Stores	3,082,000	10	2,448,000	10	0	2,448,000	10
CFPDC	2,330,000	14	2,281,000	15	-70,000	2,211,000	15
CEPO	1,762,000	6	1,255,000	7	+3,000	1,258,000	7
CSR	785,000	1	467,000	1	+12,000	479,000	1
Imprest Fund	229,000	4	266,000	4	+8,000	274,000	4
AGCAS	378,000	2	362,000	2	+10,000	372,000	2
Cent. Mail	3,900,000	83	4,286,000	79	+201,000	4,487,000	79
Dupl. Unit	1,094,000	12	1,351,000	13	+55,000	1,406,000	13
Copier Svc.	5,301,000	23	5,057,000	24	-60,000	4,997,000	24
DMLS	197,000	2	284,000	3	+11,000	295,000	3
Modernization	2,484,000	0	1,962,000	0	-285,000	1,677,000	0
2. Comm:	4,199,000	24	4,265,000	28	+182,000 (2)	4,447,000	28
Video & Tele.	2,196,000	13	2,341,000	15	+63,000	2,404,000	16
Design Ctr.	2,003,000	11	1,924,000	13	+119,000	2,043,000	12
3. Fin. & Mgt.:	71,370,000	750	80,677,000	710	+7,807,000 (3)	88,484,000	668
NFC/USDA	71,370,000	750	80,677,000	710	+7,807,000	88,484,000	668
NFC/Ext.Sup.	0	0	0	0	0	0	0
NFC/TSP	0	0	0	0	0	0	0
4. Info. Tech.:	40,291,000	175	43,163,000	181	+3,905,000 (4)	47,068,000	180
NITC/MF	24,162,000	107	25,509,000	111	+1,100,000	26,609,000	105
NITC/ASD	3,479,000	32	3,706,000	34	+212,000	3,918,000	34
TSD	5,327,000	27	5,470,000	24	+3,100,000	8,570,000	25
Comp. Svcs.	1,105,000	5	1,097,000	6	+44,000	1,141,000	6
Tel. Svc. Oper	1,803,000	2	2,030,000	3	+53,000	2,083,000	3
LAN	3,915,000	2	4,674,000	3	-604,000	4,070,000	7
Modernization	500,000	0	677,000	0	0	677,000	0
5. Exec. Sec.:	1,753,000	17	1,433,000	18	+37,000 (5)	1,470,000	18
Total Rec. Oper.	139,155,000	1,123	149,557,000	1,095	+11,816,000	161,373,000	1,052
Capital Equip.	14,667,000	0	22,281,000	0	-2,125,000 (6)	20,156,000	0
Tot. Avail. or Est.	153,822,000	1,123	171,838,000	1,095	+9,691,000	181,529,000	1,052

PROJECT STATEMENT
(Non-USDA Activity)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		Increase or Decrease	<u>2000 Estimated</u>	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
1. Admin.:	\$3,512,000	13	\$2,028,000	16	-\$6,000 (1)	\$2,022,000	16
CFPDC	1,979,000	9	1,351,000	12	-22,000	1,329,000	12
CEPO	625,000	4	645,000	4	+16,000	661,000	4
Dupl. Unit	0	0	14,000	0	0	14,000	0
Copier Svc.	0	0	18,000	0	0	18,000	0
Modernization	908,000	0	0	0	0	0	0
2. Comm:	204,000	2	186,000	0	+5,000 (2)	191,000	0
Video & Tele.	175,000	2	186,000	0	+5,000	191,000	0
Design Ctr.	29,000	0	0	0	0	0	0
3. Fin. & Mgt.:	80,964,000	884	87,291,000	949	+3,947,000(3)	91,238,000	1,002
NFC/Ext.Sup.	43,863,000	463	44,844,000	404	+117,000	44,961,000	417
NFC/TSP	35,659,000	421	42,447,000	545	+3,830,000	46,277,000	585
4. Info. Tech.:	13,285,000	17	12,364,000	18	-675,000 (4)	11,689,000	19
NITC/MF	11,117,000	8	10,273,000	9	-821,000	9,452,000	9
NITC/ASD	1,998,000	9	2,072,000	9	+145,000	2,217,000	10
Tel. Svc. Oper	0	0	19,000	0	+1,000	20,000	0
Modernization	170,000	0	0	0	0	0	0
5. Exec. Secr.:	0	0	0	0	0 (5)	0	0
Total Rec. Oper.	96,523,000	916	101,869,000	983	+3,271,000	105,140,000	1,037
Capital Equip.	0	0	0	0	+0 (6)	0	0
Tot. Avail. or Est.	96,523,000	916	101,869,000	983	+3,271,000	105,140,000	1,037

JUSTIFICATION OF INCREASES AND DECREASES

(1) A net decrease of \$121,000 for recurring operations of Administration consisting of:

Central Supply Stores	-
Consolidated Forms and Publications Distribution Center	-\$92,000
Central Excess Property Operation	+19,000
Central Shipping and Receiving	+12,000
Central Imprest Fund	+8,000
Agriculture Contract Automation System	+10,000
Central Mail	+201,000
Duplicating Unit	+55,000
Copier Service	-60,000
Departmental Mailing List Service	+11,000
Modernization	<u>-285,000</u>
Total	-\$121,000

(a) An increase of \$193,000 for pay costs.

This increase is needed to retain the expected personnel resource level needed to maintain the expected level of program operations.

(b) A decrease of \$314,000 for program delivery.

The net program decrease is due to reductions in estimates of space rental costs and depreciation, as well as expenses associated with modernization initiatives. Modernization efforts in this area include time and attendance reporting, and procurement modernization. Activities supported by the Working Capital Fund are required to recover costs of services (7 U.S.C. 2235). Demand levels for service will determine costs during execution.

(2) A net increase of \$187,000 for recurring operations of Communications, consisting of:

Video and Teleconferencing	+\$68,000
Design Center	<u>+119,000</u>
Total	+\$187,000

(a) An increase of \$47,000 for pay cost.

This increase is needed to retain the expected personnel resource level needed to maintain the expected level of program operations.

(b) An increase of \$140,000 for program delivery.

Total program increases for video, teleconferencing and visual design services are 3.1 percent above the total FY 1999 estimate. The net increase reflects non-pay cost personnel compensation increases. Activities supported by the Working Capital Fund are required to recover costs of services (7 U.S.C. 2235). Demand levels for service will determine costs during execution.

(3) A net increase of \$11,754,000 for recurring operations of Finance and Management consisting of:

National Finance Center/USDA Services	+\$7,807,000
National Finance Center/External Support	+117,000
National Finance Center/Thrift Savings Plan Support	<u>+3,830,000</u>
Total	+\$11,754,000

(a) An increase of \$1,878,000 for pay cost.

This increase is needed to retain the expected personnel resource level needed to maintain the expected level of program operations.

(b) An increase of \$9,876,000 for program delivery.

Program cost increases are 5.6 percent above the total FY 1999 estimate. Non-pay cost increases are driven primarily by two items: (1) Thrift Savings Plan (TSP) support requirements, which are expected to increase from the FY 1999 estimate, and (2) costs in support of the Foundation Financial Information System (FFIS) project. The 9.0 percent increase in costs in TSP support is the result of transaction volumes increasing among existing accounts. This, in turn, is the result of a wider variety of investment and loan options, as well as enhanced access to account information for TSP investors. The FFIS cost increase is due primarily to costs associated with contract support for the transition of USDA agencies from the existing central accounting system to the new FFIS system. Other program cost increases are the result of development activities underway at NFC to improve financial and administrative systems. These improvements are critical to the NFC mission – both in terms of maintaining the effectiveness of systems for existing users and for marketing services to prospective non-USDA clients (as required in annual appropriations language). Activities supported by the Working Capital Fund are required to recover costs of services (7 U.S.C. 2235). Demand levels for service will determine costs during execution.

(4) A net increase of \$3,230,000 for recurring operations of Information Technology consisting of:

NITC/Mainframe	+\$279,000
NITC/Applications Services	+357,000
Telecommunications Services	+3,100,000
Computer Services Unit	+44,000
Telephone Service Operations	+54,000
Local Area Network	-604,000
Modernization	<u>0</u>
Total	+\$3,230,000

(a) An increase of \$335,000 for pay cost.

This increase is needed to retain the expected personnel resource level needed to maintain the expected level of program operations.

(b) An increase of \$2,895,000 for program delivery.

Most of this increase is due to anticipated increases in telecommunications services costs as these functions become more centralized. This, in turn, reflects an estimate of contract support for providing telecommunications services to agencies. If demand for service does not materialize, if the timetable for implementing more centralized services changes, or if other factors warrant a reduction in this estimate, such a reduction will be passed through to users of those services. Modernization efforts in this area include the telecommunications online billing and inventory project. Activities supported by the Working Capital Fund are required to recover costs of services (7 U.S.C. 2235). Demand levels for service will determine costs during execution.

(5) A net increase of \$37,000 for recurring operations of Executive Secretariat.

(a) An increase of \$29,000 for pay cost.

This increase is needed to retain the expected personnel resource level needed to maintain the expected level of program operations.

(b) An increase of \$8,000 for program delivery.

The net increase for program operations is due to inflation. Activities supported by the Working Capital Fund are required to recover costs of services (7 U.S.C. 2235).

(6) An expenditure of \$20,156,000 for capital acquisitions in FY 2000 (\$22,281,000 in FY 1999):

(a) Expenditures for capital acquisitions are as follows:

<u>Administration:</u>	<u>1999</u>	<u>2000</u>
Central Supply Stores	\$15,000	\$0
Consolidated Forms and Publ. Distr. Center ...	55,000	0
Central Mail Unit	194,000	\$329,000
Duplicating Unit	9,000	102,000
Copier Service	314,000	252,000
Departmental Mailing List	17,000	0
Total	\$604,000	\$683,000

Communications:

Video and Teleconferencing Services	\$255,000	\$255,000
Visual Design Services	50,000	50,000
Total	\$305,000	\$305,000

Finance and Management:

National Finance Center	\$9,535,000	\$9,128,000
Total	\$9,535,000	\$9,128,000

Information Technology:

NITC/Mainframe	\$9,902,000	\$7,675,000
NITC/Applications Services	240,000	480,000
Telecommunications Services	310,000	700,000

Computer Services Unit	150,000	150,000
Telephone Service Operations	40,000	60,000
Local Area Network	<u>1,195,000</u>	<u>975,000</u>
Total	\$11,837,000	\$10,040,000

Capital acquisitions reflect the most economical purchases of equipment and other capital investments in FY 2000. Where it is advantageous for the Government to purchase rather than lease assets (based on total costs over the life of the asset), capital acquisition resources are allocated. Where it is less advantageous to do so, equipment and other assets are leased (lease costs are reflected in operating costs for activity centers). In all cases, acquisitions (purchase or lease) are made in response to anticipated demand for service with an eye toward minimizing unit costs of service. Further, acquisitions will be made in a manner consistent with requirements set forth by the Office of the Chief Information Officer with respect to acquisitions to support Year 2000 activity and emergency procurements.

Working Capital Fund
GEOGRAPHIC BREAKDOWN OF FUNDING AND STAFF-YEARS
1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>
Colorado	\$11,372,000	68	\$11,798,000	67	\$15,885,000	69
District of Columbia	30,855,000	187	30,672,000	192	30,291,000	196
Louisiana	159,446,000	1,626	177,503,000	1,651	188,850,000	1,662
Maryland	9,824,000	43	8,050,000	48	7,907,000	48
Missouri	38,848,000	115	45,684,000	120	43,736,000	114
Total, Available or Estimate	250,345,000	2,039	273,707,000	2,078	286,669,000	2,089

WORKING CAPITAL FUND COST DISTRIBUTION SUMMARY: FY 1997 - 2000
(Rounded to Thousands)

Agency Code	Acronym	FY 1997	FY 1998	FY 1999	FY 2000
		<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
01	OSEC	660,000	595,000	758,000	783,000
02	AMS	4,623,000	5,081,000	6,019,000	6,457,000
03	ARS	6,574,000	6,809,000	7,044,000	7,596,000
07	RHS	14,247,000	16,831,000	19,543,000	21,638,000
08	RMA	8,479,000	4,043,000	1,365,000	420,000
10	FAS	2,665,000	2,596,000	3,070,000	3,102,000
11	FS	37,257,000	46,070,000	51,561,000	55,475,000
13	OC	1,159,000	728,000	766,000	784,000
14	OGC	470,000	522,000	575,000	583,000
15	RUS	393,000	190,000	236,000	263,000
16	NRCS	10,016,000	11,791,000	13,727,000	14,743,000
18	ERS	970,000	483,000	565,000	593,000
20	NASS	1,009,000	1,460,000	1,436,000	1,547,000
22	CSREES	1,876,000	2,793,000	2,215,000	2,248,000
23	OIG	963,000	882,000	941,000	992,000
30	FNS	3,747,000	3,287,000	3,579,000	3,798,000
32	RBCS	359,000	236,000	117,000	131,000
34	APHIS	5,265,000	6,505,000	7,344,000	7,807,000
36	GPSA	1,110,000	1,049,000	1,149,000	1,225,000
37	FSIS	6,222,000	7,764,000	7,963,000	8,262,000
38	OCE	667,000	164,000	202,000	204,000
42	OBPA	158,000	168,000	190,000	188,000
90	OCFO	502,000	407,000	528,000	541,000
92	OALJ	161,000	51,000	55,000	56,000
94	OCR	570,000	126,000	261,000	251,000
96	OHRM	134,000	88,000	300,000	296,000
98	OO	3,408,000	2,132,000	1,990,000	2,107,000
AW	AARC	37,000	67,000	3,000	7,000
CA	BCA	1,000	21,000	19,000	19,000
DB	OSDBU	20,000	21,000	32,000	32,000
ES	OES	38,000	48,000	70,000	76,000
FA	FSA	12,521,000	12,702,000	13,458,000	16,586,000
IT	OCIO	567,000	1,935,000	2,186,000	2,257,000
NA	NAD	96,000	356,000	113,000	122,000
OA	OAS	43,000	126,000	106,000	114,000
PP	OPPM	36,000	657,000	62,000	60,000
SC	NSIIC	0	7,000	9,000	10,000
	Other*	929,000	0	0	0
Total USDA Basic Services		127,952,000	138,791,000	149,557,000	161,373,000
Non-USDA		51,189,000	61,228,000	59,422,000	58,863,000
TSP		29,780,000	35,659,000	42,447,000	46,277,000
Total		208,921,000	235,678,000	251,426,000	266,513,000

* Includes Agency Training, Treasury Postage (salary check costs), and other undefined items

WORKING CAPITAL FUND

STATUS OF PROGRAM

Current activities, progress, and current programs are outlined below (Note: Activities funded under the Working Capital Fund (WCF) are not included in the Strategic or Annual Performance Plan for the Office of the Chief Financial Officer (exception: National Finance Center). Discussion of goals regarding WCF activities are in and among strategic and performance plans of the respective organizations administering those activities):

ADMINISTRATION

Current Activities. Activities under this heading are managed under the Assistant Secretary for Administration and include the following (all activities in Washington, DC, unless otherwise noted):

Landover Service Center (Landover, MD):

- Central Supply Stores (self-service store operations managed in Washington, DC)
- Consolidated Forms and Publications Distribution Center
- Central Excess Property Operation

Central Shipping and Receiving

Central Imprest Fund

Agriculture Contract Automation System

Central Mail Unit

Duplicating Unit

Copier Service

Departmental Mailing List Service

These activities provide cost-effective property, mail and reproduction, and other administrative services to USDA agencies and a variety of non-USDA customers. Since services are demand-based (i.e., customers have discretion to make use of the services provided), the primary goals are sustaining high quality in service delivery and minimizing unit costs for services delivered.

Selected Examples of Recent Progress.

1. Landover Service Center (Central Supply Stores/Consolidated Forms and Publications Distribution Center/Central Excess Property Operation):

- The Centralized Excess Property Operation (CEPO) installed software and hardware for an Automated Bar Code Asset Management System. CEPO employees were trained on the use of this equipment during the Spring of 1998. The database for implementation is being established.
- Through mid-year 1998, the Consolidated Forms and Publications Distribution Center (CFPDC):
 - ▶ Completed the FSIS initiatives for their inspectors and as of mid-year had a total of 3,361 FSIS inspectors under this activity. CFPDC processed a total of 9,736 FSIS inspector orders and FSIS has expanded their inventory items in CFPDC to a total of 100.
 - ▶ CFPDC managed a total of 287 items in the print-on-demand technology and printed a total of 939,250 impressions through mid-year.
- Central Supply Stores added 15 new line items to the inventory as a result of customer interest.

2. Central Shipping and Receiving:

- Central Shipping and Receiving Operation received and delivered 6,950 shipments. The shipments were comprised of 136,925 publication pieces and 11,225 pieces of property. There were no reports of items lost or stolen.

3. Central Imprest Fund:

- Imprest employees help to transition USDA employees from cash to the new check payment system to prepare for FY 1999 conversion from a cash operation to one in which disbursements will be in the form of checks, either convenience (for reimbursement operations) or travelers (for travel advances). With this change, it is anticipated that the staffing level for the operation will be halved. The change is in accordance with an overall plan to completely phase-out the Imprest Fund operation. The phase-out is contingent on full implementation of the credit card throughout the Washington Complex and the introduction of other convenience processes.

4. Mail and Reproduction Management (Mail Services/Duplicating Unit/Copier Service/Departmental Mailing List):

- Reproduced 6,240,000 copies of documents for the Office of Civil Rights (OCR) to comply with a federal court order. Due to the volume, and the immensely short turnaround time, some of the overall requirement was outsourced. Outsourcing was coordinated by MRMD to ensure proper cost allocation.
- High profile jobs for the Office of the Secretary, e.g., scheduled Presidential visit printed material requirements, were completed successfully. The Cooperative State Research, Education and Extension Service (CSREES) continues to make use of our service due to time constraints, product quality, and economies associated with their printed product requirements.
- Liaison was established with officials of the C. Melvin Sharpe, Special Education School. This liaison reestablished our cooperative work program. Under the provisions of this program, funded by the DC Government, 8-9 students with special needs attain on-the-job work experience. During the past several years, this Division has hired from this pool of trained and skilled people to fill positions. Some have taken positions in mail services; many others have gone on to private-sector employment, utilizing the job skills developed at USDA.
- The Beltsville Office Complex has been equipped with 10 multi-functional (copiers, printer/fax) machines and 6 standard copiers. The installation of equipment is planned to coincide with the complex occupancy rate.
- Copiers with significant volumes in "walk-up" stations located in the Whitten and South Buildings have been equipped with a technologically advanced access and control system. This system is designed to read the employee identification card for the purpose of granting access, and centrally capturing utilization and cost data. Comprehensive utilization reports are instantly generated for each machine in the system.
- Our Print-On-Demand initiative has been developed more fully through the implementation of planned equipment connectivity. The ongoing plan is to connect various types of printing equipment at different locations as a means ultimately of attaining a nationwide network.
- The computer assisted manual mail sorting system (CAMMS) installation is on-going. The technological gains offered by state-of-the-art equipment enhance customer service through faster

and increased accurate mail deliveries. The automated input include both a conventional key board and voice recognition capabilities.

- Mail Services operations have been established at the Beltsville Office Complex. A "Cluster Box" concept is used for distribution rather than the door-to-door delivery process. Mail services operations are designed to expand as the building occupancy increases.

COMMUNICATIONS

Current Activities. Activities under this heading are managed by the Office of Communications and include the following (all activities in Washington, DC):

- Video and Teleconferencing Center
- Design Center

Centrally managed teleconferencing services and applications of current video production technologies afford users promising cost efficiencies. These strategies allow users to avoid higher costs of travel while maintaining contact between agency headquarters offices and field offices, agricultural program clients, and the general public. The Video and Teleconferencing Center has been the recipient of numerous awards over the past several years for videos produced by that unit, evidence of the quality of service provided in video production.

Taking advantage of changing technology in desktop publishing, computer-aided graphics, and similar processes greatly enhances visual design services in support of conferences, seminars, hearings, public meetings, and interagency programs.

Selected Examples of Recent Progress.

1. Video and Teleconferencing Division (V/T):

- International video conferences were arranged through this unit, including:
 - ▶ International satellite link with Australia enabling Secretary Glickman to participate with other national agriculture ministers where he presented U.S. trade policies, participated in a question/answer session, and discussion with his fellow ministers.
 - ▶ Video conference via phone links enabling the Deputy Under Secretary for Farm and Foreign Agricultural Services to participate along with other USDA officials in meetings with counterparts in the Republic of South Africa.
- Video production accomplishments including:
 - ▶ Production of a training video supporting USDA's civil rights program, "Simple Justice," winning the "Best Take" Award from the International Television Association.
 - ▶ Production of a video on behalf of the Natural Resources Conservation Service; a documentary on workforce diversity.
 - ▶ Production of a video on behalf of the Animal and Plant Health Inspection Service for training on baggage practices that won a Silver Award from the International Film and Video Festival.
- The results of a customer survey showed that 100 percent of the respondents said they would return to the Video and Teleconferencing Center for services and would recommend Center services to others. Quality and timeliness also received favorable scores.

2. Design Center:

- Visitor Center support activities included education materials production, signage, design and fabrication of exhibits, and other services for such visitor centers as:
 - ▶ Clark's Hill Visitor Center (South Carolina; owned/managed by the U.S. Army Corps of Engineers)
 - ▶ Monongahela National Forest/Seneca Rocks (WV) visitor facility
 - ▶ U.S. National Arboretum
- Traveling exhibit design and fabrication services were provided to the Farm Service Agency, Agricultural Marketing Service, Natural Resources Conservation Service, and Foreign Agricultural Service.
- Field support services included support for:
 - ▶ Snowbasin Discovery Center (Utah), for which Design Center will provide assistance in initial programming at the request of the Forest Service; the center to be developed as part of the 2002 Winter Olympic Games
 - ▶ Coronado National Forest, for which the Design Center provided consultation support in evaluating the conceptual design for exhibits
 - ▶ Army Corps of Engineers, for which the Design Center provided technical support in preparing a request for proposal for the planning and design of a visitor center in Louisiana.

FINANCE AND MANAGEMENT

Current Activities: Activities under this heading are managed by the Office of the Chief Financial Officer, except for those activities under the subheading, "Modernization." Initiatives under this subheading are the product of administrative service modernization initiatives started under the "Modernization of Administrative Processes (MAP)" project. The MAP Project Office was closed in 1997, but ongoing modernization efforts continue to be administered by process owners. Projects are funded through the WCF under reimbursable agreements between process owners' offices and the WCF. Activities under this heading include the following (all activities in Washington, DC, unless otherwise noted):

- National Finance Center (New Orleans, LA)
- Modernization:
 - procurement modernization
 - time and attendance reporting
 - telecommunications online billing and inventory

The National Finance Center (NFC) continues to play a central role in the reengineering of financial management and administrative systems in USDA, consistent with the goals and objectives of both the USDA 5-Year Financial Management Plan and the Chief Financial Officer's Strategic Plan. NFC administers and operates over 20 financial and administrative service systems in support of all agencies of USDA and over 30 non-USDA customers. These systems include such services as: payroll/personnel, central accounting, billing and collections, travel, and others. Systems development, implementation, and maintenance activities are performed in the context of ongoing customer requirements, while developmental efforts are underway at the NFC as important elements of the Department's efforts to modernize financial and administrative systems.

Included among NFC's development activities is the Foundation Financial Information System (FFIS) Project. A project team has been established to manage development and roll-out of this critical initiative. This action was taken as a result of a comprehensive independent review of the FFIS project. The objective is development, implementation, and operation of an integrated financial information system in USDA that satisfies agency internal financial management needs, Departmental fiduciary responsibilities, and the reporting requirements of guidance agencies such as the Office of Management and Budget and the Department of the Treasury, as well as support unqualified audit opinions on financial statements.

Under the subheading of "Modernization" are three initiatives:

- **Procurement Modernization:** This project, managed by the Office of Procurement and Property Management in Departmental Administration, consolidates two business process modernization efforts -- purchase and third party draft, and the procurement systems modernization project. The aim is to implement a redesigned acquisition process in USDA, complimented by the development and deployment of a comprehensive USDA acquisition toolkit.
- **Time and Attendance Reporting:** Managed by the Office of Human Resources Management in Departmental Administration, this project is aimed at the development and implementation of a more effective and efficient time and attendance reporting system. A draft report on the results of the pilot project suggests the need for a time and leave program manager to lead the Department toward implementation of measures to achieve greater efficiency and costs savings in these processes, the need for modernizing transmission of time and attendance data, and the need to improve standardization and integration of human resources data. FY 1999/2000 funding supports coordination and guidance to the project (including support for implementation of pilot project results, where appropriate), training of agency personnel on systems, and ADP-related costs.
- **Telecommunications Online Billing and Inventory:** The Office of the Chief Information Officer manages this effort, which combines a revised administrative process for billing and inventory with an automated management information system. The project, implemented as a pilot exercise, tests several different scenarios in different locations. FY 1999/2000 funding supports hardware, server software, and maintenance costs, as well as administrative costs of the project.

Selected Examples of Recent Progress:

1. National Finance Center (NFC):

- NFC developed and established the "Geaux" Web Team to enhance the deployment and accessibility of employee data. The "Geaux" Web Team implemented a number of Web applications as well as expansion of the OCFO/NFC Home Page. In June 1998, NFC implemented a Personal Page where employees can check their earnings and travel payments.
- NFC successfully completed the third phase (renovation) of the Y2K remediation project by the self-imposed due date of June 30, 1998. To accomplish this, major work had to be done, not only on the remediation and testing of software, but in the upgrading and purchase of hardware as well. NFC upgraded the mainframe operating system (OS/390), purchased and installed a stand-alone IBM mainframe for testing (Time Machine), and renovated or otherwise ensured the compliance of 23,500,000 lines of code for all mission-critical systems, applications, and more than 15,000 associated programs.
- In September 1998, NFC's Thrift Savings Plan Division became the first software engineering organization within USDA to receive a Level 2 ranking on the Software Engineering Institute's

(SEI) Capability Maturity Model (CMM) – an indicator of a software organization's ability to consistently produce software of high quality, on time, and within budget, and to successfully deploy new technologies throughout the organization. With this certification, the Thrift Savings Plan Division joined the top 30 percent of federal and military software engineering organizations nationwide in terms of measured capability maturity. This achievement positions NFC to better serve the Federal Retirement Thrift Investment Board, which will generate an estimated \$42.5 million in revenue for USDA in FY 1999, and assures NFC's position as the site of the Thrift Savings Plan's new software system scheduled to be fully implemented by April 2000.

- NFC implemented the Unified Travel System (TRVL) in October 1997. TRVL combined two travel processing modules into a single operating system. TRVL standardized the processing of all travel related documents and payments across NFC's customer base. NFC's leadership in achieving this standardization has resulted in increased electronic processing, improved turnaround time, and an overall improvement to processing documents within NFC.
- NFC made significant strides in implementing the provisions of the Debt Collection Improvement Act of 1996 (DCIA). In July 1998, NFC initiated administrative offset of travel advance and voucher reimbursements processed by the National Finance Center under the provisions of the Debt Collection Improvement Act of 1996 (DCIA). In September 1998, NFC initiated administrative offset of salary payments for the collection of Federal delinquent debts from salaries processed by the National Finance Center. NFC, as a major payroll processing agency, collaborated with the Department of the Treasury's Financial Management Service (FMS) on this effort to expand the collection of bad debts through salary offsets. The September 1998 offsets culminated the collaborative effort with FMS which began in January 1998.
- In July 1998, NFC achieved a milestone in debt collection by collecting for the first time more than \$1 million through the Treasury Offset Program (TOP) and the Internal Revenue Service Treasury Offset Program. TOP resulted in the collection of \$707,464, and voluntary payments for \$296,926 were received from debtors as a result of sending "due process letters" for the 1998 Internal Revenue Service Offset Program.
- For FY 1999, NFC expects to successfully accomplish the following:
 - Validate and implement Y2K compliant applications
 - Complete the upgrade of the information technology infrastructure for Y2K readiness
 - Implement the Entry Processing Inquiry and Correction System (EPIC), a personal computer-based system that allows users to enter, correct, inquire, and retrieve payroll and personnel transaction data. EPIC will replace five online Payroll/Personnel data entry, inquiry and correction systems.
 - Complete development of the first phase of the Personnel Office Desktop Solutions (PODS) to function as both as a distributed client/server and as a client/server utilizing an enterprise server at the NFC. Also complete the integration of EPIC with PODS to offer a complete automated front-end for processing personnel and payroll related transactions
- Accomplishments for the FFIS development project include:
 - Y2K compliant version of FFIS was implemented
 - Forest Service Regions 6 and 10 and the Pacific Northwest Range Experiment Station were implemented into the Foundation Financial Information System (FFIS) in October 1997.
 - Interfaces to FFIS such as the FFIS-GOALS Interface System, the OTRS-FFIS Interface System, and the FFIS-OTRS Interface back-feed System were successfully tested and implemented. These systems are essential operating entities for processing transactions into the General

Ledger. FFIS interfaces for Purchase Card Management System (PCMS) and Travel (TRVL) were also implemented.

- ▶ Work was begun on stabilizing the FFIS system and operations
- ▶ Risk Management Agency was implemented into FFIS on October 1, 1998
- ▶ In 1999, expected accomplishments include:
 - Implement the rest of Forest Service and FSIS into FFIS on October 1, 1999
 - Correct operational and systems capacity issues in FFIS
 - Begin to work with the agencies planned for FY 2000 FFIS implementation (4 agencies)
 - Develop reports and conversion strategies, as well as policies and procedures for daily, monthly and annual operations and year-end closing and reporting for FFIS

INFORMATION TECHNOLOGY

Current Activities: Activities under this heading are managed by the Office of the Chief Information Officer (OCIO), and include the following (all activities in Washington, DC, unless otherwise noted):

- National Information Technology Center (NITC)
 - ▶ Mainframe (Kansas City, MO)
 - ▶ Applications Services (Fort Collins, CO)
- Telecommunications Services (Fort Collins, MO)
- Customer Services Unit
- Telephone Service Operations
- Local Area Network

The National Information Technology Center (NITC) continues to provide users with a comprehensive range of ADP operations, consultation, and training services; and applications design services. Mainframe computing operations services continue to show significant reductions in unit costs of operation and are expected to continue to do so. Applications Services continues to be characterized by high demand for applications design support. Telecommunications Services supports FTS-2000 database services, technical support, and related services. Customer Services Unit provides information technology support services to Departmental and staff offices. Telephone Service Operations and Local Area Network activity centers take advantage of emerging telecommunications and networking technologies and applications to ensure state-of-the-art, cost-effective solutions to telecommunications and networking needs.

Selected Examples of Recent Progress:

1. NITC/Mainframe:

- Ongoing activity to enhance operating systems resulted in testing and implementation of OS/390 on the mainframe platform. This allows NITC/Mainframe customers to run UNIX applications on the mainframe, or access mainframe data from distributed client/server systems.
- To improve access to account and billing data for FTS-2000 agencies, a monthly on-line records and report of information technology services Internet access prototype was developed.
- Applications supporting the Forest Service underwent conversion from the Forest Service's Data General environment to the new IBM RS/6000 environment. These applications support data entry, modification, and transmission of fiscal data from field offices to NITC/Mainframe in Kansas City.
- Year 2000 compliance activities included:

- migration to a Year 2000-compliant operating system
- establishment of a "forward date test" partition to bring customer applications into Year 2000 compliance in July 1998.
- migration of Year 2000-compliant off-the-shelf products to production mainframes
- inventory of all of the center's hardware and software, including an assessment of Year 2000 readiness.
- Development and distribution of a Customer year 2000 Testing Guide, detailing procedures to testing products for Year 2000 compliance.

2. NITC/Applications Services:

- In support of the Natural Resources Conservation Service (NRCS) Plants Project:
 - enhancement of a National Plants Web interface, providing the Forest Service with the functionality of being able to download Plants data in a customized format for a single or for multiple states.
 - Integrated Taxonomic Information System (ITIS) – provides query, report, and download capabilities to users requesting information on all plant and animal kingdoms found in North America. The ITIS Taxonomic Workbench, released in 1998, allows a scientist or data producer to manage taxonomic information on various species. ITIS was the recipient of a "Hammer Award" by the Vice President in April 1998.

3. Customer Services Unit (CSU):

- CSU evaluated contractor resources and entered into a partnership with the Department of Health and Human Services to obtain contractual services to provide engineering and desktop IT support to the Office of the Secretary

4. Telephone Service Operations (TSO):

- Provided technical support for telecommunications standards, design, engineering, requirements, and coordination for the installation of telecommunications facilities and equipment during construction of the Beltsville Office Complex and for support of the renovation of the USDA South Building.
- Coordinated the repair of telephone cabling between the South Building and Auditors Building at no cost to USDA and ensuring uninterrupted service to the Forest Service, which occupies the Auditors Building.
- Successfully negotiated reimbursement for unauthorized telephone usage charges to USDA that were identified as charges belonging to other Federal departments.
- Served as a key participant in the re-issuance of serviceable used telephone equipment (equipment that becomes excess through upgrades from analog to digital). The re-issuance program results in savings to USDA agencies through avoidance of procuring new, more costly equipment.

EXECUTIVE SECRETARIAT

Current Activities. The Office of the Executive Secretariat (OES) continues to administer internal processes for the management and tracking of correspondence efficiently on behalf of the Office of the Secretary and other Department-level offices.

Selected Examples of Recent Progress:

- Took steps to provide for improved productivity through enhancements to the correspondence tracking system and for continuity of service with changes in administration through realignment of personnel.

2000 Explanatory Notes
Office of the Chief Information Officer

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OFFICE OF THE CHIEF INFORMATION OFFICER

Purpose Statement

The Clinger-Cohen Act of 1996 required the establishment of a Chief Information Officer (CIO) for major Federal agencies. To meet the intent of the law and to provide a Departmental focus for information resources management issues, Secretary's Memorandum 1030-30, dated August 8, 1996, established the Office of the Chief Information Officer (OCIO). OCIO provides Departmentwide policy guidance, leadership, coordination and direction to the Department's information management and information technology investment activities in support of USDA program delivery. The Office provides long-range planning guidance, implements measures to ensure that technology investments are economical and effective, coordinates interagency Information Resources Management (IRM) projects, and implements standards to promote information exchange and technical interoperability.

This office also provides telecommunications and ADP services to USDA agencies through the National Information Technology Center with locations in Ft. Collins, Colorado, and Kansas City, Missouri. Direct ADP operational services are also provided to the Office of the Secretary, Office of the General Counsel, Office of Communications, the Office of Chief Financial Officer, and Executive Operations.

As of September 30, 1998, there were 259 employees of whom 250 were full-time permanent and 9 were other than full-time permanent employees under the Office of the Chief Information Officer. These employees were assigned as follows:

<u>Location</u>	<u>Full-time permanent</u>	<u>Other</u>	<u>Total</u>
Washington, D.C.	66	1	67
Field Units	<u>184</u>	<u>8</u>	<u>192</u>
Total	250	9	259

Office of the Inspector General Reports

#58-009-0001-FM 02/26/96 National Computer Center General Control Review for fiscal year 1995.

#50-099-0007-FM 03/31/97 USDA Access to the Internet

#50-601-0001-FM 03/31/98 Review of the Year 2000 Conversion Project

General Accounting Office Reports

#AIMD-96-59 1996 USDA Telecommunications: More Effort Needed to Address Telephone Abuse and Fraud

#AIMD-97-67 1997 Telecommunications: More Effort Needed by U.S. Department of the Interior and the USDA Forest Service to Achieve Savings.

#AIMD-98-168, USDA Service Centers: Multi-Billion Dollar Effort to Modernize Processes and Technology Faces Significant Risks

OFFICE OF THE CHIEF INFORMATION OFFICER

Available Funds and Staff Years1998 Actual and Estimated, 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation...	\$5,551,245	49	\$5,551,000	69	\$7,998,000	74
Year 2000 Remediation.	—	—	28,731,000	—	—	—
Total, Appropriated	5,551,245	49	\$34,282,000	69	7,998,000	74
<u>Obligations under</u>						
<u>Other USDA</u>						
<u>appropriations:</u>						
Reimbursements:						
Telecomm., Ordering & Billing.....	509,532	—	677,000	—	677,000	—
Service Center (SCIT)						
Department Oversight	187,348	1	214,000	2	—	—
Independ. Verification & Validation.....	390,000	—	400,000	—	400,000	—
NTIA Spectrum						
Management.....	378,451	—	661,000	—	684,000	—
Management Support						
Services Provided to WCF Activities.....	700,000	8	267,000	2	275,000	2
Subtotal, Reimb.....	2,165,331	9	2,219,000	4	2,036,000	2
<u>Working Capital Fund:</u>						
ADP Services.....	52,906,000	192	54,850,000	199	58,080,000	199
Modernization.....	670,000	—	677,000	—	677,000	—
Purchase of Equipment	5,555,000	—	11,837,000	—	10,040,000	—
Subtotal, WCF.....	59,131,000	192	67,364,000	199	68,797,000	199
Total, Other USDA Appropriations.....	61,296,331	201	69,583,000	203	70,833,000	201
Total, Office of the Chief Information Officer.....	66,847,576	250	103,865,000	272	78,831,000	275

OFFICE OF THE CHIEF INFORMATION OFFICER

Permanent Positions by Grade and Staff Year Summary1998 Actual and Estimated 1999 and 2000

Grade	1998			1999			2000		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
ES-6	1	0	1	1	0	1	1	0	1
ES-5	2	0	2	2	0	2	2	0	2
ES-4	1	0	1	1	0	1	1	0	1
ES-1	1	1	2	2	1	3	2	1	3
GS-15	5	6	11	7	6	13	7	6	13
GS-14	23	18	41	28	18	46	33	18	51
GS-13	23	53	76	26	55	81	25	53	78
GS-12	3	57	60	6	61	67	8	63	71
GS-11	1	20	21	4	12	16	5	7	12
GS-10	0	0	0	2	0	2	2	0	2
GS-9	2	13	15	1	8	9	1	8	9
GS-8	0	11	11	1	14	15	0	14	14
GS-7	4	10	14	2	8	10	3	8	11
GS-6	1	1	2	1	1	2	0	1	1
GS-5	1	3	4	1	3	4	1	4	5
GS-4	1	0	1	0	0	0	1	0	1
Total, Permanent Positions...	69	193	262	85	187	272	92	183	275
Unfilled Positions end-of-year..	-3	-9	-12	0	0	0	0	0	0
Total, Permanent Full Time.... Employment, end-of-year...	66	184	250	85	187	272	92	183	275
Staff Year Ceiling.....	67	183	250	85	187	272	92	183	275

OFFICE OF THE CHIEF INFORMATION OFFICER

CLASSIFICATION BY OBJECTS1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, D.C.	\$3,531,146	\$3,857,000	\$4,730,000
11 Total personnel compensation	3,531,146	3,857,000	4,730,000
12 Personnel benefits	554,025	638,000	808,000
Total personnel comp. & benefits	<u>4,085,171</u>	<u>4,495,000</u>	<u>5,538,000</u>
Other Objects:			
21 Travel	32,539	25,000	28,000
22 Transportation of things	1,735	2,000	2,000
23.3 Communications, utilities, and misc. charges	185,924	151,000	167,000
24 Printing and reproduction	19,942	34,000	43,000
25.2 Other services	202,270	199,000	471,000
25.3 Purchases of goods and services from Government Accounts	826,346	570,000	1,627,000
26 Supplies and materials	109,938	51,000	56,000
31 Equipment	78,265	24,000	66,000
42 Insurance claims and indemnities	<u>9,115</u>	<u>-</u>	<u>-</u>
Total other objects	<u>1,466,074</u>	<u>1,056,000</u>	<u>2,460,000</u>
Total direct obligations	<u>5,551,245</u>	<u>5,551,000</u>	<u>7,998,000</u>
Position Data:			
Average Salary, ES positions	\$124,670	\$125,900	\$131,440
Average Salary, GS positions	\$67,072	\$55,959	\$64,549
Average Grade, GS positions	13.7	13.1	13.2

OFFICE OF THE CHIEF INFORMATION OFFICER

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Office of the Chief Information Officer

For necessary expenses of the Office of the Chief Information Officer, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1994 (7 U.S.C. 2225), of which not to exceed \$10,000 is for employment under 5 U.S.C. 3109, [\$5,551,000] 7,998,000.

OFFICE OF THE CHIEF INFORMATION OFFICER

Appropriations Act, 1999.....	\$5,551,000
Budget Estimate, 2000.....	<u>7,998,000</u>
Increase in Appropriation.....	<u>+2,447,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2000 Estimated</u>
Office of the Chief Information Officer.....	\$5,551,000	+\$197,000	+\$2,250,000	\$7,998,000

OFFICE OF CHIEF INFORMATION OFFICER

PROJECT STATEMENT
(On basis of appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		Increase or Decrease	<u>2000 Estimated</u>	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff- Years
Chief Information Officer.....	\$5,551,245	49	\$5,551,000	69	+\$2,447,000	\$7,998,000	74
Unobligated Balance.....	-	-					
Total available or estimate..	5,551,245	49	5,551,000	69	+2,447,000 (1)	7,998,000	74
Transfer from DA.	-778,245	-4	-	-			
Total, Appropriation	4,773,000	45	5,551,000	69			

Justification of Increases and Decreases

- (1) An increase of \$2,447,000 for the Office of Chief Information Officer (\$5,551,000 available in 1999) consisting of:
- (a) An increase of \$197,000 for pay costs that includes \$35,000 for annualization of fiscal year 1999 and \$162,000 for the anticipated fiscal year 2000 pay raise. Over 80 percent of the Office of the Chief Information Officer's fiscal year 1999 obligations are for salaries and benefits. This leaves little flexibility for absorbing increased costs. For the past several years, the office has received no added resources for pay costs increases. As a result, critical positions have been left vacant for extended periods, adversely affecting the ability of the OCIO to meet its requirements under the Clinger-Cohen Act.
- (b) An increase of \$1,000,000 for the USDA Information Systems Technology Architecture, and the Capital Planning and Investment Control programs.
- (1) USDA Information Technology Architecture (ISTA). OCIO requests \$500,000 to meet Clinger-Cohen Act of 1996 requirements that Executive Agencies develop an information technology architecture.

architecture for the executive agency. OMB issued implementing guidance in Memorandum 97-16 titled, Development, Maintenance, and Implementation of Agency Information Technology Architectures dated June 18, 1997. The implementation of an enterprise architecture is critical to USDA's information technology (IT) best management practices for the Department. The enterprise architecture strategically aligns with the Capital Planning and Investment Control process.

USDA will continue to evolve the USDA ISTA. The ISTA is comprised of the business/data architecture, the technical standards architecture, and the telecommunications architecture. These components address five inter-related layers of the ISTA model. They are comprised of the business, information, applications, data, and technology layers. To date, more work has been completed on the business and technology layers of the architecture than on the other layers. To advance the architecture, additional emphasis is required to complete the information, applications, and data layers. Contractor expertise is requested to continue to address these layers of the architecture. Completion of the various architecture layers will facilitate the Department's requirement to establish an enterprise business/data architecture and to identify duplicate systems and capitalize on information sharing opportunities.

OCIO will also continue to develop the ISTA technical standards component. This component consists of the hardware, software, and communications infrastructure of the Department. USDA agencies have been actively engaged in identifying USDA IT standards. It is expected that the technical standards, when completed, will enable USDA to capitalize on reduced configuration management costs, qualify for quantity discounts, reuse equipment throughout the Department, and reduce maintenance costs through the servicing of fewer products. Additional resources will be required during FY 2000 to continue development and implementation of enterprise architecture technical standards.

Further development of the USDA ISTA will position the Department to meet the legislative requirements for information systems technology architectures. It will also facilitate a more structured and systematic method for ensuring that the Department's changing business needs are met with technological solutions that support effective and efficient product and service delivery. These ISTA activities support GOAL #2 in the OCIO FY2000 Annual Performance Plan.

- (2) Information Technology Capital Planning and Investment Control (CPIC) programs. OCIO requests this initiative in fiscal year 2000 at \$500,000 to meet requirements of the Clinger-Cohen Act of 1996 and the OMB Circular A-11 Part 3 requirement that Federal agencies intensify their review and analysis of information technology systems as capital assets.

CPIC is an approach directed to design and implement a process for maximizing the value and assessing and managing the risk of IT acquisitions. Design and implementation of a USDA-wide CPIC program and supporting CPIC system is a multi-year effort requiring an infusion of resources to OCIO for a permanent, ongoing program management staff. Current OCIO funding and staffing are simply insufficient to bring this approach into practical and everyday use. A skilled staff is needed to perform and review benefit-cost, return on investment, and other detailed analyses in order to reduce as far as practical the risk of failure in the development, deployment, and operation of USDA information technology systems. The staff would provide support to the USDA Executive Information Technology Review Board that is charged with the planning, selection, control, and evaluation of information technology investments by the Department and the staff would also provide technical support to USDA agencies in terms of development and use of the CPIC process, tool sets and planning models, project management and reporting. The benefit of a successful CPIC program will be IT investments by USDA agencies that meet their program

objectives on time and within cost projections. This initiative supports GOAL #1 in the OCIO FY2000 Annual Performance Plan.

- (c) Departmental Oversight. An increase of \$250,000 and 2 staff-years is requested to ensure that the USDA Service Center Implementation initiative achieves the Secretary's goals of better integrating the program services and modernizing program delivery of programs administered by the Farm Service Agency, the Natural Resources Conservation Service, and the Rural Development mission area.

This increase is needed to continue Departmental oversight of the USDA Service Center Implementation initiative. The Department needs to ensure that business process reengineering results drive technology solutions, to ensure that technical solutions support revised business requirements, and further, to ensure that Service Center technology architecture is consistent with USDA-wide architecture.

Over the last decade, USDA has been working to streamline and modernize the delivery of programs through the county-based delivery systems of the Farm Service Agency, the Natural Resources Conservation Service, and the Rural Development mission area. Several approaches have been tried to accomplish this task. The current effort, referred to as the USDA Service Center Implementation, was initiated in late 1995. The goals and objectives of this initiative are: one stop service, seamless program delivery, improved, modernized services, reduced customer burden, reduced cost and, a flexible, responsive infrastructure.

The initiative is managed by a subcommittee of the National Food and Agriculture Committee (NFAC) made up of the Agency Heads of the concerned agencies. A small core staff works for the NFAC and interagency teams supplement this structure. Departmental oversight is assigned to the USDA Chief Information Officer (CIO), because of the major technology component. The CIO carries out this responsibility with a Senior Policy Advisor and support position. Activities include providing advice and council to senior USDA policy officials and the NFAC, conducting reviews, studies and analyses of implementation activities, providing Oversight Reports and Issue Papers, working with OMB and Congressional staffs on implementation issues and managing contracts to utilize independent verification and validation contractors to assess technical and management issues.

The oversight function has been supported with unobligated balances from a prior year appropriation for "InfoShare," the predecessor to the current initiative. That source of funding is expected to run out at the end of 1999 and new appropriations are requested to continue the Departmental oversight function for FY 2000. Based on the current schedule for Service Center implementation, we anticipate a need to fund this activity through 2002.

The past history of failed attempts to modernize the Service Center agencies and the magnitude of programs and budgets that are involved dictate that this special oversight function continue. Together these agencies employ about 35,000 staff years and deliver \$30 billion in programs through 3,100 office locations, including about 2,560 Service Centers. The historical information technology spending of these agencies has been in excess of \$400 million per year, or about one-third of the USDA total. The investment levels required to achieve the modernization effort are estimated to be in excess of \$500 million. The risk of failure to program delivery and the investment funds demand that we continue to fund this important oversight function. The funding requested will support the two oversight employees already on board. This initiative supports GOAL #1 in the OCIO FY 2000 Annual Performance Plan.

- (d) Information Security. An increase of \$500,000 and 1 staff-year to support the Information Systems Security and Telecommunications Division including:

- (1) Critical Infrastructure. An increase of \$275,000 and 1 staff-year for the development of strategies, plans, and procedures related to the requirements of Presidential Decision Directives (PDD) 62 and 63 and follow-up actions required by the Presidential Commission on Critical Infrastructure Protection (PCCIP).

OCIO does not currently have the resources available to provide the support necessary for the development of the strategies, procedures, and plans necessary to meet the requirements of PDD 63. The funds will be used for one staff-year and additional contract support to meet these new requirements. The staff-year will serve as the Contracting Officer Technical Representative (COTR) and administer the contracts required for this and the three following projects.

On May 22, 1998, the White House released the White Paper, "The Clinton Administration's Policy on Critical Infrastructure Protection: Presidential Decision Directive (PDD) 63," which explained the Administration's key policy elements on critical infrastructure protection. In addition, the Presidential Decision Directive (PDD) 62, "Combating Terrorism", and PDD 63, "Protecting America's Critical Infrastructure", were issued.

Our entire economy and many of our critical infrastructures are increasingly reliant on cyber-based information systems which have created numerous vulnerabilities capable of compromising national security and interrupting indefinitely services essential to public health and safety. As a result of PDD 63, the CIO is tasked with additional responsibilities related to information assurance. The CIO will be responsible for a leadership role in establishing procedures for "expedient and valid authorizations to allow vulnerability assessments to be performed on government computer and physical systems."

In addition, all Federal departments and agencies were to develop a plan for protecting critical infrastructure, including cyber-based systems. Within two years of issuance of PDD 63, the plans must be implemented and must be updated on a two-year cycle. These plans must address continuity of operations (COOP) and disaster recovery requirements, issues, and concern.

- (2) Information Systems Security Emergency Response. An increase of \$75,000 is needed for the development of a USDA internal incident response capability.

Contractor expertise is required to assist in developing policies, procedures, and training necessary to provide USDA with an internal Incident Response Capability. Contractors would utilize the existing infrastructure of USDA agency security professionals in developing USDA's internal response capability. OMB Circular A-130, Appendix III established the requirement to establish some form of Incident Response Capability. When faced with a security incident, an agency should be able to respond in a manner that both protects its own information and helps to protect the information of others who might be affected by the incident. Without incident handling capability and procedures in place, a situation may intensify for USDA and result in additional costs and losses. Sharing of information that results from a documented incident can assist USDA in preventing future incidents. Incidents can be analyzed to gain a better understanding of the threats and develop better information security policies and procedures. Lessons learned can help prevent future incidents. Fulfillment of these requirements also provides additional support of the functions mandated by PDD 63.

Information Technology (IT) security related incidents, whether caused by hackers, viruses, software weaknesses, or malicious employees, will continue to increase. Response to incidents requires that each individual enlisted to react or respond to an incident has a clear understanding of his/her duties. While duties may differ, the chain of communication and management must be

clear in order to report incidents accurately. In the past, media representatives have acquired information about USDA IT security related incidents before the appropriate managers, information security managers, and decision makers were aware of the incident and a response could be implemented. USDA managers and information security personnel need to be informed quickly, accurately, and completely of any incident in order to put countermeasures in place, implement recovery actions, and minimize damage throughout USDA.

The purpose of this procedure is to help protect USDA information technology (IT) resources from unauthorized, accidental, or deliberate destruction, modification, denial, or delay by: Containing and minimizing the impact of IT security incidents; providing guidance for all USDA agencies and mission areas on reporting security incidents, including those caused by hackers; allowing for information sharing and minimizing vulnerabilities among agency or mission area sensitive systems; documenting the need for USDA agency and mission area managers to be notified as soon as possible of the incident; clarifying the types of information that managers and decision makers need to have quickly in order to lead incident response and to respond to inquiries from outside of USDA; assuring that USDA Webmasters and system managers coordinate appropriate responses and countermeasures; specifying responsibilities of USDA agency and mission area Information Systems Security Program Managers (ISSPMs); and creating a knowledge base to facilitate the handling of any future IT security incident.

(3) Security Architecture. An increase of \$75,000 for developing Security Architecture and Maintenance Process.

Contract support is needed to explore and develop a comprehensive security strategy and architecture to lead the USDA security effort into Year 2000 and beyond. This contract should identify the USDA information security requirements coming out of the recent PDD's, USDA agencies, major Federal and Departmental projects, and propose solutions and a structure that will address common and unique requirements in terms of effectiveness (protective safeguards) and costs. This comprehensive security architecture must be integrated with the security structure of the Telecommunications Architecture and other parts of the Technical Architecture. The process must include a workable structure for implementing the defined architecture and refreshment provisions so that an ongoing capability to protect USDA information and information technology is in place in the future. This project will be initiated as early as possible during FY 1999 with continuation of development and implementation efforts occurring in FY 2000.

(4) Continuity of Government. An increase of \$75,000 for the Office of the Chief Information Officer to support identifying risks with the telecommunications services supporting the implementation of the Continuity of Government (COG) plans.

An increase of \$75,000 for a study of telecommunications services supporting the senior leadership of USDA under the Continuity of Government (COG) plans. Contractor expertise is required to assess the level of readiness of telecommunications services supporting the activation of the Federal Emergency Management Agency site. Activation of the site would occur in the event of a disastrous event such as fire, flood, toxic chemical presence, or Government shutdown. This study should include an analysis of telecommunications services required, identifying telecommunications support available from other agencies, detailing specific vulnerabilities, and identifying planning efforts to reduce or eliminate these weaknesses. This project will provide the basis for developing plans and implementation strategies for strengthening the security of information management systems, improving disaster recovery procedures, and ensuring continuity of operations.

The activities under the Information Security initiative support Goal #2 in the OCIO FY 2000

Annual Performance Plan.

(e) Project Management. An increase of \$300,000 and 2 staff-years to strengthen project management.

A contract will be required to support this initiative to help meet the project management requirements of OMB Circular A-11 Part 3, "Planning, Budgeting and Acquisition of Capital Assets" by establishing and providing a means to track cost, schedule and performance goals. Oversight agencies have identified deficiencies in USDA's management of major information technology projects in recent years. In order to reduce risk in the development, deployment, and operation of information technology systems, OCIO will create and implement a formal project management certification program, similar to the warranting program for contracting officers. This program will identify the enabling body of skills required to successfully manage complex information technology programs and will also be used to evaluate the effectiveness of agency program management throughout the Department. This initiative would also help meet the project management requirements of OMB Circular A-11 Part 3, Planning, Budgeting, and Acquisition of Capital Assets, by establishing and providing the means to track cost, schedule, and performance goals.

By establishing a standardized methodology for project management, projects will be managed consistently, resulting in increased success rates, and avoidance of cost overruns and delays. At the same time, managers will be provided with sound performance measurement tools. Part of this methodology will include a schedule and performance data as the project proceeds. This initiative supports Goal #1 in the OCIO FY 2000 Annual Performance Plan.

(f) Workforce Planning. An increase of \$200,000 and 1 staff year is requested to improve USDA's information technology workforce planning and development effort and to expedite the implementation of the component of the Clinger-Cohen Act of 1996 dealing with workforce development.

A General Services Administration contract and 1 staff year is requested to improve USDA's information technology (IT) workforce planning and development effort and to expedite the implementation of the component of the Clinger-Cohen Act of 1996 related to workforce development. This funding and staff year increase directly supports the OCIO Management Initiative #1 to "Implement a professional development strategy to ensure that USDA's program and IT staffs possess the skills necessary to meet the challenges of effectively delivering programs and services with information technology."

In FY 1998, OCIO launched a strong start in an IT workforce planning and development effort to support the Clinger-Cohen legislation by establishing an employee development function in its headquarters office. Together with the Office of Human Resources Management (OHRM) and the IT Workforce Planning and Development Working Group, OCIO has collected, analyzed and set up tracking systems for critical data on the number of IT employees at USDA and on the number and reasons for accessions and separations of employees. OCIO and the Working Group are now researching and compiling a paper on issues surrounding the recruitment and retention of USDA's largest IT classification, 334 computer specialists. Research for this paper will include the results of focus group interviews with individuals from the IT staffs of four USDA agencies. OCIO has also worked closely with the CIO Education and Training Committee, particularly in review and rewrite of the Federal Clinger-Cohen IT core competencies.

In FY 1999 and FY 2000, the OCIO will continue its work with OHRM and the Workforce Planning and Development Working Group. A top priority will be working with the agencies in ensuring that these federal IT core competencies are used by agency IT managers in both the recruiting and evaluation of IT employees. OCIO will serve as a clearinghouse and help agencies identify training opportunities

where individual evaluations and assessments reveal that training is needed to eliminate skills gaps. Also, OCIO would leverage training across agency lines. Further, funding would also be used for initial skills development for USDA IT personnel at the USDA Graduate School.

Although this effort has gotten off to a strong start, it needs to be strengthened to ensure that USDA maintains a highly qualified IT workforce capable of leading USDA into the Year 2000 and beyond. These additional resources would allow OCIO to carry out its critical workforce planning and development agenda. It would strengthen the Department's advisory and coordinating role in the areas of IT recruitment, retention, and training. Resources spent to enhance IRM knowledge, skills and abilities is an investment in enabling better services to USDA customers. Attention to this area not only meets the mandate of Clinger-Cohen requirements; it also makes good business sense. This initiative supports the Secretary's Management Initiatives 1 and 2 in the USDA Strategic Plan and the OCIO FY 2000 Annual Performance Plan.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
1998 Actual and Estimated, 1999 and 2000

	1998		1999		2000	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>
District of Columbia....	\$5,551,245	49	\$5,551,000	69	\$7,998,000	74
Unobligated balance....	--	--	--	--	--	--
Total, Available or Estimate.....	5,551,245	49	5,551,000	69	7,998,000	74

OFFICE OF THE CHIEF INFORMATION OFFICER
YEAR 2000 CONVERSION

Title III of P. L. 105-277, The Omnibus Appropriations Act of 1999 provided the President emergency supplement 1999 funds for the conversion of Federal Information Technology Systems to meet Year 2000 requirements. These multi-year funds are available until 2001. The OMB received a plan from USDA totaling \$28,731,000 for an aggressive program of remediation activities to address Year 2000 conversion and embedded chip problems. These funds support remediation needs for additional systems and end-to-end testing, independent verification and validation, telecommunications, and business continuity (contingency) planning. OMB has transferred \$28,731,000 to a central account under the Office of Chief Information Officer for this work. These funds will be managed and obligated under the OCIO during fiscal year 1999 to ensure the uninterrupted delivery of USDA programs and services.

OFFICE OF THE CHIEF INFORMATION OFFICER

YEAR 2000 CONVERSION
CLASSIFICATION BY OBJECTS

	<u>1999</u>
Personnel Compensation:	
Washington, D.C.....	\$207,000
11 Total personnel compensation.....	207,000
12 Personnel benefits.....	<u>58,000</u>
Total pers. comp. & benefits.....	<u>265,000</u>
Other Objects:	
21 Travel.....	7,000
23.3 Communications, utilities, and misc.	
services.....	506,000
24 Printing and reproduction.....	71,000
25.2 Other Services.....	5,892,000
25.3 Purchases of goods and services from	
Government accounts.....	2,738,000
26 Supplies and materials.....	547,000
31 Equipment.....	17,955,000
32 Land and structures.....	<u>750,000</u>
Total other objects.....	<u>28,466,000</u>
Total direct obligations.....	<u>28,731,000</u>

Year 2000 Supplemental Appropriations Request Justification for Fiscal Year 1999

The Department of Agriculture requested additional supplemental funding for Year 2000 work planned for fiscal year 1999. These funds support remediation activities in our program to address Year 2000 computer and embedded chip problems and ensure the uninterrupted delivery of USDA programs and services. Areas where supplemental funding is necessary include: hardware and software upgrades or replacement, systems renovation, embedded and scientific systems remediation, end-to-end testing of system interfaces, independent verification and validation of remediation activities, telecommunications, business continuity, outreach, and contingency planning. Clarification of these costs has occurred since the submission of the fiscal year 1999 budget and the second release of supplemental funding by OMB.

Progress throughout the Department was reported in detail in the November 1998 quarterly report to OMB. As reported, 65 percent of USDA's mission critical systems are Year 2000-compliant. Of the systems undergoing repair, 95 percent have completed renovation, 78 percent have completed validation and 71 percent have been implemented. Progress on addressing remediation issues in the area of telecommunications and embedded chip technologies is included in the report.

Also highlighted in the November report are the business continuity and contingency plans which are currently undergoing review in areas having a major potential impact on health and safety, financial impact, and economic repercussions for delivery of programs and services. As part of this effort, some agencies have identified

technical assistance to states as an area of critical need to ensure uninterrupted program and service delivery. USDA is also expanding its outreach responsibilities based on representation on 17 of the President's Council on Year 2000 Conversion Sector Working Groups, including leadership of the Food Supply Working Group, raising awareness and working with industry partners to address potential Y2K-related problems in the farm-to-table food supply chain.

In order to develop a comprehensive funding strategy, detailed information was requested from all program mission area agencies. This has resulted in a dramatic change in the cost estimate for achieving Y2K compliance due to funding needs for several emergent issues and activities. While funds have been redirected from other functions to address Year 2000 funding needs, the number and scope of identified requirements exceeds available funding. Failure to fund these identified activities would result in short-term solutions which either represent an unsustainable temporary fix, or introduce additional funding and staffing needs when the long-term solution is implemented. USDA is committed to leveraging whatever resources it can to achieve compliance while minimizing waste. The Department has controls in place to manage the emergency supplemental funds. The Office of the Chief Information Officer is working closely with the USDA agencies' budget and finance offices to ensure accurate and timely reporting of the distribution and use of funds. Detailed spending plans with projected milestones have been requested from each agency and will be the basis for monitoring and oversight.

FY 1999 YEAR 2000 CONVERSION

<u>Agency</u>	<u>Funds</u>
Animal & Plant Health Inspection Service.....	\$200,000
Agricultural Research Service.....	1,646,000
Cooperative State Research, Education, & Extension Service.....	242,000
Departmental Administration.....	2,059,000
Food & Nutrition Service.....	750,000
Food Safety Inspection Service.....	2,378,000
Foreign Agricultural Service.....	1,585,000
Forest Service.....	3,850,000
Natural Resources Conservation Service.....	57,000
Office of Communications.....	150,000
Office of the Chief Information Officer.....	7,314,000
Rural Development (Mission Area).....	<u>8,500,000</u>
Year 2000 Conversion.....	<u>\$28,731,000</u>

OFFICE OF THE CHIEF INFORMATION OFFICER

STATUS OF PROGRAM

Current activities, progress, and current programs under each of the Office of Chief Information Officer's strategic goals are outlined below:

Goal 1: Ensure decisions regarding the selection and deployment of information technology are based on USDA business needs.

Current Activities:

1. Service Center Implementation Oversight: USDA has been working for several years to restructure and modernize the delivery of program services through the traditional county-based agencies — Farm Service Agency, Natural Resources Conservation Service, and the Rural Development mission area. Several projects are currently underway that will provide integrated and modernized "one stop" USDA service centers to provide the services for these agencies. These include completion of the office collocation process begun in 1994, the redesign of business processes, the implementation of a common voice and data communications infrastructure, and selection of a common computing environment. The Secretary has assigned leadership of this initiative to the National Food and Agriculture Committee, reporting to the Deputy Secretary through the Under Secretaries. The Chief Information Officer has been assigned an oversight role for the significant technical components of this initiative. Closely related to the Service Center Implementation initiative is the Department's Administrative Convergence effort to consolidate the administrative staff of the county based agencies.
2. The Clinger-Cohen Act of 1996: This Act dramatically changed the way the Federal Information Resources Management Program must be managed. New requirements include the appointment of an Agency Chief Information Officer, the development of a rigorous Capital Planning and Investment Control Process for information technology, the implementation of an information technology architecture, the assessment and improvement of the technical support staff, and the overall improvement to federal information resources management programs.

OCIO is proactively implementing these major Clinger-Cohen provisions and in many ways has been in the forefront. OCIO was recognized as a pioneer in architecture development within the Federal sector when it published its initial version of an information technology architecture. As the lead agency, OCIO has developed a prototype automated capital planning tool to monitor and control the Department's information technology investments. The Deputy CIO currently serves as Co-Chair of the CIO Council's Education and Training Committee which is addressing federal information technology (IT) issues, including personnel retention and career development:

- a. Capital Planning/Technology Investment: In accordance with guidance issued by the Office of Management and Budget, USDA has established high-level Capital Planning and Investment Control policy and guidelines which have identified the phases of information technology capital planning, established the requirement for the development of an information technology portfolio, and identified evaluation criteria to be applied to rank information technology projects and systems. Policy documents are being supplemented by a comprehensive Capital Planning and Investment Control manual that provides a step-by-step procedure for preparing information technology project proposals, and identifies standardized methodologies for developing and justifying these projects.

USDA, in conjunction with the Department of Energy (DOE) and the National Performance Review group and other Government entities, has developed an Internet-based decision support system that will allow senior level managers to analyze and monitor information technology investments. The system was developed modularly. The modules follow the three phases of the Capital Planning and Investment Control program: Selection, Control, and Evaluation. Supplementary modules are underway to support agency architecture requirements and OMB reporting under Circular A-11.

- b. Architecture Development: During Fiscal year 1998, OCIO continued its leadership role for the USDA Information Systems Technology Architecture (ISTA). OCIO continued work on the Business Architecture and worked with mission areas and agencies to identify and validate core business processes. Identification of core business processes was fundamental to preparation of Y2K Business Contingency Plans. OCIO worked with agencies to update the inventory baseline information contained in the February 1997 version of the USDA ISTA. The USDA Capital Planning and Investment Control Process relies on the inventory information for evaluating proposed IT investments. A process for managing the Technology Architecture has been developed and was approved by USDA agencies.
- c. Workforce Planning: The Clinger-Cohen Act requires that executives, managers, and staff be trained in information resources management (IRM). OCIO's Workforce Planning and Development effort addresses this requirement and also directly supports the OCIO Management Initiative # 1: "Implement a professional development strategy to ensure that USDA's program and IT staffs possess the skills necessary to meet the challenges of effectively delivering programs and services with information technology." This includes the recruitment and retention of IT professionals across the Department. OCIO is partnering with the Office of Human Resources Management (OHRM) and with the agencies, through the IT-HR Workforce Planning and Development working group, to carry out these efforts.

For Fiscal year 1999, OCIO intends to build upon our current work in the area of IT recruitment and retention. We will focus on major hurdles identified by the agencies such as classification consistency, and to work with the agencies in ensuring that the federal IT core competencies are used by IT managers in recruiting, evaluating and developing skills of IT employees.

- d. IRM Program Management: The Clinger-Cohen Act focuses on using IT resources to enhance the mission performance and service delivery of Federal departments and agencies. To translate these goals into reality, the Act requires the CIO to oversee all major IT procurement actions and programs, to ensure that they support the agency's mission and add value to agency operations.

To address these requirements, OCIO has implemented a number of mechanism to add rigor and precision to the IT acquisition process within the Department. Currently, USDA is operating under a moratorium on all information technology procurements. Waivers to the moratorium must be submitted and approved by OCIO, and must meet stringent criteria. OCIO's Capital Planning and Architecture projects are working in tandem to provide direction and to ensure that investments in information technology are appropriate, efficient and in direct support of mission objectives.

Engaging independent contractors who possess specific expertise and/or special skills to assess individual IT initiatives has become a critical element in OCIO's strategy to ensure policy compliance and program effectiveness. In each Independent Verification and Validation (IV&V) study, both promising and deficient aspects of an IT initiative are documented, as are recommendations for improvement. Responsible offices have used these assessments to refine their strategies and or make specific corrections, thereby improving the likelihood of successful projects. Additional IV&V efforts are being considered in the current fiscal year.

Examples of Recent Progress:

1. Service Center Implementation Oversight: A business case and technical alternatives documentation were developed for the Service Center Modernization effort. The Local Area Network/Wide Area Network (LAN/WAN)/Voice telecommunications infrastructure component was approved to move forward with Service Center installations after a restructuring resulting from an OCIO review. Twenty-one specific Business Process Reengineering (BPR) projects were started and nine field pilot sites were established to test the new processes and the associated enabling technology. A technical architecture was defined for the Service Centers and an interagency business integration center was established to provide an integrated site for testing and evaluation of all BPR projects, applications and possible technical solutions. Significant progress was made on the development of common business applications which are now being pilot tested and will be significant new tools for sharing information among these agencies. The Service Center Agencies also joined together to purchase the first increment of common desktop and laptop computers needed to replace non-Y2K compliant equipment, and provided some common technology to support early deployment of common business applications. This leveraged purchase resulted in volume discounts averaging 33 percent. The OCIO conducted periodic reviews and assessments, including the use of outside expertise, to ensure that these efforts were consistent with the business strategy and were technically sound before permitting them to move forward. Several of these reviews resulted in significant management improvements such as the development of tracking systems, earned value systems, performance contract clauses, and the like.

During Fiscal year 1998, two IV&V's were conducted on the Service Center Implementation activities. The first was a follow-up to previous IV&V's conducted on the Service Center LAN/WAN/Voice Telecommunications Project. Previous work had identified serious problems in the deployment of this project which led to a suspension of work ordered by the CIO and major changes in both government program management and contractor support. The follow-up IV&V was conducted in order to verify that needed corrections had been made. The follow-up was positive; so the suspension was lifted.

The second Service Center IV&V was conducted to review the business case and technical evaluation documentation used to define the Service Center technical architecture and to verify the projected costs and benefits. The IV&V confirmed that the basic business case and technical studies were well done and technically correct and that the stated benefits were conservatively estimated. Two key recommendations made in the IV&V related to the need for more data analysis and for more detail on the expensive GIS component of the common computing environment. This resulted in the development of two key strategy documents, one for data management and one for GIS, which have become cornerstones of the modernization initiative.

2. Clinger-Cohen Activities:

- a. USDA Capital Planning and Investment Control: As part of the fiscal year 2000 budget process, and in fulfilling Clinger-Cohen Act requirements, OCIO provided guidance to agencies on rating and ranking their proposed (IT) investments based on risks and return. OCIO also worked with agencies to establish mission-related performance measures for IT programs. The proposed portfolio of investments was presented to the Executive Information Technology Investment Review Board, which endorsed the portfolio for inclusion in the fiscal year 2000 budget.

OCIO has successfully designed and installed several modules of the Information Technology Investment Portfolio System (I-TIPS), an automated tool with which agencies can manage and monitor IT investments. To date, all phases of the Capital Planning process are addressed within the I-TIPS system, including selection, evaluation, and control. OCIO is currently developing corresponding processes and documentation to support and augment the automated modules.

- b. Architecture Development: USDA continues to make steady progress to define an information architecture. A significant amount of work was completed on the architecture during the first quarter of Fiscal year 1999. OCIO is working on version 2 of the USDA ISTA. The ISTA will be updated and expanded to include items identified in a recently completed IV&V. OCIO will also develop a future architecture which should be completed during the second quarter of 1999. A transition plan will be developed based on a gap analysis between the current and the future architecture.

There are other initiatives in progress that will advance USDA's architecture efforts as well. OCIO recently received comments on the draft USDA ISTA Management Process and began work to finalize this process.

The Architecture Initiative teamed with the Y2K Office to define core business processes. Three of the seven mission areas have defined core business processes. The remaining four mission areas have or are making progress toward defining their core processes. Identification of the core business processes will substantially advance the architecture development effort. The Architecture effort is currently developing a response to TEN IV&V regarding the Business/Data Architecture. Both the Y2K and TEN initiatives have been instrumental in targeting the immediate architecture needs for the Department.

- c. Workforce Development: During the past year, OCIO has appointed a USDA Workforce Planning and Development Executive Champion and staff person to work on this Department-wide effort. For a broader perspective, it has also established a USDA Workforce Development and Planning Working Group. This group is sponsored by OCIO and the Office of Human Resources Management and includes representatives from several USDA agencies and the Partnership Council.

In an effort to establish an IT workforce baseline, data on personnel in seven major IT jobs series at USDA from Fiscal year 1993 to the present was compiled and validated. This "personnel data profile" is now tracked and reported monthly.

Together with OHRM, OCIO researched and documented recruitment and retention flexibility mechanism available to USDA managers. This information was compiled and shared with agency executives and various IT and HR working groups and councils throughout the Department.

- d. IRM Program Management: A number of new IV&V initiatives have been completed or are under way. These include: the Foundation Financial Information System (FFIS) an independent evaluation of the Telecommunication Enterprise Network, the Architecture Development Project, an analysis of Risk Management Agency's year 2000 remediation progress, and an analysis of the Forest Service's 615 project.

Several agencies have conducted independent verification and validation reviews to ensure that their Year 2000 remediation efforts have been successful. These reviews occur after the implementation phase and during the validation phase as an added level of assurance of Year 2000 compliance. Agencies include the Farm Service Agency, Rural Development, Agricultural Marketing Service, the Grain Inspection, Packers and Stockyards Administration, Food and Nutrition Service. Methods of independent verification and validation include setting up test and simulation laboratories using independent quality assurance staffs or contractor support.

As part of the strategy for addressing areas of potentially high risk, the OCIO performed an independent verification and validation for two major projects which are using replacement as the means for achieving Year 2000 compliance. The review of the Risk Management Agency returned favorable findings and validated the agency's approach to system replacement. A comprehensive

review of the Forest Service Project 615 has now been completed. The review contractor provided timely and useful recommendations which have helped the Forest Service to further focus its Year 2000 remediation efforts. Based on the findings of the review team, the Forest Service has taken steps to strengthen the agency's management and oversight of Year 2000 activities, engage additional resources to ensure an effective migration of applications to the new computing environment, and has implemented agency-wide policies concerning Year 2000 business continuity and contingency plans. In addition, an independent verification and validation review of the Washington Headquarters building complex has been completed.

Goal 2: Develop Department-wide information and technical infrastructures that will improve service delivery through more effective information systems and data management.

1. **Year 2000 Compliance Program:** The Department of Agriculture (USDA) agencies and mission areas have recently completed the development of business continuity and contingency plans. The plans were completed and forwarded to the OCIO Year 2000 (Y2K) Program Office in October 1998. The plans are under review and will be updated on a quarterly basis. These plans include the mapping of all mission critical systems. In addition, we have identified 54 mission-critical systems which will be tracked as Departmental priorities which have major impact regarding health and safety, financial impact, and economic repercussions to delivery of programmatic businesses and services.

Validation and testing of mission critical systems is the current thrust of USDA Y2K remediation efforts. Several agencies have identified the need to expand the testing, and experience, to date, has revealed that even though date simulation tools have been employed in the remediation of systems, additional testing is required when the systems are forward date tested. This is an especially critical need for system interfaces and exchanges in our mainframe computing environments. Consequently, applications which have not been tested in the forward date environment put other applications and systems, at risk. To mitigate the risk of disruption in USDA computer centers, testing, to include forward date testing, will be required of all applications that agencies expect to operate in the production environment.

2. **Telecommunications and Information Security Policy:** The Clinger-Cohen Act, recent General Accounting Office audits, and good management principles require that USDA develop and maintain adequate telecommunications and information security policies, procedures, and practices. The Presidential Decision Directive Number 63, signed in May 1998, focuses heavily on the cyber-based security threats and actions that must be taken to ensure protection of our critical infrastructures. Securing USDA's information infrastructure is dependent on identifying and assessing our risks and vulnerabilities, and putting the appropriate policies and procedures in place to reduce our risks. Department-wide telecommunications and security policies are at the heart of this responsibility. To adequately meet the needs of such a large and diverse Department, policy development, implementation, and compliance tracking must be an ongoing process.

OCIO is leading a project consisting of a comprehensive review and update of all telecommunications and information security policies that exist at the department level and assessing the need for development of new policies. This review and update initiative is needed to achieve economies, to address security risks, and to support the Clinger-Cohen Act, the USDA IRM Strategic Plan, federal telecommunications contract requirements, and new USDA telecommunications initiatives. New and revised policies must reflect new directions in industry standards and technology and conform to published directives from Federal government regulatory and oversight agencies.

Examples of Recent Progress:

1. Year 2000 Compliance Program: As of September 30, 1998, 502 (78 percent) of USDA's mission critical systems were reported as compliant. Additionally, of the 332 systems undergoing repair, 311 (94 percent) met the renovation milestone date and 210 (78 percent) met the validation milestone. For those systems that continue to undergo renovation, monitoring and tracking is proceeding to ensure that systems will be completed. Agencies have been directed to obtain certification of all systems identified as compliant.
2. Supplemental Appropriation for Year 2000 Compliance: Funds were provided to the Department from the Year 2000 emergency supplemental appropriation as part of P. L. 105-277 to fund Year 2000 work planned for fiscal year 1999. These funds support an aggressive remediation program to address Year 2000 computer and embedded chip problems and ensure the uninterrupted delivery of USDA programs and services. Remediation needs for additional systems and end-to-end testing, independent verification and validation, telecommunications business continuity planning are several areas where the supplemental funding will be applied. Replacement and acquisition of new, Year 2000 compliant computer hardware and software constitute a major area where these funds will be expended. The Department is moving to make these funds available to agencies so they may undertake the remediation portfolio developed as part of the Department's Year 2000 remediation strategy.
3. Telecommunications and Information Security Policy: During 1998, the comprehensive Departmental Regulation (DR) 3300-1, Telecommunications, was reworked extensively, reviewed by USDA agencies, and is scheduled for re-issue during early 1999. During the past year, information security policies have been published or updated and re-issued in the following areas: Software Copyright Protection, Use of Network Sniffers, Firewall Requirements, Internet Access Security for Private Internet Service Providers, and Third-party E-Mail Relay.

USDA also worked in partnership with the National Security Agency and the National Institute of Standards and Technology to provide customized security training to USDA attendees at the National Information Systems and Security annual conference. USDA plans to continue pursuing partnership opportunities with external agencies in policy development and training efforts.

2000 Explanatory Notes
Office of Communications

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OFFICE OF COMMUNICATIONS

Purpose Statement

The Office of Communications (OC) traces its history back to June 7, 1913, when Agriculture Secretary David Houston established an Office of Information. The purpose of this Office was to act as a news service to secure the widest possible circulation to the public for recommendation of USDA scientists and specialists. The most recent reorganization of the Office was approved November 13, 1995, designating it as the Office of Communications. Section 7 CFR Subtitle A delegates authority for public affairs activities from the Secretary to the Director of the Office. The activities of the office have expanded as new technology and additional segments of the public have become constituents. The basic purpose remains constant to communicate to the public the programs and policies of the Department.

The mission of the Office of Communications is to provide leadership, expertise, counsel, and coordination for the development of communications strategies, which are vital to the overall formation, awareness and acceptance of U. S. Department of Agriculture programs and policies. OC serves as the principal USDA contact point for dissemination of consistent, timely information.

The Office of Communications is located in Washington, D. C. As of September 30, 1998, there were 120 employees, of which 101 were full-time employees and 19 other than full time permanent.

OC did not have any Office of the Inspector General or General Accounting Office evaluation reports during the past year.

OFFICE OF COMMUNICATIONS

Available Funds and Staff Years1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation:	\$8,138,000	92	\$8,138,000	95	\$9,300,000	95
Obligations under other						
<u>USDA appropriations:</u>						
Agency Photography						
Services.....	386,533	--	586,200	--	626,600	--
Subtotal, Appropriated and						
Reimbursement.....	8,524,533	92	8,724,200	95	9,926,600	95
<u>Working Capital Fund:</u>						
Video, Teleconference, &						
Visual Design Service.....	4,403,000	26	4,451,000	28	4,638,000	28
Purchase of Equipment.....	234,000	--	305,000	--	305,000	--
Total, Working Capital Fund	4,637,000	26	4,756,000	28	4,943,000	28
Total, Agriculture						
Appropriations.....	13,161,533	118	13,480,200	123	14,869,600	123
<u>Non-Federal Funds:</u>						
Sale of Photos and Slides....	7,027	--	10,000	--	10,000	--
Total, Office of						
Communications.....	13,168,560	118	13,490,200	123	14,879,600	123

OFFICE OF COMMUNICATIONS

Permanent Positions by Grade and Staff Year Summary1998 Actual and Estimated 1999 and 2000

Grade	1998	1999	2000
	Washington, DC	Washington, DC	Washington, DC
ES-6	1	1	1
ES-3	1	1	1
GS-15	21	21	21
GS-14	21	21	22
GS-13	14	14	14
GS-12	19	19	19
GS-11	8	9	8
GS-9	21	21	21
GS-7	8	8	8
GS-5	1	1	1
GS-4	2	2	3
GS-2	2	3	2
GS-1	1	--	0
Ungraded Positions...	2	2	2
Total, Permanent Positions.....	122	123	123
Unfilled Positions end-of-year.....	-21	--	--
Total, Permanent Full-Time Employment, end-of year.....	101	123	123
Staff Year Ceiling.....	118	123	123

OFFICE OF COMMUNICATIONS
CLASSIFICATION BY OBJECTS
1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, D.C.....	\$5,658,389	\$6,067,000	\$6,314,000
11 Total personnel compensation.....	\$5,658,389	\$6,067,000	\$ 6,314,000
12 Personnel benefits.....	1,059,595	1,047,000	1,103,000
13 Benefits for former personnel.....	68,368	40,000	40,000
Total pers. comp. & benefits.....	6,786,352	7,154,000	7,457,000
Other Objects:			
21 Travel.....	153,275	72,000	103,000
22 Transportation of things.....	1,829	6,000	6,000
23.3 Communications, utilities, and misc. charges.....	311,270	380,000	520,000
24 Printing and reproduction.....	116,245	48,000	79,000
25.2 Other services.....	381,825	355,000	770,000
26 Supplies and materials.....	85,036	72,000	134,000
31 Equipment.....	224,552	51,000	231,000
Total other objects.....	1,274,032	984,000	1,843,000
Total direct obligations.....	8,060,384	8,138,000	9,300,000
Position Data:			
Average Salary, ES positions.....	\$121,198	\$123,357	\$125,900
Average Salary, GS positions.....	\$53,254	\$56,246	\$59,019
Average Grade, GS positions.....	11.61	11.61	11.66

OFFICE OF COMMUNICATIONS

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

For necessary expenses to carry on services relating to the coordination of programs involving public affairs, for the dissemination of agricultural information, and the coordination of information, work, and programs authorized by Congress in the Department, [~~\$8,138,000~~] \$9,300,000 including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944, (7 U.S.C. 2225), of which not to exceed \$10,000 shall be available for employment under 5 U.S.C. 3109, and not to exceed \$2,000,000 may be used for farmers' bulletins.

OFFICE OF COMMUNICATIONS

Appropriations Act, 1999.....	\$8,138,000
Budget Estimate, 2000.....	<u>9,300,000</u>
Increase in Appropriation.....	<u>+1,162,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2000 Estimated</u>
Communications.....	\$ 8,138,000	+\$303,000	+\$859,000	\$9,300,000

Project Statement
(On basis of appropriation)

	1998 Actual		1999 Estimated		Increase or Decrease	2000 Estimated	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Communications	\$8,060,384	92	\$8,138,000	95	+\$1,162,000	\$9,300,000	95
Unobligated Balance.....	77,616	-	-	-	-	-	-
Total, Appropriation..	<u>8,138,000</u>	<u>92</u>	<u>8,138,000</u>	<u>95</u>	<u>+1,162,000(1)</u>	<u>9,300,000</u>	<u>95</u>

Justification of Increases and Decreases

- (1) An increase of \$1,162,000 for the Office of Communications, (\$8,138,000 available for 1999) consisting of:

- (a) An increase of \$303,000 for pay costs which includes \$63,000 for annualization of the fiscal year 1999 pay raise and \$240,000 for the anticipated fiscal year 2000 pay raise.

Over 87 percent of the Office of Communications' (OC) obligations are for salaries and benefits. This leaves little flexibility for absorbing increased costs. OC cannot absorb these additional salary costs without placing severe constraints on its daily operations.

- (b) An increase of \$588,000 for Electronic Access to Information.

OC has a single strategic goal, which is to create greater awareness among the American public about USDA's major initiatives and services. This goal also supports USDA's overall mission and three strategic goals as well as OC's goal. To accomplish OC's strategic goal, two management

initiatives have been developed. One of these initiatives is to improve access to and dissemination of USDA information to news media, constituent groups, and individual customers through more effective and efficient communications technology, methods, and standards. In support of this initiative, the goal of the Electronic Access to Information is to update and upgrade communications technologies and communications delivery methods to meet the increasing information needs of constituent groups, the media, the American public—particularly citizens in under served groups and areas—and USDA agencies and internal audiences.

In order to meet the information needs of OC's targeted audiences, OC needs a full upgrade to digital audio and video messages to meet changing industry standards. No capability now exists for the public to access this information through Internet. Such equipment will make broadcast information accessible to schools, industry trade groups, farmers, or the general public, and will expand the audiences for materials prepared primarily for radio and TV station use. For decades, radio has been a mainstay for USDA in reaching its rural and urban audiences. It continues to be a vital vehicle. This upgrade will offer all interested parties immediate access to a wide variety of information on USDA programs and can speed USDA's delivery of information in response to public requests.

Radio messages include weekly features and daily news reports and actualities about all of USDA's main programs and missions. These messages are directly tied to meeting USDA's identified strategic goals. Often the radio messages supply information about farmer signup programs, announce results of agricultural research, report on economic news about crop prices and supplies as well as crop weather conditions. Major policy announcements are made in these radio messages by the Secretary of Agriculture and key agricultural officials. Consumer news on food prices, nutrition, conservation and the environment are regularly featured. This initiative would allow upgrading of aging, existing broadcasting systems used now to offer these radio messages. Nearly 700 radio stations are voluntary users of weekly feature services and an average of 65 calls per day are received for daily radio newswire stories. To enhance the quality and speed of delivery of radio messages while reducing the number of phone lines, the proposed enhancements will provide radio stations increased flexibility in selecting USDA radio messages they wish to record and use. Upgrading to digital, state-of-the-art technology will save radio stations telephone time, generate for USDA a tabulation about specific topics accessed, and permit this radio function to continue with a streamlined staff, while ensuring USDA meets upgraded radio broadcasting standards.

Meeting customer needs and ensuring that OC products remain competitive in today's high-tech information marketplace demand that the skills of a streamlined OC staff be leveraged with state-of-the-art technology and training. Additionally, trends and methods in communications must be adopted to deliver USDA information to the public more efficiently and effectively, as mandated by law and regulation.

The additional funding will allow USDA to strategically employ all available communications products, technology and techniques to facilitate the flow of information designed to allow more customers, constituency groups and all segments of the American public to take full advantage of USDA programs, initiatives, services and data. Internally, the initiative will promote unity of action and further distribution of uniform, consistent messages in a vast, worldwide organization. Specific needs will include new computers with expanded memory, enhanced speed and appropriate software to handle large files required for electronic dissemination of digitized photographs, other visuals, publications, video and audio messages, telephone upgrades, and training.

(c) An increase of \$70,000 for an Outreach and Education Program for Underserved Groups.

This initiative supports OC's strategic goal and USDA's management initiative—to provide effective customer service and efficient program delivery. This request also will contribute to

USDA's National Commission on Small Farms' recommendation that the Department design and implement education programs on sustainable agriculture and organic products.

USDA needs to improve and develop two activities that will enable the Department to reach the Nation's underserved customer population--African Americans, Asian Americans, Native Americans and Hispanics--and provide them with information on the USDA's programs and services. The first activity is a more coordinated outreach and education program and the second is the development of the most effective and cost-efficient communications strategies for reaching these targeted audiences.

To implement this initiative OC will need to first measure the Department's and OC's current performance in educating the target audience about major USDA programs and services. This will be accomplished by the use of surveys and other feedback to collect information about the target audiences' current knowledge of these programs and services.

Once these surveys are completed and analyzed, OC will use the information to develop an outreach program that could include brochures, fact sheets, audio tapes, and outreach to organizations and media that serve USDA's target audiences.

In this time of financial constraint, OC will use the most cost effective methods in carrying out this initiative. Continued use of surveys and feedback will keep USDA and OC updated on the effectiveness and cost efficiencies of this initiative. The costs of the survey design, production, distribution and analysis will be kept down by using in-house resources, such as the National Agricultural Statistics Service, and through cooperative efforts with land grant universities and other organizations. OC also will work to develop partnerships with State departments of agriculture, constituency groups, agricultural producer organizations, and rural cooperatives.

- (d) An increase of \$201,000 to cover increased cost of critical Department-level communications coordination and dissemination.

As the Year 2000 draws nearer, the consumer confidence in the ability of the Department and the agriculture industry to be Y2K compliant will reach a critical point. Both the Department and the supply industry have been busy ensuring that they are Y2K compliant, but they too need to assure the consumer that there will be no problems in the Year 2000. OC is dedicated to ensuring that this compliance information is communicated to the consumer by every means possible. The requested funds will be used by OC to utilize all available communications products, technology and techniques that will reach all segments of the American public to convey this information. In USDA's continuous endeavor to reach the public, OC will use radio and television special programs and the printed media to alert the consumer that food supplies will be delivered as regularly scheduled and that USDA will continue to provide services on a timely basis.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS
1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>
District of Columbia.....	\$8,060,384	92	\$8,138,000	95	\$9,300,000	95
Unobligated balance.....	77,616	--	--	--	--	--
Total, Available or Estimate..	<u>8,138,000</u>	<u>92</u>	<u>8,138,000</u>	<u>95</u>	<u>9,300,000</u>	<u>95</u>

OFFICE OF COMMUNICATIONS

STATUS OF PROGRAM

The Office of Communications (OC) delivers information about U.S. Department of Agriculture (USDA) programs and policies to the American people. To achieve that objective, OC reports through various media and often directly to farmers, consumers, environmentalists, the business community, and other interest groups regarding the Department's programs, policies, and activities. The success of the Department's initiatives is aided by the effectiveness of communication and public education campaigns.

The following major program areas deliver the activities under this appropriation:

Public and Media Outreach Center; Video, Teleconference, and Radio Center; Photography Center; Design Center; Printing Management Center; Coordination and Review; and Administration.

Goal: To support the Department in creating a full awareness among the American public about USDA's major initiatives and services, because complete knowledge by the general public (and specific publics, including USDA employees) about USDA initiatives, policies, and programs is essential to effective customer services and efficient program delivery and should result in more citizens—especially those in underserved communities and geographic areas—availing themselves of USDA services and information that will help them in their everyday lives.

Current Activities:

PUBLIC AND MEDIA OUTREACH CENTER

The Office of Public and Media Outreach (OPMO) performs news planning, placement, and public liaison duties for OC. The primary OPMO goal is to provide information about USDA's seven mission areas—improving services to farmers and improving farm income; rural development; marketing and regulatory programs; food safety; food assistance and nutrition education; the environment and natural resources; and research, education and economics—to the public, media, constituent groups and USDA employees.

OC serves as the Department-level clearinghouse for current information about USDA's programs and policies in the form of news releases, video and photo features, background statements, speeches, report summaries, and similar materials.

Media Outreach — OC plans and coordinates Departmentwide announcements as well as provides information to targeted markets. OPMO brings all production areas into the communications planning to design the best news and information products. The Press Secretary and staff are a key part of the media outreach team.

Examples of targeted media outreach include linkage with the National Association of Farm Broadcasters, arranging audio news conferences and satellite tours with media representatives and USDA officials, and including speciality media in all OPMO activities.

Constituent Outreach — On the public liaison side, the OPMO staff develops interaction with farm, trade, consumer associations, natural resources and environmental groups and with professional associations. OPMO plans and coordinates hundreds of national policy and educational briefings in Washington, D.C. and across the country for varied constituencies.

In working with a diverse range of constituents, OPMO acts as a clearinghouse to keep USDA agencies apprised of issues and concerns voiced by stakeholders groups, many of which have never before participated in USDA programs. To accomplish this, OPMO:

- maintains a comprehensive database of constituent groups.
- provides periodic feedback describing interest group opinion as articulated in their publications to give USDA officials a constituent perspective on USDA policies upon request.
- compiles and distributes a weekly electronic summary of USDA activities and policy announcements for constituents, "USDA THIS WEEK."

Other duties performed by Office of Public and Media Outreach include:

- managing and staffing the national USDA Visitor Center to inform the public about USDA's missions and services. The Visitor Center explains USDA's mission areas with information kiosks that integrate video, artifacts and photos of USDA's mission areas.

Speech writing -- The Office of Communications' speech writing staff has primary responsibility for writing all speeches given by the Secretary and Deputy Secretary.

VIDEO, TELECONFERENCE, AND RADIO CENTER

The Video, Teleconference, and Radio (VTR) Center produces national telecasts, satellite media interviews, video conferences and distance learning events on topics such as Equal Employment Opportunity and Civil Rights, food safety, meat and poultry processing training, agricultural transportation, forestry and conservation programs, employee updates, administrative training and rural development issues.

VTR Center's radio service provides a daily news service and a weekly feature service to stations throughout the country. Radio stations access these daily news stories via telephone calls to automatic playback machines. Stations record these stories for their broadcast use. An automatic counter tallies calls made to the playback machines. A 15-minute weekly television news feature and actuality service is distributed via satellite to broadcast TV stations, and a TV tape service is provided to requesting stations.

PHOTOGRAPHY CENTER

The Center maintains an extensive centralized USDA Photo Library of captioned black/white prints and color transparencies. These images are the photo history of USDA's programs and activities. They cover all subjects relating to USDA programs. The Photography Center provides photographic research services and distributes photographs to the news media and to the public.

The Photography Center works with USDA agencies to develop and distribute to national, regional and local media, picture stories and photographic press releases. These releases inform the public of USDA programs, activities, and services.

The Photography Center has the latest technology for creation of photography materials and programs in a digital format. The Photography Center is prepared to provide digital images "on-line" over the Internet or via E-mail. To support the increasing demand for digital images, the Center is converting the Central Photographic Library to Kodak Photo CD's. The new technology will be more efficient for both search and retrieval of images, as well as for electronic delivery to users of USDA photography.

DESIGN CENTER

The Design Center provides centralized design management through the use of design standards and various creative services to the Department. It operates on the least cost principal and provides savings through economy of scale to the Department. Agencies only pay for services rendered at reduced and competitive rates. The Center

provides a resource for agencies to reduce or eliminate their overhead costs incurred through duplicated agency-supplied visual services by placing those orders through the Center.

The Design Center maintains a creative electronic graphics studio for print media, nonprint electronic media and exhibit fabrication. It provides an electronic archive storage site for departmental print and exhibit material. The facility offers complete planning of print, interactive media, marketing, consultation in communication planning, language translations for print material, design of various products, audience evaluation, production art, specialized contracting and exhibit fabrication services to include logos, illustrations, creative writing, ad placement, posters, brochures, web-sites, banners, trade-show exhibits, visitor centers, special media events, and complete information print campaigns shared by departmental initiatives with various mission areas. Services are provided to international, national, regional, State and local USDA offices, and other Government agencies as requested.

PRINTING MANAGEMENT CENTER

The Printing Management Center provides centralized printing to the Department and policy guidance to the many field operations. The Printing Management Center is the central printing authority, and therefore, is the liaison with the Government Printing Office, and the Joint Committee on Printing.

COORDINATION AND REVIEW

OC's Coordination and Review Center includes the communications coordinators, who are supported by a news distribution staff, an agriculture news summary service staff, an editorial review staff, an information services staff and a Freedom of Information Act (FOIA) Officer.

Each communication coordinator works directly with an Under or Assistant Secretary. A "desk" system of vertical coordination within the Under or Assistant Secretary's respective program mission area and horizontal coordination with the other coordinators and other units within OC enables them to coordinate information support in an effective manner. This "desk" system provides leadership in the development of communications strategies which are vital to the formulation, awareness and acceptance of U.S. Department of Agriculture programs and policies. One additional public affairs specialist coordinates employee communications and edits the Department's monthly employee news periodical, distributed in both printed and electronic versions.

The news distribution staff works closely with the communications coordinators and Press Secretary's office to ensure quick dissemination of news releases, public statements, and other current information through electronic and other means. The news summary staff provides daily agriculture news summaries and clips to top USDA executives in electronic and hard copy formats. Another staff member serves as the Department's Worldwide Web home page "Webmaster," who works closely with communication coordinators and agencies in developing and promoting access to USDA information via the Internet.

The editorial review staff reviews and oversees the Department's information products, both printed and electronic, for editorial content, design, and quality. The review staff works closely with the communication coordinators to ensure that the Department disseminates consistent and timely information to the public.

ADMINISTRATION

The OC administrative area provides administrative services to the agency. Included in these services are: Budget planning, preparation, justification and execution, the processing of all training, travel, and procurement requests.

"AG AM" and "AG MIDDAY"

The "AG AM" and "AG MIDDAY" news digests summarize articles and editorials from news wires, national newspapers, news magazines, and other key periodicals addressing issues affecting USDA's mission.

The FOIA officer provides central USDA coordination of responses under the FOIA, the Privacy Act and its amendment, the Computer Matching Act.

The information services staff responds to telephone, Internet, and letter inquiries for information about the Department, its programs, and officials who are directing those programs.

Selected Examples of Recent Progress:

Public and Media Outreach Center. In FY 1998, OC disseminated 515 news releases and related items for national distribution, primarily through electronic dissemination and by facsimile to reach a broader audience with greater speed and accuracy. OC offered a fax-on-demand system, AgNewsFax, to facilitate easy public access to USDA program information and news releases. OPMO also offered the Agriculture Fact Book which provided information about agriculture and the Department to its wide variety of audiences and stakeholders. The book provided facts and figures describing American agriculture, trade, and rural America. The book also highlighted USDA programs in all seven mission areas. To meet the needs of diverse users, the book is released in paperback and Internet versions. In addition, the USDA Visitor Center assisted 11,434 visitors during FY 1998.

Video, Teleconference, and Radio Center. The VTR Center worked on a total of 371 video productions for USDA and other Federal agencies. Major productions included TV public service campaigns on conservation for homeowners' backyards, living with wildlife, and the agricultural census. Informational and training videos were produced on civil rights, transportation of horses and disease prevention that reduce costs to industry and increase ability to sell horses worldwide, helping the public understand how to live with wildlife, baggage checking to prevent disease and pest introduction into the U.S., and controlling and stopping the spread of the Formosan termite in the South.

Other major topics covered were the Transportation Summit in Kansas City conducted by USDA and the Department of Transportation, video news releases related to food safety by the Food Safety and Inspection Service (FSIS) and the Food and Drug Administration, school food service training to improve quality and taste of the School Lunch Program, and explaining the use and availability of Rural Development's Small Business and Industry Loan Program.

International satellite telecasting capability permitted Secretary of Agriculture Dan Glickman to speak live via satellite from the VTR Center Studio in Washington, D.C., to the Cairns Group of agricultural trade ministers during an April 3 meeting in Australia. This linkage gave Secretary Glickman a low-cost, efficient way to present the U.S. position regarding further reform of World Trade Organization and to respond to live questions from other trade ministers.

Videos produced by VTR Center have won Gold Screen Awards in competition conducted by the National Association of Government Communicators. Other awards were given to VTR Center productions by the U.S. International Film and Video Competition, the Columbus International Film and Video Festival, and the International TV Association.

The VTR Center handled 3,246 audio conferences on a variety of agricultural, nutritional and rural development related topics. This service helps USDA agencies communicate with their field staffs on ongoing and emerging issues.

During FY 1998, the radio center staff produced 2,022 news stories and actualities, and 17,424 calls were tallied by counters on the daily radio newswire machines. Major stories featured on the radio newswire in FY 1998 were the Southeast Asian financial crisis and its impact on U.S. agricultural exports, and the Russian financial crisis and the subsequent Russian aid package. Extensive coverage was given to the farm financial crisis and the resulting disaster aid package for farmers. Other subjects covered were grain transportation problems, trade relations between the U.S. and European Union, as well as Canada.

The weekly radio feature service on cassette is mailed to 675 radio stations nationwide. Stations must subscribe to the service. The service includes 520 short features of 2½ to 3 minutes duration that comprise the daily Consumer Time and Agritape series and 52 weekly documentary features of 5 minutes duration of the Agriculture USA program.

"Consumer Time" featured food safety issues, food and vitamins, food gleaning, and implementation of the science-based food inspection system. Special coverage was given to the "International Conference on Women in Agriculture," which produces news and features about the role women play in agriculture on and off the farm. Agritape topics included the farm financial crisis and the disaster aid package, farming and restoring the Everglades, El Nino and its impact on farming, international trade issues, issues affecting production agriculture, conservation practices, and extensive coverage of USDA's agricultural research projects at the Beltsville, Maryland, site and at USDA's Western Regional Lab in Albany, California.

Agriculture Secretary Dan Glickman began a biweekly radio message which featured every other Monday on the Radio Newslane, as well as included in the feature cassette service. His subjects address important issues facing farmers and consumers. Radio staff also conducted and covered telephone news conferences with the Secretary of Agriculture. Items from these news conferences were used on both the newslane and feature service.

The VTR Center also produced a weekly 15-minute satellite newsfeed and distributed tape copies to 20 TV stations who could not access the satellite feed. These TV features are designed to keep consumers, food program participants and agricultural producers up-to-date on major announcements or opportunities for participation or support.

Photography Center. In FY 1998 the Center established a site on the Internet. The site, which has grown to more than 1,000 photographs, is searchable by topic, and provides thumbnail photos on dozens of topics. The photos are clickable to provide a 640 pixel wide image that may be downloaded. This site is designed to assist photo users in their research, and to answer the increasing demand for digital photography with a decreasing staff.

Design Center. In FY 1998, the Center recovered costs with more than 2,000 visual requests. New graphic standards guides were developed for USDA stationery and News Releases incorporating the new USDA symbol. Additionally, the Farm Service Agency (FSA) produced a comprehensive manual on graphic print standards to help reduce field contracting production costs. These standards will be incorporated into USDA's general graphic standards next year.

Visual requests included outreach campaigns, agency identification systems for Risk Management Agency, posters, publications, presentations materials, magazines, fact sheets, interactive graphic computer programs, books, trade show exhibits, visitor centers and various specialty items.

Highlighted design for print production projects included the 1998 Fact Book of Agriculture, Natural Resources Conservation Service (NRCS) Backyard Conservation Project Campaign with special Earth Day event material, NRCS Stream Corridor Restoration Handbook, USDA Civil Rights Progress Report, USDA Strategic Plan 1007-2002 Revision, collateral materials for nine Risk Management Educational Regional Conferences and the Risk Management Education Summit Campaign, Food and Nutrition Services (FNS) Healthy School Meals Kit, FNS Cooking a World of New Tastes Reference Guide Kit and USDA's Y2K Readiness Campaign.

Highlighted exhibit design and exhibit fabrication projects included the ongoing Nebraska National Forest Visitor Center and the exhibit fabrication of the Williams Arizona Forest Service Center. New large visitor center projects included the design development and exhibit fabrication of a visitor center for the Army Corp of Engineers in South Carolina, the APHIS' National Wildlife Research Center in Fort Collins, Colorado, Forest Service's Lassen National Forest and National Park Service's Lassen Volcanic National Park. Completed

projects include more than 80 tradeshow exhibits, of which more than 30 were for FSA, banners and back stage drops for media events including the NRCS Backyard Conservation, Civil Rights One Year Accomplishment Event, and Rural Housing HUD Loan Program Event.

Printing Management Center. During FY 1998, the Printing Management Division requested a waiver from the Joint Committee on Printing to allow USDA field offices to procure print jobs of up to \$2,500 using the USDA purchase credit card. The Congress denied the request due to pending legislation of Title 44 USC. The Joint Committee on Printing approved a waiver for the FNS, Child Nutrition Programs to establish a partnership with the University of Mississippi National Food Management Institute, to warehouse and reprint publications of interest to educational facilities. This waiver will be used as part of a yearly \$2 million grant with FNS and the University of Mississippi. The Division also managed 23 printing contracts written by the Government Printing Office. The contracts allow the Division to deal directly with the contractor, meet critical deadlines and regular schedules, produce print in various sizes, multiple colors, on several paper stocks. These contracts utilize camera copy, tapes, and/or disk, for state-of-the-art output to pre-press operations.

Publications and Forms Printed:	<u>FY 1997</u>	<u>FY 1998</u>
Printing through main GPO or on contract.	3,842	3,603
Miscellaneous orders through GPO's Rapid Response Center (RRC), GPO's Regional Printing Procurement Offices (RPPO).	1,055	1,039
Printing through USDA Duplicating Facility (OO):		
Miscellaneous orders reviewed, cleared and processed for printing in USDA facility.	121	85
Waivers for jobs not presented to OC for clearance.	<u>3,978</u>	<u>2,618</u>
Total Printing Orders	8,996	7,345

Coordination and Review. In FY 1998, the staff reviewed more than 285 manuscripts for publications and reports to ensure that they met editorial and content standards. Also, the staff reviewed more than 355 camera ready information products to ensure that they met design and printing quality standards. The staff handled an average of more than 450 telephone calls a week. An average of more than 150 letter requests were received, which were either fulfilled by sending publications or by forwarding to the proper source in the Department for a response. The staff disseminated more than 515 national news releases, official remarks, and background papers in FY 1998.

2000 Explanatory Notes
Office of the General Counsel

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OFFICE OF THE GENERAL COUNSEL

PURPOSE STATEMENT

The Office of the General Counsel (OGC), which prior to 1955, was known as the Office of the Solicitor, was established in 1910 (70 Stat, 742) as the law office of the Department of Agriculture (USDA). OGC determines legal policy and directs the performance of all legal work conducted by the United States Department of Agriculture. All legal services are centralized within OGC and the General Counsel reports directly to the Secretary.

The Office provides all necessary legal advice and services for the Department's ongoing programs. The headquarters legal staff is divided into six sections: (1) Regulatory and Marketing; (2) International Affairs, Commodity Programs and Food Assistance Programs; (3) Rural Development; (4) Natural Resources; (5) Legislation, Litigation, and General Law and (6) Civil Rights.

Geographic Location. The work of this office is carried out in Washington, D.C., and five regions which include 18 offices as follows:

Southern Region:

Atlanta, Georgia
Montgomery, Alabama
Richmond, Virginia

Central Region:

Leawood, Kansas
Little Rock, Arkansas
St. Paul, Minnesota
Temple, Texas

Northern Region:

Harrisburg, Pennsylvania
Chicago, Illinois
Columbus, Ohio

Mountain Region:

Denver, Colorado
Albuquerque, New Mexico
Milwaukee, Wisconsin
Missoula, Montana
Ogden, Utah

Pacific Region:

San Francisco, California
Juneau, Alaska
Portland, Oregon

As of September 30, 1998, the office had 348 employees of which 330 were permanent full-time employees and 18 were other than permanent full-time employees. There were 169 permanent full-time employees and 6 other employees located in Washington, D.C., and 161 permanent full-time employees and 12 other employees in the field.

The General Counsel is the chief law officer of USDA and is responsible for providing legal services for all programs, operations, and activities of USDA. The General Counsel is assisted by a Deputy General Counsel and six Associate General Counsels, each of whom is responsible for a portion of the legal work of USDA. The Law Library was transferred from the National Agricultural Library to OGC in 1982.

Legal Advice. OGC provides legal advice, both written and oral, to all agency officials of USDA. That advice takes the form of oral advice, written opinions, review of administrative rules and regulations for legal sufficiency, review of agency agreements and contracts and review and advice concerning any other agency activities which involve legal issues.

Legislation and Document Preparation. The Office also prepares legislation, patent applications arising out of inventions by USDA employees, contracts, agreements, mortgages, leases, deeds and any other documents required by USDA agencies.

Administrative Proceedings. USDA is represented by OGC in administrative proceedings for the promulgation of rules having the force and effect of law and in quasi-judicial hearings held in connection with the administration of various USDA programs.

Federal and State Court Litigation. OGC works with the Department of Justice (DOJ) in all Departmental civil litigation. The bulk of this litigation is defensive litigation. The Office serves as liaison with DOJ and assists in the preparation of all aspects of the government's case. OGC makes referrals of matters which indicate criminal violations of law have occurred and assists DOJ in preparation and prosecution of criminal cases. In some instances, OGC attorneys represent USDA as Special United States Attorneys, both in civil and criminal matters.

By delegation, the Associate General Counsel for Legislation, Litigation, and General Law represents the Department in certain classes of cases before the United States Courts of Appeals.

OFFICE OF THE GENERAL COUNSEL

Available Funds and Staff-Years1998 Actual and Estimated 1999 and 2000

Item	1998 Actual		1999 Estimated		2000 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Salaries and Expenses ..	\$28,759,000	323	\$29,194,000	351	\$32,675,000	354
<u>Allocation from:</u>						
Hazardous Waste Management	893,630	9	1,379,000	15	1,569,000	17
<u>Obligations under other</u>						
<u> USDA appropriations:</u>						
AMS-User Fees	753,381	6	773,950	6	797,800	6
APHIS-User Fees	185,298	2	224,850	2	231,450	2
GIPSA-User Fees	13,378	0	9,900	0	11,000	0
FSA-User Fees	14,872	0	14,700	0	15,000	0
FSIS-User Fees	12,414	0	4,100	0	4,300	0
Total, Other USDA Appropriations	979,343	8	1,027,500	8	1,059,550	8
Total, Office of the General Counsel	30,631,973	340	31,600,500	374	35,303,550	379

OFFICE OF THE GENERAL COUNSEL
Permanent Positions by Grade and Staff-Year Summary
1998 Actual and Estimated 1999 and 2000

Grade	1998			1999			2000		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
Executive Level IV	1	--	1	1	--	1	1	--	1
ES-6	2	--	2	2	--	2	2	--	2
ES-5	2	--	2	2	--	2	2	--	2
ES-4	4	1	5	4	1	5	4	1	5
ES-3	2	1	3	2	1	3	2	1	3
ES-2	4	3	7	4	3	7	4	3	7
ES-1	1	--	1	1	--	1	1	--	1
GS-15	36	15	51	36	15	51	36	15	51
GS-14	64	79	143	67	77	144	67	77	144
GS-13	11	0	11	13	3	16	13	3	16
GS-12	8	1	9	11	4	15	12	4	16
GS-11	5	4	9	6	5	11	7	8	15
GS-10	1	--	1	1	--	1	1	--	1
GS- 9	10	16	26	12	17	29	12	17	29
GS- 8	9	17	26	9	17	26	9	17	26
GS- 7	11	22	33	15	24	39	15	24	39
GS- 6	7	6	13	10	8	18	10	8	18
GS- 5	1	1	2	1	1	2	1	1	2
GS- 4	--	1	1	--	1	1	--	1	1
GS- 3	--	--	--	--	--	--	--	--	--
Other Graded Positions	--	--	--	--	--	--	--	--	--
Ungraded Positions ..	--	--	--	--	--	--	--	--	--
Total Permanent Positions	179	167	346	197	177	374	199	180	379
Unfilled Positions end-of-year.....	4	2	6	--	--	--	--	--	--
Total Permanent Full-time									
Employment, end-of-year.....	175	165	340	197	177	374	199	180	379
Staff-Year Ceiling	175	165	340	197	177	374	199	180	379

OFFICE OF THE GENERAL COUNSEL

CLASSIFICATION BY OBJECTS1998 Actual and Estimated 1999 and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Personnel Compensation:			
Washington, DC	\$11,226,002	\$11,564,898	\$12,726,879
Field	<u>10,096,734</u>	<u>10,482,113</u>	<u>11,473,445</u>
11 Total personnel compensation	21,322,736	22,047,011	24,200,324
12 Personnel benefits	4,227,168	4,569,751	5,089,188
13 Benefits for former personnel	<u>18,745</u>	<u>18,745</u>	<u>18,745</u>
Total pers. comp. & benefis	<u>25,568,649</u>	<u>26,635,507</u>	<u>29,308,257</u>
Other Objects:			
21 Travel	296,001	301,001	313,751
22 Transportation of things ...	27,012	10,772	10,772
23.3 Communications, utilities and misc. charges	756,905	785,237	799,487
24 Printing and reproduction ..	78,551	78,551	78,551
25.2 Other services	794,246	794,246	794,246
26 Supplies and materials	538,686	338,686	390,686
31 Equipment	<u>638,200</u>	<u>250,000</u>	<u>979,250</u>
Total other objects	<u>3,129,601</u>	<u>2,558,493</u>	<u>3,366,743</u>
Total direct obligations	<u>28,698,250</u>	<u>29,194,000</u>	<u>32,675,000</u>
<u>Position Data:</u>			
Average Salary, ES positions	\$117,802	\$119,483	\$120,835
Average Salary, GS positions	\$57,997	\$55,348	\$60,511
Average Grade, GS positions	11.98	11.80	11.79

OFFICE OF THE GENERAL COUNSEL

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets)

Office of the General Counsel:

For necessary expenses of the Office of the General Counsel, [\$29,194,000],
\$32,675,000.

SALARIES AND EXPENSES

Appropriations Act, 1999	\$29,194,000
Budget Estimate, 2000	<u>32,675,000</u>
Increase in Appropriation	<u>+3,481,000</u>

SUMMARY OF INCREASES AND DECREASES
(On basis of appropriation)

<u>Item of Change</u>	1999 <u>Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	2000 <u>Estimated</u>
Legal Services	<u>\$29,194,000</u>	<u>+\$1,159,000</u>	<u>+\$2,322,000</u>	<u>\$32,675,000</u>

Project Statement
(On basis of appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease (1)</u>	<u>2000 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Legal Services	\$28,698,250	323	\$29,194,000	351	+\$3,481,000	\$32,675,000	354
Unobligated Balance...	60,750						
Total, Appropriation..	<u>\$28,759,000</u>	<u>323</u>	<u>\$29,194,000</u>	<u>351</u>	<u>+\$3,481,000</u>	<u>\$32,675,000</u>	<u>354</u>

Justification of Increases and Decreases

(1) An increase of \$3,481,000 for the Office of the General Counsel consisting of:

- (a) An increase of \$ 1,159,000 for pay costs which includes \$239,000 for annualization of the fiscal year 1999 pay raise and \$920,000 for the anticipated fiscal year 2000 pay raise.

This increase will enable OGC to meet its objective of providing effective legal services in a responsive manner to support USDA activities, consistent with the priorities established by the Secretary of Agriculture. This modest, but critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand in delivering predecisional legal advice, training, appeal and litigation legal services to agencies. OGC's budget does not have any flexibility for absorbing pay raises. Unlike large program agencies which have more flexibility concerning budget implementation, OGC can only absorb salary adjustments by reducing staff.

- (b) An increase of \$371,000 to maintain staff.

This increase will enable OGC to meet its objective of providing effective legal services in a responsive manner to support USDA activities, consistent with the priorities established by the Secretary of Agriculture. This modest, but critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand in delivering predecisional legal advice, training, appeal and litigation legal services to agencies.

- (c) An increase of \$1,250,000 for enhanced legal services.

As a result of reductions in staff, there are areas where staff is insufficient to adequately meet the demands for legal services generated by the Department. OGC staff has fallen far below the numbers necessary to provide the required legal services to the Secretary of Agriculture and USDA agencies. OGC has been unable to fill key positions as they became vacant which caused huge "gaps" within the organization. This has resulted in OGC being able to support a projected staffing level of 364 at the end of FY 1999 including all sources of funds instead of 374 as needed. Therefore, this increase will enable OGC to provide legal services at the requested staffing level of 374. This increase supports OGC's objectives of providing effective legal services in a responsive manner to support USDA activities, consistent with the priorities established by the Secretary of Agriculture.

Natural Resources Division

Recreation related legal issues on National Forest System lands have increased dramatically in recent years in concert with the public demand for outdoor recreation experiences. Increased public use, especially near large urban areas, has brought problems of agency financial liability for accidents on public lands and law enforcement issues involving group uses, illegal activities related to drug and alcohol uses and other forms of dangerous behavior.

Further, the Forest Service is facing numerous contract and permit problems in dealing allocation of use for ski area permits, campground operations, out-fitter and guide concessions. These concessions give rise to issues of liability insurance, pollution control, cost recovery and permit fee valuation. Additionally, burgeoning recreational use has created land management conflicts between competing recreation uses and with livestock grazing, timber harvesting, wildlife management and wilderness use.

The changing nature of the recreation program, along with the increased recreation emphasis and the agency's reform effort require an increase of an attorney position to meet the Department's critical need for legal assistance.

Water Resources issues are critical to both the Forest Service and the Natural Resources Conservation Service. The Natural Resources Conservation Service has been assigned a primary role both in monitoring water quality and in developing nationwide programs to dramatically reduce non-point source pollution generated by agriculture. This massive effort will require substantial legal assistance to NRCS and to the Department.

The Forest Service has been directed to address the serious impacts to water quality from non-point source silvicultural and related road construction activities on National Forest system lands. Further, state regulation of water quality under the Clean Water Act is increasingly affecting Forest Service activities involving road construction, grazing, developed recreation and other ground disturbing activities. The Forest Service's need for legal assistance as it copes with these changes will continue to rise.

Additionally, both NRCS and the Forest Service are faced with litigation over Endangered Species Act compliance for their activities affecting water quality and quantity. Administrative Appeals and litigation have increased substantially on both clean water issues and fisheries issues involving species listed under the Endangered Species Act.

Trade Practices Division

New developments in the Trade Practices Area, arising out of Secretarial initiatives and industry changes require that OGC provide additional legal resources in this area. Specifically, both the Perishable Agricultural Commodities Branch of the Agricultural Marketing Service and the Packers and Stockyards Programs of the Grain Inspection, Packers and Stockyards Administration have stepped up enforcement activities in certain areas of their work that require legal resources to enable them to prepare for complex litigation. The PACA Branch is continuing its emphasis on commercial bribery investigation and enforcement, and on misbranding or mislabeling involving perishable commodities that originate outside of the U.S. and are sold as U.S. produce. P&S Programs' emphasis is now on the investigation and preparation for hearing of cases alleging anticompetitive practices by packers or competing dealers. The preparation of these cases requires extensive legal resources. In all of these types of cases, the attorneys must be involved in the investigation as well as in the preparation of the complaint and the litigation of the enforcement case. The cases commonly require the preparation and presentation of hundreds of pages of exhibits. At the same time that the agencies are asking for increased attorney involvement in all stages of these enforcement cases, they continue to refer the more routine, less complex litigation that has been their emphasis in the past.

General Law

In fiscal year 1997, the General Law Division took on the responsibility for providing representation to the Department in all protests against the award of contracts. Previously, representation was provided in primarily the award of Information Technology contracts. With the Court of Federal Claims now being vested with expanded jurisdiction of protests and with the General Accounting Office having moved toward a more formal process it has become apparent that additional resources are needed to carry out this responsibility in a timely and effective manner. It has also become apparent that additional resources are needed in

providing legal advice to the National Appeals Division (NAD). The Division serves as legal counsel to NAD with respect to the administrative appeals process and matters of interpretation of law. Since the creation of NAD, legal services have been provided within existing resources. These resources are not sufficient. As the Department and Congress have continually modified and streamlined farm and credit program regulations and debt collection efforts, NAD has called upon GLD for increased assistance regarding the impact of such changes and the applicable principles of statutory and regulatory construction that govern statutory and regulatory conflicts. Additionally, GLD coordinates litigation issues nationwide arising in the judicial review of NAD determinations with respect to exhaustion of administrative remedies, jurisdictional issues between the district courts and the Claims Court, the implementation and effective date of NAD determinations, and various procedural aspects of the NAD administrative process.

Finally, in the past year, the Executive Branch has taken over most of the claims adjudication responsibility of the Comptroller General. This responsibility in part has been delegated to the Executive agencies. We anticipate that there will be a greater demand for opinions from certifying officers as to the legality of obligation of funds.

Central Region

Kansas City office services the legal needs of USDA clients in the states of Kansas, Nebraska, Missouri and Iowa, which are major agricultural producers of wheat, corn and feed grains. In addition to the clients normally serviced in these four states, clients of the Kansas City office also include the Kansas City Management Office and Kansas City Commodity Office, FSA, the NITC (Computer Center), and a major installation of Risk Management Agency. Since the opening of the Centralized Servicing Center, RD in St. Louis, Kansas City has also been the major source of legal advice for that installation, as well as coordinating the provision of legal advice to CSC from various OGC offices throughout the country.

The liquidation work in the Rural Housing area is also expected to increase substantially as this office is called upon to service and oversee the processing of large backlogs of delinquent Rural Housing loans to be handled by that office.

The states listed are major agricultural producers, and the legal work produced by the USDA clients has continued unabated for a number of years, while at the same time the office has been called upon to do additional work for USDA clients in the areas of Board of Contract Appeals and personnel cases. We see no abatement of the overall office workload in the foreseeable future, nor any abatement of the increase in workload in the various areas serviced by the office.

Pacific Region

The workload of the San Francisco office comprises several significant areas of work, many of which are not being fully served due to lack of resources. Some of these areas include representation of the Forest Service before the Federal Energy Regulatory Commission, representation of the Forest Service in water rights matters, Endangered Species Act matters, contract litigation involving timber sale contract lawsuit, environmental matters with NRCS and legal matters involving the grazing of National Forest System lands.

(d) An increase of \$701,000 for Office Automation.

This increase supports OGC's objective to improve internal and external communications and information management within OGC. An increase of \$701,000 is necessary for the Office of the General Counsel (OGC) to meet processing requirements into the year 2000 and beyond. OGC anticipates migrating fully to Windows 98 to support current windows applications, as well as, increasing the speed of the application for the work tracking system. Windows 98 will also improve multiuser access performance at the user workstation because it is a faster operating system. In addition, 15 file servers will be replaced and or upgraded along with replacing 50 percent of the personal computers that are now processing at 75 Mhz processing speeds. The majority of OGC's personal computers are 75 Mhz Pentium PC's and cannot process the required applications as fast as the Pentium Pro II's. It is anticipated that the requirement to upgrade the hardware will be a continuing process as the technology continues to change.

OFFICE OF THE GENERAL COUNSEL
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS
1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama.....	\$385,237	6	\$391,064	6	\$437,693	6
Alaska.....	384,804	5	390,624	5	437,201	5
Arkansas.....	755,176	11	766,599	11	858,005	11
California.....	1,414,245	15	1,435,636	16	1,641,817	17
Colorado.....	1,339,357	13	1,359,616	14	1,586,732	14
District of Columbia.....	16,053,989	161	16,349,427	177	18,209,020	178
Georgia.....	1,404,392	18	1,425,634	18	1,595,623	18
Illinois.....	531,440	6	539,478	7	603,804	7
Kansas.....	1,010,727	12	1,026,015	13	1,148,354	14
Minnesota.....	442,193	7	448,881	9	502,405	9
Montana.....	567,903	8	576,493	8	645,232	8
New Mexico.....	248,554	4	252,314	5	282,399	5
Ohio.....	272,548	3	276,670	4	309,660	4
Oregon.....	1,014,004	14	1,038,401	16	1,152,077	16
Pennsylvania.....	864,816	11	877,897	12	982,575	12
Texas.....	735,738	11	746,867	11	835,921	11
Utah.....	315,922	5	320,701	5	358,940	5
Virginia.....	329,202	5	334,181	6	374,028	6
Wisconsin.....	628,003	8	637,502	8	713,514	8
Subtotal, Available or Estimate.....	28,698,250	323	29,194,000	351	32,675,000	354
Unobligated balance	60,750					
Total, Available or Estimate.....	28,759,000	323	29,194,000	351	32,675,000	354

OFFICE OF THE GENERAL COUNSEL

STATUS OF PROGRAM

The Office of the General Counsel (OGC) serves as the legal advisor and counsel for the Secretary and the program agencies of the Department.

Current Activities: The Office provides legal services for all agencies of the Department. These services include, but are not limited to the following:

- rendering opinions on legal questions;
- preparing or reviewing rules and regulations;
- preparing or interpreting contracts, mortgages, leases, deeds, and other documents;
- preparing briefs and representing the Department in judicial proceedings and litigation;
- representing departmental agencies in nonlitigation debt collection programs;
- processing applications for patents for inventions by the Department's employees;
- representing departmental agencies in state water rights adjudications;
- considering and determining claims by and against the United States arising out of the Department's activities;
- representing the Department in formal administrative proceedings;
- assisting the Department of Justice (DOJ) in the preparation and trial of cases involving the Department; and
- representing the Secretary of Agriculture and the Commodity Credit Corporation before the Interstate Commerce Commission, the Federal Maritime Commission, and the International Trade Commission.

Highlights of OGC's Fiscal Year (FY) 1998 operations are described below:

Selected Examples of Recent Progress:

ADMINISTRATION AND RESOURCE MANAGEMENT

The Office of the General Counsel has focused on year 2000 compliance by assessing electronic hardware throughout the agency to assure that hardware requirements meet the year 2000 specifications. Several 486 computers, as well as, fax machines, copiers, and telephones, have been replaced with newer technology that supports the year 2000 initiative. In addition, small lasers replaced obsolete dot matrix printers, year 2000 compliant 200 Mhz pentium file servers were added to OGC branch offices, and a small percentage of pentium computers were upgraded to 266 and 400 Mhz.

REGULATORY AND MARKETING

Marketing Agreements and Orders: OGC attorneys reviewed almost 150 dockets, as well as many other documents relating to marketing orders, and provided daily legal advice to client agencies in connection with a wide variety of matters arising under both the fruit and vegetable and the milk marketing order programs. Substantial legal services were devoted to amendments to regulations implementing a wide variety of marketing order programs. The amendments included revisions to grade size, quality and maturity regulations and to import regulations when applicable. OGC attorneys provided assistance concerning several marketing order programs in connection with formal rulemaking proceedings, including Walla Walla onion order amendments and proposed tart cherry order amendments. In addition, OGC attorneys participated in formal rulemaking proceedings on proposals to floor the minimum prices received by milk producers. Extensive legal services were also required in the formulation and issuance of a proposed rule that would completely revise the milk marketing order system as required by the Federal Agriculture Improvement and Reform Act of 1996. This reform continues to require substantial attorney time in considering the legal implications of the numerous suggested revisions raised by the thousands of comments on the proposal. Significant legal services were expended in successfully defending the current Federal Milk Order Program in the U.S. Court of Appeals for the Eighth Circuit and in dismissing the remaining First Amendment challenges to marketing order advertising programs.

Research and Promotion Programs: OGC attorneys have continued to provide legal services in connection with a wide variety of rulemaking actions and other issues arising under the twelve research and promotion programs currently in effect. Substantial legal services were devoted to providing legislation drafting services for amendments to the Honey Research, Promotion and Consumer Information Act. Legal services also were provided in connection with promulgation of a new national program for peanuts under the Commodity Promotion, Research, and Information Act of 1996. That Act provides general authority for the Secretary to issue orders providing for new research and promotion programs. This new authority has and will create additional demand for legal services in the research and promotion area, particularly in view of several inquiries from industry representatives concerning new programs. OGC also has devoted substantial legal resources to successfully defending administrative and Federal court constitutional challenges to the dairy promotion program, the mushroom promotion and research program and the beef promotion and research program.

Animal Welfare and Horse Protection Acts: OGC attorneys serve as agency counsel in administrative enforcement actions brought under these two statutes, and in FY 1998, OGC initiated 55 enforcement cases. In addition, OGC provided legal assistance at industry meetings seeking input on implementation of the HPA Strategic Plan, and provided drafting assistance to APHIS in a number of rulemaking dockets concerning new regulations for marine mammals held in captivity.

Virus-Serum-Toxin Act: OGC reviewed and provided drafting assistance to the Animal and Plant Health Inspection Service (APHIS) in a number of rulemaking actions and other documents concerning veterinary biologics. OGC reviewed several cases involving alleged violation of the Virus-Serum-Toxin Act, and assisted DOJ attorneys at the trial and appellate levels in litigation involving manufacturers of animal biologics. In addition, OGC devoted legal resources assisting APHIS in resolving questions regarding the regulation of biologics, in negotiating an international mutual recognition agreement with the European Community, and in reviewing the standards applicable to various changes of products to determine what changes, if any, need to be made.

Grain Standards Act: OGC reviewed a variety of rulemaking and other documents for publication in the Federal Register, including changes to the grain inspection fee schedules. OGC continued to work with and advise the agency concerning program changes to better serve the grain industry in a more cost effective and efficient manner.

Organic Foods Production Act: OGC continued to provide significant legal assistance in connection with the issuance of a proposed rule to implement the Organic Foods Production Act of 1990. Publication of the Department's proposed rule on organic certification resulted in tens of thousands of comments from interested persons. OGC has continued to work with the agency as it proceeds with the rulemaking process. Implementation of the organic program will result in additional demands for legal assistance.

Transportation Issues: OGC provided legal analysis, drafting assistance, and review, particularly concerning filings with the Surface Transportation Board, in connection with the severe rail service disruptions in the West, the ongoing adjustments related to the Union Pacific/Southern Pacific merger, and rail access and competition issues, including proposed legislation.

Meat and Poultry Inspection Acts: Approximately 225 criminal cases, civil injunctions, civil seizure, and claims collection cases were prepared and referred by OGC staff to the Department of Justice or otherwise handled or disposed of during the FY 1998. In addition, 40 administrative proceedings involving the withdrawal, suspension or denial of Federal meat and poultry inspection or custom exemption were litigated. OGC attorneys also assisted in defending agency regulations and program actions in Federal court civil litigation.

On April 8, 1998, the American Federation of Government Employees (AFGE), the Community Nutrition Institute (CNI), Rodney Leonard, the Executive Director of CNI, and eight FSIS food inspectors, filed a lawsuit in the United States District Court for the District of Columbia challenging the HACCP/Pathogen Reduction regulation and inspection pilot projects being planned for the future. Plaintiffs allege that the Federal Meat Inspection Act and the Poultry Products Inspection Act require federal inspectors to conduct a postmortem inspection of every meat and poultry carcass and seek to enjoin the Secretary from implementing any regulation, policy or practice that authorizes anything other than an organoleptic postmortem inspection by federal inspectors of every meat and poultry carcass slaughtered for human food. USDA has filed a motion to dismiss the lawsuit. The plaintiffs filed an opposition to that motion and USDA filed its response. The court has not ruled yet.

On September 2, 1998, James V. Hurson Associates, Inc., a label expeditor, filed a Complaint and a Motion for Temporary Restraining Order (TRO) in the United States District Court for the District of Columbia. The action seeks to prohibit the implementation of FSIS' revised procedures for label review which would eliminate daily face-to-face meetings with label expeditors. These revised label review procedures were announced in a Notice published in the Federal Register on July 27, and were to be implemented on September 10. The plaintiff alleges that the proposed revisions to the label procedures are substantive in nature and that FSIS is required to comply with notice and comment rulemaking procedures under Section 553 of the Administrative Procedure Act. In a status hearing before the district court judge on September 4, the plaintiff agreed to withdraw its motion for a restraining order and to convert it into a motion for summary judgment. FSIS agreed to delay implementation of the revised procedures until both parties had provided the court with briefs on the merits of the issues raised by the plaintiff. FSIS thereafter filed a motion to dismiss. Both parties have filed briefs and a decision from the judge is expected soon.

Our office reviewed, revised, and cleared for legal sufficiency over 90 FSIS rulemaking dockets during FY 1998. Many of the rulemaking dockets were associated with the Department's pathogen reduction and HACCP system rulemaking initiatives. Other dockets were related to rulemaking initiatives to further streamline the food safety and inspection system regulations. For example, a rulemaking docket was published which proposes to permit the use of ionizing radiation to treat certain refrigerated and frozen uncooked meat food products to reduce levels of food borne pathogens in these products. FSIS is also proposing to revise its current poultry regulations which permit the irradiation of poultry products in order to make them as consistent as possible with the proposed regulations for the irradiation of meat

food products. FSIS is proposing processing requirements for the irradiation of meat and poultry products. It is also proposing labeling requirements for packaged and unpackaged irradiated meat and poultry products.

OGC attorneys also continued to work with FSIS to consolidate and update the rules of practice to be followed when inspection is refused, suspended or withdrawn.

During the FY 1998, OGC attorneys assisted FSIS in its work on proposed legislation and in the preparation of legislative reports and testimony related to food safety matters. These legislation-related matters included draft legislation that would allow for the interstate shipment of state-inspected products.

Animal and Plant Quarantine Laws and Animal Damage Control (Wildlife Services):

During FY 1998, OGC reviewed, assisted in drafting and cleared for legal sufficiency approximately 130 proposed or final rulemaking dockets and notices for publication in the Federal Register. Significant matters involved proposed amendments to the regulations governing the importation of logs, lumber, and unmanufactured wood products, an advance notice of proposed rulemaking regarding regulation of solid wood packing material (SWPM) and an interim rule requiring the fumigation or treatment of SWPM from China. This interim rule was precipitated by the finding of exotic pests in SWPM from China, including discoveries of the Asian Longhorned Beetle in the New York City and Chicago areas. Other rulemakings involved the importation of animals and animal products from various districts or regions of foreign countries where diseases of concern do not exist or are present at low levels. Included in these dockets were proposed rules involving the importation of animals and animal products into the United States from countries in the European Community because of animal diseases, including BSE. Rules permitting imports of pork from Yucatan and Sonora, and poultry from certain areas of Mexico were also promulgated. Domestically, proposed and final quarantine regulations regarding Karnal bunt and an associated indemnity program were also issued. Additional rules developed during the year governed the importation of fruits and vegetables from various countries and regions, including papayas from Brazil, citrus from Argentina, and tomatoes from France, Morocco and Western Sahara. Other rulemakings involved the importation of horses from Mexico, Morocco and Qatar; interstate movement of sheep and goats; quarantines and regulations for Mediterranean fruit flies and Citrus Canker; the regulation of brucellosis and tuberculosis in cattle, bison and cervidae; and the closing of the Harry S. Truman Animal Import Center.

Numerous criminal, civil and claims collection cases involving APHIS matters were referred to DOJ or otherwise handled during the FY. For example, a criminal case involving a conspiracy to import over 15 tons of prohibited fruit from Canada through the St. Regis Mohawk Indian Reservation was referred to the United States Attorney for the Northern District of New York and prosecuted successfully. Such illegal importations could result in the establishment of exotic pests, such as the Mediterranean fruit fly. In this case, the defendant pled guilty, and agreed to testify for the government in related cases. OGC continues to work with DOJ on litigation involving the interim bison management plan for brucellosis affected and exposed bison migrating out of Yellowstone National Park.

Perishable Agricultural Commodities Act: OGC devoted substantial resources to providing legal services in connection with the Perishable Agricultural Commodities Act (PACA). OGC received 34 new enforcement referrals in FY 98 and an additional 7 civil cases and 7 "responsibly connected" referrals. Attorneys initiated 31 administrative cases enforcing provisions of the PACA and 7 court cases during FY 98. Also, in FY 98, OGC collected approximately \$424,000, in civil penalties levied in administrative actions alone. In addition to the prosecution of regulatory violations of PACA in FY 98, attorneys issued opinions in 180 disputes between private party litigants in the perishable agricultural commodities industry. In 1998, OGC attorneys worked on a number of cases alleging misbranding or fraudulent misrepresentation of produce. These cases included two cases that alleged mislabeling or

misrepresentation of country of origin and two that alleged misbranding or mislabeling of the type or variety of produce. OGC attorneys are also participating in the initial stages of investigations of PACA cases as the agency pursues more investigations of fraud or commercial bribery which require legal advice and counsel regarding particular fact or evidentiary issues that may arise during the investigation and preparation of the case. OGC personnel have trained PACA staff in the preparation and drafting of decisions in the agency's numerous reparation cases, and have eliminated the reparation backlog. In addition, OGC has worked with PACA to assist in the drafting of proposed and final regulations providing for multi-year license renewals and a proposed rule to amend the reparation Rules of Practice to make that procedure more user friendly.

Packers and Stockyards Act: During FY 98, OGC received 44 referrals from the Grain Inspection, Packers and Stockyards Administration (GIPSA). These referrals seek the issuance of a complaint for the enforcement of the requirement of the Packers and Stockyards Act (P&SA). In FY 98, 36 enforcement actions were initiated and OGC collected approximately \$65,209.39 in civil penalties levied in administrative enforcement actions alone. OGC provided substantial legal resources to P&S in the litigation of the appeal of a trade practices case alleging the use of an unfair procurement practice by a beef packer in Kansas. Oral argument before the Judicial Officer and assisting in the preparation of Court of Appeals responses required the presentation of complex market and econometric evidence. In addition to its work in enforcement actions, OGC received 7 reparation referrals and trained P&S staff to prepare and draft decisions in these cases involving commercial disputes between private parties. After consultation and review of the draft decisions in the OGC, the decisions are issued by the Department. As a result of this cooperative effort, 4 decisions in these reparation matters were issued in the past year. OGC also has provided legal services in the interpretation of the P&SA's statutory trust provisions and provided legal advice in 3 statutory trust matters in FY 98. OGC assisted in the review and, when requested, the drafting, of legislation regarding dealer trust and trade practices issues. OGC provided legal services to P&S on issues involving the Clear Title Provision of the Food Security Act of 1985, reviewing submissions or providing legal opinions in 5 matters referred for interpretation of those provisions. OGC provided substantial legal resources to P&S on a petition for rulemaking and on several proposals for regulatory action in the past year and has participated, when requested, in the drafting of regulations.

Concentration: In the past fiscal year, GIPSA and other agencies of the Department have placed especial emphasis on the issues related to concentration in agriculture. OGC attorneys participated in the Task Force to review the Advisory Committee on Agricultural Concentration recommendations, and provided legal advice and opinions in support of that task force, reviewing and revising recommendations for legislative action, and working with the Under Secretary and Chief Economist, in responding to issues regarding mergers and acquisitions in agricultural entities. This area of the Trade Practices division workload is growing rapidly as the number of mergers and acquisitions increases.

Capper-Volstead: The Capper-Volstead Act (7 U.S.C. 291, 292) permits persons engaged in the production of agricultural products as farmers to join together in producer associations for the purpose of collective bargaining, handling and marketing of the members' products. The Act confers a limited exemption to the antitrust laws for the associations and gives the Secretary of Agriculture authority to issue cease and desist orders upon a finding that any such association engages in monopoly or restraint of trade in interstate or foreign commerce to such an extent that the price of the product is unduly enhanced. The Secretary has delegated his authority to the Capper-Volstead Committee. OGC provides legal counsel to the Capper-Volstead Committee. In FY 98, OGC attorneys responded to 4 requests from the public regarding the requirements of the Act and provided legal advice and counsel at the request of the members of the Committee.

Future Outlook: The Secretary continues to emphasize his initiative to address concerns regarding concentration in agriculture. As part of this initiative in fiscal 98, GIPSA is continuing its investigation of procurement practices of beef and hog slaughter facilities. GIPSA is planning to increase their enforcement efforts with regard to enforcement of section 202 of the P&S Act. The PACA program continues to require extensive legal resources in the interpretation and litigation of provisions of the 1995 amendments to the Act and to pursue more complex intensive enforcement of trade practice violations such as country of origin misrepresentations or mislabeling violations. The concentration initiative and the move of the agencies into more complex trade practice enforcement requires the use of extensive legal resources.

INTERNATIONAL AFFAIRS, COMMODITY PROGRAMS AND FOOD ASSISTANCE PROGRAMS

Commodity Credit Corporation (CCC), Farm Service Agency (FSA), and Domestic Commodity-Related Program Activity: During this past year, OGC provided a large amount of assistance in connection with the administration of commodity loan, producer income and production adjustment programs authorized by the Agricultural Adjustment Act of 1938, the CCC Charter Act, the Food Security Act of 1985, and the Federal Agriculture Improvement and Reform Act of 1996. As a result of the precipitous decline in agricultural commodity prices, substantial resources were devoted to the review and drafting of numerous legislative proposals of the Administration, as well as numerous Congressional legislative proposals, relating to commodity loan and income support programs and disaster assistance. Similarly, OGC expended significant resources with respect to the administration of the Loan Deficiency Payment Program and the "Step 2" Cotton Payment Program and changes to the programs necessitated by these low prices. OGC also devoted resources to the litigation of approximately 100 complex and inter-related cases involving the tobacco marketing quota program, some of which are being pursued under federal civil false claim statutes while some are being pursued administratively. Cumulatively, these cases focus on a key component of the statutory marketing quota penalty collection mechanism and involve approximately \$40 million in penalties. During this past year, OGC also assisted in major litigation involving the peanut poundage program with regard to the treatment of inspection and handling techniques for so-called "Segregation 3" peanuts. Significant legal services were also provided with regard to FSA and CCC conservation programs. This included the provision of legal advice concerning the administration of several new Conservation Reserve Enhancement Programs in several states involving contractual commitments by CCC of up to \$548 million. These efforts are devoted to dealing with special environmental issues such as problems involving endangered fish species in Oregon and Washington, river quality in Minnesota, water resources for the City of New York and, in Maryland, the quality of the Chesapeake Bay. In addition, OGC has provided legal assistance regarding National School Program purchases of products that were found to be unfit for the warranted purpose and provided other legal advice related to commodity procurements in connection with this program.

Foreign Agricultural Service (FAS) and International CCC Activities: OGC advised Departmental officials with respect to major policy issues pertaining to relieving distress in the farm economy. These initiatives included developing CCC policies and procedures for the removal of 2.5 million tons of surplus wheat from the domestic market under the authority of the CCC Charter Act. OGC was also involved in the disposal of the commodities ultimately acquired by CCC under this surplus removal operation. In this regard, CCC assisted in implementing the "President's Food Aid Initiative" under which CCC is exporting a large volume of wheat to meet humanitarian food needs overseas under section 416(b) of the Agricultural Act of 1949. This activity involved OGC's review of numerous proposals for the utilization of the commodities by private relief organizations and foreign governments. OGC is involved in all aspects of the donation including drafting agreements and the provision of legal advice regarding transportation issues and the cargo claims process.

OGC attorneys advised Departmental officials on a number of issues related to the implementation of the World Trade Organization (WTO) agreements, most notably the participation of the United States in the WTO Committees on Agriculture and Sanitary and Phytosanitary Measures. In preparation for the next round of negotiations, OGC attorneys have reviewed numerous draft proposals of the United States and of other countries concerning topics that may merit inclusion in these negotiations. As a result of the detonation of nuclear devices by Pakistan and India, OGC attorneys devoted a substantial amount of time to determine the consequences of these actions under statutory sanction provisions that preclude the making of certain benefits to countries and individuals in countries that engage in nuclear proliferation. These OGC activities included the review of several Congressional proposals to exempt certain CCC programs from inclusion in such sanctions. OGC also advised Departmental officials with respect to a variety of Canadian-related trade issues, including actions by several Governors to prohibit the entry of Canadian agricultural products into their States.

OGC attorneys also participated in a number of dispute resolution issues involving agricultural trade including: (1) presentations to the WTO Dispute Settlement Body in a successful challenge by the United States in a case involving Japan's requirements for varietal testing for codling moth quarantine treatment efficacy on apples and stone fruit; (2) the initiation of formal dispute proceedings against Canada with respect to both export subsidies under its special milk pooling system and market access for fluid milk and cream; and (3) the initiation of a challenge to India's balance of payments measures affecting trade in approximately 700 agricultural commodities and products.

Food Assistance Programs: During this past year, OGC attorneys worked closely with the Food and Nutrition Service (FNS) and Congressional staff to draft and review various nutrition related legislative proposals for the domestic food assistance provisions of the Agricultural Research, Extension, and Education Reform Act of 1998 (AREERA), P.L. 105-185, and the William F. Goodling Child Nutrition Reauthorization Act of 1998 (Goodling Act), P.L. 105-336. In particular, OGC provided counsel regarding the reinstatement of food stamp eligibility for Vietnam era Hmong veterans and certain of their dependants who had been made ineligible under the provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), P.L. 104-193. OGC also provided counsel regarding the implementation of the Balanced Budget Act of 1997 (BBA), P.L. 105-33, with respect to the allocation of funds for food stamp employment and training programs.

The implementation of the alien provisions of the PRWORA continues to generate substantial trial and appellate litigation in California, Florida, Illinois, New York and Minnesota. New issues arising and continuing to demand legal resources include: the applicability of the PRWORA in the territories (*e.g.*, Puerto Rico, American Samoa and the Commonwealth of the Northern Mariana Islands); the eligibility of Hmong and Highland Laotian guerrilla fighters who aided U.S. armed forces during the Vietnam conflict, entered the United States at the conclusion of the conflict and were made ineligible by the PRWORA; and the provision of Federal food stamps with State funds for aliens made ineligible by the PRWORA. OGC continues to work closely with the Department of Justice (DOJ) (including the Immigration and Naturalization Service), the Department of Health and Human Services (DHHS), the Social Security Administration, and the Department of Housing and Urban Development in the implementation of the PRWORA regarding determinations of covered programs and the exemptions from ineligibility for means-tested public benefits applicable to qualified aliens who have worked 40 qualifying quarters, as well as the effects of amendments made by the BBA, the AREERA, and the Goodling Act. Additionally, OGC is participating in a cross-agency effort to establish a single alien verification process that harmonizes the various interpretations of the PRWORA that have been made by benefit-providing agencies (such as USDA and DHHS). OGC expects demands for legal services in connection with such welfare reform issues to remain constant in Fiscal Years 1999 and 2000.

OGC coordinated USDA's legal work in connection with the first suspension action taken against a dairy operation determined by State weights and measures inspectors to have provided under-filled (shortweighted) half pints of milk to schools participating in the National School Lunch Program. The shortweighting results (in some cases half pint cartons lacked as much as half an ounce of milk) prompted a closely orchestrated effort by State weights and measures officials, State procurement officials, USDA professionals and OGC to institute corrective and prospective action by the dairy operation. OGC assisted in the development of a federal Compliance Agreement in Lieu of Debarment for use in debarment actions. In connection with the Special Nutrition Programs, OGC reviewed memoranda and correspondence developed for implementation of the Child Health Insurance Program (CHIP). Due to the typical incomes of targeted households, likely participants in CHIP are children eligible for free and reduced price school meals and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program. As a result, OGC focused on establishing guidelines to maintain the statutorily protected confidentiality of USDA program participants while permitting schools and local agencies to share participant eligibility information.

Review of regulations was again a priority for OGC in FY 1998; OGC cleared for legal sufficiency a total of 34 regulations concerning the domestic food assistance programs. Of particular note were an interim rule to implement provisions of the BBA and proposed regulations to codify 13 sections of PRWORA pertaining to food stamp program eligibility criteria, penalties for failure to comply with program rules and the three-month time limit for participation for non-working able-bodied adults without children. Final regulations were cleared implementing technical changes necessary to reduce the workload of State agencies and to improve efficiency in the food stamp quality control system. With respect to food stamp retailers, OGC cleared a proposed regulation addressing retailer integrity, fraud reduction and penalties related to reciprocal disqualification and the resulting denial of additional appeal rights. A companion proposed rule was cleared for the WIC program which would disqualify WIC vendors based upon food stamp program disqualifications. OGC also cleared a proposed WIC regulation which would amend a significant portion of existing WIC regulations to strengthen the requirements placed upon State agencies with respect to vendor management, including selection, training, high-risk vendor identification, monitoring and sanctions.

In connection with the Special Nutrition Programs, OGC participated in the development of a proposed rule encompassing revisions to the National School Lunch Act made pursuant to three separate legislative changes contained in the Healthy Meals for Healthy Americans Act of 1994, P.L. 104-448, the Healthy Meals for Children Act, P.L. 104-149 and PRWORA. The proposed rule provided for menu planning alternatives, including traditional planning methods, for use by schools in planning and serving school lunches and breakfasts. OGC also reviewed a proposed rule which would permit State agencies to wait up to 90 days after certification of WIC applicants before requiring mandatory hemotological testings for anemia so long as one nutrition risk factor was present at the time of certification.

Litigation involving the Department with respect to food assistance programs continues to be a significant element of work (8 open cases). There were nine new court challenges to the domestic food assistance programs filed in FY 1998. Among other issues, litigation in state courts, United States District Courts and United States Courts of Appeal challenged: (1) the applicability of the PRWORA to Hmong and Highland Laotian guerrilla forces who aided the U.S. during the Vietnam conflict; (2) the applicability of the PRWORA to territories such as Puerto Rico, American Samoa and the Commonwealth of the Northern Mariana Islands; (3) whether the PRWORA's distinctions between aliens and citizens (as well as among various categories of aliens) violates constitutional equal protection guarantees; (4) distinctions among classes of aliens created by State funded programs providing Federal Food Stamps to aliens ineligible for Federally funded benefits; (5) the collection of alien status information from aliens who are members of Food Stamp households but who are not seeking food stamp benefits for themselves; and (6) the reporting of alien status information to the Immigration and Naturalization Service. In connection

with state litigation involving both the Food Stamp Program and the Child and Adult Care Food Program, OGC provided legal advice on several substantial record and document production requests. In addition, 115 retailer/wholesaler judicial review cases were filed.

RURAL DEVELOPMENT

The OGC Community Development Division provided legal advice to the Rural Housing Service (RHS), the Risk Management Agency (RMA), the Rural Business-Cooperative (RBS) Service, and the farm lending arm of the Farm Service Agency (FSA) in all their major areas of activity. The advice encompassed loans and grants under the RHS Single- and Multi-family housing programs, the RHS Community Facility loan and grant programs, the RBS Business and Industry program, the FSA farm loan programs, and RMA crop insurance Dairy Option Pilot and Risk Management Education programs. These major areas of activity include more than 30 statutorily separate loan and grant programs. The Division continues to be involved in answering numerous requests for opinions and interpretations of the Federal Agriculture Improvement and Reform Act of 1996 and the Quality Housing Act and Work Responsibility Act of 1998 and in reviewing regulations required to implement these statutes. The Division's advice concerned both proposed and recently enacted legislation, proposed, interim, and final rules, informal advice, litigation representation and coordination, and a variety of legal documents. For FY 1998, the Division closed 4488 work items with fewer attorneys than in previous years.

In the RHS housing programs, the Division assisted RHS in continuing to troubleshoot problems arising out of the St. Louis Centralized Servicing Center which has responsibility for servicing 626,000 single family housing loans. RHS centralized the servicing of all these loans in 1997 and with such a massive undertaking many unanticipated and unique problems have arisen. In addition, RHS undertook the reinvention of its guaranteed single family and nascent multi-family housing programs, both of which required detailed client consultation to develop new regulations and the accompanying handbooks. The Division assisted RHS in reinventing its direct multi-family housing loan program which consisted of combining numerous separate regulations into one comprehensive multi-family housing loan regulation. The Division assisted RHS in complying with the complicated new citizenship requirements for housing loan programs in the Use of Assisted Housing by Aliens Act and the Quality Housing and Work Responsibility Act of 1998. In addition RHS, in close coordination with the Division, developed a partnership with Fannie Mae to provide housing loans to Native Americans on Indian reservations.

In the Multi-Family housing direct loan area, the Division is handling eight Multi-Family prepayment suits (one of which is a class action) involving several hundred projects.

Regulatory matters also included reviewing Rural Development's (RD) final rule for round II of Rural Empowerment Zone designations and the regulations implementing the RHS Community Facilities Grant Program.

The Division provided detailed review and legal advice and supervision, as well as significant drafting assistance, in over 40 proposed and final debarments for the Rural Housing Service.

In the farm loan program area the Division assisted FSA in completely revising and rewriting the guaranteed farm loan program regulations. The Division was also instrumental in the revision of post bankruptcy servicing and ensuring that shared appreciation agreements could be enforced in mortgage foreclosures. The Division participated as the OGC representative on the National Commission on Small Farms.

The Division was continuously involved in FSA's implementation of civil rights settlements agreed to by the Department's Office of Civil Rights and the FSA complainants. Related questions involved FSA's

nondiscrimination compliance and questions interpreting the Equal Credit Opportunity Act and the Federal Agriculture Improvement and Reform Act of 1996, especially concerning the debt forgiveness limitation and its effect on specific debt settlement offers. The Division continued to respond to questions from OGC field offices regarding recommendations for debt settlement and FSA's ability to enforce its loan instruments in light of civil rights complaints. The Division also assisted FSA in preparing a rulemaking package concerning the provision of debt relief to Indian Tribes who were experiencing difficulty in repaying Indian Tribal Land Acquisition Loans.

The Division was heavily involved in review and advice on all aspects of the RBS loan, loan guarantee, and grant programs including Business and Industry loans, grants, and loan guarantees, Intermediary Relending Program loans, Rural Business Enterprise Grants, Rural Business Opportunity Grants, pilot programs, and Memoranda of Understanding for purposes ranging from development of necessary research data to agency initiatives in smoothing program delivery and attracting private entities to utilize RBS programs. The Division worked with the Rural Business-Cooperative Service to revise and review all of their cooperative agreements. Significant effort was invested in assisting in RBS' response to a nationwide audit of the Intermediary Relending Program. Significant assistance was also rendered regarding agency implementation of the Memorandum of Understanding regarding the North American Development Bank of the North American Free Trade Agreement Implementation Act.

The Division assisted the Rural Business-Cooperative Service in determining the eligibility of applications for grants for technical assistance for rural transportation under the Rural Business Enterprise Grant program. The Division also worked with RBS in establishing the National Sheep Center and in developing regulations for the Rural Economic Development Loan and Grant Program (REDLG).

Significant attorney time was spent before an Administrative Law Judge successfully defending RBS' final debarment of Minority Enterprise Financial Acquisition Corporation (MEFAC), involving a multi-million dollar Memorandum of Understanding with RBS.

Assistance to RMA included legal review, advice, drafting, and defending before the Administrative Law Judge over 22 disqualifications of producers for fraudulent actions in connection with the Federal Crop Insurance Program. Additionally, the Division reviewed and rendered significant legal advice in over 25 appeals by insurance companies from RMA decisions denying reimbursement for crop insurance payments. Significant assistance was also rendered in the area of appeals of adverse decisions in Manager Bulletin 020 cases wherein RMA refused to reimburse legal expenses of insurance companies for litigation. The Division reviewed and cleared for legal sufficiency over 50 FCIC Federal Register documents.

The Division rendered significant legal assistance and advice in environmental matters for RBS, RHS, and FSA. One week was spent as a legal resource for field training of RBS and FSA personnel in National Environmental Policy Act, Comprehensive Environmental Response, Compensation and Liability Act, and other environmental acts at a meeting in St. Louis. Additionally, the Division rendered significant legal advice to FSA related to the agreement to excavate the Tyrannosaurus Rex fossils found last year in Montana.

Finally, one of the members of the Division was instrumental in bringing all Washington OGC Divisions online with OGC Paradox Case Tracking System (including all training, conversion, support).

Rural Utilities Service Electric, Telecommunications, and Water and Waste Programs: During FY 1998, OGC provided a wide range of legal services in connection with the rural utility programs of the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB). There was an increase in the number of new loans and grants made by RUS as well as loan servicing problems associated with the existing \$40

billion RUS loan portfolio. The ongoing changes to both the electric and telecommunications industries associated with competition and federal and state legislative and regulatory initiatives raised many new issues and problems and triggered a number of programmatic changes. These changes increased the need for legal services particularly in addressing financially troubled borrowers, in reorganizing the corporate and financial structure of borrowers, and in redesigning the relationship between RUS and its borrowers.

The number of financing transactions approved by RUS and requiring documentation increased during FY 1998. RUS financing transactions included 142 loans totaling \$ 625 million and 29 loan guarantees totaling \$300 million to electric borrowers. RUS also approved the refinancing of outstanding RUS guaranteed Federal Financing Bank loans totaling \$2.1 billion. In the telecommunications programs, RUS made 65 loans and guarantees totaling \$323 million and RTB provided an additional 45 loans totaling \$170 million. In addition, RUS made 23 loans and 37 grants under its new Distance Learning/Telemedicine program. OGC provided legal services required in connection with 45 transactions involving the discounted prepayment of RUS debt totaling over \$300 million. Other transactions requiring legal services included lien accommodations, debt assumptions, capital leases and property transfers.

OGC experienced a substantial increase in the demand for legal services associated with the restructuring and transformation of the electric industry. In particular, OGC devoted considerable resources to corporate reorganizations of Generation and Transmission (G&T) borrowers located in South Carolina, Minnesota, and Arizona. The transactions ranged from the disaggregation of generation, transmission, and service assets and functions to the merger or alliance of two or more G&Ts and to the negotiation of new and unprecedented arrangements involving the marketing of power between G&T borrowers and various power marketers. Many of the transactions have required reconsideration of the cooperative power supply structure and of the security for outstanding government loans. OGC also participated substantially in the development of a number of new G&T indentures designed to provide adequate security for outstanding RUS loans and loan guarantees while providing the borrower ready access to private market financing. In many cases, these and other G&T transactions have resulted in the development of a new lending relationship between RUS and its borrower, with a reduction of RUS oversight and the imposition of more private sector lending standards and practices. This melding of RUS and private sector lending arrangements required considerable advice and counseling from OGC.

On September 26, 1997, RUS promulgated final regulations, 7 C.F.R. 1717 subpart Y - Settlement of Debt, implementing recently enacted statutory authority on the part of the Secretary to compromise outstanding indebtedness of RUS borrowers. Pursuant to the new regulation, during FY 1998, RUS, with OGC advice and assistance, worked with a number of financially troubled borrowers seeking relief under the regulation. The total outstanding indebtedness of these borrowers approaches \$1 billion. Many of these financial problems arose as a result of state legislation which presented problems in reconciling the G&T power supply structure and the need to protect the creditworthiness of borrowers with consumer choice options. OGC assisted RUS in efforts to sell the electric systems by four of the troubled borrowers. In addition, OGC provided support to the Department of Justice in connection with four major G&T bankruptcies involving over \$5 billion in outstanding loans. During FY 1998, two of the bankruptcies were essentially resolved with a complicated series of restructuring transactions. The bankruptcies have spawned litigation in state and federal courts and before state regulatory commissions on issues that are critical to the RUS electric program including the enforceability of the RUS required wholesale power contract.

OGC also provided legal support to RUS in connection with the development of the Administration's Comprehensive Electricity Competition Act. The draft bill raised a number of issues including the creditworthiness of borrowers and repayment of RUS loans in the newly competitive environment and the nature and extent of federal regulation of cooperatives. In addition, OGC provided legal support to RUS

in working with states that are considering customer choice legislation and with borrowers that stand to be affected by such legislation.

During FY 1998, OGC assisted RUS in the drafting of a number of new regulations and amendments to existing regulations. These included RUS' environmental regulations, 7 C.F.R. 1794; new procedures for the publication of RUS forms of contracts, 7 C.F.R. 1924 and 1926; and new insurance requirements, 7 C.F.R. 1788, in addition to a large number of more technical regulations such as design specifications.

The RUS telecommunications program continued to require a significant amount of legal services in connection with RUS and Rural Telephone Bank (RTB) lending. In addition to substantial loan work, OGC assisted in the analyzing the programmatic implications of the Telecommunications Act of 1996 and assisting in the preparation of comments with respect to associated rulemakings of the Federal Communications Commission. Also, the RTB required legal services on a variety of matters including issues relating to its current capitalization and operations and to the potential privatization of the bank.

In the RUS water and waste program, legal services continue to be required in connection with municipal annexations and other territorial disputes between RUS financed water systems and competing systems. OGC also provided advice and assistance in connection with a variety of legal matters including statutory interpretations, loan servicing problems, sales of RUS financed systems, and debarment actions.

OGC continued to provide RUS with support in the ongoing project to automate many phases of its loan processing through the development of the Automated Legal Practice System (ALPS).

NATURAL RESOURCES

Forest Service (FS) Programs: OGC, through the Natural Resources Division and its field offices, provided advice to assure compliance with federal environmental and administrative laws for protecting public lands and assets while maintaining on-going federally permitted activities and contract programs.

In the forest management program area, OGC provided litigation support to the Department of Justice in collecting millions of dollars in damages owed the government by defaulting timber sale purchasers. OGC and the Department of Justice have been preparing for three trials scheduled to begin in early 1999 concerning the collection of more than \$31 million in damages owed the government. OGC also assisted in limiting contractual damages payable by the client agency for environmentally protective actions. OGC provided legal assistance on drafting a revised timber contract cancellation rule and also in drafting a revised timber sale contract. OGC provided legal assistance on the defense of approximately 17 lawsuits challenging environmental suspensions, modifications and cancellations and alleging the right to takings compensation pursuant to the Fifth Amendment to the U.S. Constitution.

The nationally controversial timber sale program in Alaska continues to require significant legal services. Attorneys both in the Washington and Juneau field office are assisting with litigation claims of \$1.5 billion arising from denial of contract claims on the Alaska Pulp Corporation (APC) 50-year timber sale contract on the Tongass National Forest. APC's aggressive litigation stance required the commitment of significant OGC time and resources to defend against its \$1.5 billion claim and its tremendous discovery effort.

OGC provided legal advice and assistance to the Forest Service on the implementation of pilot projects aimed at harvesting timber while simultaneously advance resource management objectives forest resources. The Forest Service received statutory authority to enter into twenty-eight projects or stewardship contracts, whereby timber would be harvested and contractors would provide certain services

designed to achieve land management goals under one contract, including road & trail maintenance, watershed restoration and restoration of wildlife habitat.

In addition, OGC continued to provide significant legal services to the Forest Service in interpreting the Forest Resources Conservation and Shortage Relief Act of 1990, as amended, concerning the export of timber from the United States. OGC has briefed members of the Department of Congress, and has assisted the Forest Service in drafting a rule to implement the Act.

OGC advised the Forest Service on the legal authorities available to address the increasing number of requests from commercial entities seeking access to the National Forest to collect plant samples for possible medicinal use and commercial marketing. OGC will assist the Forest Service in drafting and reviewing contract forms and clauses to assure that collectors of plants and other forest products comply with environmental laws as well as the law governing the disposal by the Forest Service of forest products. OGC will participate with the Forest Service in an interagency policy group addressing issues arising out of the commercial collection of plants on federal lands.

In the recreation area, OGC provided extensive assistance to the Department of Justice in the successful defense of the Forest Service's decision to impose an immediate temporary suspension for public safety reasons at a target range on National Forest System lands and in the successful defense of several cases challenging the constitutionality of the noncommercial group use regulation. OGC also provided legal assistance in the development of Forest Service policy to implement legislation establishing a new permit fee system for ski areas operating on National Forest System lands. Additionally OGC reviewed amendments to streamline the special use regulations at 36 C.F.R. Part 251 that became final on November 30, 1998, and provided legal counsel on various issues regarding implementation of the recreational fee demonstration program.

OGC is advising on planning issues with respect to those forest plans currently undergoing revision and with respect to interpreting section 321 of the Interior Appropriations Act for FY 99 (P.L. 105-277) on plan revision. The number of revisions should increase as the most recent appropriations language allows more revisions than in the recent past. Compliance with the Quincy Library Group pilot project (section 401 of the FY 99 Interior Appropriations Act, P.L. 105-277) and Sierra Nevada framework also requires OGC advice. OGC will continue to advise the Forest Service regarding the pending plan amendments regarding the Columbia Basin Ecosystem Project. OGC is also devoting its energies to the Department's revision of the planning regulations. In addition, providing preventive law advice to harmonize Endangered Species Act (ESA) compliance with the procedural requirements of the National Environmental Policy Act (NEPA) and the National Forest Management Act (NFMA), requires continued OGC attention, particularly with wide-ranging species such as salmon and Indiana bats and possibly, lynx. OGC will continue to advise on interagency efforts to streamline ESA and NEPA compliance. Approximately 100 cases challenging Forest Service decisions are pending, and the current trend of increased litigation is expected to continue.

In real property matters, OGC continues to provide assistance to the Forest Service on complicated property law questions including takings under the 5th Amendment to the Constitution, issues related to rights of access over federal land, issues related to rights of mineral owners under deeds of severance, and Indian treaty rights. Additionally, OGC has provided an increasing amount of advice to the Forest Service in its administration of hydro power projects, in part due to the increasing number of relicensing proceedings at FERC and the Forest Service's initiation to obtain fair market value for the use of national forest lands for hydro power projects. OGC has also assisted in the Federal government's winning suit to resolve local county governments' claims to jurisdiction over Federal lands under the general rubric of the "County Supremacy Movement."

OGC, particularly in the field offices, continues to provide substantial legal services to the Forest Service in water rights adjudications, with specific emphasis on instream flow protection.

OGC is assisting with several significant Federal land title cases in the Court of Federal Claims. One set of cases involves P.L. 103-48 to quiet Federal title to so-called "in lieu" tracts of land conveyed to the Federal government over 90 years ago. In a major litigation victory in *Strickland v. United States*, the Court rules that many of the in lieu cases are time barred. While that decision is on appeal, it could affect settlement of related cases. In addition, OGC is working with the Departments of Interior and Justice to settle a 40-year old Indian Claims Commission matter that, if successful, might serve as a model for settling other difficult Indian claims.

In other realty-related areas, OGC is assisting in the acquisition of the New World Mine in Montana, a major Administration initiative. In addition, OGC is a key player in ongoing negotiations to acquire the 96,000 acre Baca Ranch in New Mexico. Legislation has been drafted to authorize the purchase and appraisal review work is underway. Similarly, OGC assisted in the acquisition of several large tracts in Alaska under the Exxon Valdez Oil Spill Settlement. OGC also negotiated legislation providing for the eventual transfer to the Forest Service of the 170,000 acre Land Between the Lakes National Recreation Area.

In the minerals area, OGC played a critical role in the promulgation of precedent setting regulations governing the evaluation and exercise of valid existing mineral rights in a National Recreation Area. OGC also devoted extensive resources to prosecution of a proceeding before the Department of the Interior seeking to invalidate mining claims which form the basis for nationally significant takings litigation in the United States Court of Federal Claims.

OGC continues to be heavily involved in advising the Forest Service on legal issues related to increasingly contentious grazing activities on National Forest System lands. OGC has assisted the Department of Justice in the steadily growing number of lawsuits challenging grazing permit administration under ESA, the Clean Water Act, NEPA and NFMA. In addition, OGC has assisted in the preparation of final regulations for mediation of grazing disputes under the Department of Agriculture Reorganization Act of 1994.

In Congressional matters, OGC provided extensive assistance in analyzing legislation related to forest health and recovery on National Forest System lands, and in reviewing and commenting on numerous substantive provisions in the 1999 Department of the Interior and Related Agencies Appropriations Act, including provisions related to purchaser road credits and stewardship contracting. OGC also provided in-depth assistance during the drafting and negotiation of numerous land exchange bills, including the I-90 and Gallatin exchanges.

OGC assisted the FS Legislative Affairs staff and the Secretary's office in responding to requests from Congressional Committees for information on a number of matters, including the temporary suspension of a permit for a shooting range, training of Forest Service personnel, Forest Service law enforcement, the timber sale program, and the Natural Resources Agenda communications plan. Moreover, OGC provided crucial legal assistance in preparation for, and follow-up, to a series of high profile hearings to assist Congress in performing its oversight of Forest Service land management processes and implementation of various laws.

In matters related to the Forest Service law enforcement program, OGC assisted in the development of Forest Service policy governing the use of law enforcement checkpoints on National Forest System lands and guidelines for Forest Service personnel working with the news media on matters related to law

enforcement activities. OGC provided litigation support in several lawsuits challenging closure orders issued under the Forest Service enforcement regulations.

OGC provided substantial assistance to the Department on issues relating to compliance with applicable pollution control laws. In addition, OGC provided assistance and advice to the Department and the Forest Service on the cleanup of hazardous waste sites on National Forest System lands. OGC brought responsible parties into negotiations to obtain early and substantial contributions to cleanup costs thereby avoiding the expense and inefficiency of recovering costs from responsible parties after a federally funded cleanup is completed. During FY 1998, with representation from OGC, approximately \$100 million worth of cleanup work was accomplished on National Forest System lands by private parties under enforceable agreements with the Department and the Forest Service. In addition, OGC provided advice and assistance to the Forest Service on the recovery of more than \$400,000 of past costs from responsible parties in hazardous waste cases that would otherwise have been borne by the public. Legal assistance was provided on litigation against responsible parties to recover damages for injured or lost natural resources on National Forest System lands. OGC also played a substantial role in advising the Department on compliance with applicable pollution control standards, including negotiating compliance agreements with the United States Environmental Protection Agency (EPA) and State environmental enforcement agencies. For example, OGC assisted in negotiating the CERCLA Federal Facility Agreement between the Agricultural Research Service and EPA regarding the cleanup of hazardous waste at the Beltsville Agricultural Research Center in Maryland, a site listed on the National Priorities List. OGC also provided the Department with advice to protect the Department's interests regarding hazardous materials issues which arose in the context of land transfers and acquisitions. For example, OGC provided substantial assistance in protecting the interests of the Department in connection with the cleanup of contaminated lands to be transferred from the Army to the Forest Service at the Midewin National Tallgrass Prairie in Illinois. Finally, OGC provided significant legal services in connection with legislative initiatives, including Superfund Reauthorization and Resource Conservation and Recovery Act reform.

OGC also provided substantial legal assistance regarding other federal laws such as Native American treaty rights and religious freedom, and historic and archaeological resource protection. OGC continues to provide legal advice in the development of important regulations and policy statements to assure compliance with federal administrative laws such as the Administrative Procedure Act, the Paperwork Reduction Act, the Freedom of Information Act, the Privacy Act, the Federal Advisory Committee Act and executive orders and other authorities governing federal decision making and in implementation of the Forest Service's multiple administrative appeal processes.

Natural Resource Conservation Service (NRCS) Programs:

OGC provided legal advice and services to the NRCS for its programs for natural resource conservation on private or other non-Federal farm, range, pasture and nonindustrial forest lands including programs authorized by the 1996 Farm Bill, enacted as the Federal Agriculture Improvement and Reform Act of 1996. The 1996 Act provides for approximately \$2.5 billion in conservation funding for the 1996-2002 period. OGC has provided extensive legal services, to NRCS and the Secretary in implementing new or amended regulations and program procedures.

OGC also provides legal counsel to NRCS in the enforcement of the conservation compliance provisions of the Food Security Act of 1985. OGC assists NRCS in determinations for enforcement and for granting statutorily-authorized variances. OGC defended the agency in various environmental challenges to the implementation of the conservation provision of the Food Security Act, including programs changes resulting from the 1996 Act. Significant legal services were provided to defend court challenge under the ESA to the implementation of both commodity support and conservation programs in the Edward Aquifer area of Texas.

The Wetlands Reserve Program (WRP) continues to require substantial OGC legal assistance for acquisition of hundreds of thousands of acres of previously drained or modified wetlands. The most significant project is a cooperative partnership with the State of Florida to restore the water quality of Lake Apotka, the second largest lake in the state.

OGC provided legal counsel to the NRCS in developing the agricultural pollution and natural resources conservation elements of the President's Clean Water Action Plan, including the joint EPA/USDA Strategy for Animal Feeding Operations.

LEGISLATION, LITIGATION, AND GENERAL LAW

Legislation: During the 1998 FY, the staff of the Legislative Division conducted legal reviews of 352 legislative reports on bills introduced in Congress or proposed by the Administration and written testimony of 527 witnesses appearing before Congressional committees on behalf of the Administration. The Division staff prepared and assisted in the preparation of draft bills and amendments for the Secretary, members of Congress, Congressional committees, and agencies within the Department. Extensive assistance was provided to Department policy officials in drafting and analyzing various legislative proposals, including proposals in connection with the William F. Goodling Child Nutrition Reauthorization Act of 1998 (Pub. L. No. 105-336); the Agricultural Research, Extension, and Education Reform Act of 1998 (Pub. L. No. 105-185); the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999 (Pub. L. No. 105-277); and the Plant Protection Act (HR 3766). The Division conducted and coordinated legal reviews and provided technical assistance to USDA legal and policy officials in the drafting and clearance of legislation and ancillary legislative materials.

Litigation: OGC is responsible for development and communication of the Department's position in cases on appeal. During FY 1998, Litigation Division attorneys were assigned full responsibility for 31 appellate cases, and they obtained favorable results in 12 of the cases and unfavorable results in 1 of the cases. The other 18 appellate cases are awaiting briefing schedules, are fully briefed and argued, or are waiting to be scheduled for oral argument in the near future.

The Litigation Division prepared briefs and presented oral argument in Havana Potatoes of New York Corp. and Havpo, Inc. v. United States. On December 19, 1997, the Court of Appeals for the Second Circuit affirmed a decision by the Secretary to revoke licenses held under the Perishable Agricultural Commodities Act (PACA) due to violations of the Act. Ample evidence supported the Secretary's findings that Havana Potatoes and Havpo failed to make prompt payment for produce. The Court also affirmed the Secretary's decision to revoke the companies' licenses. Mitigating circumstances, such as the financial condition of the produce industry, the companies' relatively strong payment history, and the effect of the companies' closure on the produce industry, were held not relevant to the question of whether revocation was warranted.

The Litigation Division briefed and argued Andershock's Fruitland, Inc. v. U.S. Department of Agriculture. The company argued that the Secretary should not have revoked its PACA license after it failed to pay 113 suppliers for over \$245,000 of produce. The U.S. Court of Appeals for the Seventh Circuit, on August 10, 1998, upheld the Secretary's policy of revoking PACA licenses in such cases as an allowable exception to the broader policy of case-by-case sanction decisions applicable to cases brought under other regulatory programs.

The Division also briefed and argued Kanowitz Produce Co., Inc. v. United States. The U.S. Court of Appeals for the Second Circuit decided on October 29, 1998, that the findings of failures to pay were supported by substantial evidence, and that the proposed mitigation factors were all considered and

properly rejected by the Secretary. The Court upheld the Secretary's decision to revoke the company's PACA license after it failed to pay on a timely basis for 170 lots of produce.

Litigation Division attorneys also gave substantial assistance in the Department of Justice's preparations to present the Government's position in lawsuits. To cite several examples:

In The Original Honey Baked Ham Co. of Georgia, Inc. v. Glickman, the Original Honey Baked Ham Company (HBH Company) proposed a kiosk distribution system, in which hams and turkeys prepared at the company's retail stores would be sold in kiosks at area shopping centers. The HBH Company filed suit for declaratory and injunctive relief, and argued that its proposed distribution system was not subject to the continuous inspection requirements set forth in the Federal Meat Inspection Act and the Poultry Products Inspection Act. The district court found that each of the HBH Company stores complied with the statutory and regulatory retail exemption to the continuous inspection requirements. The Department appealed to the D.C. Circuit, and the Department of Justice has fully briefed the case.

The Court of Appeals for the District of Columbia Circuit heard en banc argument in Animal Legal Defense Fund, Inc. v. Glickman, on May 13, 1998. The Litigation Division aided the Department of Justice in preparing the briefs and for the oral argument before the full court. The Court raised questions about constitutional standing to challenge regulations on standards for minimum requirements for a physical environment adequate to promote the psychological well-being of primates. The Court decided that one plaintiff established constitutional standing to sue when he maintained that his aesthetic interest in seeing nonhuman primates in a nurturing habitat was injured by witnessing primates living in isolated cages devoid of psychological enrichments. The Court found that this injury was caused by the Department's regulations which govern housing of primates in zoos. The case was remanded to a new panel of the D.C. Circuit to determine if the regulations fulfil the requirements of the Animal Welfare Act.

Finally, but certainly of equal importance, OGC's appellate lawyers prepared the Department of Agriculture's recommendations to the Solicitor General on whether to appeal 37 adverse decisions of various trial courts during FY 1998. In sum, Litigation Division attorneys were responsible for a total of 68 appellate cases during the past fiscal year.

General Law Division (GLD): GLD is responsible for handling administrative claims filed under the Federal Tort Claims Act (FTCA) where the amount of the claim is in excess of \$100,000, or where the issues involved are unique, unusual, or complex. During FY 1998, GLD received 58 new administrative claims, and 71 claims were pending at the end of FY 1998. During FY 1998, 48 FTCA cases were filed in Federal court and at the end of FY 1998, 135 FTCA cases were in litigation. GLD continued to provide litigation support to the Department of Justice (DOJ) with respect to all such pending FTCA suits.

In FY 1998 GLD devoted considerable attorney resources addressing legal issues related to the convergence of administrative support functions of the Rural Development mission area, the Farm Service Agency, and the Natural Resources Conservation Service. The joining of the administrative functions of these three different program areas of the Department has raised labor law, personnel law, administrative law, and fiscal law issues and is expected to require significant involvement by GLD attorneys in the future.

GLD attorneys provided representation in cases before the Merit Systems Protection Board. Additionally, GLD attorneys rendered advisory opinions and provided legal services in many areas including, conflicts of interest; fund-raising; the acceptance of gifts; budget and fiscal matters; property management; advisory committee activities; delegations of authority; personnel; and similar matters.

GLD was active in providing ethics advice to USDA component agencies and personnel. GLD initiated a series of brown bag post-employment ethics question and answer sessions for employees looking to retire or leave Federal service. GLD provided extensive written and oral guidance to USDA component agencies on the ethical implications of Office of Legal Counsel opinions addressing service in an official capacity of Federal employees on outside boards.

GLD advised the Office of Human Resources Management (OHRM) regarding issues related to the USDA Ethics Program and assisted OHRM in a series of question and answer sessions for political appointees regarding the provisions of the Hatch Act. Also, GLD provided review and advice related to the restructuring of the USDA Ethics Program. This effort continued throughout the year and culminated in the creation of the Office of Ethics (OOE) under the Assistant Secretary for Administration. GLD continues to assist OOE as it begins operations.

During FY 1998, GLD provided legal services on 172 Freedom of Information Act (FOIA) and Privacy Act requests and appeals. By the end of FY 1998, 32 new FOIA and Privacy Act suits had been filed and 28 such suits remained pending. GLD also rendered substantial legal services in connection with computer matching programs to collect debts owed to the Government. In addition, GLD provided substantial legal services and advice to USDA agencies regarding Privacy Act systems of records and the release of information for debt collection purposes to the Department of the Treasury in accordance with the Debt Collection Improvement Act of 1996.

GLD played an increasing role in Federal Records Act issues, particularly with regard to electronic recordkeeping in the wake of the recent ruling by the District Court for the District of Columbia in *Public Citizen v. Cardin*. The anticipated necessity for all agencies to revise their records disposition schedules to deal with disposition of electronic records is expected to draw considerably on the time of GLD attorneys.

GLD continued to provide legal advice concerning waivers of the J-1 visa two-year home-country requirement for foreign medical doctors. USDA has acted as an "interested government agency" for close to 350 foreign physicians in calendar year 1998.

GLD attorneys provided advice to USDA agencies regarding issues arising under the Federal Service Labor Management Relations (FSLMR) statute. In addition, GLD attorneys advised OGC managers regarding issues arising from the certification, pursuant to elections under the supervision of the Federal Labor Relations Authority, of the American Federation of Government Employees as the exclusive representative under the FSLMR of both professional and non-professional employees of OGC in the field regions of OGC. It is anticipated that GLD assistance with respect to these issues will be required both in the implementation of management responsibilities in this area and in the negotiation of collective bargaining agreements in the new units of recognition.

GLD provided an increased amount of legal services in FY 1998 to the National Appeals Division (NAD) particularly regarding the effects of Department of Treasury and USDA Debt Collection Improvement Act of 1996 implementation actions. GLD continues to provide increased legal services in the coordination of OGC litigation work nationwide with respect to legal issues related to the NAD statute such as exhaustion of administrative remedies, jurisdiction over NAD determinations in the district courts vs. the Court of Federal Claims, implementation and effective date of NAD determinations, and the applicability of the provisions of the Equal Access to Justice Act (and USDA regulations implementing that Act) and the Administrative Procedure Act to NAD proceedings.

GLD provided regular, ongoing advice to the research, education, and economics (REE) agencies of USDA regarding legal issues relating to agricultural research, economics, education, and extension

programs in the REE mission area. In particular, in FY 1998 GLD expended substantial resources in providing advice to REE agencies with respect to the legislative development and enactment of the Agricultural Research, Extension, and Education Reform Act of 1998, Pub. L. No. 105-185 (AREERA), and the issuance of legal opinions regarding the provisions of AREERA. In this regard, in FY 1999 GLD will continue to commit significant resources to REE in the development of regulations and procedures for land-grant college plans of work, matching, and stakeholder input requirements of AREERA that became effective October 1, 1998 or will become effective October 1, 1999.

During FY 1998, the law regarding affirmative action and minority preference programs continued to evolve in the U.S. Courts of Appeals in the wake of *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200 (1995), particularly with respect to the extent that "diversity" may be a compelling governmental interest justifying policies that take into account race and ethnicity. In FY 1998, GLD continued to address the evolution of the law in the areas of scholarship/educational programs and contracting.

During the year, USDA issued 15,037 contract actions obligating more than \$979 million for the acquisition of services, supplies, and construction to support agency operations. GLD provided legal advice to all USDA agencies concerning these acquisitions. This assistance included drafting and reviewing regulations; reviewing solicitation documents; handling mistake-in-bid and protest matters; providing advice during all phases of the acquisition process; providing advice regarding performance matters; and providing the assistance necessary to assert or defend contract claims.

In FY 1998, staff attorneys in GLD were responsible for litigating nine matters before the Agriculture Board of Contract Appeals (AGBCA). These matters were brought pursuant to the Contract Disputes Act and involve issues relating to entitlement to, and quantum of, adjustments in the price of contracts entered into by USDA contracting officers. GLD attorneys also assisted DOJ in litigating 11 contract appeals filed at the Court of Federal Claims during the year.

In addition, GLD attorneys assisted DOJ in miscellaneous other litigation including five cases before U.S. District Courts, two cases before U.S. Courts of Appeals, two *qui tam* actions brought by relators under the provisions of the False Claims Act, and one protest filed before the Court of Federal Claims.

In FY 1998, GLD attorneys represented USDA agencies in a total of 38 protests filed at the General Accounting Office (GAO), including in some cases multiple protests by the same protester. Of these protests, 5 were withdrawn, 7 were dismissed by GAO, 14 were denied by GAO, 5 were sustained by GAO, 4 were settled, in 2 cases the agency took corrective action, and 1 case is pending decision. In addition, GLD gave informal advice or reviewed documents in approximately 12 agency level protests.

During FY 1998, GLD assisted the Office of Procurement and Property Management with a number of important initiatives, including a review and restructuring of the Department Central rent account, and the use of incentives in the leasing process. GLD also assisted in the revision of a number of Departmental Regulations involving procurement and property matters.

In FY 1998, GLD provided sustained advice to the Office of the Chief Information Officer (OCIO) with respect to revisions of USDA delegations of authority to strengthen the role of the CIO, and with respect to USDA-specific proposed legislation that dramatically would have changed the management of USDA information technology. Although the legislation was not enacted, USDA expects it to be reintroduced in the 106th Congress. Additionally, GLD has provided advice to the OCIO regarding congressional and administration policies and pronouncements regarding the Year 2000 computer problem, provided advice to the OCIO and USDA agencies with respect to Year 2000 issues in the contracting arena, and continuously monitored legal developments in the rapidly escalating Year 2000 problem environment. As the Year 2000 approaches, GLD expects these activities to increase in FY 1999 and into FY 2000.

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The establishment of USDA Service Centers in the field and the Secretary's policy to collocate agencies in them has resulted in the termination and non-renewal of leases. In 1998, GLD continued to assist agencies in such terminations and with subsequent claims and protests.

GLD also continued to work during the year with USDA officials to implement the USDA Strategic Space Plan, which includes the collocation of USDA agencies in the newly constructed office facilities in Beltsville, and the renovation of the South Building in Washington. This major project calls for advice on environmental, funding, procurement, authority, and property issues.

Under the direction of GLD, applications for patents were prepared on inventions by USDA employees and contractors with the objective of obtaining patent protection for the Government. Seventy-two new inventions were reported to GLD during FY 1998. Sixty-four patent applications were prepared and submitted to the U.S. Patent and Trademark Office during FY 1998. Fifty-seven patents were obtained. Eleven applications were abandoned, and four cases were otherwise closed.

CIVIL RIGHTS

Civil Rights Division: The transfer of responsibility for performing the civil rights work of OGC from the General Law Division to the Civil Rights Division (CRD) was completed. Created by the Secretary in response to the recommendations of USDA Civil Rights Action Team (Feb. 1997), CRD began formal operations in May 1998. The Associate General Counsel for Civil Rights (AGC) began work in January 1998 and began performing much of the civil rights work of OGC while at the same time assembling the team of attorneys that make up the CRD.

During FY 1998, much of CRD's work consisted of reviewing for legal sufficiency proposed decisions adjudicating program discrimination complaints drafted by the Office of Civil Rights (CR). Since March 1998, CRD reviewed 127 proposed decisions, mostly cases involving minority farmers alleging discrimination by the Farm Service Agency (FSA). CRD also worked with the CR Director to craft settlement agreements with respect to five pending administrative complaints. CRD has developed a model settlement agreement to be used in settling program discrimination complaints.

CRD also reviewed a number of compensatory damages decisions in equal employment cases to ensure that the decisions are consistent with current body of case law and administrative decisions of the Equal Employment Opportunity Commission.

The most important litigation CRD has been involved in is *Pigford, et al., v. Glickman*, Case No 1:97CV1987 (D.D.C.), a class action filed by African American farmers who have filed administrative complaints of discrimination with USDA between 1983 and February 21, 1997 alleging race discrimination in Farm Service Agency programs. Currently, the class, which has been certified, contains approximately 600 named plaintiffs. As this is a case of great importance, the General Counsel and CRD have worked with Department of Justice (DOJ) attorneys to submit motions and memoranda of law to the court, develop settlement proposals, negotiate settlement of the overall case and of some individual claims, and to prepare for discovery in preparation for trial. Settlement negotiations are near conclusion.

A related case is *Brewington, et al., v. Glickman*, Case No 1:98CV1693 (D.D.C.), a class action filed by African American farmers who have filed administrative complaints of discrimination with USDA between February 21, 1997 and the date of the lawsuit alleging race discrimination in Farm Service Agency programs after January 1, 1983. The first amended complaint contains 190 named plaintiffs. It appears that a settlement in *Pigford* will include settlement of issues raised in *Brewington*.

Another important piece of litigation is *Herron v. Glickman*, EEOC No. 100-98-7120X, a class action pending before filed on behalf of African American employees of FSA, alleging that African American employees at the GS 12, 13, and 14 levels were being prevented from obtaining promotions to the GS 13, 14, and 15 levels respectively. After considering options presented, the Assistant Secretary for Administration, on April 3, 1998, issued a Final Agency Decision accepting the Administrative Judge's March 3, 1998 proposed order certifying the class. Discovery and settlement negotiations have been the mainstay of the action to date. Because of the timing, a GLD attorney, working under the supervision of the Associate General Counsel for Civil Rights, handled the case. In September, work on the case transferred to CRD attorneys.

Another key EEO class action is *Donnelly v. Glickman*, C-95-4389 DLJ (N.D. Ca.), filed in Federal court on behalf of female employees of the Region 5 (California) of the Forest Service. The court certified the class on February 24, 1997. Since that time the parties have been in settlement negotiations. OGC's Pacific Region head Regional Attorney is lead. CRD attorneys worked with the Regional Attorney, DOJ, and Departmental officials in Washington, chiefly in developing settlement proposals for the negotiations and participating in the negotiations.

In a related matter, CRD and the Pacific Regional Attorney, and DOJ are negotiation with the Forest Service Region 5 Regional Hispanic Working Group to negotiate settlement of issues similar to those raised in *Donnelly*. The goal of the negotiation is to settle issues before litigation is filed.

The Associate General Counsel for Civil Rights and the Assistant General Counsel for Legislation worked with Departmental officials, members and staffs of the House and Senate, DOJ officials, and White House officials to bring about enactment of the statute of limitations waiver language in the budget bill. Section 741(b) of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999, enacted in Division A, section 101(a) of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Pub. L. No. 105-277, 112 Stat. 2681, 2681. CRD also worked some with GLD and the Associate General Counsel for Legislation, Litigation, and General Law in drafting regulations to implement the new law. 63 Fed. Reg. 67392 *et seq.* (Dec. 4, 1998) (codified at 7 C.F.R. Part 15f). The success of this work shows the potential when the different divisions work in cooperation.

CRD has reviewed, commented on, and drafted proposed regulations on civil rights issues on behalf of a number of agencies.

CRD drafted proposed published regulation governing nondiscrimination in programs and activities conducted by USDA which will delete 7 C.F.R. Part 15, Subpart B (Subpart B) (7 C.F.R. Part 15 chiefly deals with programs and activities receiving Federal financial assistance from USDA) and create a new 7 C.F.R. Part 15d that will deal exclusively with conducted programs). The new 7 C.F.R. Part 15d would: clarify that the regulation applies to all USDA conducted programs and activities; add familial status and marital status to the protected classes contained in the regulation; add a provision concerning USDA agencies' compliance efforts; add sexual orientation to the protected classes contained in the regulation; add public assistance status, as well as marital status and familial status, as prohibited bases because these prohibited bases are contained in the Equal Credit Opportunity Act (ECOA); add a prohibition against reprisal; and reflect Secretary's Memorandum 1010-4 (May 16, 1997), which further delegated to the CR Director the authority to make final determinations on complaints and order corrective actions. The regulation has been published, the comment period, has ended, and the final regulation will be published soon. See, 63 Fed. Reg. 62962 *et seq.* (November 10, 1998).

At the request of the ASA, CRD crafted the initial draft of a number of nondiscrimination Departmental Regulations (DRs) to further the effort to reform the Department's civil rights enforcement program: DR 1614 Processing EEO Complaints of Discrimination; DR 4330-2 Nondiscrimination in USDA Conducted

Programs and Activities; and DR 4330-1, Nondiscrimination in Programs and Activities Receiving Federal Financial Assistance from USDA. The DRs were issued by CR as the originator and CRD has reviewed the DRs for legal clearance.

At the request of the Risk Management Agency (RMA), CRD composed the initial draft of proposed published regulations that would require insurance companies participating in the Federal Crop Insurance Program to collect certain participation data on "protected classes," such as race, color, religion, national origin, sex, age, and disability. The Community Development Division of OGC has completed work on this proposed published regulation.

CRD and GLD drafted proposed published regulations establishing a voluntary minority farm register.

CRD has drafted a number of Secretary Memoranda and Secretary's Decision Memorandum to address a number of policy issues. Memoranda issues covered included: Uniform Policy on Adverse Actions Against Individuals Who Have Filed Complaints of Discrimination Against USDA.

CRD has written a number of memoranda giving advice and legal opinions on a number of civil rights topics, including: whether certain programmatic relief provided for in administrative settlements of complaints of credit discrimination, particularly debt forgiveness, would trigger Section 648 of the Federal Agriculture Improvement and Reform Act (1996 Act), P. L. 104-127, 7 U.S.C. § 2279b, which limits future loans and loan servicing to borrowers who have received debt forgiveness; whether USDA is required under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 ("URA"), 42 U.S.C. § 4601 *et seq.*, to provide relocation benefits and other moving expenses to farm workers displaced as a result of a project receiving Federal financial assistance through the Wetlands Reserve Program ("WRP"); proper standards for awarding attorney fees in EEO cases; good cause exception to allow CR to process discrimination complaints involving assisted programs; FSA authority to enter into grants and cooperative agreements to implement FSA's proposed Civil Rights Strategic Plan; tolling of the Equal Credit Opportunity Act statute of limitations; evidentiary standard in adjudicating program discrimination complaints; Departmental authority to address backlog program discrimination complaints through a program complaints resolution task force; proposed delegation of authority to agency heads; authority of CR Director to delegate to the Administrator of the Farm Service Agency and the Administrators of the Rural Development agencies authority to pay compensatory damages in program discrimination cases arising under the Equal Credit Opportunity Act prior to a decision by the CR Director; authority of agencies to pay compensatory damages in EEO cases.

REGIONAL OFFICES

OGC currently has five regional and thirteen branch offices which provide legal services to numerous USDA agencies with field organizations, such as the Agricultural Marketing Service, Farm Service Agency, Rural Housing Service, Forest Service, Food and Nutrition Service, Risk Management Agency and Natural Resources Conservation Service.

The OGC field offices provide legal advice and services on a wide range of legal matters. Generally, attorneys in the field locations advise USDA officials who have been charged with program implementation duties at the regional, state and local level. Field attorneys also provide a wide range of assistance to the United States Attorney concerning the conduct of litigation in which USDA agencies are involved. OGC field offices provide essential services in nationally significant litigation in coordination with the Washington OGC office and with the Department of Justice. Civil Rights issues, debt collection matters, natural resource litigation, Food Stamp Program violations and Farm Service Agency program matters form the core workload of the field attorneys.

Field attorneys provide legal services in connection with, and legal representation on, cases before administrative law judges of the Agriculture Board of Contract Appeals, the Interior Board of Land Appeals, the Federal Energy Regulatory Commission, the Equal Employment Opportunity Commission, the Merit System Protection Board, and the National Appeals Division. The types of cases include contract appeals, mining and patent contests, hydro-electric licensing procedures, Title VII employee complaints, appeals of adverse personnel actions, and appeals of farmers aggrieved by adverse decisions on certain farm programs.

Examples of types of litigation and other matters handled by the field include the following cases.

Pacific Region:

Pacific Region attorneys assisted in the collection of several significant debts arising out of the farm programs, included a final settlement of a case in which the total amount recovered exceeded \$8 million. We also assisted the Department of Justice in obtaining a False Claims Act settlement of nearly \$900,000 involving a major handler of fruit arising out of the Risk Management Agency and Federal Crop Insurance programs.

Pacific Region attorneys provided a wide range of legal services in connection with Title VI and VII of the Civil Rights Act and in providing services in connection with other civil rights issues, particularly under the Bill of Rights of the U.S. Constitution. Specifically, Pacific Region attorneys assisted in some of the resolution of employee complaints under the Backlog Project, assisted in the defense of Title VII litigation in federal court (no cases were lost this year), and led the USDA efforts to resolve one pending and one putative class action pending in the Region.

Pacific Region attorneys provided legal services to assist the Forest Service Law Enforcement & Investigations program in a number of ways, including, in several cases, assisting in the trial or briefing of criminal cases raising issues requiring the special expertise of OGC attorneys. Pacific Region attorneys also worked with the Office of the Inspector General to accomplish needed coordination of civil and criminal matters being worked on by OIG.

Pacific Region attorneys assisted in the successful defense of several Bivens lawsuits where litigants were trying to impose personal financial liability on federal employees. One lawsuit sought \$46 million from several named federal employees.

Pacific Region attorneys continued to provide substantial legal services in connection with numerous environmental lawsuits, but there has been a significant change in the nature and complexity of the litigation. At least three of lawsuits affect multiple activities on several forests and more than one Forest Service region. This requires a level of coordination previously unknown, and increases the potential impact substantially. In addition to the lawsuits, Pacific Region attorneys are providing substantial legal services in support of large forest planning efforts, including the Tongass Land Management Plan revision, the Interior Columbia Basin Ecosystem Management Project, and the Sierra Nevada Project, as well as services to a number of significant, but very special areas, including, to name a few, Lake Tahoe, Hells Canyon, and the Columbia River National Scenic Area.

Pacific Region attorneys provided significant legal services in defense of actions brought by contractors who contended their rights have been violated by actions of the United States. While some of the cases have been settled for several million dollars, several lawsuits remain.

One of the fastest growing areas of work is the assistance and representation provided in connection with the FERC re-licensing proceedings. The vast majority of the hydroelectric projects needing re-licensing

are in the Pacific Region, and the attorneys are providing substantial services in this area, and are exploring alternative approaches to the formal licensing process. The issues are usually novel, and frequently involve very high stakes.

Pacific Region attorneys provided substantial assistance with regard to several large land exchanges, including the Eyak Corporation (and others resulting from the Exxon Valdez Oil Spill), Zephyr Cove and Thunderbird on Lake Tahoe, and legal challenges brought against large exchanges with Crown Pacific and Weyerhaeuser.

Pacific Region attorneys are providing legal services in connection with relationships with Indian tribes, and have worked on several novel arrangements as the USDA agencies continue to develop the government-to-government relationship. Two specific examples are the Washoe Tribe of Nevada and California and the Klamath Tribes in Oregon.

Pacific Region attorneys provided substantial legal services in connection with water, from water rights adjudications, to water quality challenges, to dealing with the unauthorized withdrawal of millions of gallons of water by a major water bottling company.

Pacific Region attorneys worked on several major CERCLA cases, and provided substantial legal advice, particularly in connection with old, abandoned mines, and shooting ranges.

Mountain Region:

The Mountain Region continues to provide considerable assistance in the implementation of the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") enforcement initiative. Attorneys are negotiating administrative orders on consent with private parties and developing national policies and model agreements for the use of all OGC attorneys in the implementation of the CERCLA Initiative.

Mountain Region attorneys have worked closely with the Forest Service in litigating reserved water right cases throughout the Western United States and in negotiating resolutions to water rights litigation in Montana, Colorado, Nevada, and Utah. Favorable and precedent setting decisions on reserved wilderness water rights, wild and scenic water rights, and water rights for national recreation areas have been obtained in an Idaho District Court. These decisions, as well as Multiple-Use Sustained Yield Act fish and recreation instream flow claims, are currently on appeal before the Idaho Supreme Court. Mountain Region attorneys have also worked closely with the National Office of the Forest Service in formulating policies designed to protect and secure instream flows on National Forest System lands.

Mountain Region attorneys in the past year have devoted considerable resources to assisting the Forest Service in successfully responding to new Endangered Species Act (ESA) listings of the steelhead and bull trout. Mountain Region attorneys have also worked with an interagency task force regarding the proposed listing of the lynx under the ESA. This listing, which may become effective in August 1999, impacts more than 50 national forests across the northern tier of the United States. The task force, which includes representatives of the Fish and Wildlife Service, Department of Justice, and Department of Interior Solicitor's Office, and Forest Service, is evaluating strategies to meet the consultation requirements of the ESA and Forest Service obligations under National Forest Management Act ("NFMA") and National Environmental Policy Act. The goal is to avoid large scale injunctions of Forest Service activities such as those that followed the listing of salmon. Litigation concerning the lynx has already begun.

There is an increasing trend in controversy and litigation regarding the impacts of recreation on wildlife, and wildlife management in general. Mountain Region attorneys are assisting the Forest Service in management deliberations, administrative appeals, and litigation regarding restrictions placed on recreational uses such as rafting during spawning seasons for anadromous fish and road closures to provide security for grizzly bears, and restrictions on off-road vehicle use of National Forest System lands. Other wildlife management issues include management of bison in Wyoming and Montana, the state of Utah's proposal to transplant nonnative species such as mountain goats in wilderness areas in Utah, and Colorado's proposal to transplant lynxes. The impact of ski area expansions on wildlife, as well as other forest resources, is also at issue.

Mountain Region attorneys have also provided the Forest Service extensive advice and been successful in negotiating and litigating matters concerning access to federal lands. Lawsuits over access to federal lands are pending and more are threatened as owners of private property close access routes traditionally used by the public and the Forest Service, thereby limiting access to thousands of acres of Forest Service land. Mountain Region attorneys have worked with counties to resolve questions about road rights-of-way title and jurisdiction to secure public access to National Forest System lands. Controversy exists over the Forest Service's management of roads as Mountain Region attorneys are involved in frequent claims by counties that the roads subject to closures by the Forest Service are public roads pursuant to RS 2477.

In-holding disputes and litigation concerning pre-Federal Land Policy and Management Act (FLPMA) access for water diversion and storage facilities on National Forest System lands are also increasing and considerable attorney time has been spent on these issues.

Mountain Region attorneys also represented the Forest Service in negotiating a major settlement agreement for protection, mitigation, and enhancement measures on the relicensing of the Noxon Rapids and Cabinet Gorge Dams on the Clark Fork River.

Mountain Region attorneys also spent a considerable amount of time on litigation involving more than 160 grazing allotments on eight national forests in Region 3 of the Forest Service. A broad injunction against grazing was avoided by the settlement of these cases. New challenges to grazing allotments on additional national forests have also been filed and are yet unresolved.

Mountain Region attorneys were also involved in a mining contest regarding pumice claims in the Jemez National Recreation Area in New Mexico. If successful, the contest could result in a drastic reduction in monetary claims in this matter presently before the Court of Federal Claims in the amount of \$300 million.

The Natural Resources Conservation Service (NRCS) wetland conservation easement and flood plain easement acquisitions under the Emergency Wetlands Reserve Program, the Wetlands Reserve Program and the Emergency Watershed Program more than tripled during 1998 resulting in a multimillion dollar investment of Federal funds and a significant increase in OGC legal assistance to the NRCS during the acquisition process.

Appeals and litigation challenging National Forest timber sale activities have increased in both intensity and the number of cases and continue to demand a substantial amount of OGC attorney time in addressing issues tied to National Environmental Policy Act, Endangered Species Act and National Forest Management Act compliance.

OGC attorneys have been involved in providing legal counsel on native American issues. Whether Native American treaty rights permit the use of motorized equipment in Congressionally designated non-

motorized wilderness areas (the Boundary Waters Canoe Area Wilderness - Minnesota) by tribal members is the subject of a suit filed during 1998. Another issue which will be present in many forest plan revisions is whether it is appropriate to protect native American cultural areas with management area prescriptions.

Central Region:

Central Region attorneys in the Little Rock Office are contributing substantial efforts in assistance to the Forest Service, NRCS, the Mississippi Secretary of State and Attorney General and a local school board toward the end of acquiring land for the development of the Porters Creek Lake project. Although Congressional appropriations are available for the project, issues have arisen under the Mississippi Constitution requiring OGC assistance to the Forest Service in commencing eminent domain proceedings to accomplish the necessary land exchanges. In the same state, OGC attorneys are working with the Forest Service to accomplish acquisition of 25,000 acres of land from the University of Mississippi through use of appropriations approximating \$10,000,000. Central Region attorneys have also assisted NRCS in the states of Louisiana, Arkansas and Mississippi in the enrollment of close to 250,000 acres of land in the Wetlands Reserve Program, at an estimated cost of \$266,000,000 for acquisition and restoration. Central Region attorneys in the St. Paul Office, assisted by agents of the Office of Inspector General, are proceeding with civil actions against Cargill Corporation and various insurers to recover close to \$2,000,000 in losses to the Government resulting from the improper inclusion of drying charges in 1993 corn harvest crop insurance claims. Settlement has been reached with two elevator managers who have agreed to pay monetary penalties and to accept debarment from the grain elevator industry. Additional claims are being pursued under the provisions of the False Claims Act, and other theories of recovery for the losses caused the Government by the improper practices.

Attorneys in the Temple Office concluded an arbitration case in behalf of the Food and Nutrition Service which spanned a time period of over two years, and some 14 days of hearings, and dealt with an issue of first impression, the manner of employees performing higher graded duties over an extended period of time. The case, brought by the National Treasury Employees Union (NTEU), concluded with six employees receiving back pay awards but resulted in awards substantially less than those sought by NTEU. The Temple Office has also provided assistance to Risk Management Agency in the handling of eight separate Board of Contract Appeals cases, involving in the aggregate sums in excess of \$5 million.

Attorneys in the Kansas City Office have continued to provide a major part of available attorney staff time to handling of legal issues for the Centralized Servicing Center (CSC), Rural Development, St. Louis, in their efforts to consolidate the servicing of in excess of 600,000 housing loans formerly handled by RD State and County Offices. The effort includes direct advice to the sections of CSC dealing with liquidation of accounts and the processing of bankruptcy actions, as well as acting as liaison between CSC and other OGC offices across the country so as to comport the servicing actions of CSC to the varied legal requirement present in the 93 judicial districts in the United States. The Kansas City Office has experienced a distinct increase in requests for assistance from agency personnel in the handling of MSPB and EEOC administrative proceedings, as well as providing assistance to the Department of Justice in the defense of actions brought under Title VII of the Civil Rights Act.

Southern Region:

A substantial increase in litigation challenging National Forest Land Management Plans and Forest Service timber sale activities in southern part of the United States has required a dramatic increase in OGC attorney involvement in addressing issues tied to agency compliance with the National Environmental Policy, the National Forest Management Act, the Endangered Species Act, and other natural resource laws. OGC attorneys had principal responsibility for the defense of these cases, and

without exception was successful in prevailing. One of these cases, Gregson v. USFS, was noteworthy in that it sustained the Forest Service's regulatory requirement of exhaustion of administrative remedies for every issue before a federal district court can have jurisdiction to review that issue is a timber sale challenge.

The Southern Region assumed principal responsibility for the handling of Central Pines Land Company v. US, a federal district court case involving title to oil and gas underneath the Kisatchie National Forest in Louisiana. The value of these minerals is estimated to be between one and two billion dollars.

Compliance with the Endangered Species Act presents the Forest Service with complex and difficult challenges, as indicated by litigation over issues relating to the Indiana Bat. OGC attorneys in the Southern Region have coordinated with OGC attorneys in Milwaukee to establish a consistent, cohesive litigation position this species, whose habitat ranges over a substantial portion of the Eastern United States. OGC attorneys have participated extensively in providing proactive legal services, including assistance in project planning and reviews of project implementation, to assist the Forest Service in meeting these challenges.

Southern Region attorneys have taken the lead to develop new and improved procedures for the expeditious handling of non-judicial foreclosures for Rural Development State Offices in Alabama, Georgia, and Tennessee. The goal has been to assist the Administrator of the Rural Housing Service and the RHS Centralized Servicing Center in curbing the high delinquency rate of single-family housing borrowers in these states.

Northern Region:

During this fiscal year this Region experienced a marked increase in complex administrative and judicial litigation. We also were increasingly involved in providing support to RHS's Centralized Servicing Facility. We also worked with private lenders to provide financing packages to customers in the RD mission area.

We experienced a sharp increase in the number of EEOC/MSPB hearing cases during this period. Virtually every attorney in the Region is now engaged in handling these cases which often require us to try the case to the Commission or the Board. Many of these cases are factually complex and very time consuming. The increase seems to be attributable to client agency reorganization and restructuring which has not only resulted in complaints by employees, but a decrease in client agency personnel that used to process such cases. We anticipate that the volume of these cases will continue to increase substantially in this fiscal year.

In addition, the Harrisburg Office is handling an extremely complex multimillion dollar contract claim for NRCS before the Department's Board of Contract Appeals. The Harrisburg Office was also called on to provide litigation support to a U.S. Attorney's Office in conjunction with a \$2 million trial where the Plaintiff claimed RD personnel illegally attempted to force him from the Multifamily Housing Program. The trial lasted nearly two weeks and resulted in complete vindication of the Agency and its employees.

This Region successfully assisted the Justice Department in defending an appeal of a trial court decision rejecting the effort of a class of onion farmers to overturn the method used by FCIC to determine indemnities for catastrophic insurance protection. Both the Harrisburg and Chicago Offices assisted in the defense of actions by producers in Michigan and Upstate New York claiming disaster assistance loss payments. The Government prevailed in both cases, however, the New York case has been appealed.

During this period, the Region continued to provide a considerable effort to counsel and support the Centralized Servicing Center's operations relating to bankruptcy, liquidation and other matters involving cases in our service area. Our client agencies in the RD mission area have increased the volume of guaranteed loans and have "leveraged" increasingly scarce direct loan funds by participating with other lender in the financing of eligible projects - particularly in the Community Facility Program. As a result, this Region has become increasingly involved in the drafting of loan closing conditions and loan documents. The Region has also become heavily involved in the negotiation and drafting of agreements between our client agencies and the private lenders that participate in the financing of such projects. We anticipate that the number and variety of these kinds of arrangements will continue to increase in the current fiscal year.

EXECUTIVE OPERATIONS
NATIONAL APPEALS DIVISION

Purpose Statement

The National Appeals Division (NAD) was established by the Secretary of Agriculture on October 20, 1994, by Secretary's Memorandum 1010-1, pursuant to the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law No. 103-354. The Act consolidated the appellate functions and staffs of several USDA agencies to provide for independent hearings and reviews of adverse agency decisions.

NAD has a single mission to conduct evidentiary administrative appeal hearings and reviews arising from program operations of assigned agencies -- the Rural Development mission area, Farm Service Agency, Risk Management Agency, and the Natural Resources Conservation Service.

Headquarters for NAD is located in Alexandria, Virginia. NAD administers its appeals system through three regional offices located in Memphis, Tennessee; Indianapolis, Indiana; and Lakewood, Colorado. The hearing officers are located in 69 field locations throughout the United States, and operate out of leased office space or home offices. As of September 30, 1998, there were 127 full-time employees and one other than full-time employee. These employees were assigned as follows:

<u>Location</u>	<u>Full-time Permanent</u>	<u>Other</u>
Washington, D.C.	27	1
Field Units	<u>100</u>	<u>--</u>
Total	127	1

The National Appeals Division did not have any Office of the Inspector General or General Accounting Office evaluation reports during the past year.

EXECUTIVE OPERATIONS
NATIONAL APPEALS DIVISION

Available Funds and Staff Years

1998 Actual and Estimated 1999 and 2000

Item	1998 Actual	Staff Years	1999 Estimated	Staff Years	2000 Estimated	Staff Years
	Amount		Amount		Amount	
Direct Appropriation.....	\$11,718,000	129	\$11,718,000	133	\$12,699,000	133

Permanent Positions by Grade and Staff Year Summary

1998 Actual and Estimated 1999 and 2000

Grade	1998			1999			2000		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
SL	1	—	1	1	—	1	1	—	1
GS-15	2	—	2	2	—	2	2	—	2
GS-14	6	3	9	6	3	9	6	3	9
GS-13	11	83	94	11	83	94	11	83	94
GS-12	2	—	2	2	—	2	2	—	2
GS-11	2	—	2	2	—	2	2	—	2
GS-10	1	—	1	1	—	1	1	—	1
GS-9	1	3	4	1	3	4	1	3	4
GS-8	3	3	6	3	2	5	3	2	5
GS-7	—	—	—	2	—	2	2	—	2
GS-6	2	3	5	—	4	4	—	4	4
GS-5	1	3	4	1	3	4	1	3	4
GS-4	—	3	3	—	3	3	—	3	3
Total Permanent Positions	32	101	133	32	101	133	32	101	133
Unfilled Positions end-of-year	-5	-1	-6	—	—	—	—	—	—
Total, Permanent Full-Time Employment, end-of-year	27	100	127	32	101	133	32	101	133
Staff Year Ceiling	29	100	129	32	101	133	32	101	133

EXECUTIVE OPERATIONS

NATIONAL APPEALS DIVISION
CLASSIFICATION BY OBJECTS
1998 Actual and Estimated 1999 and 2000

	1998	1999	2000
Personnel Compensation:			
Washington, D.C.	\$1,737,209	\$1,977,000	\$2,076,000
Field	5,810,818	5,976,000	6,200,000
11 Total personnel compensation	7,548,027	7,953,000	8,276,000
12 Personnel benefits	1,450,355	1,449,000	1,518,000
Total pers. comp. & benefits	8,998,382	9,402,000	9,794,000
Other Objects:			
21 Travel	338,152	461,000	461,000
22 Transportation of things	61,144	81,000	81,000
23.2 Rental payments to others	1,677	99,000	99,000
23.3 Communications, utilities, and misc. charges	396,525	466,000	466,000
24 Printing and reproduction	130,140	130,000	130,000
25.1 Advisory and assistance services	495,247	75,000	75,000
25.2 Other services	970,616	182,000	771,000
25.3 Purchases of goods and services from Government Accounts	39,997	714,000	714,000
26 Supplies and materials	58,152	58,000	58,000
31 Equipment	115,195	50,000	50,000
Total other objects	2,606,845	2,316,000	2,905,000
Total direct obligations	11,605,227	11,718,000	12,699,000
Position Data:			
Average Salary, ES positions	--	--	--
Average Salary, GS positions	\$56,249	\$59,300	\$61,730
Average Grade, GS positions	11.97	11.97	11.97

NATIONAL APPEALS DIVISION

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

For necessary expenses of the National Appeals Division, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), of which not to exceed \$25,000 is for employment under 5 U.S.C. 3109, [\$11,718,000] \$12,699,000.

EXECUTIVE OPERATIONS
NATIONAL APPEALS DIVISION

Appropriations Act, 1999	\$11,718,000
Budget Estimate, 2000	<u>12,699,000</u>
Increase in Appropriation	<u>+981,000</u>

SUMMARY OF INCREASES AND DECREASES
(On basis of appropriation)

<u>Item of Change</u>	<u>1999 Estimated</u>	<u>Pav Costs</u>	<u>Program Change</u>	<u>2000 Estimated</u>
National Appeals Division.....	\$11,718,000	+\$392,000	+\$589,000	\$12,699,000

PROJECT STATEMENT
(On basis of appropriation)

	<u>1998 Actual</u>		<u>1999 Estimated</u>		<u>Increase or Decrease</u>	<u>2000 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
National Appeals Division.....	\$11,605,227	129	\$11,718,000	133	+\$981,000	\$12,699,000	133
Unobligated Balance.....	112,773	—	—	—	—	—	—
Total, Appropriation.	11,718,000	129	11,718,000	133	+981,000(1)	12,699,000	133

EXECUTIVE OPERATIONS

NATIONAL APPEALS DIVISION

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of \$981,000 for the National Appeals Division (\$11,718,000 available in 1999) consisting of:

(a) An increase of \$589,000 for training.

The operating environment for NAD is complex because of the wide range of dynamic programs which result in administrative appeals to NAD. NAD employees must possess a broad, in-depth knowledge of many areas, especially adjudication procedures, USDA regulations and policies, and civil rights. Hearing Officers must be trained in and maintain fact-finding skills, and knowledge of hearing procedures to ensure impartial, and accurate determinations. Appellants and agencies are best served when hearing and appeals officers are professional and competent with respect to the law, regulations, and administrative proceedings. Sustaining consistent, quality training is critical to accomplishing NAD's mission. A basic curriculum has been developed for the hearing and appeal officers to provide a standard level of competency. Continuous training and development is essential to providing the public a competent and fair administrative appeals system which recognizes the rights of program participants, and promotes the lawful operation of USDA programs. This will result in determinations which will stand up to scrutiny of judicial review in the federal courts. This initiative supports the performance objectives of NAD's strategic plan.

(b) An increase of \$392,000 for pay costs which includes \$84,000 for the annualization of the fiscal year 1999 pay raise and \$308,000 for the anticipated fiscal year 2000 pay raise.

Over 77 percent of the National Appeals Divisions' obligations are for salaries and benefits. This leaves little flexibility for absorbing increased costs. NAD cannot absorb these additional salary costs without placing severe constraints on its daily operations.

NATIONAL APPEALS DIVISION

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS1998 Actual and Estimated 1999 and 2000

	1998		1999		2000	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama	\$235,435	3	\$235,435	3	\$244,359	3
Arizona	73,011	1	73,011	1	76,041	1
Arkansas	233,517	3	233,517	3	242,441	3
California	92,765	2	92,765	2	98,742	2
Colorado	742,310	11	742,310	11	774,810	11
Connecticut	80,999	1	80,999	1	84,029	1
Delaware	74,322	1	74,322	1	77,352	1
Florida	249,880	3	249,880	3	258,804	3
Georgia	233,314	3	233,314	3	242,238	3
Idaho	86,753	1	86,753	1	89,783	1
Illinois	82,020	1	82,020	1	85,050	1
Indiana	707,466	10	707,466	10	737,019	10
Iowa	167,964	2	167,964	2	173,941	2
Kentucky	149,020	2	149,020	2	154,997	2
Louisiana	252,114	3	252,114	3	261,038	3
Massachusetts	87,286	1	87,286	1	90,316	1
Michigan	154,792	2	154,792	2	160,769	2
Minnesota	264,575	3	264,575	3	273,499	3
Mississippi	323,836	4	323,836	4	335,707	4
Missouri	236,807	3	236,807	3	245,731	3
Nebraska	162,908	2	162,908	2	168,885	2
New York	74,522	1	74,522	1	77,552	1
North Carolina	402,335	5	402,335	5	417,153	5
North Dakota	336,542	4	336,542	4	348,413	4
Ohio	160,950	2	160,950	2	169,874	2
Oklahoma	154,838	2	154,838	2	160,815	2
Pennsylvania	164,997	2	164,997	2	165,080	2
South Carolina	88,703	1	88,703	1	91,733	1
South Dakota	82,495	1	82,495	1	85,525	1
Tennessee	802,586	10	802,586	11	835,086	11
Texas	381,430	5	381,430	5	396,248	5
Virginia	163,038	2	163,038	2	169,015	2
Washington	79,142	1	79,142	1	82,172	1
West Virginia	82,751	1	82,751	1	85,781	1
Wisconsin	80,201	1	80,201	1	83,231	1
National Office	3,859,603	29	3,972,376	32	4,655,771	32
Subtotal, Available or Estimate	11,605,227	129	11,718,000	133	12,699,000	133
Unobligated balance	112,773					
Total, Available or Estimate	11,718,000	129	11,718,000	133	12,699,000	133

EXECUTIVE OPERATIONS
NATIONAL APPEALS DIVISION

STATUS OF PROGRAM

The National Appeals Division (NAD) is responsible for conducting fair and impartial administrative appeals of adverse decisions issued by certain agencies within the Department of Agriculture.

Goal 1: Conduct timely hearings and issue timely and well reasoned determinations which correctly interpret applicable regulations.

Current Activities:

Appealability Determinations - When an Agency determines that an administrative decision is not appealable, a participant may request the Director review the determination. The Director's decision is administratively final.

Pre-Hearing Conferences - NAD holds pre-hearing teleconferences that have proven effective in: 1) defining/narrowing the issues, 2) ensuring the parties understand their role in the hearing process, 3) facilitating hearings that are impartial and objective, and 4) facilitating the settlement of disputes. While benefiting the process, these conferences significantly increased the workload associated with each hearing.

Hearings and Reviews - NAD hearing officers conduct administrative hearings on appeals of adverse program decisions made by the Rural Development mission area, Farm Service Agency, Natural Resources Conservation Service, Risk Management Agency and other programs as may be assigned by the Secretary of Agriculture. Participants (appellants) have the right to an evidentiary hearing in their State of residence. After the hearing officer's determination is issued, both the appellant and the affected agency have the right to request a Director Review. Under limited circumstances, the Director may reconsider a Director Review Determination. NAD hearing officer determinations and Director Review Determinations are subject to judicial review.

Selected Examples of Recent Progress:

- NAD completed the successful implementation of its mission critical system, NADTrack. The system automates the calculation of GPRA performance data in addition to monitoring and tracking all of NAD's cases.
- Developed a Y2K Business Continuity Plan which incorporated the various emergency contingency plans developed last year.
- Conducted quality control reviews and a special training program at the National Judicial College to improve determinations.
- Published the National Appeals Division's Freedom of Information Act privacy rules in the Federal Register.
- Identified no material weaknesses in a Management and Accountability Control Audit.
- All issues identified in OIG Audit-50801-2-AT 9 (Administrative Appeals) were closed.
- Conducted outreach on NAD's appeal process.

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