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Description of document: USDA reports to congress not posted on the public USDA web pages, 2006-2010

Requested dates: 11-November-2010
01-June-2010
07-December-2009

Released dates: 03-February-2010
28-June-2010
13-July-2010

Posted date: 17-June-2013

Source of document: USDA Departmental FOIA Officer *
1400 Independence Ave., SW
Room 408-W, Whitten Building
Washington, DC 20250-0706
Email: USDAFOIA@ocio.usda.gov

* FOIA points of contact addresses for USDA available here: <http://www.dm.usda.gov/foia/poc.htm>

Note: Release from USDA Office Chief Financial Officer
03-Feb-2010, 1179 pages

Release from USDA Animal and Plant Inspection
28-June-2010, 274 pages - starts on PDF page 1186

Release from USDA OIG 13 JUL 2010
23 pages - starts on PDF page 1463

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United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, DC
20250

February 3, 2010

RE: Your FOIA request #OSEC-10-020

This correspondence responds to the Freedom of Information Act (FOIA) request you submitted by email to the U.S. Department of Agriculture (USDA), received on November 11, 2010. This request was assigned the reference number OSEC-10-020. You requested the following:

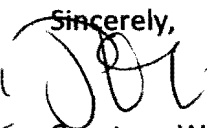
Copies of reports produced for Congress during the past three (3) years and which are not posted on the USDA website.

A search for responsive records was conducted by our staff, and one thousand one hundred and seventy-nine (1179) pages of reports responsive to your request were identified in our files. These reports are hereby released to you in electronic form, as a Compact Disk (CD) containing three Adobe PDF files. The CD is enclosed herewith and contains reports as follows:

1. File #1 contains 420 pages of reports, released in full;
2. File #2 contains 614 pages of reports, released in full; and
3. File #3 contains 145 pages of reports, released in full.

We hope this information has been helpful to you. Thank you again for contacting USDA.

Sincerely,

for 

Courtney Wilkerson, Esq.

FOIA Officer

U.S. Department of Agriculture

Enclosure

USDA Reports to Congress Not Published on Public Web Sites
Released by the USDA Office of The Chief Financial Officer,

FILE #1



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 14 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6015

Dear Mr. Chairman:

The House report accompanying the fiscal year (FY) 2005 Appropriations Act directs Animal and Plant Health Inspection Service (APHIS) to report on the status of Mexican avocado imports. The Committee specifically requested information on any problems in pest surveys, oversight by APHIS officials, and the diversion of Mexican avocados to other than approved destinations.

FY 2005 is the eighth year the United States received avocado imports from approved orchards in the State of Michoacan. This year, APHIS also published a final rule in the *Federal Register* amending the regulations governing the importation of Hass avocados from Mexico. The final rule, which took effect on January 31, 2005, expanded the number of States in which fresh Hass avocado fruit grown in approved orchards in Michoacan, Mexico, may be distributed and allowed the distribution of the avocados during all months of the year. For the first 2 years following the effective date of the rule, the avocados may be distributed in all States except California, Florida, and Hawaii; after 2 years, the avocados may be distributed in all States. As we noted in our letter of February 2, 2005, informing you of the publication of our final rule expanding the avocado import program, we also made other changes in the regulations, such as removing restrictions on the ports through which the avocados may enter the United States and the corridor through which the avocados must transit the United States. However, avocados still may not be transported through California or Florida during the 2-year delay.

The Honorable Henry Bonilla

Page 2

Under APHIS' requirements, the avocados must be grown in the Mexican State of Michoacan in an approved municipality to be eligible for export. Both the municipality and grower must be registered with the Mexican national plant protection organization's (NPPO) avocado export program and be surveyed semiannually and found free of certain pests of concern. Approved growers must meet strict growing, harvesting, packing, and shipping requirements. Mexican NPPO and APHIS officials monitor the program jointly, and an APHIS regulatory official is assigned to each packing house that ships avocados to the United States to ensure that shipments meet APHIS requirements. At this time, 10 municipalities are actively participating in the program, but 2 have been suspended because of pest finds. They may be reinstated if surveys demonstrate that they are free of the pests listed in the program's workplan.

At the U.S. port of entry, the U.S. Department of Homeland Security's Customs and Border Protection (CBP) officials verify that avocado shipments are accompanied by the correct phytosanitary documentation, that the fruit originated from an area authorized to export to the United States, and that the boxing and labeling requirements were met. CBP officers examine 30 avocados from each shipment to ensure that they are free from agricultural pests of concern.

The volume of avocado imports has increased each year of the program, with relatively few violations of the regulations even during periods of substantial growth in the volume of imports. With the removal of the date restrictions on Mexican Hass avocados from approved orchards in Michoacan, the volume of imports has continued to increase. The following tables show the volume of imports by year and the number of boxes moved in violation of the regulations.

Table 1 Import Volume

Season	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Total kilograms	6,032,359	9,733,205	11,729,371	10,221,114	24,477,723	29,912,688	42,607,201	95,432,360
Total shipments	347	560	669	576	1,375	1,683	2,377	6,467

Note: Previous shipping seasons ran from October or November through March or April (depending on the regulations governing the program), but data for 2004-2005 is for October 15, 2004 through August 3, 2005, as avocado imports now continue throughout the year.

Table 2 Violation Comparison by Year

	1997- 1998	1998- 1999	1999- 2000	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005
Number of boxes moved in violation	668	3,114	45	54	85	240	184	3,118
Number of States where avocados were found in violation	6	10	5	4	2	5	5	2

Since the publication of the final rule expanding the import regulations, California and Florida State personnel have intercepted avocado shipments at or near their State borders, where distribution of the avocados is prohibited until January 31, 2007. In Florida, 1 shipment was intercepted, and 11 shipments were intercepted in California. These latter interceptions resulted from an inspection blitz conducted by the California Department of Food and Agriculture. In all of these cases (which account for the majority of the boxes moved in violation cited in Table 2), the shippers were en route to locations in Washington, Oregon, Arizona, or Nevada, and State inspection personnel refused entry to them or required them to turn back to the State border and use another route. APHIS officials have investigated 10 of these instances and issued official letters of warning to the shippers; the eleventh case is still under investigation. APHIS State Plant Health Directors in States bordering California informed distributors in their States of the restrictions on transporting Mexican avocados through California, and reports of attempted trans-shipments have nearly stopped. APHIS will continue to conduct investigations into all potential violations and take any necessary enforcement action as well as continue working to educate importers and distributors about the regulations.

Five avocado shipments were rejected at U.S. ports of entry between October 15, 2004, and August 3, 2005, for reasons such as improper documentation, avocados with stems that exceeded the allowable stem length, and one shipment because the pallets in which the avocados were packed contained a wood-boring pest. In this last case, the avocados were repacked and shipped on to their destination in Canada.

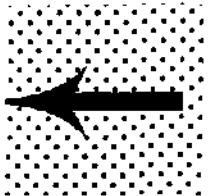
The Honorable Henry Bonilla
Page 4

We appreciate the Committee's interest in the avocado program and the importance of remaining vigilant in regulating imports. We are sending a similar letter to Congresswoman DeLauro, and Senators Kohl and Bennett.

Sincerely,

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Mike Johanns
Secretary





United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 14 2006

The Honorable Robert F. Bennett
Chairman, Subcommittee on Agriculture, Rural Development
And Related Agencies
Committee on Appropriations
United States Senate
188 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The House report accompanying the fiscal year (FY) 2005 Appropriations Act directs Animal and Plant Health Inspection Service (APHIS) to report on the status of Mexican avocado imports. The Committee specifically requested information on any problems in pest surveys, oversight by APHIS officials, and the diversion of Mexican avocados to other than approved destinations.

FY 2005 is the eighth year the United States received avocado imports from approved orchards in the State of Michoacan. This year, APHIS also published a final rule in the *Federal Register* amending the regulations governing the importation of Hass avocados from Mexico. The final rule, which took effect on January 31, 2005, expanded the number of States in which fresh Hass avocado fruit grown in approved orchards in Michoacan, Mexico, may be distributed and allowed the distribution of the avocados during all months of the year. For the first 2 years following the effective date of the rule, the avocados may be distributed in all States except California, Florida, and Hawaii; after 2 years, the avocados may be distributed in all States. As we noted in our letter of February 2, 2005, informing you of the publication of our final rule expanding the avocado import program, we also made other changes in the regulations, such as removing restrictions on the ports through which the avocados may enter the United States and the corridor through which the avocados must transit the United States. However, avocados still may not be transported through California or Florida during the 2-year delay.

Under APHIS' requirements, the avocados must be grown in the Mexican State of Michoacan in an approved municipality to be eligible for export. Both the municipality and grower must be registered with the Mexican national plant protection organization's (NPPO) avocado export program and be surveyed semiannually and found free of certain pests of concern. Approved growers must meet strict growing, harvesting, packing, and shipping requirements. Mexican NPPO and APHIS officials monitor the program jointly, and an APHIS regulatory official is assigned to each packing house that ships avocados to the United States to ensure that shipments meet APHIS requirements. At this time, 10 municipalities are actively participating in the program, but 2 have been suspended because of pest finds. They may be reinstated if surveys demonstrate that they are free of the pests listed in the program's workplan.

At the U.S. port of entry, the U.S. Department of Homeland Security's Customs and Border Protection (CBP) officials verify that avocado shipments are accompanied by the correct phytosanitary documentation, that the fruit originated from an area authorized to export to the United States, and that the boxing and labeling requirements were met. CBP officers examine 30 avocados from each shipment to ensure that they are free from agricultural pests of concern.

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The Honorable Robert F. Bennett

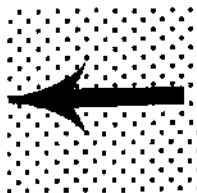
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We appreciate the Committee's interest in the avocado program and the importance of remaining vigilant in regulating imports. We are sending a similar letter to Congressman Bonilla, Congresswoman DeLauro, and Senator Kohl.

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Mike Johanns
Secretary





United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 14 2006

The Honorable Rosa DeLauro
Subcommittee on Agriculture, Rural Development
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6015

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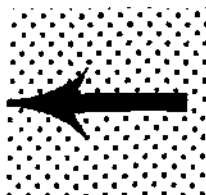
The Honorable Rosa DeLauro
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Mike Johanns
Secretary





United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 14 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

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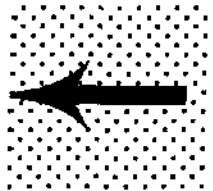
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Sincerely,

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Mike Johanns
Secretary





United States Department of Agriculture

January 11, 2006

INFORMATIONAL MEMORANDUM

TO: Dr. Joseph Jen
Under Secretary, Research, Education, and Economics

FROM: Susan E. Offutt *Susan*
Administrator

SUBJECT: Response to a request from the House-Senate Conference Committee on Appropriations on the impact of rising energy prices on agricultural and rural communities.

Attached for review and clearance is a response to a request from the House-Senate Conference Committee on Appropriations on the impact of rising energy prices on agricultural and rural communities.

In writing the FY 2006 Agriculture Appropriation bill regarding ERS, the House-Senate conference committee report requested a study on energy and agriculture, specifically:

“...Also, within the funds provided, the conferees expect not later than 90 days after the date of enactment of this Act, the Secretary of Agriculture, in cooperation with the Secretary of Energy, to provide to the Committees on Appropriations of both Houses of Congress, a report that describes the impact of increased prices of gas, natural gas, and diesel on agricultural producers, ranchers, and rural communities.”

The Economic Research Service has prepared a report addressing these questions.

The response to the constituent's question will be cleared by USDA's Office of Budget and Program Analysis and Office of the General Counsel.

Attachments



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 7 - 2006

The Honorable Rosa L. DeLauro
Ranking Member
Subcommittee on Agriculture, Rural Development, Food
and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

Dear Congresswoman DeLauro:

In the Conference report accompanying the FY 2006 Agriculture Appropriations Act, Congress requested a study on energy and agriculture, specifically:

“...Also, within the funds provided, the conferees expect not later than 90 days after the date of enactment of this Act, the Secretary of Agriculture, in cooperation with the Secretary of Energy, to provide to the Committees on Appropriations of both Houses of Congress, a report that describes the impact of increased prices of gas, natural gas, and diesel on agricultural producers, ranchers, and rural communities.”

The enclosed report provides a comprehensive look at the impact of rising energy prices on agricultural production and rural communities. The analysis relies almost exclusively on the agricultural data from the Agricultural Resource Management Survey (ARMS) of the Economic Research Service (ERS). This database provides a comprehensive accounting of the costs of agricultural production at both the commodity and whole-farm levels and enables ERS to provide a complete picture of where and what commodities are affected by rising energy costs. Information was also obtained from the Census of Agriculture. ERS worked in cooperation with the Energy Information Administration of the Department of Energy to obtain energy price forecasts and examine the impacts on rural communities.

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Highlights of our findings in this report include:

- Farm production expenses for fuel and oil are now forecast to be up by \$3.4 billion in 2005, a 41 percent increase over 2004.
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The Honorable Rosa L. DeLauro
Page 3

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Similar letters are being sent to Senator Robert Bennett, Senator Herb Kohl, and Congressman Henry Bonilla.

Sincerely,

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 7 - 2006

The Honorable Henry Bonilla
Chairman
Subcommittee on Agriculture, Rural Development, Food and
Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
Room 2362-A Rayburn House Office Building
Washington, D.C. 20515-6015

Dear Chairman Bonilla:

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 7 - 2006

The Honorable Herb Kohl
Ranking Member
Subcommittee on Agriculture, Rural Development, and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Kohl:

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 7 _ 2006

The Honorable Robert Bennett
Chairman
Subcommittee on Agriculture, Rural Development, and Related Agencies
Committee on Appropriations
United States Senate
188 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Chairman Bennett:

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The Honorable Robert Bennett
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Sincerely,

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 26 2006

The Honorable Collin Peterson
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Peterson:

As directed by Public Law 108-465, I am writing to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops.

In response to the requirements of Section 202 of the Specialty Crops Competitiveness Act of 2004, I am transmitting the following information:

1. The total number of applications processed to completion—53 is the total number of export issues resolved in 2005. This number includes progress on gaining or expanding market access, as well as retaining access to markets that were threatened.
2. The number of backlog applications processed to completion—42 of the 53 export issues resolved in 2005 were backlog issues USDA has been working on for more than a year.
3. The percentage of backlog applications processed to completion—46 percent of backlog export issues were resolved in 2005. This number was obtained by dividing the number of backlog issues resolved in 2005 (42), by the number of backlog export issues still pending (92).
4. The number of backlog applications remaining—There are 50 export issues remaining that were initiated prior to 2005.

In addition to this required information, I will be providing the Animal and Plant Health Inspection Service's "Sanitary and Phytosanitary Accomplishments Report for FY 2005" upon its completion in April 2006. The accomplishments report will provide more information on export markets where we have gained, expanded, or retained access for U.S. specialty crops, among other commodities.

The Honorable Collin Peterson
Page 2

I am sending an identical letter to the Chairman of the House Committee on Agriculture and the Chairman and Ranking Member of the Senate Committee on Agriculture, Nutrition, and Forestry.

Sincerely,

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 26 2006

The Honorable Tom Harkin
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 26 2006

The Honorable Robert W. "Bob" Goodlatte
Chairman, Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 26 2006

The Honorable Saxby Chambliss
Chairman, Committee on Agriculture, Nutrition, and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 16 2006

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended September 30, 2005.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 16 2006

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President of the Senate
Washington, D.C. 20501

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Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Kohl:

We are pleased to report on actions taken by the Animal and Plant Health Inspection Service (APHIS) toward development and implementation of regulations that allow for an open microchip technology for the microchipping of pets in which all scanners can read all chips, and best serves pet owners interested in using the system.

In enforcing the Animal Welfare Act (AWA), APHIS protects certain animals from inhumane treatment and neglect. The AWA requires that individuals be licensed or registered with APHIS if they transport such animals commercially, use them in research or product testing, exhibit them to the public, or breed them for sale as pets at the wholesale level. Under the AWA, licensees and registrants must meet specified minimum standards with regard to animal care and husbandry, which include providing their animals with veterinary care, a balanced diet, clean and structurally sound housing, and protection from extremes of weather and temperature. In addition, the AWA regulations require that licensees and registrants maintain accurate records showing the acquisition, disposition, and identification of dogs and cats. There are no requirements for records on other species of animals at research facilities (registrants).

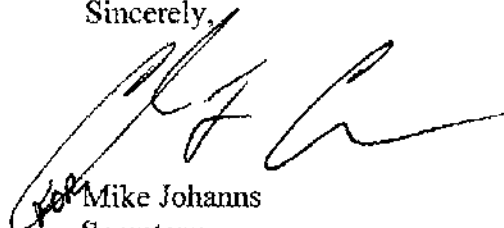
The Conference Committee Report accompanying the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006 (Pub. L. 109-97) directed APHIS to develop appropriate regulations that allow for an open radio frequency identification technology microchip system that would enable a scanner to read all microchips used for the identification of pets. In addition, the Agency was petitioned by stakeholders to solicit comments on the need for the adoption of the International Organization for Standardization (ISO) standards as the National Standard for the microchipping of companion animals for identification. In response to the Committee's directive and stakeholder petition,

The Honorable Herb Kohl
Page 2

APHIS drafted an Advanced Notice of Proposed Rulemaking (ANPR) that is undergoing final review before publication in the Federal Register. The ANPR is intended to: (1) solicit comments from the public on proposed changes to the AWA regulations that would address the use of microchips for identifying animals covered under the AWA; and (2) advise the public that APHIS will be hosting a series of informational meetings on this subject in the coming months at various locations around the country. The formal public comments and feedback from the public meetings will provide the basis for eventual regulation, and also will assist APHIS in determining how to deal with the current situation where most pets are identified with a non-ISO chip. Because the AWA explicitly excludes privately owned pet animals that are not used for regulated purposes, APHIS has no regulatory authority with regard to these animals. However, the Agency plans to work collaboratively with stakeholders to encourage adoption of the ISO standard for those interested in pet identification.

We appreciate your interest in the program, and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Bonilla, Congresswoman DeLauro, and Senator Bennett.

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for Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

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Committee on Appropriations
United States Senate
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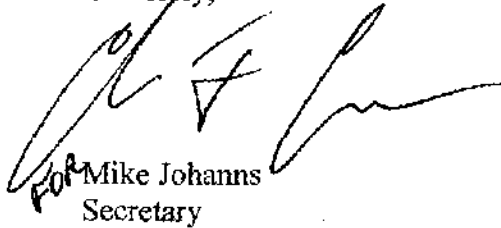
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The Honorable Rosa DeLauro
Subcommittee on Agriculture, Rural Development
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2262 Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Congresswoman DeLauro:

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In enforcing the Animal Welfare Act (AWA), APHIS protects certain animals from inhumane treatment and neglect. The AWA requires that individuals be licensed or registered with APHIS if they transport such animals commercially, use them in research or product testing, exhibit them to the public, or breed them for sale as pets at the wholesale level. Under the AWA, licensees and registrants must meet specified minimum standards with regard to animal care and husbandry, which include providing their animals with veterinary care, a balanced diet, clean and structurally sound housing, and protection from extremes of weather and temperature. In addition, the AWA regulations require that licensees and registrants maintain accurate records showing the acquisition, disposition, and identification of dogs and cats. There are no requirements for records on other species of animals at research facilities (registrants).

The Conference Committee Report accompanying the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006 (Pub. L. 109-97) directed APHIS to develop appropriate regulations that allow for an open radio frequency identification technology microchip system that would enable a scanner to read all microchips used for the identification of pets. In addition, the Agency was petitioned by stakeholders to solicit comments on the need for the adoption of the International Organization for Standardization (ISO) standards as the National Standard for the microchipping of companion animals for identification. In response to the Committee's directive and stakeholder petition,

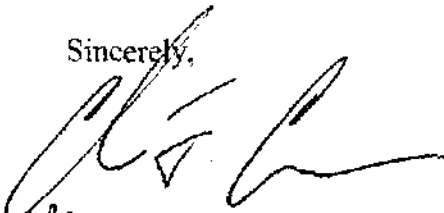
The Honorable Rosa DeLauro

Page 2

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We appreciate your interest in the program, and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Bonilla, and Senators Bennett and Kohl.

Sincerely,



for Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

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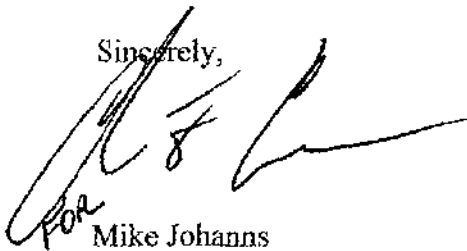
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for
Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

July 10, 2006

The Honorable Bob Goodlatte
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The enclosed report to Congress is being provided pursuant to Section 2005 of the Farm Security and Rural Investment Act of 2002 (Public Law 107-171). Section 2005 of the Act requires that the Secretary of Agriculture develop a plan to coordinate land retirement and agricultural working land conservation programs to achieve the goals of eliminating redundancy, streamlining program delivery, and improving services.

The enclosed plan provides an overview of actions taken since the implementation of the Act as well as options for further streamlining program delivery and improving services for future land retirement and agricultural working land conservation programs.

Sincerely,

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

July 10, 2006

The Honorable Saxby Chambliss
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510-6000

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Mike Johanns
Secretary

Reform and Assessment of Conservation Programs: A Report to Congress

*A Report to Congress
Pursuant to Section 2005—Reform and
Assessment of Conservation Programs
Farm Security and
Rural Investment Act of 2002*

U.S. Department of Agriculture
July 2006

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Preface

Section 2005 of the Farm Security and Rural Investment Act of 2002 provides for the evaluation of conservation programs as follows:

- (a) **IN GENERAL.**—The Secretary of Agriculture shall develop a plan to coordinate land retirement and agricultural working land conservation programs that are administered by the Secretary to achieve the goals of—
 - (1) eliminating redundancy;
 - (2) streamlining program delivery; and
 - (3) improving services provided to agricultural producers (including the reevaluation of the provision of technical assistance).
- (b) **REPORT.**—Not later than December 31, 2005, the Secretary of Agriculture shall submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report that describes—
 - (1) the plan developed under subsection (a); and
 - (2) the means by which the Secretary intends to achieve the goals described in subsection (a).

For purposes of this report, the following definition of Agricultural Working Lands has been used:

All ecosystems modified or created by humans specifically to grow or raise biological products for human consumption or use and that are being actively utilized and conserved to produce such. This includes cropland, pasture, forest land, range, orchards, groves, vineyards, nurseries, ornamental horticultural areas, and confined animal feeding areas.

Executive Summary

The purpose of this report is to inform Congress of activities and concepts developed from fiscal year (FY) 2002 to the present in order to reform certain Department of Agriculture (USDA) conservation programs as required under Section 2005 of the Farm Security and Rural Investment Act of 2002 (the 2002 Farm Bill). The 2002 Farm Bill directs the Secretary of Agriculture to develop a plan to coordinate land retirement and agricultural working land conservation programs that are administered by the Secretary to achieve the goals of eliminating redundancy and improving services provided to agricultural producers.

As a result of focused efforts since the enactment of the 2002 Farm Bill, USDA's Natural Resources Conservation Service (NRCS) and Farm Service Agency (FSA) have demonstrated significant progress in identifying and addressing ways to reduce impediments and improve services to agricultural producers. However, as this report indicates, there is much work left to do. While both agencies have applied rigorous internal reviews, controls, and oversight, many challenges and opportunities remain as demand for conservation program services continues to increase. At the same time, budgetary constraints and calls for simplicity and greater efficiency will require that policy officials develop programs that provide funding, achieve better service and desired conservation benefits on the landscape, and make more effective use of conservation dollars.

The report identifies efforts to eliminate redundancy, streamline program delivery, and improve overall services to agricultural producers and rural landowners—our customers—since implementation of the 2002 Farm Bill. Carryover activities from previous Farm Bills are cited if significant improvements have been made since enactment of the 2002 Farm Bill. The report also discusses possible options for the future, including consolidating certain programs and implementing other conservation programs more strategically.

1 Introduction

Agriculture, like most other industries, has experienced significant change in the past 20 years. Globalization, new technology, increased competition, international treaties, Government programs and regulations, and access to credit all play a significant role in the producer's land use, land management, and resource conservation goals, and commodity and conservation goals are interlinked in producers' decisionmaking processes.

The 2002 Farm Bill represents an unprecedented investment in cooperative conservation on America's private lands and affords greater opportunities to do much more for agricultural landowners and for the country as a whole. The 2002 Farm Bill continues the paradigm change begun with implementation of the 1996 Farm Bill, which shifted a larger portion of financial resources to addressing priority natural resource concerns on agricultural working lands.

First and foremost, programs must be simple, straightforward, and focused on the farm or ranch to meet customers' needs. Focusing financial resources on the priority conservation problems requires, in part, the ability to streamline procedures so employees can spend more time with producers and less time doing paperwork. It also requires transparency of agency operations by making program information and information on allocations, application backlogs, and contracting data readily available to customers, partners, and stakeholders. On the NRCS website, for example, the agency has provided program-specific allocations by State; State criteria for ranking and funding applications for conservation programs; Field Office Technical Guides; program performance data; access to all regulatory proceedings; and summaries of public feedback on Farm Bill program operation and priority setting. In addition, FSA has continued enrollment in the Conservation Reserve Program and has provided information on targeted acreage for continuous signup, wetlands enrollment, and the Presidential Quail Initiative.

Transparency of agency programs coupled with reduced redundancies provides producers with a clear understanding of agency program priorities and funding application criteria. As a result, the transitional shift toward funding the highest-priority conservation problems and improving program delivery has allowed field employees to help producers achieve their conservation goals and obtain tangible on-farm benefits that result in significant off-farm dividends. In addition, because program demand is normally greater than available resources, transparency allows producers to fully understand why some applicants do not receive program funding.

The agricultural working lands and land retirement programs covered in this report and plan include the Conservation Security Program, the Environmental Quality Incentives Program, the Farm and Ranch Lands Protection Program, the Wetlands Reserve Program, the Wildlife Habitat Incentives Program, the Grassland Reserve Program, the Conservation Reserve Program, and the Agricultural Management Assistance Program. With the exception of Agricultural Management Assistance Program, all of these

programs fall within Title XII of the 1985 Food Security Act and are within the scope of the Section 2005 directive. (Note: For purposes of this report, Ground and Surface Water Conservation and Klamath Basin components are included within the Environmental Quality Incentives Program.) Additional conservation program details are summarized in Appendix A, and a list of recurring reports to Congress on conservation programs and topics is provided in Appendix B.

From FY 2002 through FY 2005, the following noteworthy environmental accomplishments were achieved through these programs:

- Applied conservation practices on more than 50 million acres of working farm and ranch land to reduce erosion, sedimentation, and nutrient runoff; enhance water quality; conserve water; restore and create wetlands; and improve and establish wildlife habitat.
- Developed and applied nearly 10,500 comprehensive nutrient management plans to manage animal manure nutrients and protect water quality.
- Enrolled, re-enrolled, and/or extended about 30 million acres into the Conservation Reserve Program, including more than 1.9 million acres of wetlands and adjacent buffers and more than 134,000 acres under the Conservation Reserve Program's Farmable Wetlands Program to protect certain farmed and prior converted wetlands.
- Enrolled, re-enrolled, and/or extended 4.6 million acres into the Conservation Reserve Program, reflecting total coverage of 35 million acres.
- Developed 200,000 contracts for cost-share programs.
- Enrolled 2 million acres under conservation easements.
- Partnered with 29 States to develop 37 Conservation Reserve Enhancement Program agreements providing about \$1 billion in private and State funds for soil, water, and wildlife conservation.
- Undertook a comprehensive study of the technical assistance component of various programs that help landowners and producers plan and coordinate conservation activities on private lands. These activities include developing conservation plans, improving economic activity at the local level, and encouraging a knowledge-based approach to conservation.

With the historic increase in conservation funding made available by the 2002 Farm Bill, NRCS and FSA continue to look to nonfederal partners and private technical service providers to help supply the technical assistance needed to plan and oversee the installation of conservation practices. As of December 2005, a total of 2,545 technical service providers were registered with NRCS and serving USDA customers.

In FY 2004, NRCS obligated \$48.3 million for technical service provider assistance, surpassing target goals established by the Office of Management and Budget and the agency. In FY 2005, NRCS obligated \$52.7 million, thereby providing the equivalent of 520 Federal staff years through technical service providers to attain additional conservation achievements (see Table 1).

Table 1. Technical Service Provider Assistance, FY 2003–2005

Fiscal Year	Goals	Obligations
2003	\$ 20,000,000	\$ 24,354,139
2004	40,000,000	48,384,863
2005	45,000,000	52,725,006
Totals	\$105,000,000	\$125,464,008

2 The Evaluation Process

Section 2005 of the Farm Security and Rural Investment Act of 2002 requires the Secretary of Agriculture to develop a plan coordinating land retirement and agricultural working land conservation programs administered by USDA to:

- Eliminate redundancy.
- Streamline program delivery.
- Improve services provided to agricultural producers (including the re-evaluation of how technical assistance is provided).

As part of the initial implementation of the 2002 Farm Bill Conservation title, the Secretary established a team of policy officials across USDA to fully coordinate rules and regulations and eliminate redundancy. NRCS and FSA also met jointly to fully coordinate the development of rules and regulations and to eliminate redundancy wherever possible. For example, a joint decision by NRCS and FSA regarding Environmental Quality Incentives Program implementation and contractual payment processes streamlined the producer's interaction to involve just one agency—NRCS.

In addition, NRCS sponsored three independent customer satisfaction surveys to learn more about what customers thought about working lands programs. In May 2004, the Environmental Quality Incentives Program received an American Customer Satisfaction Index (ACSI) score of 75—a score that was 4.1 points higher than the national Federal Government ACSI score of 70.9.

Similarly, a December 2004 survey of Wildlife Habitat Incentives Program customers resulted in an ACSI score of 77, which was also higher than the national private sector ACSI of 74.3. Most recently, the Conservation Security Program received an ACSI score of 76, which is the Agency's highest customer-satisfaction survey year to date. CSP participants rated their overall satisfaction with the program at 83 and also gave the program high marks for its influence on future agricultural operations and its likelihood of influencing farmers and ranchers, with a score of 77 in each of those areas. Even with high customer satisfaction scores, both surveys noted that each program would benefit from improvements in project implementation and application processes.

In response, NRCS took a closer look at the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, the Agricultural Management Assistance Program, and the Conservation Security Program. The 2005 review found redundancies in some program objectives and some inconsistencies in program processes. The originating statutes, for example, include many of the same natural resource concerns. Similarities in program design (providing cost-share assistance to encourage implementation of natural resources conservation measures on private lands) provide additional opportunities to streamline and improve services to agricultural producers. These findings are summarized in this report.

3 Summary of Existing Reforms

The reforms undertaken within 2002 Farm Bill authorities are two-fold. First, program-neutral reforms have enabled enhanced customer service through use of improved business tools. Second, programmatic reforms have helped facilitate efficiencies and effectiveness through streamlined or changed procedures. This section highlights existing tools and services that feature increased efficiency and reduced administrative burdens. These reforms are expected to continue in future years.

Program-Neutral Reforms

Program-neutral reforms include provision of a number of business tools—universal functionality platforms that provide cross-program accessibility internally and, in many cases, externally. Improving the efficacy of these tools will ensure that they work as intended and realize the efficiency gains expected.

The business tools described below include the Service Center Information Management System, web-based authentication procedures, a customer service toolkit, web-enabled application procedures, self-assessment tools and processes, an evaluation tool, electronic offer processing, rapid watershed assessment, and a transparent allocation process.

Service Center Information Management System

NRCS and FSA use a common database of customer names, addresses, and other pertinent information, including geospatial data. Farmers, ranchers, and rural residents benefit from this common customer computer database—the Service Center Information Management System (SCIMS)—which reduces the paperwork requirements for USDA programs and will lead to customers being able to sign up for programs from their home computer as these systems become fully functional.

USDA's e-Authentication Initiative

USDA's e-Authentication Initiative is intended to provide a single centralized service for web-based authentication throughout the Department. This service provides for the identification and validation of USDA's customers and provides a single credential that a USDA web user can present to any participating USDA website—reducing the burden on customers to register for and maintain separate online identities with every USDA online system.

Further, FSA and NRCS—along with other USDA agencies—are implementing Geographic Information Systems (GIS) and Global Positioning Systems (GPS) technology. GIS and GPS are helping staff more efficiently measure land features by allowing computer-generated maps to interact with databases that store information about land.

These advances will give local offices tools to:

- Help producers continue to exercise sensible land stewardship.
- Provide quicker, more accurate information for decisionmaking purposes.
- Reduce the amount of time a producer must spend working with local FSA and NRCS staff in order to participate in USDA programs.

Each GIS layer can store and display vast amounts of information such as soil types, crops, land boundaries, place names, and populations. The most critical component of GIS is the development of the Common Land Unit (CLU) data layer. A CLU is the smallest unit with a permanent contiguous boundary and land cover—in other words, a field in an agricultural working lands setting.

The CLU layer will ultimately include all farm fields, rangeland, and pastureland in the United States. In conjunction with digital imagery and other data, USDA is using the CLU to administer programs, monitor compliance, and respond to natural disasters, among other tasks. FSA is in the process of integrating completed CLU data sets with GIS deployment.

Customer Service Toolkit

The NRCS Customer Service Toolkit is a collection of software tools for NRCS field employees who work with the public—primarily farmers and ranchers. It is also useful to conservation partners such as Conservation Districts, State Departments of Natural Resources, and others who provide conservation planning and resource assessment information to decisionmakers on the land.

As a first step toward elimination of duplicate data entry, certain Toolkit data were made available in November 2003 to the NRCS Performance Results System (PRS), which extracts data for performance reporting and accountability purposes. There is no separate Progress Reporting System.

NRCS employees and public entities can enter progress information in Toolkit and upload it to PRS, or they can report it directly in PRS. Technical service provider progress is entered by NRCS employees on behalf of the technical service providers. PRS uses direct entry and data extracted from other systems to consolidate performance results.

PRS includes the following features:

- Permits users to establish and maintain user profiles.
- Collects data on conservation plans and practices.

- Permits users to do account set-up and role assignment.
- Facilitates customer information management.
- Shares information with other service centers.
- Allows users to choose a focused worklist, such as only those items in a profile county, or to generate a worklist tailored to his or her own specifications.
- Provides for data entry, which helps catch errors.
- Generates impact information from practice data.
- Generates outcomes based on a logic model.
- Uses SCIMS as the source of customer information.
- Extracts practice-based information from Toolkit.
- Tracks board membership.
- Provides extensive reports.
- Collects national program data such as information on cultural resources.

Toolkit helps natural resource planners provide information to land users, facilitate decisionmaking, and improve on-the-ground conservation. The PRS incorporates commercial software products that allow conservationists to provide natural resource information through professional products.

Toolkit also provides tools for mapping and analyzing natural resource information. Maps are a successful way of communicating with customers, and Toolkit makes map development for customers easy.

In March 2004, NRCS announced the development of the Conservation Plug-In for commercial farm recordkeeping and operations software packages. The Plug-In will enable technical service providers to service conservation plans and contract agreements with USDA for their customers. It also will enable producers to perform these activities electronically with USDA.

Currently, Toolkit is in the process of being strengthened and stabilized to become more user friendly. The next generation of Toolkit will be map-based. Most of the planning data will be derived from activities done on the geospatial side, with much of the tabular data entered automatically. Other enhancements will be added in priority order as requested by the field and analyzed by a field focus group.

Based on a limited survey of field employees using Toolkit, a conservation plan can be developed in one-half to one-quarter the time required to develop a plan manually. That represents a savings of 50 to 75 percent. Additional significant advantages are the quality and professionalism of the developed plans as compared to those developed manually as well as the linkage opportunities to other software applications that are provided electronically.

ProTracts

ProTracts is an NRCS web-enabled application that eliminates several paperwork steps and streamlines the program-contracting process. This application provides useful practical applications to partners and customers alike.

Program managers use ProTracts to allocate and track funds to States, counties, and areas. USDA customers can go online to complete and submit a program contract application. Field conservationists and technical service providers use the application to create and manage contracts containing practices and components, including certification of completed conservation practices and approval for payment. Contracts are built using cost lists that will be maintained in the electronic field office technical guide (eFOTG). Cost-share contracts are geo-referenced for rapid and flexible reporting.

ProTracts became operational nationally for the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, and the Agricultural Management Assistance Program in October 2003 and was first used for the development of Conservation Security Program contracts in 2004. As of October 1, 2005, NRCS was actively managing 197,129 cost-share contracts in ProTracts. It is estimated that ProTracts provides a 20 percent savings in time for contract development.

ProTracts is also integrated with FSA-managed automated processes, including eligibility determinations, payment limitations, payment processing, and accountability.

Self-Assessment Tools

Several NRCS business applications have proposed self-servicing components, meaning that producers and other customers can access the applications and perform certain processes, thus freeing up time for NRCS employees and others providing assistance to focus on technical assistance. Self-assessment tools also give customers the information and knowledge they need to assess their program needs.

With the advent of the My.USDA.gov website feature, producers can obtain e-Authentication accounts and create their own virtual workspace with USDA from the convenience of their offices or homes. This opens the door for NRCS to build more self-servicing components for its business applications.

My.USDA.gov is part of USDA's efforts to provide customers quick and easy access to the information they need. USDA has put great focus on e-Government to standardize processes and provide tools to unleash the potential of information technology.

The initiative began with a website design to optimize power and improve access to USDA information and science, followed by improvements in functionality. A customer statement puts a whole range of USDA services and programs into a single report at the fingertips of agricultural producers. Farmers are also able to view their contracts in various conservation programs, payments under commodity programs, and information on loans and crop insurance.

The launch of My.USDA.gov features added functionality, allowing customers to find items of interest by selecting "Browse by Audience" and "Browse by Subject." A customized page can be created in three easy steps by going to visiting the USDA website (www.usda.gov) and signing up for a user ID.

Several self-servicing business processes are common to the conservation programs that NRCS administers, to the point that a single application framework can be built to accommodate them. This contrasts with developing separate software packages, each tailored to the program in question—a more costly and less efficient alternative.

USDA's Agricultural Research Service and Oregon State University are in the process of developing a Resource Inventory and Assessment tool with NRCS for conservation planning and program participation. This web-based landowner self-assessment tool allows for the rating and ranking of applications for program participation. It also incorporates the preliminary steps for conservation planning, resulting in less planning time for NRCS staff and allowing more initial interaction with customers.

From FY 2004 through FY 2006, NRCS estimates that the self-assessment tool will save NRCS employees and approved technical assistance providers nearly 240 staff years in technical assistance for the Conservation Security Program. Plans are already underway to incorporate the self-assessment process into other USDA conservation programs.

The Self-Assessment Process

The 2004 Conservation Security Program signup introduced a new NRCS self-assessment workbook for potential Conservation Security Program participants. By going through the workbook, producers can get a good idea about whether they are generally eligible for the Conservation Security Program at that time. Producers who may not be eligible can find out about other USDA programs that can help them achieve a higher level of conservation so that they may apply to the Conservation Security Program in the future.

Results from the 2004 signup indicate that the self-assessment process worked quite well. NRCS had originally estimated that about 50 percent of the 28,000 potential

applicants—or about 14,000 contacts—in the 18 watersheds might contact NRCS offices to learn about the program. The use of the self-assessment process resulted in about 9,000 producers' contacts at local NRCS offices. Assuming a modest estimate of 2 hours for each of the producer visits to answer questions about their operations, NRCS calculated a potential savings of 10,000 hours—or about 5 staff years over just the 24-day signup.

For 2005, nearly 235,000 farm units were included in the selected watersheds. NRCS had estimated that as many as 100,000 producers might contact NRCS to inquire about the program. Signup information shows that nearly 60,000 contacts were made to NRCS offices during the signup. Again, assuming a modest estimate of 2 hours for the interviews, NRCS calculated a savings of 80,000,000 hours—or nearly 80 staff years over the 60-day signup.

The self-assessment is available in hard copy, on CD-ROM, and on the Internet. For the Conservation Security Program, it has been translated into Spanish and has been a success with the Hispanic community.

The self-assessment process puts program information and eligibility requirements in the hands of producers so that they can evaluate and think things through at their convenience. The use of this process effectively extends the timeframe within which applicants can obtain program information and allows them to work on the application at a time that is convenient for them. It also allows producers to be proactive and to better take charge of the application process.

Program Application Evaluation Tool

NRCS has created and is pilot-testing a national application evaluation and ranking tool for all NRCS-administered Farm Bill cost-share programs. The Environmental Quality Incentives Program Rule (revised in May 2003 to address the statutory requirements of the 2002 Farm Bill) requires that specific factors be used in evaluating and ranking applications for Environmental Quality Incentives Program assistance.

The historic approach of allowing States to develop their own Environmental Quality Incentives Program application evaluation and ranking processes has resulted in the use of a wide variety of approaches, methodologies, and even terminologies. This has created inconsistency between States, questions about compliance with the Environmental Quality Incentives Program Rule, and inefficiencies with regard to the Environmental Quality Incentives Program application evaluation and ranking process.

The Application Evaluation and Ranking Tool will be automated and yet flexible enough to ensure that State Conservationists, with input from State Technical Committees and Local Work Groups, can appropriately address State and local priorities. Automating the Application Evaluation and Ranking Tool will provide valuable time savings for field staff, reduce errors, and help to make the conservation program application evaluation and ranking process more user friendly, transparent, and understandable.

The Application Evaluation and Ranking Tool effort will include the parallel development of a producer-friendly self-assessment/self-planning tool that will streamline the application process. It also will educate producers on resource assessment and on how the conservation program works to improve the environment in harmony with agricultural production.

The use of the Application Evaluation and Ranking Tool and self-assessment/self-planning tools will improve the consistency, effectiveness, and efficiency of program delivery nationwide. In addition, the use of a standardized Evaluation Application and Ranking Tool across the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, and the Agricultural Management Assistance Program will make the programs more synergistic as national priorities are integrated into the template.

The National Application Evaluation and Ranking Tool was piloted in 12 States in September and October of 2005. Expanded field testing (to include the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, and the Agricultural Management Assistance Program) is occurring in all States during FY 2006. Full nationwide deployment for each of these programs will occur October 1, 2006. Estimated savings will vary from State to State, depending upon the ranking system currently being used in an individual State. However, it is estimated that time savings on a nationwide basis will be in the range of 30 to 35 percent.

Conservation Reserve Program Electronic Offer Processing

Historically, FSA and NRCS expend significant resources during Conservation Reserve Program signup periods as they answer questions and manually calculate a number of scenarios for farmers and ranchers seeking to enroll in the Conservation Reserve Program. When Conservation Reserve Program electronic offer processing is fully operational, a producer will be able to enter an Internet site, access farm data, calculate scenarios, receive help, and make an offer from a remote location.

Also, county FSA offices will be able to utilize a fully integrated system that will issue payments, develop reports, maintain conservation plans, and provide program accomplishments in a data-driven manner that will refocus field office work from data entry to a higher level of program expertise, including performance monitoring and program development.

The following examples illustrate actions that already have been implemented:

- In FY 2003, FSA deployed the first phase of updating and re-engineering the Conservation Reserve Program with successful use of automation tools for the national Conservation Reserve Program Soils Database, electronic mapping, Environmental Benefits Index (EBI), annual rental calculations, and program signup software.

- In FY 2004, new software was used to implement the Conservation Reserve Program general signup, which streamlined program delivery by leveraging Department and FSA investments in e-Authentication, SCIMS, and farm records web services when processing offers, calculating EBIs for specific offers, and printing Conservation Reserve Program contracts and worksheets. It also incorporated a high level of data validation that further decreased errors and reduced the time required to announce the results of signup. A second version of the software is currently being deployed that will expand this higher level of service and benefits for Conservation Reserve Program continuous signup.

Improvements planned for FY 2006 include linkages to the Conservation Reserve Program GIS tool and support for re-enrollments and extensions of expiring Conservation Reserve Program contracts. This latest enhancement is being developed in a rapid timeframe, showing the adaptability and agility of the new software improvements.

Rapid Watershed Assessment

Rapid watershed assessments provide initial estimates of where conservation investments would best address the concerns of landowners, conservation districts, and other community organizations and stakeholders. These assessments help landowners and local leaders set priorities and determine the best actions to achieve their goals.

Watershed assessments are summaries of resource concerns and opportunities that are extremely useful for a number of activities. Such assessments, for example, can serve as a platform for Farm Bill conservation program delivery, provide useful information that can be fed back into Conservation District business plans, and provide a foundation for watershed or areawide planning.

The assessments involve the collection of quantitative and qualitative information to develop a watershed profile, sufficient analysis of that information to make qualitative statements as to resource concerns and conditions, and the generation of information with which to make decisions about conservation needs and recommendations. Assessments are conducted with use of GIS technology and by conservation planning teams working in each watershed, meeting with landowners and conservation groups, inventorying agricultural areas, assessing current levels of resource management, identifying conservation recommendations, and making qualitative estimates of the impacts of conservation on local resource concerns. They utilize existing working land plans by USDA and other State, local, or nonprofit agencies.

Transparent Allocation Process

NRCS now uses natural resource base and concern factors to allocate funds to States to respond to regional and national priorities. The factors relate to natural resource concerns and emerging issues associated with soil, water, air, plant, animal, and human

resource needs. The allocation formulas are adjusted to respond to changing needs by adjusting the weights for the factors used to better align funding with agency program priorities.

Programmatic Reforms

The plan, which is discussed in the next section of this report, also identifies potential programmatic reforms that could help gain efficiencies and effectiveness through streamlined processes or changed procedures and would build on the reforms already in place that have resulted in significant impacts. These programmatic reforms include the following:

- On October 1, 2005, NRCS established a conservation planning signup pilot project designed to assess the Agency's capacity to have a specific conservation planning signup period. The project is expected to demonstrate how having a conservation plan is critical to helping farmers and ranchers make wise management and land use decisions. Conservation planning in advance of land retirement and working land program signups also will enable landowners to plan more realistic conservation treatments and apply for conservation program application assistance using a more precise approach. The planning signup should help local NRCS field offices manage their workloads more effectively and efficiently by prioritizing and timing the delivery of conservation planning assistance in advance of program signup periods.
- NRCS has instituted various policies as it relates to its easement stewardship responsibilities. When comparing easement programs, some policies are similar across programs, while other policies differ depending on authorizing legislation, regulatory policies, funding sources, and policy decisions. Wherever possible, NRCS has developed common easement provisions to improve the long-term management of its easement portfolio. These common easement provisions include business tool development, title clearance processes, valuation methodology, hazardous waste review standards, and monitoring and enforcement procedures.

NRCS streamlining efforts and other programmatic reforms since the passage of the 2002 Farm Bill identify aspects common to all of its conservation programs without ignoring the varying resource protection goals for which each conservation program was authorized. These streamlining efforts will greatly facilitate the development of a potential common conservation program that will build upon the successes of the past and address the resource concerns of the future.

3 Plan to Streamline and Eliminate Redundancies

Over the years, conservation policy has expanded to include a mixture of land retirement and working lands programs. The interest in streamlining and eliminating redundancies recognizes the need for more consolidation and simplicity in conservation program delivery to USDA customers. Service to farmers and ranchers could be improved by consolidating certain conservation cost-share and easement programs currently under NRCS. The Conservation Reserve Program could continue as a stand-alone land retirement program under FSA or be included in a consolidated easement program. The Conservation Security Program could remain a stand-alone program under NRCS, but with some reform.

Conservation Security Program

In order to gain additional environmental performance through enhancements, CSP could be streamlined by combining the base and maintenance payments to establish one payment for the program. Additionally, the Conservation Security Program cost-share component could be eliminated because it is redundant with the Environmental Quality Incentives Program and the Wildlife Habitat Incentives Program. As technical assistance costs approach the 15 percent statutory limit, activities or tasks in support of the enhancements could be maximized to ensure technical assistance availability for support of basic program participation. This could result in the gaining of additional environmental benefits.

Another way of improving Conservation Security Program performance and reducing technical assistance cost would be to rank Conservation Security Program applications to allow broader scope in each signup and reduce the need to fully develop a Conservation Security Program plan for each application (focusing, rather, only on those with a chance of actual funding).

Conservation Cost-Share Program

Consolidating the Environmental Quality Incentives Program (including Ground and Surface Water Conservation and Klamath Basin), the Wildlife Habitat Incentives Program, and the Agricultural Management Assistance Program into one cost-share assistance program and adding a forestry component would simplify program management, enable field employees to work more effectively and efficiently, and, more importantly, streamline program participation considerations for program participants. The new program would maintain the current proportional levels of funding to address conservation needs related to soil erosion and sedimentation, water quality, and quantity; wildlife habitat improvement; air quality; and other priority natural resource issues.

Forestlands, along with crop and grazing lands, are critical to conserving natural resources and maintaining working rural landscapes. In fact, forestland is more than just incidental to many producers. A recent landowner survey found that a significant

amount of forestland, over 108 million acres, is described as being on farms, thus demonstrating the integration of forestland with crop and grazing lands.

Forestlands should be part of any watershed or landscape approach used to address resource issues. Activities should facilitate increasing the amount of forestland being included in conservation plans. Forestland owners should also have access to financial assistance to address resource issues that have significant off-site benefits.

Conservation Easement Programs

NRCS currently administers several conservation easement programs, including the Emergency Watershed Protection Program (Floodplain Easement component), the Farm and Ranch Lands Protection Program, the Grasslands Reserve Program, the Healthy Forest Reserve Program, and the Wetlands Reserve Program. FSA administers the Conservation Reserve Program.

Since 1995, NRCS has enrolled 3 million acres in easements, and Conservation Reserve Program enrollment currently stands at 36.7 million acres. While NRCS and FSA have adopted an increasingly systematic and efficient approach to administer these programs, a variety of policies that are driven by statute exist. The Administration's Program Assessment Rating Tool results for the Farm and Ranch Lands Protection Program and the Wetlands Reserve Program indicated some redundancies with other programs. Under a streamlined approach, a consolidated Conservation Easement Program would:

- Contain flexibility to enroll lands that meet local natural resource concerns while addressing national priorities;
- Offer three enrollment options to landowners to meet their various long-term management and estate plans: permanent easements, 30-year easements, and easements for maximum duration authorized under State laws;
- Have a restoration component that encourages natural resource improvement; or
- Provide safe harbor to all easement holders who agree to restore or improve their land for threatened or endangered species habitat.

Market-Based Conservation

In addition, USDA will continue to pursue market-based environmental stewardship approaches to conservation that include:

- Using economic approaches, such as auctions and environmental credit trading.

- Applying business practices, such as precision marketing or fostering customer loyalty.
- Encouraging competition, such as bidding for grants or offers to pay for a greater share of the cost.
- Providing data to inform the conservation investment decisions of others.
- Focusing on monetary and nonmonetary incentives.
- Implementing performance-based conservation-enhancement payments.
- Fostering knowledge-based conservation.
- Linking the potential contribution of conservation to other sectors of the economy such as energy.

We hope that the ideas put forth in this plan will help stimulate a dialogue on how USDA can continue to improve services and reduce program redundancies.

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Legislated Requirements:							
Type	Financial Assistance	Financial Assistance	Financial Assistance	Easement	Easement	Easement	Financial Assistance
Authorization	FAIRA 1996 as amended by the Farm Security and Rural Investment Act of 2002	The CSP regulations implement provisions set out in Title XII, Chapter 2, Subchapter A, of the Food Security Act of 1985, 16 U.S.C. 3801 et seq., as amended by the Farm Security and Rural Investment Act of 2002, enacted on May 13, 2002, Public Law 107-171.	Farm Security and Rural Investment Act of 2002, Section 2502 (Section 1240N of the Food Security Act of 1985, as amended) 7 CFR Part 636	Sec. 2401 of Farm Security and Rural Investment Act of 2002	Farmland Protection Program established by 1996 FAIRA; replaced by FRPP in FS&RIA of 2002	1990 FACTA, amended	1985 Food Security Act, as amended

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Authorized Funding/Acreage Limits	2007—\$1.3 billion 2006—\$1.2 billion 2005—\$1.2 billion	\$6.01 billion over 10 years, 2004–2014	2005–2007—\$85 million (each year) 2004—\$60 million 2003—\$30 million 2002—\$15 million	Restoration acres limited to 2,000,000 acres Up to \$254 million 2002–2007.	2007—\$97 million 2006—\$100 million 2005—\$125 million 2004—\$125 million 2003—\$100 million 2002—\$50 million	Capped at 2,275,000 acres; annually at 250,000 acres	Capped at 39.2 million acres.

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Actual Funding	2005—\$992 million	2005—\$202 million	2005—\$47 million	2005—\$78 million	2005—\$110 million	2005—\$240 million	2005—\$1.863 billion
Please add all yrs to al programs	2004—\$908 million	2004—\$41 million	2004—\$42 million	2004—\$69 million	2004—\$87 million	2004—\$275 million	2004—\$1.85 billion
	2003—\$626 million	2003—\$3 million	2003—\$30 million	2003—\$68 million	2003—\$77 million	2003—\$270 million	2003—\$1.84 billion
	2002—\$383 million		2002—\$15 million		2002—\$50 million	2002—\$271 million	2002—\$1.81 billion

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Eligible Participants All title XII program must meet AGI, HEL, and WC compliance except for selected NGO's.	Agricultural Producer, control of the land for life of contract, meet AGI, HEL, and WC compliance	Privately owned land and Tribal lands. Agricultural Producer, control of the land for life of contract, meet AGI, HEL, and WC compliance.	Individuals, Groups, entities, nongov't. organizations, tribes, State, county, local govt. Meet AGI, HEL, and WC compliance.	For easements, landowners of privately owned and tribal land in grassland, rangeland, pastureland, and shrubland that meet HEL and AGI. For contracts, owners, or operators who have control of land for life of the contract.	Landowners who apply to eligible entities such as local or State government, tribes or nonprofit organizations operated for conservation purposes who operate farmland protection programs. Meet AGI, HEL, and WC compliance.	Landowners of restored or restorable wetlands and associated land who have owned the land for at least 12 months and can provide clear title to the land. Meet AGI, HEL, and WC compliance.	Landowners and operators must have owned or operated the land for at least 12 months and control the land during time of enrollment. Meet AGI, HEL, and WC compliance.

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Cost Share Percentage Allowed	75% maximum, 90% maximum if beginning farmer, or limited resource producer.	Up to 50% for new practices 65% maximum if beginning farmer, or limited resource producer.	Normally 75% or less, but can be 100%	For contracts: Law allows 90% for grassland, forbs, never cultivated, 75% for those in need of restoration. In policy NRCS limits to 75% max for all. For easements, pays appraised value less the value of residual grazing.	The FRPP share of the easement cost must not exceed 50 percent of the appraised fair market value of the conservation easement.	For permanent easements, up to full appraised agricultural value of the land plus restoration, subject to some state caps. For 30-year easements, up to 75% of ag value For restoration cost-share, up to 75% of cost of restoration	Provides cost-share assistance for up to 50 percent of the participant's costs in establishing approved conservation practices.
Limited Resource Producer Provision	Yes	Yes	No	No	No	No	No
Beginning Farmer or Rancher Provision	Yes	Yes	No	No	No	No	No

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Agreement/ Contract Length	Maximum of 10 years, and minimum of 1 year after completion of last cost-share practice.	Tier 1 = 5 years Tier II and III = 5 to 10 years	WHIP agreements can be one of the following: 1-year emergency agreement 5-year agreement 10-year agreement 15-year or longer agreement	Permanent or 30-year easements 10, 15, 20, or 30-year rental contracts	Permanent easements only	Permanent or 30-year easements or 10-year restoration cost share agreements	10 to 15-year contracts
Incentive Payment	Yes for mgt practices & CNMP	Stewardship payments	No	No	No	No	Yes for CCRP practices
Contract/Payment Acreage Limitation(s)	None	Limited to payments from one contract per participant by regulation	None	≥40 acres	None	County cropland limits	County cropland limits

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Signup Period	Continuous signup	Periodic signups	Continuous signup	Continuous signup	Continuous signup	Continuous signup	Specific signup periods for general CRP; continuous signup periods for specific practices.
Types of Agreements Used	Long term contracts, CCC-1200, Grant Agreements	Long term contracts, CCC-1200	Contracts Cooperative Agreements Contribution Agreements	Long-term contracts, easements	Easement	Easement, long-term contracts	Long term contracts
Agreement/ Contract Modifications Management	Yes	Yes	Yes	N/A	N/A	N/A	Yes

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Agreement/ Contract Cost Overruns Management	Cost list controls rates, may have modification for cause, may have reapplication of a failed practice if no fault of the producer	Cost list controls rates, may have modification for cause.	Yes	N/A	N/A	N/A	Yes
Agreement/ Contract Provisions for Reimbursing TSPs	Yes—producer contracts and FAR contracts for services. TSP must demonstrate competency.	Yes—producer contracts and FAR contracts for services. TSP must demonstrate competency.	Yes—producer contracts and FAR contracts for services. TSP must demonstrate competency.	Yes—producer contracts and FAR contracts for services. TSP must demonstrate competency.	Yes—producer contracts and FAR contracts for services. TSP must demonstrate competency.	Yes—producer contracts and FAR contracts for services. TSP must demonstrate competency.	FSA contracts with NRCS or other providers of technical assistance.
Eligible Practices	FOTG, eligible practice list	Few priority practices for new practices tailored by watershed.	FOTG and WHIP Cost List.	FOTG eligible practices applicable to grazing land can be used for restoration.	N/A	FOTG eligible practices applicable to wetland mgt and wildlife habitat can be used for restoration.	Eligible practice list.

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Agreement/ Contract Linkage to Practice Cost List	ProTracts, use cost list and practice list in place at time of contracting.	ProTracts, use watershed specific practice list in place at time of contracting. Cost tied to 2001 year.	Use approved cost list on the date of the practice installation.		N/A	ProTracts, use cost list and practice list in place at time of contracting.	Yes
Resource Concerns	National priorities (erosion control, at-risk species, air quality, water quality and water conservation and State and Local resource concerns.	Water Quality and Soil Quality as basic eligibility. Other resource concerns as enhancements for performance above the minimum level of treatment. Must meet quality criteria for all resources concerns for Tier III.	Wildlife habitat and the protection of rare and declining species.	Animal and plant populations of significant ecological value, grazing land health.	Soils of prime, unique, locally important or statewide significance or land with significant archeological or historic resources.	Restore, enhance, and protect wetlands and the plant and animal populations they support.	Soil, water, air, wildlife.
Agreement/ Contract Expiration Date	Expiration—1 year after the last cost share practice, not to exceed 10 years.	5–10 year contracts	Calculate expiration date for WHIP based on agreement/contract years: 1 year, 5 years, 10 years, 15 years, (15+) years.	As stated in 30 year easement or 10–30 year contract.	N/A	As stated in 30 year easement or 10-year contract.	As stated in the 10 to 15 year contract.

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Status Reviews	90 days before the contract expires, before termination process, before violation process, and according to the State quality assurance plan	Follows general policy on status reviews for long term agreements/ contracts.	Follows general policy on status reviews for long term agreements/ contracts. Termination of agreement/contract is allowed.	Follows general policy on status reviews for long term agreements/ contracts.	States are to review every easement once a year.	States are to review every easement once a year.	Up to 10% of contracts are reviewed.
Termination or Cancellation of Agreement/ Contract	Yes, require repayment of cost share, and may requirement payment of liquidated damages.	Yes, termination of agreement/ contract is allowed.	517.40,j—Parties are unable to comply with the terms and conditions of the agreement due to conditions beyond their control. Compliance with the terms and conditions would present a severe hardship on the parties. Subject to Long Term Contracting policy GM 120, Subpart F, Part 404.56	No termination provisions for easements. For rentals, termination only by agreement of NRCS State Conservationist and FSA State Executive Director.	No termination provisions for easements.	No termination provisions for easements.	Consent of County Committee

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Contract payment limitation	\$450,000 payment limitation per person or entity	Tier 1—\$20,000 per year Tier 2—\$35,000 per year Tier 3—\$45,000 per year	State Cons. with advice from the State Technical Committee may establish a State-level payment limit.	None	None	None	Annual rental payments limited to \$50,000 per person per year.
Application Process	Apply to NRCS CCC-1200	Apply to NRCS in selected funded watersheds. Fill out self-assessment.	Apply to NRCS CCC-1200	Apply to NRCS or FSA CCC-1200	Landowner applies to non-governmental organization or State, tribal, or local government that has an existing farm or ranch land protection program. Entities respond to NRCS RFP. NRCS signs cooperative agreements with the selected entities.	Apply to NRCS CCC-1200	Apply to FSA

Section 2005 Programs: Commonality Index

Program Characteristics	EQIP	CSP	WHIP	GRP	FRPP	WRP	CRP
Ranking Process	Currently each state issues a ranking process. In 2006 a national ranking tool will be utilized based on national priorities and modified locally for local priority concerns.	Use of National enrollment categories for funding decisions when funding is limited.	Each state issues a ranking process. Plans in place to move to a national ranking system tool.	Each state issues a ranking process.	Parcels ranked based on the State FRPP plan, Land Evaluation Site Assessment (LESA) system, or similar land evaluation system, and other factors as determined by state in consultation with state technical committee.	Each state issues a ranking process.	Under general sign up, National ranking process using Environmental Benefits Index. Acceptance of other practices determined locally.
Payment (Types)	Practice cost-share and incentive.	Stewardship, existing practice, new practice and enhancement.	Practice cost-share.	Rental and easement.	Easement	Easement, restoration, and practice cost share for restoration agreements.	Rental and specific incentives for certain practices. Cost-share for cover costs.
Appeals Process	NRCS/NAD	NRCS/NAD	NRCS/NAD	NRCS or FSA/NAD	NRCS/NAD	NRCS/NAD	FSA/NAD

Recurring Reports to Congress

Name	Purposes	Report Details	Due Date
APPRAISAL OF SOIL, WATER AND RELATED RESOURCES	A national appraisal of all data, policies, and practices relating to natural resource conservation of the Nation.	Appraisal shall include, but not be limited to— (1) data on the quality and quantity of soil, water, and related resources, including fish and wildlife habitats; (2) data on the capability and limitations of those resources for meeting current and projected demands on the resource base; (3) data on the changes that have occurred in the status and condition of those resources resulting from various past uses, including the impact of farming technologies, techniques, and practices; (4) data on current Federal and State laws, policies, programs, rights, regulations, ownerships, and their trends and other considerations relating to the use, development, and conservation of soil, water, and related resources; (5) data on the costs and benefits of alternative soil and water conservation practices; and (6) data on alternative irrigation techniques regarding their costs, benefits, and impact on soil and water conservation, crop production, and environmental factors.	December 31, 2005 January 4, 2008

Name	Purposes	Report Details	Due Date
RESOURCE CONSERVATION ACT [Annual Report]	To accompany each Budget Submission with an evaluation of the effectiveness of national soil and water conservation efforts.	The report shall contain pertinent data from the current appraisal, and shall set forth progress in implementing the national soil and water conservation program as well as containing a cost/benefit analysis. The valuation shall assess the balance between economic and environmental quality factors and also include plans for implementing action and recommending new legislation where warranted.	Accompany President's annual Budget Submission.
SOIL AND WATER CONSERVATION PROGRAM [Program Update]	The Resource Conservation Act requires periodic updates to the National Soil and Water Conservation Program.	Update of existing program.	Update due December 31, 2007.
FARMLAND PROTECTION POLICY ACT	Report on the progress made in carryout the provisions and intent of the authorizing legislation.	The report should include the effects, if any, of Federal programs, authorities and administrative activities with respect to the protection of United States farmland; and The results of the reviews of existing policies and procedures required.	January 1 (annually)
Other:			
CONSERVATION CORRIDOR DEMONSTRATION PROGRAM SEC. 2603. IMPLEMENTATION OF CONSERVATION CORRIDOR PLAN.		A report on the effectiveness of the activities carried out under the plan.	At the end of the 3-year period that begins on the date on which funds are first provided. [This report is not required due to the absence of appropriations.]



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 19 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Mr. Chairman:

We are pleased to enclose a report on enforcement actions taken by the Animal and Plant Health Inspection Service (APHIS) in the regulation of Class B animal dealers under the Animal Welfare Act (AWA).

The Conference Report accompanying the Fiscal Year 2006 Appropriations Bill, while acknowledging the importance of scientific achievements that have been made possible through the use of laboratory animals, expressed strong support for strict enforcement of the AWA, including regulatory oversight of the trade by Class B animal dealers. In response to that request I am pleased to submit the enclosed report, which also includes information regarding the frequency of inspection of Class B dealers, the allocation of resources for that purpose, and other actions of the Department.

We appreciate your interest in the program, and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congresswoman DeLauro, and Senators Bennett and Kohl.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Johanns", written over a horizontal line.

Mike Johanns
Secretary

Enclosure

Animal Welfare Act Enforcement Efforts: Class B Dealers

Overview of Enforcement Program

In enforcing the Animal Welfare Act (AWA), APHIS Animal Care (AC) inspectors work closely with other Federal agencies and frequently interact with regulated professional groups, industry organizations, humane groups, the scientific community, and other concerned associations or individuals.

Complementing AC's efforts is APHIS' Investigative and Enforcement Services (IES) program. IES supports all APHIS programs in the goal of enhancing compliance with agency regulations. Toward this end, IES conducts comprehensive investigations and pursues sound enforcement actions. APHIS works closely with USDA's Office of General Counsel, other Federal agencies, State and local government, and industry groups in these efforts.

Since fiscal year (FY) 1993, APHIS has conducted an intensive traceback effort on dogs sold by random-source, Class B animal dealers. These dealers, who supply animals to the research community, typically obtain them from pounds and shelters, pet owners who wish to relinquish ownership, and other legitimate sources. However, there has always been concern that some of these dealers may be trafficking in stolen animals.

Under the AWA, random source dealers are required to maintain accurate records of the acquisition and disposition of their animals. APHIS' traceback effort has focused on making sure these records are accurate and complete. To optimize this effort, APHIS has conducted quarterly inspections of all random source dealers since the traceback project went into effect in 1993. This past summer, APHIS carried out the second joint IES-AC National Task Force to perform a 100-percent traceback of all records of random source Class B dog dealers nationwide, which involved businesses operating in nine States.

The results of these efforts have been significant. Since FY 1993, the percentage of animals traced back to their original source has increased from a little more than 40 percent to more than 95 percent. At the same time, the number of random-source dealers has decreased from more than 100 to the current ten. Of the ten remaining random-source dealers, five were under investigation by the end of FY 2005.

APHIS employs a two-pronged enforcement strategy. For licensees and registrants who show an interest in improving the conditions of their animals, the Agency actively pursues innovative penalties that allow the individuals to invest part or all of their monetary sanctions in facility improvements, employee training, research on animal health and welfare issues, or other initiatives to improve animal well-being. This has the effect of enabling the individuals to immediately improve the conditions for their animals while sending a clear message that future violations will not be tolerated. On the other hand, for licensees and registrants who do not improve the conditions for their animals, APHIS pursues enforcement action. Such action typically includes significant monetary

penalties, such as the February 2005 case involving a class B dealer from Arkansas. Settlement of that case resulted in corporate and individual fines totaling \$267,000, including the largest civil penalty (\$250,000) ever assessed and paid in an AWA case. The case also resulted in revocation of the dealer's license along with forfeiture of the animals involved because they were found to be suffering.

FY 2005 Activities

At the end of FY 2005, there were ten random source Class B dog dealers registered under the AWA nationwide. Their operations were located in the following nine States: two in Michigan, and one each in Kentucky, Illinois, Indiana, Minnesota, Missouri, Ohio, Oklahoma, and Pennsylvania.

1. Eastern Region:

In the Eastern Region, there were a total of eight random-source Class B dealers holding a USDA license at the beginning of 2005, which did not change during the year. The number of animals at each operation ranged from a low of 20 to a high of approximately 100, with the average being approximately 65 animals. APHIS inspectors conducted a total of 43 inspections of these operations in 2005. Frequency of inspection ranged from the minimum of four inspections (three dealers) to a high of eight inspections (one dealer). Two dealers were inspected five times, while one dealer received six inspections and the other received seven.

Most of these dealers were involved in enforcement actions in FY 2005. One dealer paid a stipulation in the amount of \$3,780 in August 2005. A second dealer paid a stipulation of \$1,240 in June 2005. One dealer has been recommended for stipulation penalty in November 2005, which is currently pending. Two other dealers are under investigation at the present time. Another two dealers underwent separate investigations for alleged violations, but no violation was found. The eighth and final dealer did not prompt an investigation.

2. Western Region:

At the start of FY 2005 there were five licensed random source Class B dealers in the Western Region, which subsequently decreased to two by the end of the fiscal year as a result of license revocations and operators quitting the business. In a major enforcement action, APHIS obtained a consent agreement resulting in Martin Creek Kennels relinquishing its license, agreeing to pay the largest civil penalty on record under the AWA (\$250,000), and allowing APHIS to take custody of and relocate all of its remaining dogs and cats.

Other dealers leaving the business included one that was under investigation and a second dealer with no known enforcement problems. The two remaining random source Class B dealers in the Western Region both have active cases in progress.

Resources Devoted

APHIS spent an estimated \$270,000 in direct costs for inspections and enforcement for random source Class B dealers in FY 2005. This number is broken down as follows:

APHIS Field Inspections	\$42,300
APHIS Field Investigations	65,900
APHIS Regional Office and HQ Support	7,400
Special Projects:	
Martin Creek Kennels case	61,700
Special Task Force – 100% Traceback	92,700
Total Resources Allocated	\$270,000

Other Actions of the Department

We are not aware of any other actions of the Department with regard to Class B dealers at the present time.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 19 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Kohl:

We are pleased to enclose a report on enforcement actions taken by the Animal and Plant Health Inspection Service (APHIS) in the regulation of Class B animal dealers under the Animal Welfare Act (AWA).

The Conference Report accompanying the Fiscal Year 2006 Appropriations Bill, while acknowledging the importance of scientific achievements that have been made possible through the use of laboratory animals, expressed strong support for strict enforcement of the AWA, including regulatory oversight of the trade by Class B animal dealers. In response to that request I am pleased to submit the enclosed report, which also includes information regarding the frequency of inspection of Class B dealers, the allocation of resources for that purpose, and other actions of the Department.

We appreciate your interest in the program, and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Bonilla, Congresswoman DeLauro, and Senator Bennett.

Sincerely,

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Mike Johanns
Secretary

Enclosure

Animal Welfare Act Enforcement Efforts: Class B Dealers

Overview of Enforcement Program

In enforcing the Animal Welfare Act (AWA), APHIS Animal Care (AC) inspectors work closely with other Federal agencies and frequently interact with regulated professional groups, industry organizations, humane groups, the scientific community, and other concerned associations or individuals.

Complementing AC's efforts is APHIS' Investigative and Enforcement Services (IES) program. IES supports all APHIS programs in the goal of enhancing compliance with agency regulations. Toward this end, IES conducts comprehensive investigations and pursues sound enforcement actions. APHIS works closely with USDA's Office of General Counsel, other Federal agencies, State and local government, and industry groups in these efforts.

Since fiscal year (FY) 1993, APHIS has conducted an intensive traceback effort on dogs sold by random-source, Class B animal dealers. These dealers, who supply animals to the research community, typically obtain them from pounds and shelters, pet owners who wish to relinquish ownership, and other legitimate sources. However, there has always been concern that some of these dealers may be trafficking in stolen animals.

Under the AWA, random source dealers are required to maintain accurate records of the acquisition and disposition of their animals. APHIS' traceback effort has focused on making sure these records are accurate and complete. To optimize this effort, APHIS has conducted quarterly inspections of all random source dealers since the traceback project went into effect in 1993. This past summer, APHIS carried out the second joint IES-AC National Task Force to perform a 100-percent traceback of all records of random source Class B dog dealers nationwide, which involved businesses operating in nine States.

The results of these efforts have been significant. Since FY 1993, the percentage of animals traced back to their original source has increased from a little more than 40 percent to more than 95 percent. At the same time, the number of random-source dealers has decreased from more than 100 to the current ten. Of the ten remaining random-source dealers, five were under investigation by the end of FY 2005.

APHIS employs a two-pronged enforcement strategy. For licensees and registrants who show an interest in improving the conditions of their animals, the Agency actively pursues innovative penalties that allow the individuals to invest part or all of their monetary sanctions in facility improvements, employee training, research on animal health and welfare issues, or other initiatives to improve animal well-being. This has the effect of enabling the individuals to immediately improve the conditions for their animals while sending a clear message that future violations will not be tolerated. On the other hand, for licensees and registrants who do not improve the conditions for their animals, APHIS pursues enforcement action. Such action typically includes significant monetary

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FY 2005 Activities

At the end of FY 2005, there were ten random source Class B dog dealers registered under the AWA nationwide. Their operations were located in the following nine States: two in Michigan, and one each in Kentucky, Illinois, Indiana, Minnesota, Missouri, Ohio, Oklahoma, and Pennsylvania.

1. Eastern Region:

In the Eastern Region, there were a total of eight random-source Class B dealers holding a USDA license at the beginning of 2005, which did not change during the year. The number of animals at each operation ranged from a low of 20 to a high of approximately 100, with the average being approximately 65 animals. APHIS inspectors conducted a total of 43 inspections of these operations in 2005. Frequency of inspection ranged from the minimum of four inspections (three dealers) to a high of eight inspections (one dealer). Two dealers were inspected five times, while one dealer received six inspections and the other received seven.

Most of these dealers were involved in enforcement actions in FY 2005. One dealer paid a stipulation in the amount of \$3,780 in August 2005. A second dealer paid a stipulation of \$1,240 in June 2005. One dealer has been recommended for stipulation penalty in November 2005, which is currently pending. Two other dealers are under investigation at the present time. Another two dealers underwent separate investigations for alleged violations, but no violation was found. The eighth and final dealer did not prompt an investigation.

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At the start of FY 2005 there were five licensed random source Class B dealers in the Western Region, which subsequently decreased to two by the end of the fiscal year as a result of license revocations and operators quitting the business. In a major enforcement action, APHIS obtained a consent agreement resulting in Martin Creek Kennels relinquishing its license, agreeing to pay the largest civil penalty on record under the AWA (\$250,000), and allowing APHIS to take custody of and relocate all of its remaining dogs and cats.

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Resources Devoted

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Other Actions of the Department

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 19 2006

The Honorable Robert F. Bennett
Chairman, Subcommittee on Agriculture, Rural Development
And Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 19 2006

The Honorable Rosa DeLauro
Subcommittee on Agriculture, Rural Development
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2262 Rayburn House Office Building
Washington, D.C. 20515-6016

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 7 2006

The Honorable Richard Cheney
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) amended the Packers and Stockyards Act (P&S Act) of 1921 (7 U.S.C. 181, et seq.) to require the Secretary to submit to Congress an annual assessment of the cattle and hog industries. The amendment reads as follows:

Not later than March 1 of each year, the Secretary shall submit to Congress and make publicly available a report that—

- (1) assesses the general economic state of the cattle and hog industries;
- (2) describes changing business practices in those industries; and
- (3) identifies market operations or activities in those industries that appear to raise concerns under this Act.

This is the Department of Agriculture's Grain Inspection, Packers and Stockyards Administration's (GIPSA) fifth report to Congress on the general economic state of the cattle and hog industries, changing business practices in those industries, and activities that appear to raise concerns under the Packers and Stockyards Act (P&S Act). This is the third report to include the poultry industry. This report also includes responses to apparent concerns under the P&S Act.

If you have any questions regarding these issues, please contact James E. Link, Administrator, of GIPSA at 202-720-0219.

An identical letter has been sent to the Speaker of the House of Representatives.

Sincerely,

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 7 2006

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
235 Cannon House Office Building
Washington, D.C. 20515-1314

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United States Department of Agriculture

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JUN 9 2006

The Honorable Robert F. Bennett
Chairman, Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The United States food and agricultural system has been working to combat a variety of plant and animal pest and disease incursions that threaten the economic livelihood of our American farmers and many related industries. In fiscal year 2005, I approved the transfer of \$168 million from the Commodity Credit Corporation (CCC) to the Animal and Plant Health Inspection Service (APHIS) to fund the Federal share of several emergency programs. Additionally, APHIS was able to redirect \$15 million in existing CCC balances to address these critical needs. Through cooperative efforts, we prevented the spread of certain plant and animal pest and disease outbreaks, thereby minimizing the disruption to important domestic and international markets. Specific funding information relating to each emergency program is provided in the enclosed listing. I will continue to keep the Committees informed on the use of CCC funds for emergency activities.

Similar letters are being sent to Congressman Bonilla, Congresswoman DeLauro, and Senator Kohl.

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United States Department of Agriculture

Office of the Secretary
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JUN 9 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

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Chairman, Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
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Fiscal Year (FY) 2005 Commodity Credit Corporation (CCC) Transfers to The Animal and Plant Health Inspection Service (APHIS)

Bovine Spongiform Encephalopathy (BSE)

In FY 2004, a total of \$80.369 million was transferred to APHIS from the CCC in response to the positive identifications of BSE in Alberta, Canada, and in Washington State. This funding supported the response to the incident in Washington State and the enhanced national surveillance plan. In FY 2005, an additional \$42.07 million was transferred to APHIS for enhanced BSE surveillance from CCC funds and through redirecting CCC funding from other APHIS programs.

The primary goal of the enhanced surveillance program is to test as many cattle from the targeted high-risk population as possible in a 12-to-18-month period, with the expectation of testing at least 268,000 samples in that time period. To reach as many targeted cattle as possible, samples were taken from farms, slaughter facilities, rendering facilities, livestock auctions, veterinary clinics, and public health laboratories. The enhanced BSE surveillance effort is utilizing many of the approaches recommended in the Veterinary Services Safeguarding Review. Specifically, rapid screening tests are being used, and testing is taking place at a network of State laboratories. Sample collectors are using tablet or hand-held computers for entering and transmitting the electronic submission form, and data are being maintained on a Web-based data entry system. Net conferences have been used to provide training on identifying the target population and procedures for sample collection and submission. An extensive communications plan has been developed and is being implemented. Quality control has been ensured through a third party review of the process.

As of May 2006, over 720,000 samples have been tested since the inception of the enhanced surveillance program with only two samples testing positive. The majority of these animals were in the targeted high-risk population. This figure also includes samples from 21,216 clinically normal animals.

Citrus Canker

In FY 2005, the Secretary transferred \$58 million from the CCC to APHIS for citrus canker eradication (consisting of transfers of \$10 million and \$48 million). In addition, the Secretary authorized the use of \$6 million in existing APHIS CCC balances for citrus canker eradication activities. APHIS also received \$30 million from the CCC to compensate citrus growers for losses due to canker.

In FY 2005, APHIS' Citrus Canker Eradication Program (CCEP) worked to recover from the effects of several hurricanes in 2004. These hurricanes decimated Florida's citrus producing areas, causing significant canker spread and \$500 million in damage to the State's citrus industry. In response to the effects of these storms, the CCEP removed numerous infected and exposed trees. Also, it enhanced grove surveys in storm-affected areas, increased survey buffers, and added tree-cutting crews. The surveys targeted production areas affected by the hurricanes. This strategy amplified the number of commercial finds and led the CCEP to pursue the rapid removal of infected trees. To determine the extent of hurricane-related canker spread, ensure the early detection of any commercial finds, and minimize additional spread, the CCEP developed a Sentinel Grove Survey to intensively survey high-risk grove blocks that are not known to contain canker. Because of the significant spread of citrus canker, the CCEP began an accelerated eradication program in September 2005 to locate and remove all infestations in commercial groves, remove the remaining infected and exposed trees in residential areas in the Orlando area and in southwest Florida, and significantly reduce the number of infected and exposed trees in Miami-Dade, Broward, and Palm Beach Counties.

APHIS used \$30 million in emergency funds from the CCC in FY 2005 to compensate eligible citrus growers whose trees had been removed by the CCEP. Of the total, the Agency paid approximately \$20 million for lost production claims and approximately \$10 million for tree replacement claims. Approximately \$20 million of the total was attributable to the effects of Hurricane Charley, which made landfall in southwest Florida in August 2004. APHIS paid claimants in the order of the date on which owners received an Immediate Final Order for the destruction of their trees.

Citrus Greening

APHIS used \$759,000 in existing CCC resources in FY 2005 to control a citrus greening outbreak in south Florida. Citrus greening, which is a bacterial disease that is primarily spread by insect vectors called citrus psyllids, probably entered Miami several years ago on smuggled nursery stock and was likely planted on residential property. There is no cure for a tree that has contracted it, and infected trees often die within 3-to-5 years. If the disease is allowed to spread, it could severely impact the citrus industry throughout the United States. The Florida citrus industry, which represents 77 percent of United States (U.S.) citrus production, has an annual farmgate value (i.e., the value of citrus products sold) of approximately \$1 billion. However, the total impact of citrus on Florida's economy -- considering all related activities -- is approximately \$9 billion per year, generating \$5 billion worth of wages, other incomes, and taxes; and a \$4.1 billion wholesale value of citrus products.

On September 2, 2005, APHIS confirmed the first U.S. detection of *Liberibacter asiaticus*, the causal agent of citrus greening, on a pummelo tree leaf and fruit samples collected south of Miami. In response to the detections, APHIS and the Florida Department of Agriculture and Consumer Services (FDACS) began conducting a comprehensive delimiting survey around the detection sites to identify the extent of disease spread. Also, the program initiated detection surveys and tree removal activities. As of April 4, 2006, 12 Florida counties (Broward, Collier, Hendry, Highlands, Martin, Miami-Dade, De Soto, Monroe, Palm Beach, Pasco, Sarasota, and St. Lucie) have been confirmed with citrus greening. As of April 2006, FDACS and cooperating laboratories have processed 2,998 samples, resulting in 614 positive samples from 547 locations. The vast majority of the positive detections were from residential trees, but seven commercial groves also tested positive. Because the bacterium that causes citrus greening can infect trees for years before symptoms occur, and because the Asian citrus psyllid is widespread in Florida, FDACS - in consultation with researchers and regulatory officials - has concluded that the disease cannot be eradicated from Florida. In November 2005, APHIS scientists attended an International Citrus Canker and Citrus Greening Research Workshop in Orlando, Florida. In this workshop, world authorities discussed research priorities as well as options for regulatory agencies and industry. In addition, a science panel involving APHIS, FDACS, and USDA's Agricultural Research Service is currently addressing issues that will inform decisions to be made about the future of the citrus greening program.

Emerald Ash Borer (EAB)

In FY 2005, the Secretary of Agriculture transferred \$18.8 million from the CCC to APHIS to continue addressing EAB infestations in Michigan, Ohio, and Indiana. In addition, there was an approximately \$12 million carryover from FY 2005 available. Survey and quarantine enforcement activities are focused in and just outside areas referred to as "gateways," land corridors through which EAB could spread to new areas. The gateways include the Mackinac Bridge (between Michigan's lower and upper peninsulas), the St. Clair River shoreline between Michigan and Canada, and a 50-mile wide band stretching from Lake Michigan to Lake Erie through Indiana, Michigan, and Ohio. Program officials surveyed over 12,000 square miles and found seven new infestations within the gateway areas and six new isolated infestations outside the gateway areas. The program is responding aggressively to the isolated infestations and those within the gateways by removing all ash trees within a half-mile radius of infested trees. Since the program began, APHIS and cooperators have removed more than 575,000 ash trees to control EAB and reduce the amount of host material available for the pest.

Isolated EAB infestations related to quarantine violations were found in Prince George's County, Maryland and Fairfax County, Virginia, in FY 2004. The program removed all host trees surrounding the infestations, and FY 2005 survey data indicates that the infestations were successfully eradicated.

In response to the large number of new detections of the pest outside the generally infested area, APHIS and its cooperators began implementing a new strategy for dealing with EAB in FY 2005. The presence of the Great Lakes on either side of Michigan's Lower Peninsula limits EAB's spread to the west or east, except for a small area of St. Clair County, Michigan, that borders Canada. Accordingly, the program is using these natural features to help contain spread of the pest from Michigan's Lower Peninsula. In FY 2006, APHIS will focus on conducting thorough state-wide surveys of Ohio, Indiana and Michigan's Upper Peninsula as well as enhanced regulator enforcement activities.

Mediterranean Fruit Fly (Medfly)

On December 20, 2004, the Secretary of Agriculture transferred \$9 million in emergency funds from the CCC to APHIS to address a Medfly outbreak in Tijuana, Mexico, 6 ½ miles from the U.S. border. Of this total, APHIS directed approximately \$4.4 million toward preventative release activities in San Diego, California, and \$3.7 million toward eradication activities in Tijuana.

Mexico:

The Mexican Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) and APHIS - in cooperation with California - determined the initial extent of the outbreak by setting over 1,600 traps in an 81-square-mile area around the initial detection zone. To assure that Tijuana eradicated Medfly and it did not spread to Arizona and California, SAGARPA sprayed the organic bait Spinosad by ground and air in southern

Guatemala:

In FY 2005, the Secretary also transferred \$9.8 million to enhance Medfly eradication efforts in Mexico and Guatemala. With the funds, the MOSCAMED program increased sterile fly release activities and the distribution of bait spray.

Tijuana to suppress the flies' population. In addition, SAGARPA, with APHIS' help, stripped fruit trees of host material and conducted surveys of Medfly host fruits. After completion of aerial spraying, APHIS - in cooperation with SAGARPA - released sterile fruit flies to eradicate the flies from Mexico and prevent the threat of spread to the United States. Along with the eradication activities, there was a public relations campaign conducted to advise and inform the public of program operations.

United States:

In addition to the response activities in Mexico, APHIS and the California Department of Food and Agriculture (CDFA) extended their highly successful Preventive Release Program (PRP) into a 251-square-mile area of San Diego County. The PRP has distributed sterile Medflies over the Los Angeles Basin since 1996, with outstanding results. This effort succeeded in preventing Medfly establishment with continuous releases of 100,000 adult sterile Medflies per square mile. The dispersion of 25 million adult sterile Medflies on the U.S. side of the border was designed to prevent any wild fly introductions that escape the main population in southern Tijuana. In addition to these releases, the PRP conducted detection trapping, larval survey of Medfly host fruits, fly identification, and data management to monitor the program's effectiveness.

If the Medfly were to become permanently established in the United States, the estimated economic loss would exceed \$2 billion annually due to direct crop loss, job loss, trade embargoes, increased pesticide use, lost export markets, production losses, and lower domestic prices for over 250 types of commodities. Domestic Medfly establishment would quickly strain trade agreements and halt any progress in opening future markets. In addition, domestic outbreaks would cause our trading partners to doubt our control measures. For example, they could refuse to recognize our quarantine zones or institute requirements involving the treatment of fruits and vegetables prior to export or movement across State borders. In addition to the trade losses, if the Medfly were to establish itself in the United States, it would ultimately require a costly and extremely problematic eradication program. Previous Medfly outbreaks in California and Florida have cost hundreds of millions of dollars to eradicate. This program is protecting the multi-billion dollar agricultural industry, particularly in vulnerable growing regions in Arizona, California, and Texas.

Sudden Oak Death (SOD)

In FY 2005, APHIS had approximately \$15 million available to address the nationwide *P. ramorum* emergency. This total consisted of \$9.5 million in new funds from the CCC, \$2.5 million in carryover funds from the CCC, and \$3 million in appropriated funds. Of this total, APHIS spent \$14 million.

This program's quarantine measures have been effective in safeguarding the United States from *P. ramorum* by preventing the interstate movement of infested nursery stock and plant products from these areas. If detected outside the east coast, APHIS would implement an Incident Command System and - with the U.S. Forest Service - would evoke an eradication or management response, as appropriate.

Since January 2005, APHIS has confirmed 99 positive detections of *P. ramorum* associated with nursery plants from seven States: California, Georgia, Louisiana, Oregon, South Carolina, Tennessee, and Washington. Of the 99 total, 41 resulted from trace-backs and trace-forwards (30 in California, 9 in Oregon, and 2 in Washington State); 30 resulted from the Federal Order and annual cleanliness compliance surveys (23 in California and 7 in Oregon); 26 resulted from the National Survey (14 in Washington, 4 in Georgia, 4 in Oregon, 2 in Louisiana, 1 in Tennessee, and 1 in South Carolina); and 2 were detected in California during other surveys. The 99 positive sites represent a 43 percent decrease from the 173 reported in Calendar Year 2004.

On January 10, 2005, the *P. ramorum* Federal Order took effect. This Order requires all nurseries in California, Oregon, and Washington to certify their plants as free from *P. ramorum* before shipping them interstate. The Order also restricts the interstate movement of nursery stock from all commercial nurseries in regulated areas. This action is necessary on an emergency basis to prevent the spread of *P. ramorum* to non-infested areas of the United States. The Federal Order enables program officials to enter any nursery in California, Washington, and Oregon to enforce a timely and rigorous sampling and testing regimen. Because of the Order, program officials in FY 2005 were far more capable of ensuring that nurseries ship only *P. ramorum*-free plants interstate. The risk of *P. ramorum* spread is significant and affects our ability to regulate the interstate movement of nursery stock.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 12 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Mr. Chairman:

We are pleased to report on progress taken by the Department towards providing the greatest level of protection against the introduction of highly pathogenic avian flu into the United States.

The Animal and Plant Health Inspection Service (APHIS) has primary responsibility for protecting us from avian flu with the USDA. APHIS' primary concern is the H5N1 strain of the avian influenza virus. The H5N1 strain has infected a small number of humans around the world. The human cases were all associated with close contact with infected poultry. There is currently no evidence of human to human transmission. However, efforts in controlling the H5N1 virus in poultry are critical in order to reduce the risk that the virus may mutate into a form that could be transmitted from human to human.

APHIS is taking actions to protect against the H5N1 strain of the avian influenza virus internationally and domestically. In support of the USDA-coordinated international effort, APHIS has and will continue to provide in-country technical training and capacity building assistance to countries to address H5N1-related issues. The Agency has deployed permanent in-country technical experts to provide assistance to the animal health officials and ensure continuity of programs across the region. The Agency will continue to post these experts in countries affected by H5N1: Burma, Cambodia, China, Indonesia, Laos, Thailand, and Vietnam. These experts will continue to conduct "train-the-trainer" exercises and seminars in affected countries, coordinate sampling, and help to preserve the veterinary infrastructure stability needed for effective H5N1 control and eradication programs. These activities have help to control the spread of the virus and reduce the risk of H5N1 entering the United States.

Domestically, APHIS has developed an H5N1 preparedness and surveillance plan for the poultry industry, live bird marketing system, the upland game industry, and for wildlife. The APHIS plan addresses H5N1 preparedness and surveillance in these areas through: Domestic surveillance and diagnostics, wildlife surveillance, and emergency preparedness. Specific activities that will be conducted in each of these operational areas are described as follows.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 12 2006

The Honorable Rosa DeLauro
Subcommittee on Agriculture, Rural Development
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2262 Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Congresswoman DeLauro:

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 12 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Kohl:

We are pleased to report on progress taken by the Department towards providing the greatest level of protection against the introduction of highly pathogenic avian flu into the United States.

The Animal and Plant Health Inspection Service (APHIS) has primary responsibility for protecting us from avian flu with the USDA. APHIS' primary concern is the H5N1 strain of the avian influenza virus. The H5N1 strain has infected a small number of humans around the world. The human cases were all associated with close contact with infected poultry. There is currently no evidence of human to human transmission. However, efforts in controlling the H5N1 virus in poultry are critical in order to reduce the risk that the virus may mutate into a form that could be transmitted from human to human.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 12 2006

The Honorable Robert F. Bennett
Chairman, Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
188 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

We are pleased to report on progress taken by the Department towards providing the greatest level of protection against the introduction of highly pathogenic avian flu into the United States.

The Animal and Plant Health Inspection Service (APHIS) has primary responsibility for protecting us from avian flu with the USDA. APHIS' primary concern is the H5N1 strain of the avian influenza virus. The H5N1 strain has infected a small number of humans around the world. The human cases were all associated with close contact with infected poultry. There is currently no evidence of human to human transmission. However, efforts in controlling the H5N1 virus in poultry are critical in order to reduce the risk that the virus may mutate into a form that could be transmitted from human to human.

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For domestic surveillance and diagnostics, we are working closely with the States and other Federal agencies in a coordinated effort to ensure that ample surveillance for the H5N1 virus takes place. The planned level of surveillance will increase the probability of early detection should the virus enter the United States. In addition, APHIS is expanding the low pathogenic avian influenza (LPAI) control program to all States. By preventing and controlling the spread of the low pathogenic strains of the virus APHIS will: reduce the possibility for virus mutations and reassortments to its highly pathogenic form; reduce the likelihood of the virus becoming a zoonotic agent, thereby protecting human health; and preserve international trade in poultry and poultry products. The LPAI program conducts surveillance in the U.S. commercial broilers, layers, turkeys, and their respective breeders, and the live bird marketing system.

The National Veterinary Services Laboratories (NVSL) provides diagnostic support to our H5N1 and LPAI surveillance programs by aiding the National Animal Health Laboratory Network in processing submitted samples. NVSL is working to expand its infrastructure to increase AI reagent production through on-site production and contracts to meet the anticipated levels of surveillance sampling.

The Smuggling Interdiction and Trade Compliance unit within APHIS is conducting risk management and anti-smuggling activities to prevent the unlawful entry and distribution of prohibited agricultural commodities and products that may harbor the H5N1 virus. To ensure compliance with import restrictions, APHIS concentrates on identifying smuggled poultry products and live birds from H5N1-affected countries. APHIS also conducts routine surveys, special operations, and marketing activities focusing on H5N1 products in commerce and at ports of entry. All suspected violations are forwarded to APHIS' Investigative and Enforcement Services staff for further investigation. Civil and/or criminal penalties may be issued for violations.

APHIS is also expanding its "Biosecurity for the Birds" program to educate noncommercial poultry and bird owners about biosecurity as part of its domestic surveillance program. This outreach and education campaign provides tips on how to recognize H5N1 and Exotic Newcastle Disease and encourages bird owners to rapidly report sick birds.

APHIS' wild bird surveillance plan incorporates several interrelated components, including investigation of wild bird die-offs or sickness; sampling of live-captured wild birds; deployment of sentinel species; environmental sampling; and sampling hunter-harvested birds. Our wild bird surveillance activities will be implemented in two phases. The initial phase addressed early detection activities in Alaska, particularly, in coastal areas where contact between Asian and North American wild birds is most likely to occur. The second phase addresses subsequent H5N1 detection activities in the four major North American flyways.

For emergency preparedness, APHIS will use an enhanced version of the North American Animal Disease Spread Model to develop scenarios for H5N1. APHIS intends to produce a bank of scenarios that identify the likely effects of an H5N1 virus outbreak. These scenarios will then

The Honorable Robert F. Bennett
Page 3

be analyzed to develop criteria and protocols that address those likely effects. We will then utilize the criteria to perform various types of exercises at local, regional, national and international levels for planning and preparedness purposes. With the lessons learned from these simulated exercises, mitigation approaches (response strategies) could be adjusted and rerun, thereby creating a continuous loop of improvement for what mitigations to use and what material resources to stock in the National Veterinary Stockpile (NVS). The NVS will address resource needs by acquiring, configuring, and maintaining critical veterinary supplies to ensure that systemic measures are in place to eradicate H5N1 and deploy veterinary resources, such as reagents and vaccines, within 24 hours of an adverse event. APHIS will work in cooperation with other Federal, State, and local agencies in the event of an outbreak in animals that surpasses its response capacity. APHIS has prepared for such an event by developing a playbook that acts as a direct link to the national preparedness and response strategy for avian influenza.

We appreciate your interest in the program, and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Bonilla, Congresswoman DeLauro, and Senator Kohl.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Johanns". The signature is fluid and cursive, with the first name "Mike" and last name "Johanns" clearly distinguishable.

Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 6 2006

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended March 31, 2006.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 6 2006

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20502

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 1 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Mr. Chairman:

As part of our continued commitment to keep Congress informed of our activities, I am writing to inform you of our plans to cover compensation claims for trees destroyed to eradicate Plum Pox in Pennsylvania.

Since the beginning of the Plum Pox virus eradication program in 1999, compensation for growers whose orchards have been destroyed to control the disease has been an essential part of the program. Compensation provides incentive for growers to cooperate with the program in removing infested orchards. The Plum Pox virus causes a serious disease affecting stone fruit species such as almonds, apricots, nectarines, peaches, and plums. Fruit production from infected trees is severely reduced and any fruit produced is often blemished. There is no treatment for infected trees; they can only be destroyed.

When infected trees are found, the program removes all host trees within 500 meters of the positive site. In recent years, the number of detections has dropped sharply, demonstrating the program's early success in finding and eliminating the disease. However, a small number of detections were made in fiscal year (FY) 2005 and are expected to continue for several more years. The Animal and Plant Health Inspection Service (APHIS) originally paid growers for 3 years of lost production, assuming that orchards could be replanted 3 years after the trees were destroyed. However, in 2004, APHIS amended its compensation rule to provide payments for years 4 and 5, if necessary, to growers in areas where we could not complete eradication and allow growers to replant after 3 years.

The Honorable Henry Bonilla

Page 2

The program currently needs \$2.1 million to pay compensation claims related to new detections (for which 122 acres of trees were removed) and the changes in APHIS' compensation rules described above. Because of the importance of paying these claims, APHIS is using appropriated funds from several sources not originally planned for Plum Pox work to cover the need. APHIS would also use \$100,000 from the Plum Pox line item that is currently used for program operations and \$1 million from its contingency fund for the remaining need. To date, Department of Agriculture (USDA) has paid growers approximately \$16.6 million, an average of approximately \$12,000 per acre. USDA compensation represents 85 percent of the value loss and the Pennsylvania Department of Agriculture (PDA) pays the remaining 15 percent. PDA also covers removal and compensation costs for residential trees.

The remaining \$987,000 would come from the following sources: \$400,000 from the Emerging Plant Pests line item; \$387,000 from the Grasshopper and Mormon Cricket line item; and \$200,000 from the Biological Control line item. The funds are not needed for the ongoing programs this year because of specific circumstances. The Emerging Plant Pest funds are designated no-year, and the \$400,000 is carry-over funding that was being held for Sudden Oak Death regulatory activities, specifically nursery shipment trace-backs. The number of trace-backs in FY 2006 is lower than expected, and the \$400,000 is not needed for that work. The Grasshopper and Mormon Cricket program expects lower demand for treatments this year because areas that recently experienced Mormon Cricket outbreaks now have declining populations. Finally, the \$200,000 from the Biological Control line item is not needed because fewer States are participating this year in area-wide projects for two pests (salt cedar and pink hibiscus mealybug).

The Plum Pox program's ongoing operational costs are funded through annual appropriations. The FY 2006 appropriation includes \$2.19 million for Plum Pox surveys and eradication activities, and the FY 2007 Budget requests \$2.2 million for the Plum Pox program. Because compensation needs arise sporadically,

The Honorable Henry Bonilla
Page 3

APHIS has not requested appropriated funds to cover compensation. The use of funds as described above will allow APHIS to cover these current compensation needs and continue to secure grower cooperation with the Plum Pox eradication effort.

Similar letters are being sent to Congresswoman DeLauro and Senators Bennett and Kohl.

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 1 2006

The Honorable Rosa DeLauro
Subcommittee on Agriculture, Rural Development
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2262 Rayburn House Office Building
Washington, D.C. 20515-6016

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Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 1 2006

The Honorable Robert F. Bennett
Chairman, Subcommittee on Agriculture, Rural Development
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When infected trees are found, the program removes all host trees within 500 meters of the positive site. In recent years, the number of detections has dropped sharply, demonstrating the program's early success in finding and eliminating the disease. However, a small number of detections were made in fiscal year (FY) 2005 and are expected to continue for several more years. The Animal and Plant Health Inspection Service (APHIS) originally paid growers for 3 years of lost production, assuming that orchards could be replanted 3 years after the trees were destroyed. However, in 2004, APHIS amended its compensation rule to provide payments for years 4 and 5, if necessary, to growers in areas where we could not complete eradication and allow growers to replant after 3 years.

The Honorable Robert F. Bennett

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The program currently needs \$2.1 million to pay compensation claims related to new detections (for which 122 acres of trees were removed) and the changes in APHIS' compensation rules described above. Because of the importance of paying these claims, APHIS is using appropriated funds from several sources not originally planned for Plum Pox work to cover the need. APHIS would also use \$100,000 from the Plum Pox line item that is currently used for program operations and \$1 million from its contingency fund for the remaining need. To date, Department of Agriculture (USDA) has paid growers approximately \$16.6 million, an average of approximately \$12,000 per acre. USDA compensation represents 85 percent of the value loss and the Pennsylvania Department of Agriculture (PDA) pays the remaining 15 percent. PDA also covers removal and compensation costs for residential trees.

The remaining \$987,000 would come from the following sources: \$400,000 from the Emerging Plant Pests line item; \$387,000 from the Grasshopper and Mormon Cricket line item; and \$200,000 from the Biological Control line item. The funds are not needed for the ongoing programs this year because of specific circumstances. The Emerging Plant Pest funds are designated no-year, and the \$400,000 is carry-over funding that was being held for Sudden Oak Death regulatory activities, specifically nursery shipment trace-backs. The number of trace-backs in FY 2006 is lower than expected, and the \$400,000 is not needed for that work. The Grasshopper and Mormon Cricket program expects lower demand for treatments this year because areas that recently experienced Mormon Cricket outbreaks now have declining populations. Finally, the \$200,000 from the Biological Control line item is not needed because fewer States are participating this year in area-wide projects for two pests (salt cedar and pink hibiscus mealybug).

The Plum Pox program's ongoing operational costs are funded through annual appropriations. The FY 2006 appropriation includes \$2.19 million for Plum Pox surveys and eradication activities, and the FY 2007 Budget requests \$2.2 million for the Plum Pox program. Because compensation needs arise sporadically,

The Honorable Robert F. Bennett

Page 3

APHIS has not requested appropriated funds to cover compensation. The use of Funds as described above will allow APHIS to cover these current compensation needs and continue to secure grower cooperation with the Plum Pox eradication effort.

Similar letters are being sent to Congressman Bonilla, Congresswoman DeLauro, and Senator Kohl.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Johanns". The signature is fluid and cursive, with the first name "Mike" and last name "Johanns" clearly distinguishable.

Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 1 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Kohl:

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The Honorable Herb Kohl

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Mike Johanns
Secretary

National Fluid Milk Processor Promotion Program

The Fluid Milk Promotion Act of 1990, as amended (Fluid Milk Act) (7 U.S.C. 6401 *et seq.*) authorized the establishment of a national processor program for fluid milk promotion and education. The Fluid Milk Order became effective December 10, 1993. The Secretary appointed the initial National Fluid Milk Processor Promotion Board (Fluid Milk Board) on June 6, 1994.

Processors administer the Fluid Milk Processor Promotion Program through the Fluid Milk Board. Since August 2002, processors marketing more than 3 million pounds of fluid milk per month, excluding those fluid milk products delivered to the residence of a consumer, fund this program through a 20-cent per hundredweight assessment on fluid milk processed and marketed in consumer-type packages in the contiguous 48 States and the District of Columbia. From 1996–2002, processors marketing 500,000 pounds or more funded the program. The Fluid Milk Board's revenue from assessments for the January 1 through December 31, 2005, period was \$107.1 million.

The Fluid Milk Act required the Secretary to conduct a referendum among fluid milk processors funding the program to determine if a majority favored implementing the program. In the October 1993 referendum, 72 percent of the processors voted to approve the implementation of the fluid milk program. These processors represented 77 percent of the volume of fluid milk products marketed by all processors during May 1993, the representative period set for the referendum. USDA held a continuation referendum in February-March 1996. Of the processors voting in that referendum, nearly 65 percent favored continuation of the program. These processors represented 71 percent of the volume of fluid milk products marketed by all processors during September 1995, the representative period set for the referendum.

In November 1998, USDA held another continuation referendum at the request of the Fluid Milk Board. Fluid milk processors voted to continue a national program for fluid milk promotion established by the Fluid Milk Order. Of the processors voting in this referendum, 54 percent favored continuation of the order. These processors represented 86 percent of the fluid milk products processed and marketed by fluid milk processors voting in the referendum. The Fluid Milk Act and Order state that USDA will hold future referenda upon the request of the Fluid Milk Board, of processors representing 10 percent or more of the volume of the fluid milk products marketed by those processors voting in the last referendum, or when called by the Secretary.

The Fluid Milk Board continued to execute a generic national fluid milk program in 2005. The fluid milk marketing programs are research based and message focused. Activities of the national fluid milk program for 2005 are presented in the Fluid Milk Board section in Chapter 1 of this report.

USDA Oversight

USDA has oversight responsibility for both dairy promotion programs. The oversight objectives ensure that the Boards and Qualified Programs properly account for all program funds and that they administer the programs in accordance with the respective Acts and Orders. All advertising, promotional, and educational materials are developed under established guidelines. All Board budgets, contracts, and advertising materials are reviewed and approved. USDA employees attend all Board and Board Committee meetings and monitor all Board activities. USDA also has responsibility for obtaining an independent evaluation of the programs. Additional USDA responsibilities relate to nominating and appointing Board members, amending the orders, conducting referenda, assisting with noncompliance cases, and conducting periodic program audits. The Boards reimburse the Secretary, as required by the Acts, for all of USDA's costs of program oversight and for the independent analysis. Chapter 2 reports on USDA's oversight activities.

Independent Analysis and Fluid Milk Market and Program Assessment

Chapter 3 reports the results of the independent econometric analysis, conducted by Cornell University, of the effectiveness of the dairy promotion programs. Since 1995, the independent analysis has included an analysis of the effectiveness of the producer promotion program in conjunction with the processor promotion program. Cornell has conducted these analyses since 1998.

Chapter 4 presents the industry-commissioned fluid milk market and program operations assessment, representing the seventh year that this assessment has been conducted by Beverage Marketing Corporation. The review offers an evaluation of the effectiveness of the fluid milk advertising and promotion programs from a marketing perspective.

Additionally, the National Fluid Milk Processor Promotion Board and Dairy Management Inc., provide individual highlights of 2005 program successes from the Boards' perspective in parts II and III of Chapter 4.

Appendices: Supplemental Information

This report's Appendix section (Appendix A–I) includes a variety of supplemental information related to the fluid milk and dairy promotion programs. Appendix A presents a listing of current Dairy Board members. Appendix B similarly includes a listing of all current Fluid Milk Board members.

Appendix C features maps that display the Dairy Board and Fluid Milk Board regions.

Appendix D presents tables that report the actual income and expenditures, USDA oversight costs, and approved budgets for both Boards.

Appendix E-1 includes the financial statements, supplemental schedules, and the independent auditor's report for the Dairy Board. The accounting firm Ernst & Young conducted the 2005 Dairy Board independent audit. Appendix E-2 includes financial statements and the independent auditor's report for the Fluid Milk Board. Snyder, Cohn, Collyer, Hamilton and Associates P.C., conducted the 2005 Fluid Milk Board independent audit.

Appendix F-1 includes a listing of all 2005 Dairy Board and Dairy Management Inc. (DMI) contracts (and corresponding initiatives) reviewed by USDA. The Dairy Act and Order require that all contracts expending producer assessment funds be approved by the Secretary of Agriculture (7 CFR § 1150.140). Appendix F-2 includes a detailed listing of all 2005 Fluid Milk Board and International Dairy Foods Association (IDFA) contracts reviewed by USDA. The Fluid Milk Board contracts with IDFA to manage the day-to-day operations of the processor promotion program.

Appendix G-1 includes a listing of the nutrition institute and the six dairy foods research centers that provide much of the research that supports the marketing efforts of the dairy promotion programs. Appendices G-2 and G-3 list the new and ongoing dairy foods and nutrition research projects that are funded by DMI.

Appendix H lists the Qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs) for 2005. Qualified Programs are certified annually by the Secretary to determine whether milk producers may continue to receive credit against the 15-cent per hundredweight assessment due to the Dairy Board when contributing to a Qualified Program.

Appendix I features thumbnail images of the national fluid milk print and television advertisements. The advertisements are organized by message, target audience, contests, and sweepstakes winners.

Chapter 1

The Dairy Promotion Programs

In 2005, the National Dairy Promotion and Research Board (Dairy Board) and the National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to develop and implement programs to expand the human consumption of fluid milk and dairy products. Each promotion program has many unique activities. In 2005, the Fluid Milk Board continued to use the role of calcium-rich dairy products in successful weight management as a central theme and focal point for its activities. The Dairy Board focused on the away-from-home market to promote the expansion of flavors and a greater range of packaging in foodservice and restaurants.

National Dairy Promotion and Research Board

The mission of the Dairy Board is to coordinate a promotion and research program that maintains and expands domestic and foreign markets for fluid milk and dairy products produced in the United States. The Dairy Board is responsible for administering the Dairy Promotion and Research Order (Dairy Order), developing plans and programs, and approving budgets. Its dairy farmer board of directors administers these plans and monitors the results of the programs.

The Secretary of Agriculture (Secretary) appoints 36 dairy farmers to administer the Dairy Order. The appointments are made from nominations submitted by producer organizations, general farm organizations, qualified State or regional dairy products promotion, research or nutrition education programs (Qualified Programs), and by other means as determined by the Secretary (7 CFR §1150.133(a)). Dairy Board members serve 3-year terms and represent 1 of 13 regions in the contiguous 48 States. Dairy Board members elect four officers: Chair, Vice Chair, Treasurer, and Secretary. Current Dairy Board members are listed in Appendix A. A map of the contiguous 48 States depicting the 13 geographic regions is shown in Appendix C-1.

Total Dairy Board actual revenue for 2005 was \$86.3 million (including assessments and interest). This amount was less than the Dairy Board Budget of \$87.1 million for that period. The Dairy Board amended its budget to \$89.1 million by incorporating program development funds not budgeted previously. The Dairy Board budget for 2006 projects total revenue of \$90.4 million from domestic assessments and interest. The Dairy Board administrative budget continued to be within the 5-percent-of-revenue limitation required by the Dairy Order. A list of actual income and expenses for 2004–2005 is provided in Appendix D-1. USDA's oversight and evaluation expenses for 2004–2005 are listed in Appendix D-2. Appendix D-3 displays the Dairy Board's approved budgets and a comparison of program funding by function for 2005–2006. An independent auditor's report for 2005 is provided in Appendix E-1.

The Dairy Board has two standing committees: the Finance and Administration (F&A) Committee and the Executive Committee. The F&A Committee is made up of the Dairy Board officers and appointees named by the Dairy Board Chair. The Dairy Board Treasurer is the Chair of the F&A Committee, and the full Dairy Board serves as the Executive Committee.

The remaining committees for the Dairy Board are joint program committees with the United Dairy Industry Association (UDIA).

In March 1994, the Dairy Board approved the creation of Dairy Management Inc. (DMI), a management and staffing corporation. DMI is a joint undertaking between the Dairy Board and UDIA. UDIA is a federation of 18 of the 59 active Qualified Programs under the direction of a board of directors. DMI merged the staffs of the Dairy Board and UDIA to manage the Dairy Board programs as well as those of the American Dairy Association® and National Dairy Council® throughout the contiguous 48 States. DMI serves both boards and is structured into support groups. The marketing and business development group supports retail channel development, marketing communications, advertising, research, analyses of domestic and foreign marketplaces, program effectiveness, consumption patterns and consumer perceptions for effective program planning, implementation, and measurement. The nutrition, public, and corporate affairs group supports nutrition education and consumer affairs, board relations, and program implementation. The industry relations group provides news about dairy topics through media contacts as well as communications regarding the dairy checkoff program to producers and the rest of the industry. The strategic operations/finance and administration group handles program planning and communications, information services, membership development, and finance and accounting activities. The export marketing group serves as a resource for U.S. dairy ingredient manufacturers and processors to improve export capabilities of the U.S. dairy industry.

Since January 1, 1995, the Dairy Board and UDIA have developed their marketing plans and programs through DMI. DMI facilitates the integration of producer promotion funds through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The mission of DMI is to drive increased sales of and demand for U.S. dairy products and ingredients, on behalf of U.S. dairy farmers. DMI works proactively, and in partnership with leaders and innovators, to increase and apply knowledge that leverages opportunities to expand dairy markets. DMI celebrated its 10th anniversary in 2005.

DMI funds 1- to 3-year research projects that support marketing efforts. Six Dairy Foods Research Centers and one Nutrition Institute provide much of the research. Their locations and the research objectives are listed in Appendix G-1. Additionally, lists of DMI's dairy foods and nutrition projects can be found in Appendices G-2 and G-3, respectively. Universities and other industry researchers throughout the United States compete for these research contracts.

At its inception, the DMI Board of Directors consisted of 12 dairy farmers from the Dairy Board and 12 dairy farmers from the UDIA Board. An amendment to the articles of incorporation of DMI to expand the DMI Board size took effect January 1, 2001, and the expanded DMI Board (77) now comprises all Dairy Board (36) and all UDIA (41) members. Voting is equalized between the Dairy Board and UDIA.

The committees for program activities are comprised of board members from both the Dairy and UDIA Boards. The Dairy Board and UDIA Board separately must approve the DMI budget and

annual plan before they can be implemented. In October 2004, both boards approved the 2005 unified dairy promotion plan budget and national implementation programs. Similar to previous plans, the 2005 unified dairy promotion plan continued to support the underlying theme of investing dollars where the consumers are – not where dairy cows are. The unified dairy promotion plan was consistently implemented in the top 150 demand-building consumer markets nationwide.

During 2005, DMI again hosted dairy director regional planning forums across the country to review and create marketing strategies for development of the unified dairy promotion plan. These forums are designed to create *one* unified dairy promotion plan and allow opportunity for State and regional dairy board members to ask questions, raise concerns, and offer their thinking on the plan's direction and development.

At the 2005 forums, dairy directors across the country reviewed and endorsed a unified marketing plan that continued to focus on five areas identified in 2004: (1) 3-A-Day of Dairy™ for Stronger Bones, a nutrition-based marketing and education program developed to help solve the nation's calcium crisis and increase consumption of milk, cheese, and yogurt; (2) 3-A-Day of Dairy™ – Burn More Fat, Lose Weight, where the dairy checkoff reminds consumers that milk, cheese, and yogurt may help in weight-loss efforts when paired with a reduced-calorie diet and physical activity; (3) New Look of School Milk which includes efforts to improve the school milk experience for the nation's children through improvements in packaging, flavors, and availability; (4) Foodservice, where dairy checkoff funds are invested to help promote the expansion of flavors and the range of packaging for milk in foodservice and restaurants, as well as to help with menu concepts for cheese; and (5) Dairy Image/Confidence, which aims to protect and enhance consumer confidence in dairy products and the dairy industry through correcting misinformation and inaccurate claims against dairy. The success of the unified marketing plan relies heavily upon DMI's ability to expand partnerships with processors, retailers, schools, and health professional organizations.

The above-mentioned focus areas continue to build upon the 2002 forum results that emphasized programs with less reliance upon television advertising, continuance of successful foodservice and retail activities, the need for heavier focus on kids and school milk problems, more focus on industry partnerships, and stronger, more proactive image protection of dairy products. Combined industry spending for the unified marketing plan totaled more than \$250 million in 2005. National and State and regional dairy producer organizations' contributions totaled over \$158.9 million.

The joint Dairy Board and UDIA Board committee structure provides the framework for DMI program activities. The Dairy Board and UDIA Board Chairs assign their respective board members to the following joint program committees: Cheese, Communications and Technology, Export and Dry Ingredients, and Fluid Milk. Each committee elects a Chair and Vice-Chair. The joint committees and the DMI staff are responsible for setting program priorities, planning activities and projects, and evaluating results. The Joint Evaluation Committee continued to operate in 2005. During 2005, the Dairy Board and UDIA Board met jointly 5 times.

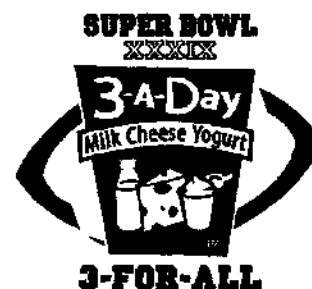
The following information describes Dairy Board and UDIA program activities along with new programs and initiatives implemented in 2005.

3-A-Day™ of Dairy for Stronger Bones and 3-A-Day™ of Dairy – Burn More Fat, Lose Weight

The 3-A-Day™ of Dairy for Stronger Bones (3-A-Day™) marketing and nutrition education campaign was officially launched on March 3, 2003, and continued in 2005. The program objectives are to increase total consumption of dairy products and reinforce dairy as the leading source of calcium by providing simple guidance about dairy food selections. The development of the program was a joint dairy industry effort led by DMI. A key component of the 3-A-Day™ program is the logo, which appears on packages and labels of milk, cheese, and yogurt products containing 20 percent or more of the daily value of calcium.



In 2005, DMI sponsored three national promotions around 3-A-Day™. The first national promotion, "Super Bowl XXXIX 3-For-All" launched January 9 and ran through February 13. As part of the promotion, a special coupon offer was released to more than 40 million families in a special Sunday newspaper insert. The coupon offer included dairy product coupons and recipe ideas from major 3-A-Day™ manufacturing partners. Other promotion elements included national advertising; special consumer offers for an exclusive, football-shaped cheese board customized with their favorite NFL® team's logo; and retail sampling events at over 7,500 grocery stores. Additionally, this Super Bowl promotion launched the first national consumer promotion since the dairy checkoff and the NFL® announced their 4-year partnership in 2004. Local dairy promotion groups also partnered with individual NFL® teams to conduct local retail, school, and other consumer marketing efforts.



The second national promotion, "Real People, Real Results" leveraged the public's growing awareness of dairy's connection to weight loss. The promotion featured real women who lost weight with dairy in a *People* magazine insert and a corresponding booklet made available to select retailers. In addition, new 3-A-Day of Dairy™ awards became part of the 42nd Pillsbury™ Bake-Off Contest. Throughout the month of April 2005, a "Real People, Real Results" booklet was available free to consumers with the purchase of milk, cheese, and yogurt in the same shopping trip. The insert included a special section with inspiring weight loss success stories, fitness and dieting tips, and dairy recipes. This promotion was supported by new national television and print advertising emphasizing dairy's effect on the waistline. The new print advertisements with a "best measure of a trimmer tummy" tagline and television advertisements showing dairy's ability to help "reach your weight loss goals" were launched along with the introduction of the program. An advertisement for the American Dairy Association® sponsored 3-A-Day of Dairy Awards in the 42nd Pillsbury™ Bake-Off Contest was



3 servings of dairy a day in a reduced-calorie diet supports weight loss.

featured in the booklet and recognized the most delicious recipes that were nutritious and provided a serving of dairy. The finalists received cash prizes of \$10,000 each for the best recipes made with milk, cheese, or yogurt.

The third national promotion, “Tackle it Today with 3-A-Day™,” coincided with the September NFL® Kickoff – giving moms all the tools and information needed to tackle her weight loss goals. With this promotion, shoppers received a free *Tips and Tools for a Slimmer You* CD, when they bought at least one each of milk, cheese, and yogurt products during the same shopping trip. The CD featured a 16-week food and exercise journal, expert fitness advice, success stories, recipes, and time-saving workouts. Moms also were invited to share on Web site www.3aday.org how they tackled their weight loss goals with three daily servings of dairy for a chance to win a trip to Hawaii and tickets to the Pro Bowl. New television and print advertisements were released in September and October supporting the promotion to remind people that enjoying 3 servings of dairy as part of a reduced calorie diet can help adults achieve better results when it comes to trimming the waistline rather than just cutting calories alone.



Health professional outreach remained a critical component of the 3-A-Day™ program. The American Academy of Family Physicians, the American Academy of Pediatrics, the American Dietetic Association, and the National Medical Association all renewed their support and partnership with DMI and 3-A-Day™. By working with these key health professional partners, DMI continued to provide a clear, practical message to the public on the importance of dealing with the Nation’s calcium crisis. DMI’s 3-A-Day™ advisory panel, comprised of leaders from these four organizations along with other nutrition experts, continued to help guide the overall campaign as well as nutrition philosophy and principles. DMI released several advertorials, including an advertorial celebrating the American Academy of Pediatrics 75th anniversary highlighting their longstanding commitment to children’s health and wellness.

Foodservice/Partnerships

DMI continued to work closely with top national restaurant chains, including McDonald’s® and Wendy’s®, to ensure that milk and cheese were featured prominently in menu items and offerings. Building upon 2004 efforts leading to the introduction of new milk offerings at McDonald’s® and Wendy’s®, DMI helped to motivate single-serve milk testing among other major restaurant chains including Burger King® and Sonic® Drive-In. These chains are expected to introduce milk in single-serve plastic containers nationwide in 2006.

In addition to milk, Wendy’s® also worked with DMI to test and market a 7-ounce yogurt cup that is now a permanent menu option. The new introduction moves 7 million incremental pounds of milk used through foodservice. Also, DMI helped increase cheese use by partnering with national restaurant chains to introduce cheese-friendly items and drive innovation. Pizza Hut®, the Nation’s top pizza chain, featured three new cheese-friendly items that DMI helped to

develop and promote. During the four-week promotion of the new product “Dippin’ Strips,” Pizza Hut®’s cheese usage was up 3 million pounds over the previous 4 weeks.

Communications and Technology

Consumers receive mixed messages through the media about the nutritional value and benefits of food. DMI worked to provide consumers with education and information based on sound nutritional science and communicated the value of dairy products to consumers as well as to health professionals and educators. DMI also worked to inform dairy farmers about how their assessment dollars were being used. The organization continued to communicate to dairy producers and other industry audiences through publications (such as the annual report, joint newsletters with State and regional dairy promotion groups, and dairy cooperative check stuffers), dairy industry events (including major trade shows and producer meetings) and media relations (including press releases, feature placement, and farm broadcast interviews). For the 8th year, DMI continued its “Dairy Ambassadors” program which uses a select group of board members to deliver consistent messages about the dairy promotion program to producers and other industry audiences.

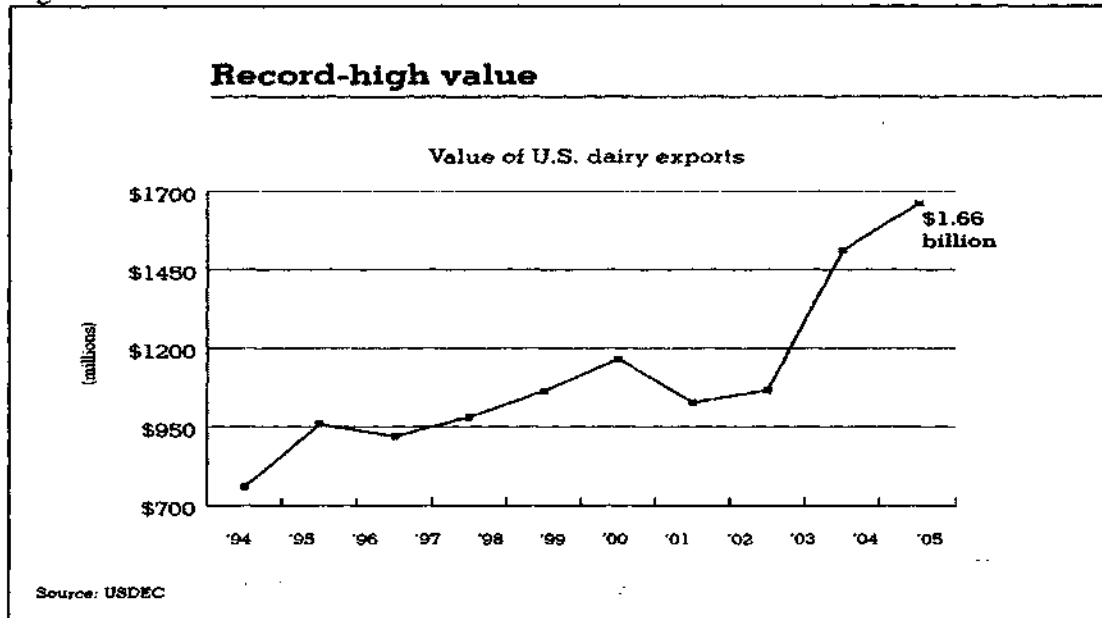
DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the Web site www.butterisbest.com, a consumer resource center with current cooking trends and ideas, butter recipes, and links to other butter-related Web sites. DMI also continued to work with Wisconsin Milk Marketing Board to execute co-funded retail butter promotion activities. The national effort helped to drive incremental retail butter sales in select markets across the United States.

Another activity of the Communications and Technology program was the issues management program. The objective of this program is to identify, monitor, and manage key issues that may influence consumer perceptions of dairy products. DMI coordinated its issues management activities with State and regional dairy promotion groups as well as with other dairy and agricultural groups. The organization worked with these groups to bring forth sound, science-based information to address consumer issues. Dairy Reputation Management, and industrywide efforts that interact with the Issues Management, Industry Relations, and Dairy Image programs, continued a proactive program to educate consumers and to reinforce the positive attributes of dairy foods, dairy farmers, and dairy farming practices to this audience.

Export and Dry Ingredients

DMI’s export enhancement program is implemented by the U.S. Dairy Export Council (USDEC). USDEC receives primary funding from three sources: DMI, USDA’s Foreign Agricultural Service (FAS), and membership dues from dairy cooperatives, processors, exporters, and suppliers. In 2005, USDEC received \$7.5 million from DMI; \$3.9 million from USDA’s Market Access Program and the Foreign Market Development Program, which support commodity groups in promotion of their commodities in foreign markets; and \$685,000 from membership dues. USDEC celebrated its 10-year anniversary in 2005 and its total budget was \$13 million.

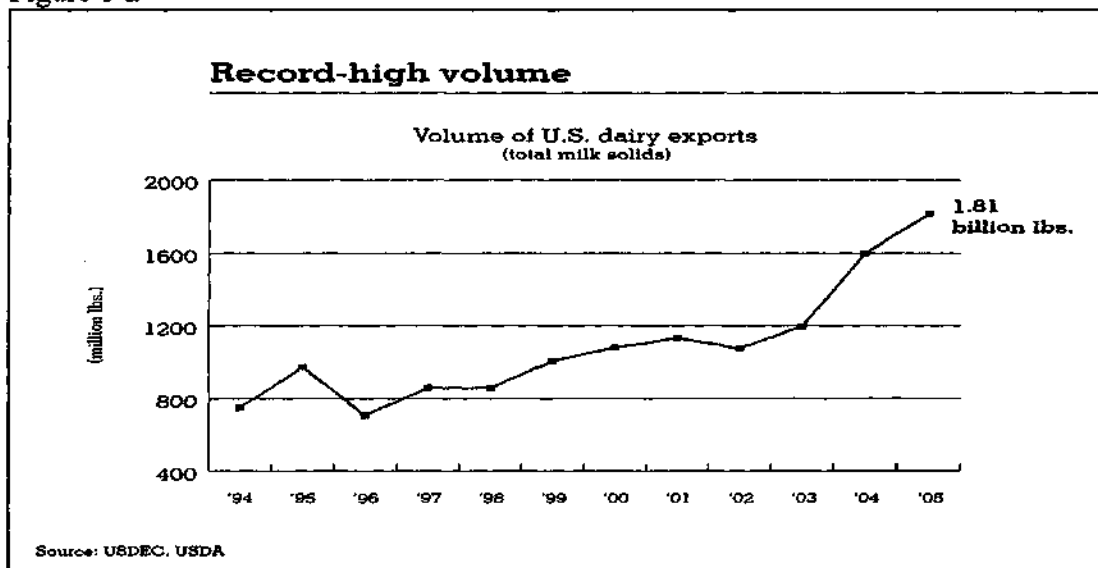
Figure 1-1



USDEC has offices in Mexico City, Tokyo, Seoul, Hong Kong, Shanghai, Bangkok, Taipei, London, and Sao Paulo. In 2005, strong global demand for dairy protein led to another record year for dairy exports.

Final 2005 export data confirm that U.S. dairy product exports reached \$1.66 billion in 2005. Figure 1-1 shows dairy export values have increased 55 percent in the last 2 years. Similarly, Figure 1-2 shows that the dairy export volume is also a record high at 1.81 billion pounds of milk solids. This value has increased 52 percent over the last 2 years. Economic growth in Asia

Figure 1-2



– China in particular – Russia, Mexico, and the Middle East created opportunities for increased sales of milk components. According to data from USDA and USDEC, the United States exported approximately 35 percent of all the nonfat milk powder produced, 40 percent of sweet whey and whey protein concentrate, 55 percent of whey protein isolate, and 61 percent of lactose.

USDEC continued working to improve the export capabilities of domestic dairy companies. The organization assists U.S. dairy exporters by providing up-to-date information on market conditions, global trade trends, and regulatory requirements for export. Ongoing reverse trade mission activities provide opportunities for domestic dairy product suppliers to meet potential importers visiting the United States.

DMI's 2005 ingredients program was conducted through DMI's Innovation Program and through the new Web site www.innovatewithdairy.com. This program replaced the "Do it with Dairy" ingredient marketing campaign. DMI's Innovation Program supports dairy product and nutrition research, ingredient applications development and technical assistance for the dairy, food, and beverage industries.

Dairy, food, and beverage manufacturers look to DMI as a partner and resource. DMI assists dairy processors in creating and introducing new and/or improved dairy products, processes, and packaging and meeting their innovation challenges. With food and beverage manufacturers, DMI provides know-how and laboratory and professional resources to help develop or improve foods using dairy ingredients.

DMI's Innovation Program hosted the 2005 Dairy Innovation Forum (Forum) in New Orleans, Louisiana. The invitation-only Forum continued an 8-year DMI tradition of bringing together top decision makers in science and marketing to develop ways to increase consumption of dairy products. The forum attracted more than 150 participants and included industry representatives such as dairy processors and cooperatives, food manufacturers, Government officials, ingredient suppliers, State and regional representatives, and university researchers. This year's Forum focused on innovation – a key to the future of the dairy and dairy ingredient industries. Dairy is positioned to be a key protein ingredient in beverages of the future according to a beverage expert that presented at the Forum.

DMI publications that support the Innovation Program include: (1) *Dairy Council Digest*—published six times per year and focuses on the latest dairy nutrition research relevant to dairy, food and beverage manufacturers and health professionals; (2) *Ingredient Specification Sheets*—cover technical basics of a variety of dairy ingredients and are updated as new data is available; (3) *Dairy Herald*—reports on how food formulators and markets can take advantage of taste, cost, functional, and nutritional appeal of dairy ingredients; (4) *Application Monographs*—provide a comprehensive look at how whey protein and other dairy ingredients can be used in foods and beverages for different functionality needs; (5) *Tools for Innovation*—a supplement from DMI and *Dairy Foods* magazine that covers dairy product trends and research; (6) *Innovations in Dairy*—a technical bulletin, published two to three times a year on specific topics in dairy products, ingredients, processing, and packaging; and (7) *Dairy Business View*—an e-newsletter

published bi-monthly with *Dairy Foods* magazine and covers dairy industry news, new technologies, business trends, innovative ideas, and research.

National Dairy Council®/School Marketing

The National Dairy Council® www.nationaldairycouncil.org (NDC), the nutrition marketing arm of DMI, has been the leader in dairy nutrition research, education, and communication since 1915. NDC provides timely, scientifically sound nutrition information to the media, physicians, dietitians, nurses, educators, consumers, and other health professionals.

NDC continues to work closely with school foodservice professionals and milk processors vis-à-vis the benefits of offering an enhanced milk product in the school cafeteria. The foundation of these efforts is comprised of the results of a year-long School Milk Pilot Test conducted in 2002. Currently, more than 3,400 schools representing nearly 2.4 million students nationwide now offer milk in single-serve plastic resealable containers on the school meal line. This number grows each year as DMI continues to implement its "New Look of School Milk" initiative. DMI funded market research shows that improving students' school milk experience can help recapture school milk consumption of up to 400 million gallons lost since 1993. The Fluid Milk Board also implemented a program to educate milk processors about the benefits of offering an enhanced milk product in the Nation's elementary and secondary schools. Milk processors have exhibited widespread support for the program and it is reported on in greater detail in the National Fluid Milk Program summary.



NDC also continues its active support of and participation in the Action For Healthy Kids (AFHK) initiative.

AFHK (www.actionforhealthykids.org) was created in response to the Healthy Schools Summit in 2002 and its mission is to inform, motivate, and mobilize schools, school districts, and States to chart a healthier course for the Nation's children and adolescents. AFHK is comprised of 51 State teams (including all 50 States and the District of Columbia) and a partnership of more than 40 national organizations and Government agencies spanning education, health, fitness, and nutrition arenas. AFHK hosted the Healthy Schools Summit 2005 in September and challenged a gathering of over 600 leaders to "raise the bar" on how to approach the national epidemic of childhood obesity in this country.

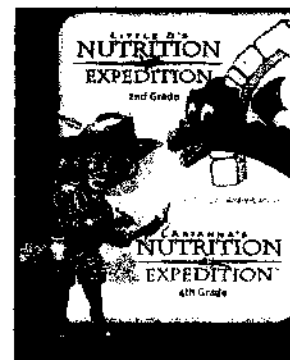


In September 2005, recognizing the importance of getting the nation's youth back on a healthier and more active track, the National Football League and AFHK announced the launch of "ReCharge!," an after-school program that encourages kids to get active and eat healthy. ReCharge! is the first nationally distributed after-school program that fully integrates nutrition and physical activity through team-based strategies for youth in grades 3-6. The program is available nationwide to schools and after-school facilities. ReCharge! coaches children on "energy-



in and energy-out” while focusing on goal-setting and teamwork through fun age-appropriate activities designed for the athlete and non-athlete alike.

In addition to reaching kids through the classroom with “Pyramid Café” and “Pyramid Explorations™,” NDC introduced in 2005 “Little D’s Nutrition Expedition” and “Arianna’s Nutrition Expedition” as the primary focus of nutrition education activities. Similar to “Pyramid Café” and “Pyramid Explorations™,” these two programs also are targeted to second and fourth grades and reach millions of students with messages that milk and dairy products are a key part of a healthy diet. Survey results continue to show a high utilization rate for these programs. These programs and other resources are available for teachers, school foodservice professionals, and consumers at www.nutritionexplorations.org.



Research

In 2005, milk and dairy-related nutrition and product research was continued in the following areas:

1. The role of milk and milk products in the prevention of colon cancer and reduction of blood pressure.
2. Establishing the genetic basis for the activity of probiotic cultures.
3. Demonstration of milk consumption by teens to meet their calcium needs without adversely affecting weight.
4. The contribution of dairy's nutrient package in the development and maintenance of strong bones.
5. Investigation of the added value of fortification through the use of probiotics, nutraceuticals, nutrient delivery, and flavor enhancement.
6. The impact of differing milk options and experiences in schools on childhood fluid milk consumption behavior and attitudes.
7. The role of dairy as part of a heart-healthy diet.
8. The role of calcium-rich dairy products in successful weight loss and maintenance.

Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs

Qualified Programs are certified annually by the Secretary. To receive certification, the Qualified Program must: (1) conduct activities that are intended to increase human consumption of milk and dairy products generally; (2) have been active and ongoing before passage of the Dairy Act, except for programs operated under the laws of the United States or any State; (3) be primarily financed by producers, either individually or through cooperative associations; (4) not use a private brand or trade name in its advertising and promotion of dairy products (unless

approved by the Dairy Board and USDA); and (5) not use program funds for the purpose of influencing governmental policy or action (7 CFR §1150.153). A list of the 59 active programs is provided in Appendix H.

The aggregate revenue from the producers' 15-cent per hundredweight assessment directed to the Qualified Programs in 2005 was \$187 million (approximately 10 cents out of the 15-cent assessment). The Qualified Programs manage State or regional dairy product promotion, research, or nutrition education programs. See Table 1-3 and Table 1-4 for aggregate income and expenditure data of the Qualified Programs.

Some of these Qualified Programs participate in cooperative efforts conducted and coordinated by other Qualified Programs and/or other organizations such as DMI, the Dairy Board, and UDIA. Their goal in combining funding and coordinating projects is more effective and efficient management of producers' promotion dollars through larger, broad-based projects. For example, UDIA coordinates nationally through DMI the programs and resources of 18 federation members and their affiliated units to support the unified marketing plan.

Table 1-3
Aggregate Income and Expenditure Data Reported to USDA
by the 59 Active Qualified Programs

	2004 (in \$000's)	2005 (in \$000's)
Income		
Carryover from Previous Years	46,938 ¹	47,947 ¹
Producer Remittances	174,892	187,457
Transfers from Other Qualified Programs ²	54,716	55,439
Transfers to Other Qualified Programs ²	-57,109	-67,222
Other ³	<u>3,910</u>	<u>3,657</u>
Total Adjusted Annual Income	223,347	227,278
Expenditures		
General and Administrative	7,641 [4.6%]	7,919 [4.6%]
Advertising and Sales Promotion	70,688 [42.6%]	75,799 [43.7%]
Unified Marketing Plan ⁴	50,146 [30.2%]	50,124 [28.9%]
Dairy Foods and Nutrition Research	5,980 [3.6%]	4,091 [2.4%]
Public and Industry Communications	13,245 [8.0%]	14,958 [8.6%]
Nutrition Education	12,963 [7.8%]	16,590 [9.6%]
Market and Economic Research	1,568 [0.9%]	1,872 [1.0%]
Other ⁵	<u>3,742 [2.3%]</u>	<u>2,081 [1.2%]</u>
Total Annual Expenditures	165,973 [100%]	173,434 [100%]
Total Available for Future Year Programs	57,374¹	53,844

¹ Differences are due to audit adjustments and varying accounting periods.

² Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.

³ Includes interest, income from processors and handlers, sales of supplies and materials, contributions, and rental income.

⁴ Unified Marketing Plan: Reported local spending by United Dairy Industry Association units participating in the DMI unified marketing plan to fund national implementation programs.

⁵ Includes capital expenses and contributions to universities and other organizations.

Source: Aggregate income and expenditure data reported by the 59 active Qualified Programs.

Table 1-4
Aggregate Advertising Expenditure Data Reported to USDA
by the 59 Active Qualified Programs

	2004 (in \$000's)	2005 (in \$000's)
Advertising Programs		
Fluid Milk	17,701 [25.0%]	16,100 [21.2%]
Cheese	48,975 [69.3%]	48,170 [63.6%]
Butter	101 [0.1%]	2,835 [3.7%]
Frozen Dairy Products	117 [0.2%]	71 [0.1%]
Other ¹	3,794 [5.4%]	8,623 [11.4%]
Total	70,688 [100%]	75,799 [100%]

¹ Includes "Real Seal," holiday, multiproduct, calcium, evaporated milk, foodservice, product donation at State fairs, and other events and contributions for displays or promotional events.

Source: Aggregate income and expenditure data reported by the 59 active Qualified Programs.

National Fluid Milk Processor Promotion Board

The Fluid Milk Board, as authorized in the Fluid Milk Promotion Act of 1990, as amended, (Fluid Milk Act), administers a generic fluid milk promotion and consumer education program that is funded by fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase fluid milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia.

The Secretary of Agriculture appoints 20 members to the Fluid Milk Board. Fifteen members are fluid milk processors who each represent a separate geographical region and five are at-large members. Of the five at-large members, at least three must be fluid milk processors and at least one must be from the general public. Four fluid milk processors and one public member serve as at-large members on the current Fluid Milk Board. The members of the Fluid Milk Board serve 3-year terms and are eligible to be appointed to two consecutive terms. The Fluid Milk Promotion Order (Fluid Milk Order) provides that no company shall be represented on the Board by more than three representatives. Current Fluid Milk Board members are listed in Appendix B. A map of the Fluid Milk Board regions is shown in Appendix C-2.

The Fluid Milk Board elects four officers: Chair, Vice-Chair, Secretary, and Treasurer. Fluid Milk Board members are assigned by the Chair to the following committees: Advertising, Finance, Promotions, Public Relations/Medical and Scientific, Strategic Thinking/Research, and Hispanic. The program committees are responsible for setting program priorities, planning activities and projects, and evaluating results. The Finance Committee reviews all program authorization requests for funding sufficiency, the Fluid Milk Board's independent financial audit, and the work of the Board's accounting firm. The Fluid Milk Board met three times during 2005.

The National Fluid Milk Processor Promotion Program (MilkPEP) is funded by a 20-cent per hundredweight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the contiguous 48 States and the District of Columbia. The program exempts from assessment those processors who process and market 3 million pounds or less of fluid milk products each month, excluding fluid milk products delivered to the residence of a consumer. Assessments generated \$107.1 million in 2005. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California fluid milk processor promotion program. For 2005, the amount returned to California from the assessments was \$10.2 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, including the "got milk?" advertising campaign.

The actual income and expenses for 2004–2005 are provided in Appendix D-4. The Fluid Milk Board's administrative expenses continued to be within the 5-percent-of-assessments limitation required by the Fluid Milk Order. USDA's oversight and evaluation expenses for 2004–2005 are detailed in Appendix D-5. Appendix D-6 contains the Fluid Milk Board's approved budgets for 2005 and 2006. Appendix E-2 contains an independent auditor's reports for the period of January 1 through December 31, 2005.

The following summarizes Fluid Milk Board medical and scientific activities for the period of January 1 through December 31, 2005. The Fluid Milk Board's advertising, promotions, public relations, school marketing, sponsorships, and strategic thinking activities are incorporated in the National Fluid Milk Programs section.

Medical and Scientific Activities

The Fluid Milk Board's Medical Advisory Board (MAB), comprised of academic, medical, and health care professionals with expertise relevant to the health benefits of fluid milk, met twice in 2005. The MAB provides guidance to the Fluid Milk Board's development of key nutritional and health messages for consumers and health professionals. MAB members assisted the Fluid Milk Board in forging relationships with health and health professional organizations such as the American Academy of Pediatrics, the American Dietetic Association, the American Heart Association, the National Cancer Institute, and the National Medical Association. Members also appeared as medical professionals in the media providing science-based statements supporting the health benefits of milk.

The medical and scientific activities of the Fluid Milk Board also included preparing press materials and acting as spokespersons on breaking research with relevance to fluid milk. The MAB worked extensively over the past year to inform others in the scientific community of the new and emerging research showing that 24 ounces of milk each day as part of a weight loss plan—including exercise can help people lose more weight than calorie-restricted diets that do not include milk. Numerous studies in recent years have pointed to similar conclusions—that milk, dairy foods, and calcium may be important when addressing the issue of overweight and obesity. These communications and activities continue to highlight milk's nutritional profile which includes nine essential vitamins and minerals.

The 2005 "Good For You" (GFY) program, whose primary goal is to promote milk's nutritional benefits, continued to leverage breaking research with relevance to milk and is supported with advertising and public relations. The focus of GFY efforts was to inform consumers and the public about emerging research regarding the role fluid milk may play in preventing weight gain and maintaining a healthy weight. The MAB was very involved in helping the Fluid Milk Board explore ways to leverage the information in public relations and advertising messages surrounding breaking research. A detailed listing of 2005 research may be found in the *got news?* section at www.milkpep.org.

The Fluid Milk Board continued its lactose intolerance initiatives. These efforts focus on educating Hispanic Americans and others on the importance of incorporating milk into their diets and why lactose intolerance should not be a barrier to including milk in the diet.

National Fluid Milk Programs

The Fluid Milk Board continued to execute a generic national fluid milk processor promotion program in 2005. The fluid milk marketing programs are research based and message focused.

The purpose of the national fluid milk program is to positively change the attitudes and purchase behavior of Americans regarding fluid milk. The 2005 fluid milk marketing plans were designed to continue marketing and promotional activities emphasizing milk's weight-loss benefits, to increase the consumption of fluid milk, and to identify and support growth opportunities for the industry. Many communication media were used to accomplish this objective including television and print advertising, public relations, promotions, and the Internet. The program's target audiences include women and moms, teens, and Hispanics.

In 2005, the got milk?®/Milk Mustache advertising campaign, which provides the basis for advertising activities and other program delivery methods, was continued. A description of the 2005 program activities for the Fluid Milk Board follows.

Sponsorships

In 2005, the got milk?®/Milk Mustache campaign continued leveraging a multi-year partnership with Walt Disney Corporation®. The sponsorship provides a unique opportunity to raise milk's image among teens and young adults by highlighting the message that milk is a great beverage of choice for active teens and for athletes of all ages. As part of the partnership, milk continued to be "the official training fuel" of Disney's Wide World of Sports™ while the "Milk House," a state-of-the-art facility that hosts more than 30 championships and 20 tournaments for more than 40 different amateur sports (including baseball, football, soccer, volleyball, and inline hockey) annually, remained the centerpiece arena. The "Milk House" features prominently displayed got milk?® signage and milk mustache posters throughout the complex.

The Fluid Milk Board moved into the fifth and final year of its partnership with the National Basketball Association (NBA®) during 2005 as part of a multi-year sponsorship. Through this sponsorship, the Fluid Milk Board utilized an additional mechanism to reach teens with sports nutrition and growth messaging through the NBA®/got milk?® "Rookie of the Month/Year" program that features popular NBA® stars and highlights the important nutrients that milk provides for active, growing bodies. The sponsorship also includes the got milk?® Rookie Game that is televised during the NBA® All-Star weekend.

The Fluid Milk Board continued in its eighth year sponsoring the Scholar Athlete Milk Mustache of the Year (SAMMY) award and selected 25 high school students from various regions across the United States to receive a \$7,500 scholarship. Each applicant is required to list his/her high school achievements and tell why milk is an important beverage to include in his/her daily regimens. This year SAMMY received 35,000 applications. In addition to the scholarship award, each of the 25 winners are inducted into the SAMMY Hall of Fame and are featured in a special milk mustache advertisement (Appendix I) that appears in *USA Today*, *Sports Illustrated*, and *ESPN* magazine.

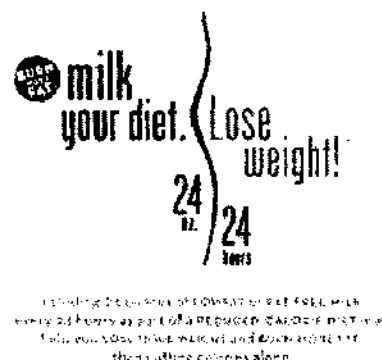
Advertising

The Fluid Milk Board advertising program consists of television and print advertising as well as media-driven promotions. The advertisements highlight specific, relevant health-benefit

messages about milk and its nutrient content, while media-driven promotions serve to extend the advertising campaign. In 2005, the Fluid Milk Board created three new television advertisements encouraging women to include 24 ounces daily of fat-free or reduced-fat milk as part of a reduced-calorie diet to promote milk's weight loss benefits.

Fluid milk print advertisements produced in 2005 included celebrity weight loss advertisements targeting moms and women (7); celebrity advertisements with the active, bone growth, and fracture messages targeting teen boys and girls (12); NBA® Rookies of the Month (6) and Rookie of the Year (1); contest winners (4); Hispanic (7); school milk posters (4); and trade advertisements (1).

This year continued leveraging the new logo for milk's weight loss message: "24/24 Milk your diet/ Lose weight!" Additional information regarding these advertisements can be found at www.milkpep.org and at www.whymilk.com. Appendix I includes thumbnail images of the above noted television and print advertisements.



To initiate the celebration of its 10-year anniversary, the Milk Mustache campaign launched its 200th celebrity advertisement featuring actress/singer Lindsay Lohan. The campaign first launched in 1995, with a print advertisement featuring Naomi Campbell, to help educate Americans about the nutritional benefits of milk and to increase milk consumption. Board-funded research shows that it has helped raise awareness of the many reasons to drink milk—from reducing the risk of high blood pressure and osteoporosis to weight management. Campaign messages have included promoting the importance of milk's nine essential nutrients, including calcium, to help bones grow and to help keep them strong and healthy.

The national Hispanic advertising campaign continued as part of industry outreach to the growing Hispanic population. The advertisements continued to feature the popular tagline, "Más leche, Más logro" ("More milk, More achievement"), as well as "24 oz./24 horas" which reminds Hispanic moms to include 24 ounces daily of fat-free or reduced-fat milk as part of a reduced-calorie diet to promote milk's weight loss benefits. Hispanic print advertising featured celebrities Dr. Aliza and Giselle Blondet, along with several Hispanic advertorials designed to compliment the general market's weight loss message with an integrated Hispanic overlay. Hispanic consumers were directed to www.2424leche.com for more information on Hispanic weight loss activities.

Promotions

The Fluid Milk Board conducts promotions to help increase fluid milk sales in retail outlets. The promotions work to move more milk out of the store refrigerator and to increase sales in other retail outlets such as convenience stores, independent grocery stores, drug stores, and mass merchandisers. For some promotions, the Fluid Milk Board works with partners to increase the appeal to consumers. In 2005, promotions continued to focus on feature incentives such as promotional vehicles used to increase advertisements, displays of milk, and programs offering

prizes directly to consumers to help drive incremental purchases. Of note, regional producer groups play an important role in the execution of these retail programs.

The Fluid Milk Board conducted three national promotions in 2005. The first promotion, “A New View of You” was launched January 1st to coincide with healthy New Year’s resolutions and was featured in a segment of “The View” morning talk show. The promotion offered consumers a “Get a New View of You” 12-month calendar with any milk purchase and featured an online sweepstakes for a chance to win one of 24 trips for two to New York City.

The second promotion, “Fuel Up With Milk/Gear Up With the NBA®,” was a 5-week feature ad incentive program designed to drive sales of flavored milk in which retailers could run featured ads on flavored milk in exchange for Fuel Up With Milk/NBA®/got milk?® prizes. Point-of-Sale kits were shipped to retailers who signed up. Retailers would assemble kits, promote any size flavored milk at a feature price, send in proof of compliance, and receive prizes for giveaways. Retailers then used the prizes to execute their own in-store sweepstakes, contests, or giveaways. Additionally, the incentive featured an on-line auction in which kids could bid on NBA® star Carmelo Anthony gear and win prizes. The promotion celebrated flavored milk as a healthy alternative to soda.

The third promotion, “Get the Curves You Want,” held in May, focused on the importance of including 24 ounces of reduced-fat or fat-free milk a day in a reduced-calorie diet combined with exercise to support healthy weight loss. Consumers could purchase two gallons of milk and take their milk caps to Curves® fitness centers to earn a 2-week free membership. Consumers could also visit www.2424milk.com and enter an online sweepstakes for their chance to win one of twenty-four 24-month Curves® memberships.



Public Relations

The public relations programs continued to focus on (1) the nutritional benefits of milk, (2) emerging scientific studies that highlight milk’s benefits, (3) leveraging the high interest generated by the celebrities and the got milk?®/Milk Mustache campaign, and (4) preparing for and responding to misinformation and negative news about milk or the educational campaign. A wide variety of initiatives were implemented to reach specific target audiences. For 2005, over 1.65 billion media impressions were garnered through the integrated public relations program. The program provided support for the three national retail promotions by helping to build public awareness and increase retailer participation.

For the eighth consecutive year, the Milk Mustache Mobile Tour made its way around the United States. This year’s program, the “Great American Weight Loss Tour 2005,” (GAWL) ran from March through September covering 75 cities nationwide. Events included GAWL sign-ups,

Curves® workout equipment, processor sampling, and health assessments by a nutritional expert. This year's tour trucks were dedicated solely to moms and women, featuring celebrity moms and the Milk Your Diet-Lose Weight/GAWL themes on the trucks' side and end panels.



The 2005 "Healthy Schools Challenge"(Challenge) encouraged students to write testimonials regarding the efforts their school had made in getting students fit and healthy. Fifty schools each won a \$1,000 grant for school improvements such as installing milk vending machines or buying new athletic equipment. The students were visited by either an NBA® or WNBA® player and received other NBA® prizes such as autographed merchandise or game tickets. The grand prize winner was Bronx, New York's Preston High School nominated by student Cymone Bedford. Her school received a gym make-over, and Cymone appeared in her own milk mustache ad. The Challenge was one part of the "Fuel Up with Milk/Gear Up with the NBA®" program.

To educate Americans about the nutritional and taste benefits of chocolate and other flavored milk, the Fluid Milk Board continued its partnership with MTV and *Rolling Stone* magazine. The magazine offered teens the chance to participate in the "got milk?® Roadie for a Day" contest. The contest winner, Nathan Hernandez, was featured in his own got milk?® print advertisement (Appendix I) in *Rolling Stone* magazine.

The "got news?" section at www.milkpep.org continued in 2005 to help processors with their local media efforts. This feature gave processors access to customizable media materials from national programs such as the Milk Mustache Mobile to use in their own public relations efforts. Additionally, the Web site provided a daily email to processors for breaking news, a list of dietetic spokespersons for use as a resource, processor success stories, and links to a searchable library of medical research studies.

Brochures, news releases, and other information on milk were made available to consumers through Web sites www.whymilk.com, www.milkpep.org, and www.2424milk.com.

Strategic Thinking

The Fluid Milk Strategic Thinking Initiative (FMSTI) is a joint effort of the Fluid Milk Board, processors, and suppliers. This ongoing effort was established to address barriers to fluid milk consumption not targeted by the advertising, promotion, and public relations activities of the Fluid Milk Board.

Over the years, FMSTI has conducted market tests and studies in various business channels to develop proven ways to increase milk sales and subsequently turned these studies into customer-friendly processor materials that may be found at www.milkdelivers.org. These materials include reports on milk's opportunities in vending, foodservice, convenience and drug store, supermarket and school foodservice channels. Some of the materials included are brochures

focusing on new ways to get kids to drink more milk, a one-page fact sheet explaining the science behind milk's weight-loss claims, vending sales kits containing results from the 2003 Multi-Channel Vending Test, and other reports and studies published in prior years highlighting opportunities for increased milk sales.

Complete reports, studies, executive summaries, and press releases for FMSTI's ongoing initiatives are available for processors on Web site www.milkpep.org and for customers at www.milkdelivers.org. The presentations, videos, and printed materials are available by calling the milk hotline at 1-800-945-MILK (6455.)

School Marketing

In 2005, FMSTI continued to conduct seminars to educate processors on how to increase their milk sales at schools. The seminars were part of the "Capturing the School Milk Opportunity" program that presents processors with a myriad of options they can implement to improve school milk. More seminars were scheduled this year in various regions across the United States due to the growing demand by processors.

Additionally, FMSTI conducted a school milk test in St. Louis, jointly sponsored by Prairie Farms, MilkPEP, and the St. Louis Dairy Council, to determine the impact of flavor variety, improved flavor formulations, and enhanced paperboard packaging on milk sales. The test involved about 165,000 students at almost 300 area schools during the January-June 2005 semester. The test demonstrated an overall average increase in milk sales of more than 12 percent per school, with 35 percent increases at the best performing schools. If applied nationally, results could translate into more than 600 million more unit sales of milk annually and 11 more units of milk per student each year. Part of the test's objective was to show that no one solution fits all situations, and there are multiple opportunities for success with school milk. The schools demonstrating the largest sales increases incorporated simultaneous marketing tactics such as displaying milk mustache celebrity posters and point-of-sale materials in the cafeteria, hosting sampling events, and giving away prizes through special promotions.

The Fluid Milk Board continued its School Image Poster Program in 2005 to help educate students and school food service professionals about the role milk plays in good nutrition. Two large got milk?[®] posters were sent to 32,000 participating public middle and high school foodservice directors in August for the beginning of the school year, educating almost 24 million students. Smaller posters were sent to schools with cafeteria size limitations. This year's posters featured pop singer Kelly Clarkson, NBA[®] star Tracy McGrady, professional ice skating star Michelle Kwan, and NFL[®] quarterback Donovan McNabb. Surveys of the schools' foodservice directors revealed that of those schools receiving posters, over 80 percent hung them in the school cafeteria with more than one-third leaving the posters up until they were no longer in good condition.

Chapter 2

USDA Activities

Dairy Programs of USDA's Agricultural Marketing Service has day-to-day oversight responsibilities for the Dairy Board and the Fluid Milk Board. Dairy Programs oversight activities include reviewing and approving the Dairy and Fluid Milk Board's budgets, budget amendments, contracts, advertising campaigns, and investment plans. Approval of program materials is a major responsibility of Dairy Programs. Program materials are monitored for conformance with provisions of the respective Acts and Orders, My Pyramid, Dietary Guidelines, and with other legislation such as the Nutrition Labeling and Education Act.

Dairy Programs continues to ensure that the collection, accounting, auditing, and expenditure of promotion funds is consistent with the enabling legislation and orders; to certify qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs); and to provide for evaluation of the effectiveness of both promotion programs' advertising campaigns. Dairy Programs assists the Boards in their assessment collection, compliance, and enforcement actions.

Other Dairy Programs responsibilities relate to nominating and appointing Board members, amending the orders, conducting referenda, and conducting periodic program audits. Dairy Programs representatives attend full Board meetings, Board committee meetings, and other staff and member meetings of consequence to the program.

National Dairy Promotion and Research Board Oversight

Nominations and Appointments

The 36 members of the Dairy Board who administer the program serve 3-year terms, with no member serving more than two consecutive terms. Dairy Board members must be active dairy producers and are selected by the Secretary of Agriculture from nominations submitted by producer organizations, general farm organizations representing dairy producers, Qualified Programs, or other interested parties.

Thirty-four nominations were received by USDA for the 12 Dairy Board members whose terms expired October 31, 2005. A press release issued on August 16, 2005, announced the appointment of ten new members and two incumbents. All will serve 3-year terms ending October 31, 2008. Newly appointed members were: Ronald L. Koetsier, Visalia, California (Region 2); William R. D. Anglin, Bentonville, Arkansas (Region 4); Donna L. Sharp, Bath, South Dakota (Region 5); Carl F. VanDen Avond, Green Bay, Wisconsin (Region 6); Bradford A. McCauley, Viola, Wisconsin (Region 6); Douglas D. Nuttelman, Stromsburg, Nebraska (Region 7); Carl A. Schmitz, Wadesville, Indiana (Region 9); Joyce A. Bupp, Seven Valleys, Pennsylvania (Region 11); Ronald R. McCormick, Java Center, New York (Region 12); and Debora A. Erb, Landaff, New Hampshire (Region 13). Reappointed to serve second terms were: Lester E. Hardesty, Windsor, Colorado (Region 3) and Michael M. Ferguson, Senatobia, Mississippi (Region 8).

A list of the 2005 Dairy Board members appears in Appendix A. Appendix C-1 is a map of the contiguous 48 States depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order).

Organic Exemption Amendment to the Order

Effective February 14, 2005, any persons producing and marketing solely 100 percent organic products were exempted from paying assessments to any research and promotion program administered by the Agricultural Marketing Service (70 FR 2743, published January 14, 2005). The final rule amended section 1150.157 of the Dairy Order. In States that have mandatory assessment laws, dairy producers are only exempt from the Federal assessment. Producers are still responsible for remittance of State assessments. In 2005, approximately 500 dairy producers were granted exemptions. The Dairy Order requires producers to re-apply annually to continue to receive the exemption.

Foreign Agricultural Service

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the USDEC foreign market development plan and related export contracts. USDEC export contracts also are reviewed by AMS Dairy Programs to ensure conformance with the Dairy Production Stabilization Act of 1983 (Dairy Act), Dairy Order, and with established USDA policies. In 2005, the USDA's Foreign Market Access Program and the Market Promotion Program provided matching funds to USDEC for dairy product promotion and market research in Japan, Mexico, Southeast Asia, South Korea, and Latin America.

Contracts

The Dairy Act and Dairy Order require that all contracts expending assessment funds be approved by the Secretary (7 CFR 1150.140). During 2005, Dairy Programs reviewed and approved 250 Dairy Board and DMI agreements, amendments, and annual plans. Funding approvals were from the 2003, 2004, and 2005 fiscal periods. Appendix F-1 lists the contractors and corresponding Board initiatives approved by USDA during 2005.

Contractor Audits

At the time of publication, DMI had not completed its 2005 contractor audits. DMI retained a new certified public accounting firm in 2005, Ernst & Young, for their audit services.

Collections

The Dairy Act specifies that persons who pay producers and producers marketing milk directly to consumers, commonly referred to as "responsible persons," shall remit assessments to the Dairy Board or to Qualified Programs for milk produced in the United States and marketed for commercial use.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2005, the Dairy Board received about 5.07 cents of the 15-cent assessment.

Compliance

Compliance by responsible persons in filing reports and remitting assessments continues in a timely manner and at a high rate. No significant differences were discovered when comparing the audit results to what was reported by the responsible persons. The Dairy Board verifies that the credits claimed by responsible persons are actually sent to Qualified Programs. This verification is done by contract with each Qualified Program. When noncompliance exists, the Dairy Board takes initial action on the matter. If the Dairy Board is unsuccessful in resolving the violation, the matter is referred to USDA for further action.

Qualified Programs

Dairy Programs reviewed applications for continued qualification from 59 Qualified Programs. A list of the 59 active Qualified Programs is provided in Appendix H. Consistent with its responsibility for monitoring the Qualified Programs, Dairy Programs obtained and reviewed income and expenditure data from each of the programs. The data reported from the Qualified Programs are included in aggregate form for 2004 and 2005 in Chapter 1.

Litigation

The Dairy Board and the Secretary of Agriculture were named as defendants in a lawsuit in the U.S. District Court for the Middle District of Pennsylvania by dairy producers seeking a declaration that the Dairy Act violates their First Amendment rights of free speech and association. In March 2003, a Federal trial court in Pennsylvania found that the Dairy Program does not violate the claimants' right of free speech and association. Upon appeal, the U.S. Court of Appeals for the Third Circuit reversed this decision. The Appeals Court found that the Dairy Program does violate the claimants' right of free speech and association rights by compelling them to subsidize speech with which they disagree. The Department of Justice (on behalf of the Secretary of Agriculture and Dairy Board) filed a petition for an *En Banc* rehearing, but the petition was subsequently denied. On October 1, 2004, the U.S. Solicitor General filed a writ of certiorari with the U.S. Supreme Court (Court). The petition for writ was granted on May 31, 2005; the judgment was vacated and the case was remanded to the Third Circuit Court of Appeals for further consideration in light of Court's decision in *Johanns, Secretary of Agriculture, Et Al. v. Livestock Marketing Association Et Al.* In this decision, the Court held that commodity promotion programs are considered Government speech and therefore are not subject to First Amendment protections. On September 15, 2005, the Third Circuit Court of Appeals ruled that "the teachings of *Johanns v. Livestock Marketing Association*, control the matters presented in this case" and ordered that the March 2003 judgment of the District Court for the Middle District of Pennsylvania that the Dairy Program does not violate the claimants' right of free speech and association be affirmed.

National Fluid Milk Processor Promotion Board Oversight

Nominations and Appointments

The 20 members of the Fluid Milk Board serve 3-year terms, with no member serving more than 2 consecutive terms. The Fluid Milk Promotion Order (Fluid Order) provides that no company shall be represented on the board by more than three representatives. Fluid Milk Board members who fill vacancies with a term of 18 months or less are permitted to serve 2 additional 3-year terms. Fluid Milk Board members are selected by the Secretary from nominations submitted by fluid milk processors, interested parties, and eligible organizations. In a news release issued on March 28, 2006, the Secretary of Agriculture announced four reappointments and five new appointments to the Fluid Milk Board, including two members filling vacancy terms. Newly appointed to serve their first terms were: Edward L. Mullins, Carlinville, Illinois (Region 9); Patrick R. Beaman, Dallas, Texas (Region 12); and Lisa M. Hillenbrand, Geneva, Switzerland (At-Large Public). Reappointed to serve a second term were: Michael F. Nosewicz, Cincinnati, Ohio (Region 3); William R. McCabe, Orrville, Ohio (Region 6); Paul W. Bikowitz, City of Industry, California (Region 15); and Susan D. Meadows, Dallas, Texas (At-Large Processor). The newly appointed and reappointed members were officially seated at the July 12-15, 2006, Fluid Milk Board Meeting. The terms for these appointees will expire on June 30, 2009. Additionally, filling vacancies with less than 18 months remaining were: Charles L. Gaither, Jr., Asheville, North Carolina (Region 4); and Teresa E. Webb, Wallington, New Jersey (At-Large Processor). Both were officially seated at the April 6-8, 2006, meeting. The terms for the two vacancy positions will expire June 30, 2007.

A list of the 2005 Fluid Milk Board members appears in Appendix B. Appendix C-2 shows a map depicting the 15 geographic regions under the Fluid Milk Order.

Order Amendments

Effective February 14, 2005, any persons producing and marketing solely 100 percent organic products were exempted from paying assessments to any research and promotion program administered by the Agricultural Marketing Service (70 FR 2743, published January 14, 2005). The final rule amended section 1160.211 of the Fluid Milk Order. In 2005, no fluid milk processors were granted exemptions. The Fluid Milk Order requires processors to re-apply annually to continue to receive the exemption.

The second Fluid Order amendment became effective May 1, 2005, (70 FR 14974-14976, published March 24, 2005). This final rule amended section 1160.200 of the Fluid Milk Order by modifying the terms of membership of the Fluid Milk Board. The amendment requires that any change in a member's employer or change in ownership of the member's employer would disqualify that member. The member would continue to serve on the Board for a period of up to 6 months until a successor was appointed. In addition, a public member on the Board who changes employment or whose business focus with an employer is substantively changed would be disqualified in a manner similar to a fluid milk processor member. The amendments ensure

that the Board is able to equitably represent fluid milk processing constituents and the public's interest.

Program Development

The Fluid Milk Board contracted with the International Dairy Foods Association (IDFA) to manage the program. IDFA contracted with Lowe Worldwide, DRAFT, Weber Shandwick, and Siboney USA to develop the Fluid Milk Board's advertising, promotions, consumer education/public relations, and Hispanic advertising/public relations, respectively.

Contractor Audits

The Fluid Milk Board retained the certified public accounting firm of Synder, Cohn, Collyer, Hamilton & Associates P.C. to audit the records of Weber Shandwick, in order to determine if the agency had conformed to the financial compliance requirement specified in its agreement with the Board for the period of January 1, 2004, through December 31, 2004. The Board continues to enhance its internal contract control system in order to ensure that the amounts invoiced to the Board are in compliance with established contracts and procedures.

Compliance

Compliance by fluid milk processors in filing reports and remitting assessments continues in a timely manner and at a high rate. In 2005 one delinquent account was referred to the USDA as a result of bankruptcy proceedings.

Chapter 3

Impact of Generic Fluid Milk and Dairy Advertising and Promotion on Dairy Markets: An Independent Analysis

The Dairy Production and Stabilization Act of 1983 (Dairy Act; 7 U.S.C. 4514) and the Fluid Milk Promotion Act of 1990 (Fluid Milk Act; 7 U.S.C. 6407) require a yearly independent analysis of milk industry programs. These promotion programs operate to increase milk awareness and thus the sale of fluid milk and related dairy products. From 1984 through 1997, USDA conducted the independent evaluation of the National Dairy Promotion and Research Program (Dairy Program), as authorized by the Dairy Act, and issued an annual Report to Congress on the effectiveness of the Dairy Program. Beginning in 1995, the Congressional report began including analyses of the effectiveness of the Dairy Program in conjunction with the National Fluid Milk Processor Promotion Program (Fluid Milk Program) authorized by the Fluid Milk Act. Since 1998, these independent analyses have been conducted by agricultural economists from Cornell University (Cornell).

The following economic evaluation focuses on the combined generic marketing activities by dairy farmers and fluid milk processors that are designed to increase the demand for fluid milk and dairy products. The results of two separate models are presented.

The first model is a fluid milk-only demand model used to evaluate the economic impacts of all generic fluid milk marketing activities of both programs on fluid milk demand. The generic fluid milk marketing activities include fluid milk advertising and non-advertising marketing activities used to increase demand including public relations, sales promotions, nutrition education, and sponsorships conducted by fluid milk processors and dairy farmers. While the dairy farmers' and fluid milk processors' programs utilize various types of marketing strategies to increase fluid milk consumption, the effects of fluid milk marketing under both programs are combined because the objectives of both programs are the same and data cannot be satisfactorily segregated to evaluate the two programs separately.

The second model is a total dairy demand model for all fluid milk and dairy products used to evaluate the economic impacts of all generic marketing activities for those products. The total dairy demand model is included because the dairy farmer programs now emphasize an "all dairy" promotion strategy (e.g., 3-A-Day™) over product-specific campaigns. Similar to the first model, marketing activities in the second include generic advertising, sales promotions, public relations, nutrition education, and sponsorships. Unlike the first model, the marketing activities in the second model include activities for all dairy products (fluid and manufactured dairy products). This model provides a measure of the economic impact of all demand-enhancing, generic marketing activities by both programs.

The following summarizes the findings of the report.

Highlights

Generic fluid milk marketing activities sponsored by dairy producers and fluid milk processors have helped mitigate a long-term decline in per capita fluid milk consumption in the United States. Cornell estimates that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Specifically, over the period 1995 through 2005, it is estimated that a 1.0 percent increase in generic fluid milk marketing expenditures resulted in a 0.051 percent increase in per capita fluid milk consumption when holding all other demand factors constant.

What about the impact on total consumption of fluid milk? From 2001 through 2005, generic fluid milk marketing activities increased fluid milk commercial disappearance by 22.5 billion pounds in total or 4.5 billion pounds per year. Alternatively stated, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 8.2 percent less over this time period. Hence, the combined efforts of the two programs to market fluid milk have had a positive and statistically significant impact on fluid milk consumption.

Regarding the total dairy product demand analysis, the average generic dairy marketing elasticity for the period 1990–2005 was 0.074 -- a 1.0 percent increase in expenditures for these marketing activities increased per capita dairy demand by 0.074 percent. Thus, the total marketing program effort had a positive and statistically significant impact on dairy consumption.

The benefit-cost ratio (BCR) for the Dairy Program for the period 2000 through 2005 was calculated. The benefits of the Dairy Program were calculated as the change in dairy farmers' net revenue due to demand enhancement from all marketing activities under the Dairy Program. The costs of the Dairy Program were calculated as the difference in total assessment revenues before and after the national program was enacted. The results show that the average BCR for the Dairy Program was 4.33. This means that each dollar invested in generic dairy marketing by dairy producers returned \$4.33, on average, in net revenue to farmers.

To make allowances for the error inherent in any statistical estimation, a 95 percent confidence interval was calculated for the average BCR. The confidence interval provides a lower and an upper bound for the average BCR. One can be "confident" that the true average BCR lies within these bounds 95 percent of the time. The estimated lower and upper bounds for the average BCR were 3.70 and 4.95, respectively. This confidence interval demonstrates that one could be confident 95 percent of the time that the true average BCR lies between a low of 3.70 and a high of 4.95. Hence, it is reasonable to conclude that the benefits of the Dairy Program's marketing activities have been considerably greater than the cost of the program.

Analysis of Generic Fluid Milk Marketing

Per capita fluid milk consumption in the United States has been trending downward for many years. Among the factors behind this decline are changes in U.S. demographics, changes in

consumer preferences for fluid milk, how and where people consume food, and aggressive advertising and marketing by producers of beverages that compete with fluid milk. The model described in this report uses quarterly data covering the period 1995 through 2005 and the following is a brief graphical overview of changes in per capita fluid milk consumption and factors hypothesized to affect milk consumption over this time period. It is important to emphasize, however, that the decline in per capita fluid milk consumption has occurred over a significantly longer period of time than since 1995.

Figure 3-1 illustrates the steady decline in per capita fluid milk commercial disappearance since 1995 (along with seasonal and quarterly changes). From 1995 to 2005, per capita commercial disappearance declined by 11.3 percent. This translates into an average annual rate of decline of a little more than 1.0 percent annually.

One potential cause of declining per capita fluid milk consumption may be the positive trend in food consumed away from home. As people consume more food away from home, fluid milk consumption may be diminished by the lack of availability of many varieties of fluid milk products at the nation's eateries as well as the expanding availability of fluid milk substitutes. Many eating establishments carry only one type of milk product that causes some people who would normally drink milk to consume a different beverage if the preferred milk product is not available.

Figure 3-2 illustrates the trend in expenditures on food consumed away from home as a percentage of total food expenditures since 1995. Between 1995 and 2005, the annual average percentage of expenditures on food consumed away from home increased by 11.4 percent. While there were some ups and downs in the percentage of food consumed away from home over

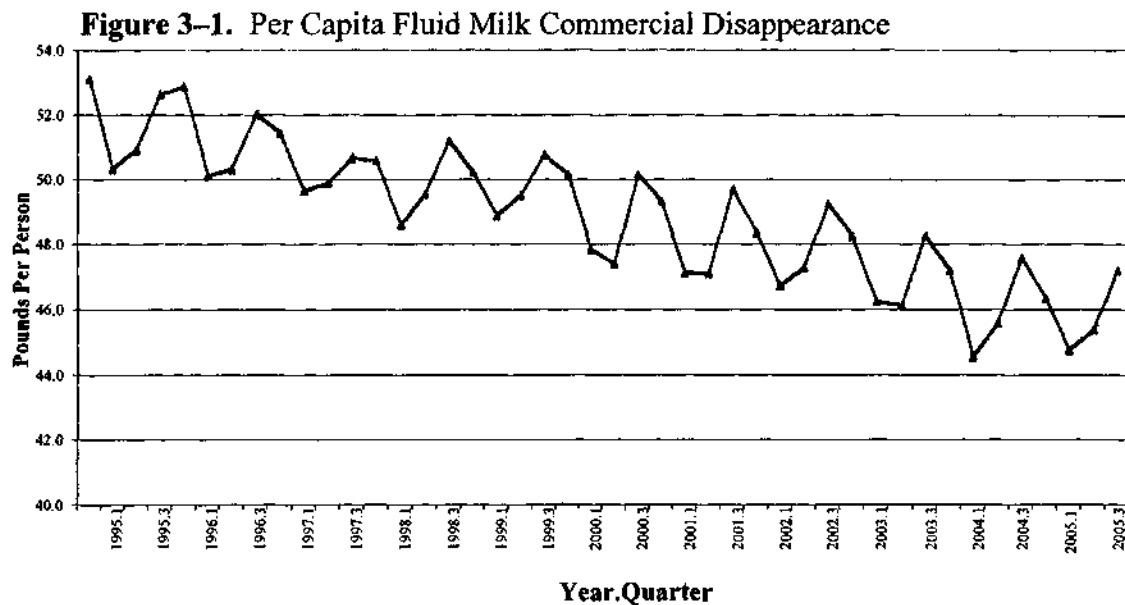
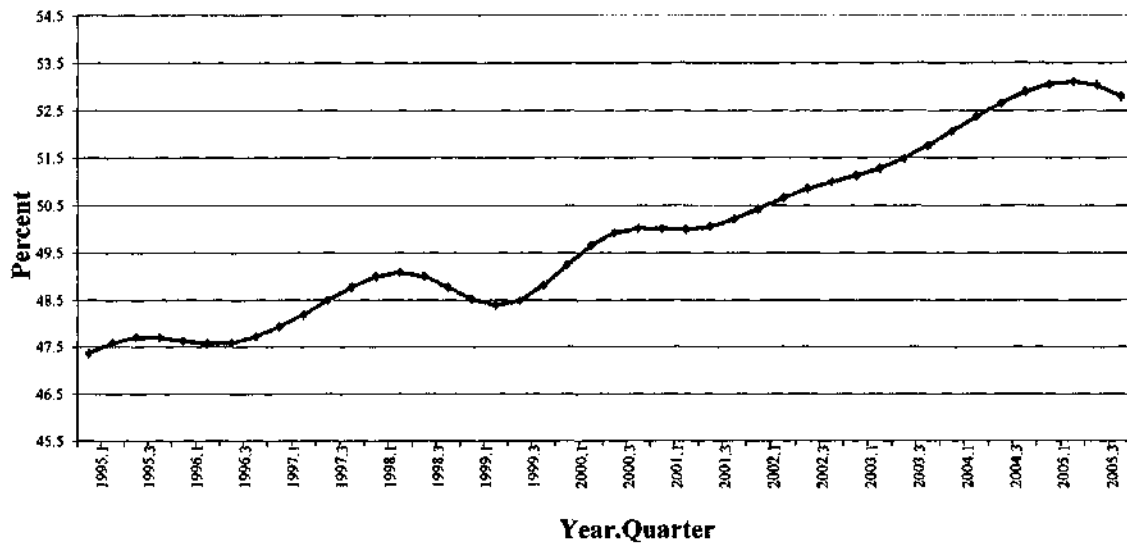


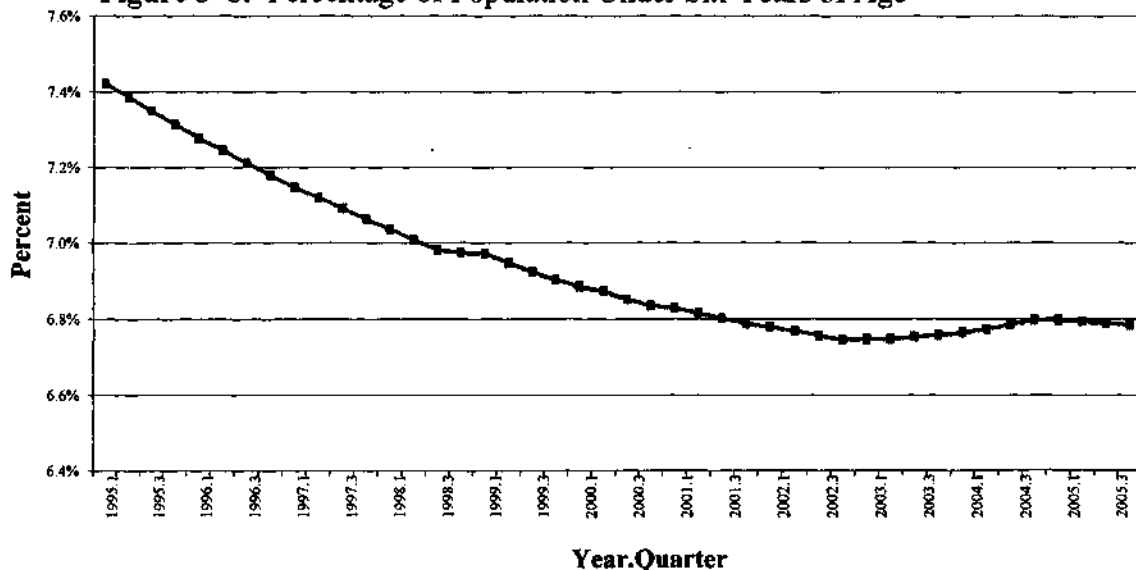
Figure 3-2. Expenditures on Food Consumed Away From Home as a Percentage of Total Food Expenditures



this period, the general trend is increasing from 1995 to 2005. It is evident from Figures 3-1 and 3-2 that per capita fluid milk consumption and eating away from home are negatively related. Thus the increase in food consumed away from home likely has been responsible for some of the decrease in per capita fluid milk consumption.

Another potential reason why per capita fluid milk consumption has declined may be changes in U.S. population. One important change is the declining proportion of young children in the population since 1995 (the decline has leveled out since 2003). Since young children are one of

Figure 3-3. Percentage of Population Under Six Years of Age

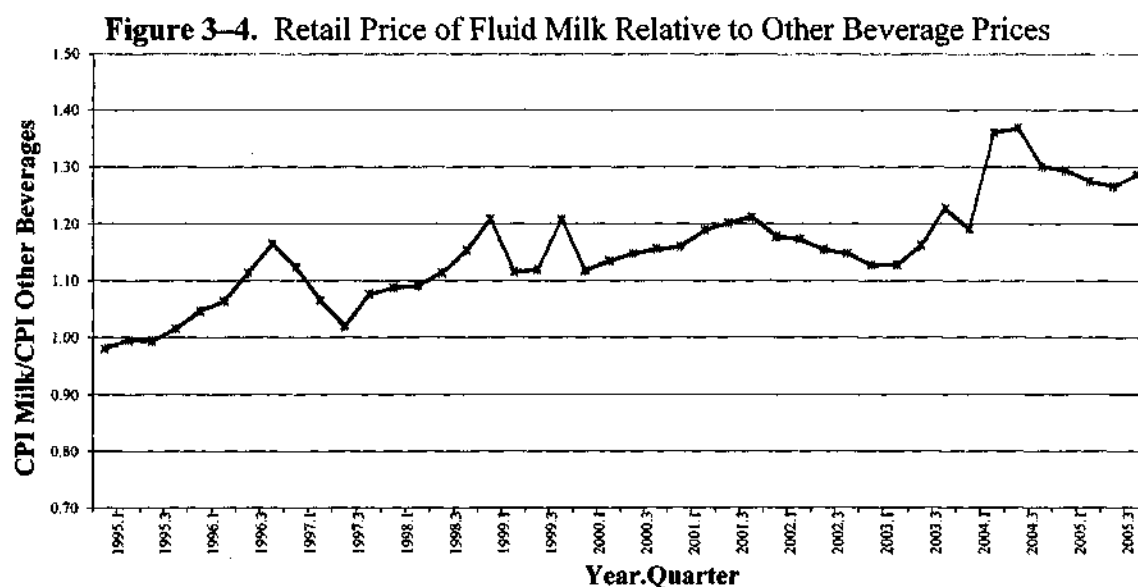


the largest milk-consuming cohorts, any decline in that cohort negatively impacts per capita fluid milk consumption. Figure 3-3 shows the percentage of the population that was less than 6 years old from 1995 to 2005, a segment of the population that has decreased by almost 8.0 percent since 1995. Therefore, there is a positive correlation between per capita milk consumption and this age cohort—both are declining.¹

Since 1995, the retail price of fluid milk products has been rising relative to other nonalcoholic beverages. This pattern is displayed in Figure 3-4. Note that any value above 1.0 means the consumer price index for fluid milk is higher than the consumer price index for nonalcoholic beverages. While there have been some periods since 1995 where retail fluid milk prices declined relative to other beverage prices, two-out-of-three periods have been characterized by rising relative retail prices for fluid milk. From 1995 through 2005, annual average fluid milk prices rose 28.5 percent relative to other beverages. These retail fluid milk price increases are likely responsible for some of the decline in per capita fluid milk consumption.

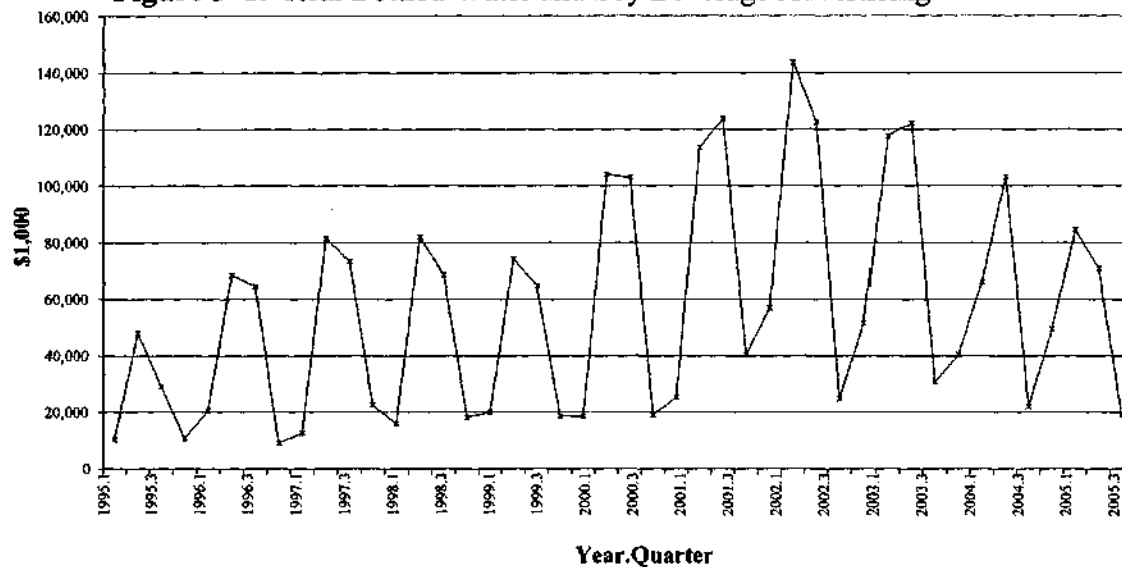
Fluid milk's loss of market share to other beverages also may be due to aggressive marketing by competing beverage producers. Indeed, both dairy farmers and fluid milk processors started generic marketing programs to combat competing marketing from other beverage producers.

Since 1995, two beverages that have grown the most in per capita consumption are bottled water and soy beverage, due in part to increased advertising and promotion by these beverages. Figure 3-5 displays real (inflation-adjusted) per capita advertising expenditures for bottled water and soy beverage. Combined advertising for bottled water and soy beverage (in 2005 dollars) increased from about \$98 million in 1995 to \$224 million in 2005, 129.0 percent increase. Both



¹ Since 2000, the positive relationship between per capita fluid milk consumption and the percent of the population under 6 years old has weakened considerably with the flattening out of the age demographic variable. However, this positive relationship nevertheless holds for the period 1995 through 2005.

Figure 3-5. Real Bottled Water and Soy Beverage Advertising



of these products experienced large increases in per capita consumption over this time period, undoubtedly taking away some market share from fluid milk.

One factor that may have diminished some of the long-term decline in per capita fluid milk consumption is the growth in real income over this period. Fluid milk is considered to be a “normal” good -- meaning consumption increases as consumers’ disposable incomes

Figure 3-6. Real Per Capita Personal Disposable Income

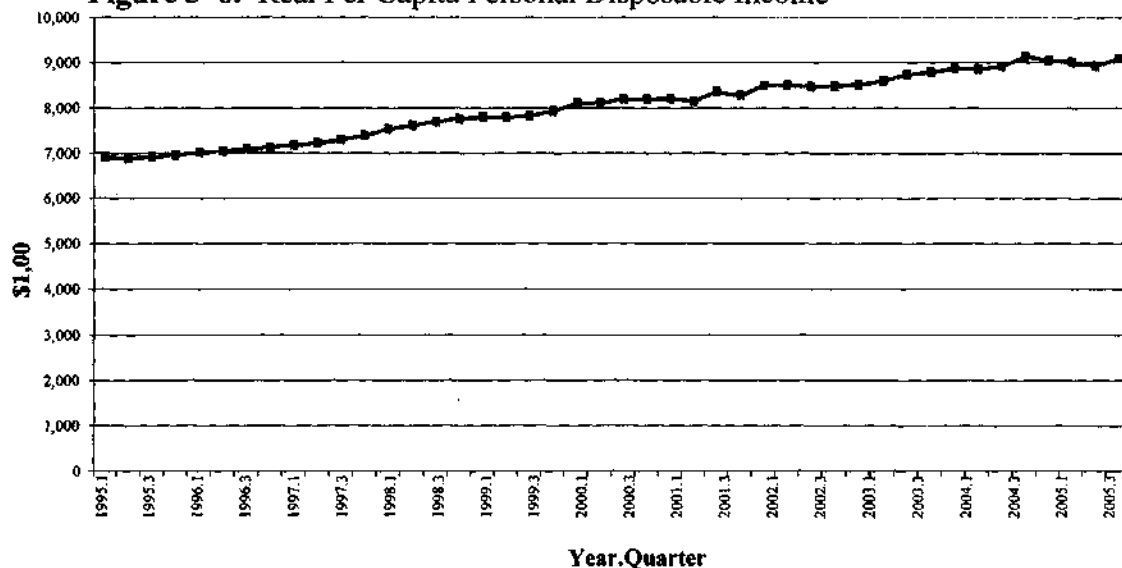
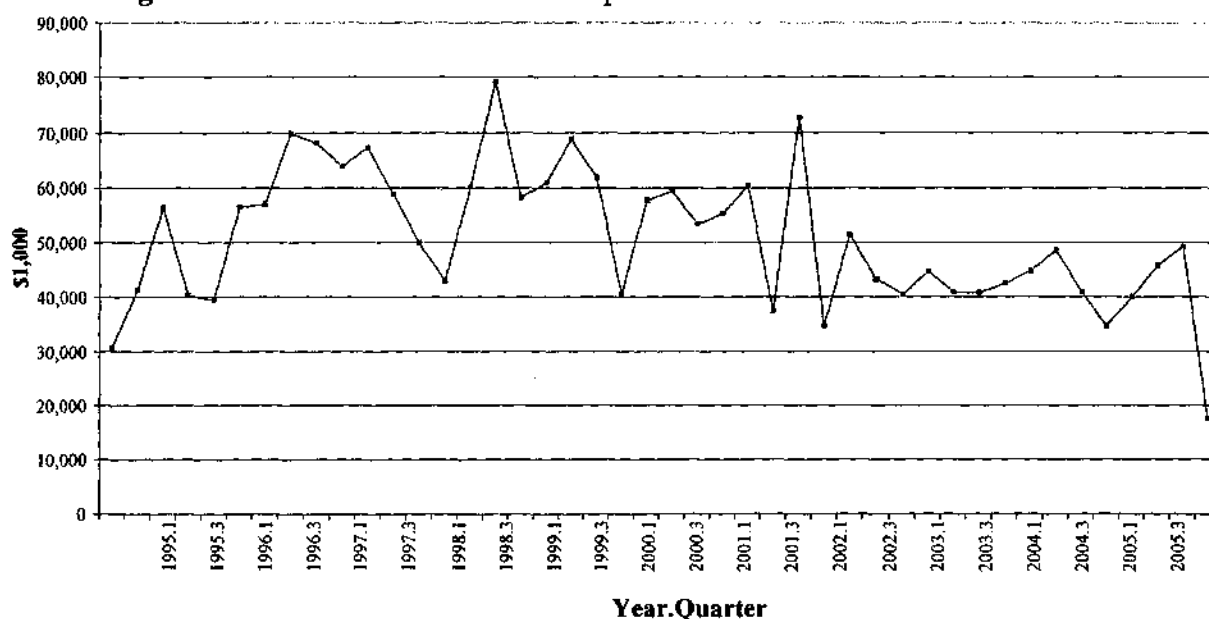


Figure 3-7. Real Total Fluid Milk Expenditures



increase. Figure 3-6 illustrates the steady positive trend in real per capita income (in 2005 dollars) from 1995 to 2005. Since 1995, real per capita income has increased by 30.3 percent.

Another factor that may have mitigated some of the long-term decline in per capita fluid milk consumption over part of this time period is generic marketing efforts by dairy producers and fluid milk processors. The producer checkoff program is the largest checkoff program in the United States in terms of revenue and the second largest is the fluid milk processor program. Figure 3-7 shows the combined real expenditures (in 2005 dollars) on generic fluid milk marketing efforts by these two programs. From 1995 to 1998, there was steady growth in real expenditures for generic fluid milk marketing, from about \$168 million in 1995 to \$232 million in 1998. Since 1998, however, such expenditures have been declining. Between 1995 and 2005, combined annual average real expenditures declined nearly 10.0 percent reaching a low of \$152 million in 2005. This decline may have had an impact on declining per capita fluid milk consumption over this period.

To more formally evaluate the relationship between per capita fluid milk consumption and factors hypothesized to influence that consumption, an econometric modeling approach was developed. Because there are factors other than generic advertising that influence the demand for fluid milk, this model was used to identify the effects of individual factors affecting demand.

The following variables were included as factors influencing per capita fluid milk demand: the consumer price index (CPI) for fluid milk; the CPI for nonalcoholic beverages, which was used as a proxy for fluid milk substitutes; the percentage of the U.S. population less than 6 years old; per capita disposable income; variables to capture seasonality in fluid milk demand; expenditures on food consumed away from home as a percentage of total food expenditures; per capita

expenditures on bottled water and soy beverage advertising (combined); and expenditures on generic fluid milk marketing. As mentioned in the introduction, the marketing expenditures included funds spent on fluid milk advertising, public relations, sales promotions, nutrition education, and sponsorships. Since the goals of the two marketing programs are the same with regards to fluid milk, all generic fluid milk marketing activities by both programs were aggregated into a single marketing variable.

The model was estimated with national quarterly data from 1995 to 2005. To account for the effects of inflation, all prices and income were deflated by the appropriate consumer price index. Generic fluid milk marketing and bottled water and soy beverage advertising expenditures were deflated by a media cost index computed from annual changes in promotion and advertising costs by media type supplied by Dairy Management Inc. Because marketing has a carry-over effect on demand, past fluid milk marketing expenditures also were included in the model as explanatory variables using a distributed-lag structure.² Similar procedures were used to capture this carry-over effect for bottled-water and soy beverage advertising.

The impact of variables affecting demand can be represented by elasticities. Elasticity measures the percentage change in per capita demand given a 1.0 percent change in one of the identified demand factors while holding all other factors constant. Table 3-1 provides average elasticities for the period 1995 through 2005 for variables found to have a statistically significant effect on consumption. For example, a price elasticity of demand for fluid milk equal to -0.114 means that a 1.0 percent increase in the real (inflation-adjusted) retail fluid milk price decreases per capita fluid milk quantity demand by 0.114 percent.

The most important factors influencing per capita fluid milk demand are the percentage of the population under 6 years of age and the proportion of food expenditure on food eaten away from home. While not as large in magnitude, retail fluid milk prices, income, expenditures on generic milk marketing efforts, and bottled water plus soy beverage advertising expenditures also significantly impacted per capita fluid milk demand.

The amount of food that is consumed away from home, which was measured in this model as real per capita expenditures on food eaten away from home as a percentage of total expenditures on food, was the most important factor affecting milk consumption. The estimated elasticity for this factor was -0.709 . A 1.0 percent increase in the percentage of food consumed away from home would result in a 0.709 percent decrease in fluid milk demand. As mentioned previously, this negative relationship may be due to the limited availability of fluid milk products versus the high availability of fluid milk substitutes at many eating establishments that frequently offer only one or two types of milk beverages. One can hypothesize that because of these limited choices, some people who would ordinarily choose milk choose another beverage instead. This result

² Specifically, a second-degree polynomial lag structure with both end point restrictions was imposed. The demand model included current expenditures and eight quarters of lagged real generic milk marketing expenditures to capture the carry-over effect of the marketing activities. The length of lag used here indicates that such demand enhancing activities as the *got milk?*[®] and milk mustache campaigns have long-lasting effects on consumers.

suggests the need to target the retail food service industry in an effort to increase away from home consumption. Efforts to increase the variety of fluid milk beverages offered to dining-out customers may increase the competitiveness of fluid milk.

Another important milk demand factor continues to be demographic changes. Specifically, the percentage of the population under 6 years of age had an estimated elasticity of 0.366. This means that a 1 percent increase in this age cohort would result in a 0.366 percent increase in per capita fluid milk demand when holding all other demand factors constant. This result is consistent with previous studies (including last year's analysis) that show one of the largest milk-consuming segments of the population is young children.

Not surprisingly, the retail price of fluid milk has a negative and statistically significant impact on per capita demand. The results indicate that a 1 percent increase in the real retail price of fluid milk would result in a 0.114 percent decrease in per capita fluid milk quantity demanded. The magnitude of this elasticity is relatively small indicating that U.S. consumers' milk purchasing behavior is relatively insensitive to changes in the retail price. This result, which is consistent with the other studies, is likely due to the fact that fluid milk is generally regarded as a staple commodity in the United States. However, as described in the previous section, the retail price of milk has increased substantially since 1995 (28.5 percent) relative to the price of other beverages. Consequently, the increase in fluid milk prices has contributed to the decline in per capita consumption.

Per capita disposable income had a positive and statistically significant impact on per capita fluid milk consumption. A 1.0 percent increase in real per capita income would result in a 0.108 percent increase in per capita fluid milk demand holding all other demand factors constant. Similar to the price elasticity in magnitude, the income elasticity is consistent with the notion of

Table 3-1. Average Elasticity Values (1995-2005) for Factors Affecting the Retail Demand for Fluid Milk.¹

Demand Factor	Elasticity
Retail price	-0.114*
Per capita income	0.108**
Percent of food-away-from-home expenditures	-0.709*
Percent of population younger than six years of age	0.366*
Bottled water + soy beverage advertising	-0.008**
Generic milk marketing	0.056*

¹ Example: A 1.0 percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.114 percent. For more information on the data used, see Table 3-3. *Statistically significant at the 5.0 percent significance level or less. **Statistically significant at the 10.0 percent significance level or less.

milk products as a staple commodity in the United States. With income up by over 30 percent since 1995, this has lessened the decline in per capita fluid milk consumption.

Combined bottled water and soy beverage advertising also had a negative impact on fluid milk demand during the study period. The estimated fluid milk demand elasticity with respect to bottled-water advertising was -0.008 and statistically significant. While relatively small in magnitude, the huge percentage increase in competing advertising likely had a negative impact on fluid milk consumption over this time period.

Finally, the generic fluid milk marketing activities by the checkoff had a positive and statistically significant impact on per capita fluid milk demand. The average marketing elasticity was 0.056 and was statistically significantly different from zero at the 1.0 percent significance level. Thus, a 1.0 percent increase in generic fluid milk marketing would increase per capita fluid milk consumption by 0.056 percent holding all other demand factors constant. This generic marketing elasticity is virtually identical to the one estimated last year of 0.054 .

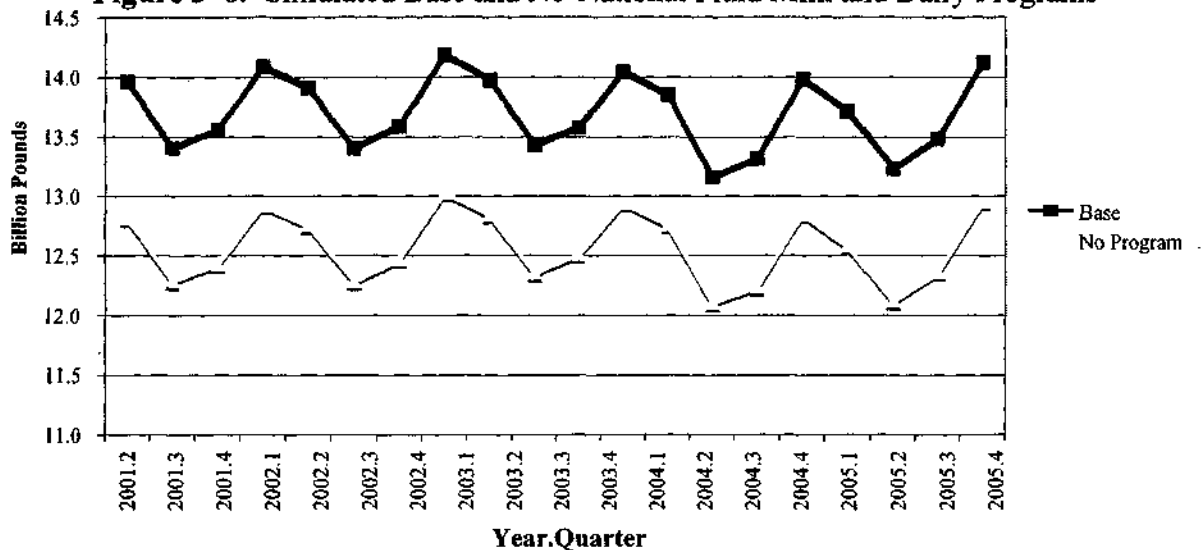
To examine the impact on total consumption of fluid milk for the period 2001 through 2005, the economic model simulated the estimated demand equation for two scenarios: (1) a baseline scenario in which the combined fluid milk marketing expenditures were equal to actual marketing expenditures under the two programs, and (2) a no-national-Dairy-Program, no-Fluid-Milk-Processor-Program scenario in which there was no fluid milk-processor-sponsored marketing and dairy producer-sponsored fluid milk marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before the national program was enacted. A comparison of these two scenarios provided a measure of the impact of the two national programs.

Figure 3–8 displays the simulation results for quarterly fluid milk commercial disappearance for the two scenarios. It clearly shows the positive impact on total fluid milk consumption due to the milk-processor and dairy producer marketing programs. From 2001 through 2005, these marketing activities increased fluid milk commercial disappearance by 22.5 billion pounds in total, which is 4.5 billion pounds per year. Put differently, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 8.2 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by dairy producers and fluid milk processors combined have had a positive and statistically significant impact that is partially mitigating declines in fluid milk consumption.

Analysis of Total Dairy Product Generic Marketing

To examine the overall impact of the dairy producer and fluid milk processor programs on overall dairy demand, a combined fluid milk/dairy product demand model was developed that included all demand-enhancing marketing activities as one of the demand determinants. Per capita commercial disappearance of fluid milk, cheese, butter, and frozen products was used to

Figure 3–8. Simulated Base and No-National Fluid Milk and Dairy Programs



represent total dairy demand.³ Expenditures for the following marketing activities were aggregated into one variable assumed to impact the total dairy demand model: total dairy producer expenditures for generic milk and cheese advertising, public relations, sponsorships, retail promotions, and nutrition education and total milk-processor expenditures for generic milk advertising, public relations, and promotions.⁴ In addition, the following variables were included as factors influencing per capita dairy demand: the CPI for all dairy products, per capita

Table 3–2. Average Elasticity Values (1990–2004) for Factors Affecting Total Dairy Retail Demand.

Demand Factor	Elasticity
Retail price	–0.671*
Per capita income	0.175**
Per capita food-away-from-home expenditures	0.770*
Generic dairy marketing	0.074*
*Statistically significant at the 1 percent level or less. **Statistically significant at the 10.0 percent level.	

³ Since all products were expressed on a milk-fat equivalent basis, non-fat dry milk is not included. The summation of fluid milk, cheese, butter, and frozen dairy products on a milk fat equivalent basis is used as a measure of total dairy demand.

⁴ Considerably more than 90 percent of the combined marketing budgets of dairy farmers and fluid milk processors is spent on fluid milk and cheese marketing activities. Hence, expenditures on fluid milk and cheese marketing are used as a measure of the overall dairy marketing efforts of the two programs.

disposable income, variables to capture seasonality in dairy product demand, and per capita expenditures on consumption of food away from home. The model was estimated with national quarterly data for 1990–2005.⁵ To account for the impact of inflation, all monetary variables were deflated by the CPI for all items. Generic fluid milk and cheese marketing expenditures were deflated by a weighted average media cost index (television, radio, print, and outdoor) for fluid milk and cheese.

Table 3–2 provides selected elasticities for the total dairy demand model. All demand elasticities were statistically significantly different from zero at the 1.0 percent significance level, except for income which was significant at the 10.0 percent level. The most important factor in the model impacting per capita disappearance of all dairy products was per capita expenditures on food consumed away from home. The results indicate that a 1.0 percent increase in per capita food-away-from-home expenditures would result in a 0.77 percent increase in combined per capita total dairy demand. The average price elasticity for 1990 through 2004 was -0.671 ; in other words, a 1.0 percent increase in the retail price of dairy products would result in a 0.671 percent decrease in per capita quantity demanded for all dairy products. Income was also an important factor in the total demand model. The estimated income elasticity was 0.175, indicating that these dairy products are normal goods; that is, consumption rises with increases in income.

The major interest here is the combined advertising and promotion or “marketing” elasticity. The average marketing elasticity for this period was 0.074; a 1.0 percent increase in expenditures for these combined marketing activities would increase per capita total dairy demand by 0.074 percent. Thus, the total marketing effort by dairy producers and fluid milk processors has had a positive and statistically significant impact on dairy consumption.

Benefit-Cost Analysis of the Dairy Program

One way to measure whether the benefits of a program outweigh the cost is to compute a benefit-cost ratio (BCR). A BCR can be computed as the change in net revenue⁶ due to generic dairy marketing divided by the cost of the checkoff program. A BCR was estimated for producers for the Dairy Program but one could not be computed at this time for fluid milk processors for the Fluid Program because data on packaged fluid milk wholesale prices, which are necessary in calculating processor net revenue, are proprietary and therefore not available.

⁵ Unlike the fluid milk demand model, data for the total dairy demand model went farther back in time to 1990. We could not go back prior to 1995 for the fluid milk model because it was impossible to separate fluid milk marketing expenditures from total dairy marketing expenditures before 1995. Since extra data existed for the total dairy demand model, it was used.

⁶ “Net revenue” is defined as the aggregate gain in total revenue from price and product disappearance enhancements due to generic dairy marketing less the increase in supply costs for the additional milk marketed by dairy farmers.

The BCR⁷ was calculated by simulating two scenarios: (1) a baseline scenario in which combined marketing expenditure levels were equal to actual marketing expenditures under the two programs and (2) a no-national-Dairy-Program scenario in which there was fluid milk processor-sponsored marketing but dairy producer-sponsored marketing was reduced to 42 percent of actual levels to reflect the difference in assessments before and after the national program was enacted. A comparison of these two scenarios provides a measure of the impact of the Dairy Program. The benefits of the Dairy Program were calculated as the change in dairy farmer net revenue (what economists refer to as “producer surplus”) due to demand enhancement from all marketing activities under the Dairy Program (i.e., the difference in net revenue between scenarios 1 and 2). The demand enhancement reflects increases in quantity and price as a result of the marketing program. The costs of the Dairy Program were calculated as the difference in total assessment revenue before and after the national program was enacted.

The average all milk price over this period in the baseline scenario was \$14.61 per hundredweight. In the no-national-Dairy-Program scenario, the average all milk price was \$14.23 per hundredweight, which is 38 cents lower. Thus, had there been no national program over this period, the price farmers receive for their milk would have been 2.6 percent lower than it actually was.

The results show that the average BCR for the Dairy Program was 4.33 from 2000 through 2005. This means that each dollar invested in generic dairy marketing by dairy producers during the period would return \$4.33, on average, in net revenue to farmers. The level of the marketing BCR suggests that the combined marketing programs supported by dairy producers have been a successful investment.

In another interpretation of the BCR, the increase in nominal generic dairy marketing expenditures resulting from the Dairy Program costs dairy producers an additional \$130 million per year on average (i.e., the difference between \$304 million annually under the baseline scenario and \$174 million under the no-Dairy-Program scenario). The additional generic dairy marketing resulted in higher demand, prices, and net revenue for dairy producers nationwide. Based on the simulations conducted, it is estimated that the average annual increase in producer surplus (reflecting changes in both revenues and costs) due to the additional generic marketing under the Dairy Program was \$562.9 million. Dividing \$562.9 million by the additional Dairy Program cost of \$130 million results in the estimated benefit-cost ratio of 4.33.

To make allowance for the error inherent in any statistical estimation, a 95 percent confidence interval was calculated for the average BCR providing a lower and upper limit for the average BCR. One can be “confident” that the true average BCR lies within those bounds. The estimated lower and upper bounds for the average BCR were 3.70 and 4.95, respectively. Hence, it is reasonable to conclude that these confidence intervals give credence to the finding that the

⁷ To measure market impacts, supply equations at the retail and farm levels were estimated to simulate supply response to any price increase due to a marketing-induced increase in demand. The results of these estimates are available from the authors upon request.

benefits of the Dairy Program's marketing activities have been considerably greater than the cost of the programs.

Questions often arise with respect to the accuracy of these BCR estimates. BCRs for commodity promotion programs are generally found to be large because marketing expenditures in relation to product value are small and, as such, only a small demand effect is needed to generate large positive returns. For example, the change in generic dairy marketing expenditures noted previously is 0.55 percent of the average annual value of farm milk marketings from 2000 through 2005 (\$23.58 billion). The generic marketing activities resulted in modest gains in the quantity of dairy products and a positive effect on milk prices, resulting in large positive net revenue from the marketing investment.

Table 3–3. Description of Variables Used in Econometric Models.¹

Variable	Description	Units	Mean ²
Consumption Variables			
RFDPC	Quarterly retail fluid demand per capita	lbs MFE	13.77 (0.32)
RDDPC	Quarterly retail total dairy demand per capita	lbs MFE	41.33 (2.28)
Price Indices			
RFPCPI	Consumer retail price index for fresh milk and cream deflated by consumer price index for nonalcoholic beverages (1982–84=1)	#	1.15 (0.09)
RDPCPI	Consumer retail price index for all dairy products deflated by consumer retail price index for all items (1982–84=1)	#	0.93 (0.03)
RBEVCPPI	Consumer retail price index for non-alcoholic beverages (1982–84=1)	#	136.51 (4.65)
Demographic and Income Variables			
INCPC	Quarterly per capita disposable income, deflated by the consumer retail price index for all items (2005=1)	\$	8,101 (717.86)
AGE5	Percent of the population under age six	%	6.97 (0.21)
FAFH%	Food away from home expenditures as percent of total food expenditures	%	49.87 (1.82)
Marketing Expenditures			
GMM	Quarterly generic fluid milk marketing expenditures deflated by media cost index (2005 \$)	\$mil	50.60 (12.72)
GMMD	Quarterly generic fluid milk marketing expenditures, Dairy Program, deflated by media cost index (2005 \$)	\$mil	29.55 (10.27)
GMMP	Quarterly generic fluid milk marketing expenditures, Fluid Milk Program, deflated by media cost index (2005 \$)	\$mil	21.05 (10.53)
GMCM	Quarterly generic fluid milk and cheese marketing expenditures, Dairy and Fluid Milk Program, deflated by media cost index (2005 \$)	\$mil	74.79 (22.75)
BWA	Quarterly soy milk plus bottled-water advertising expenditures deflated by media cost index (2004 \$)	\$mil	55.6 (38)

¹ Quarterly dummy variables are also included in the model to account for seasonality in demand.

² Computed over the period 1995–2005. Standard deviation in parentheses.

Chapter 4

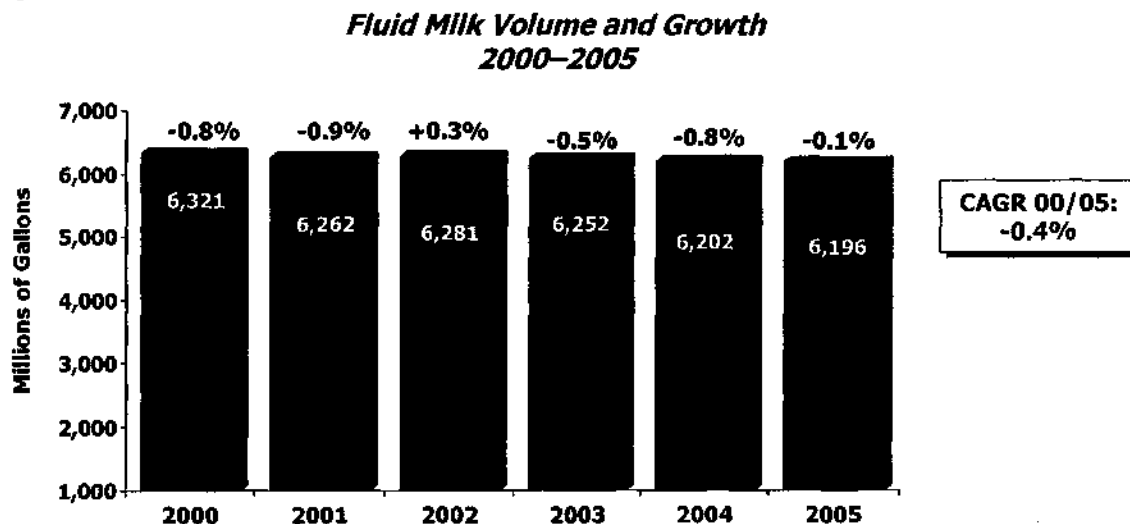
Part I – Fluid Milk Market and Promotion Assessment: Beverage Marketing Corporation

For the seventh consecutive year, Beverage Marketing Corporation (BMC) has been commissioned by Dairy Management Inc. (DMI) and the National Fluid Milk Processor Promotion Board to review the national fluid milk advertising and promotional programs. This review offers a subjective evaluation of the effectiveness of those programs and provides a third-party marketing perspective of these efforts for inclusion in USDA's Report to Congress. It also evaluates milk's position relative to milk's competitive beverage set, including its respective marketing efforts and market performance. BMC believes milk's competitive set includes most non-alcoholic refreshment beverages, specifically carbonated soft drinks, bottled water, fruit beverages, ready-to-drink teas, and sports beverages. This year BMC examines both the overall milk industry's performance as well as the effect that targeted advertising and promotion have had on milk's crucial demographic cohorts. The following summarizes our findings based on the analysis of available data.

BMC's Assessment of Current Milk Industry Environment

In summary, BMC believes that the collective efforts of the producer and processor generic milk programs in 2005 continued to effectively utilize available resources for driving incremental sales of fluid milk by focusing on high-opportunity consumer targets, relevant product benefits, and powerful communications/messaging. However, milk's competitors continue to increase their own marketing spending and programs and pace of innovation, leaving milk at a relative competitive disadvantage.

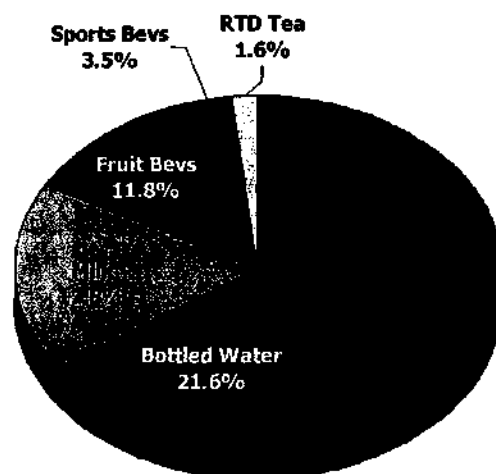
Figure 4-1



Source: Beverage Marketing Corporation, USDA

Figure 4-2

**Milk's Competitive Set Volume Shares
2005**



Source: Beverage Marketing Corporation

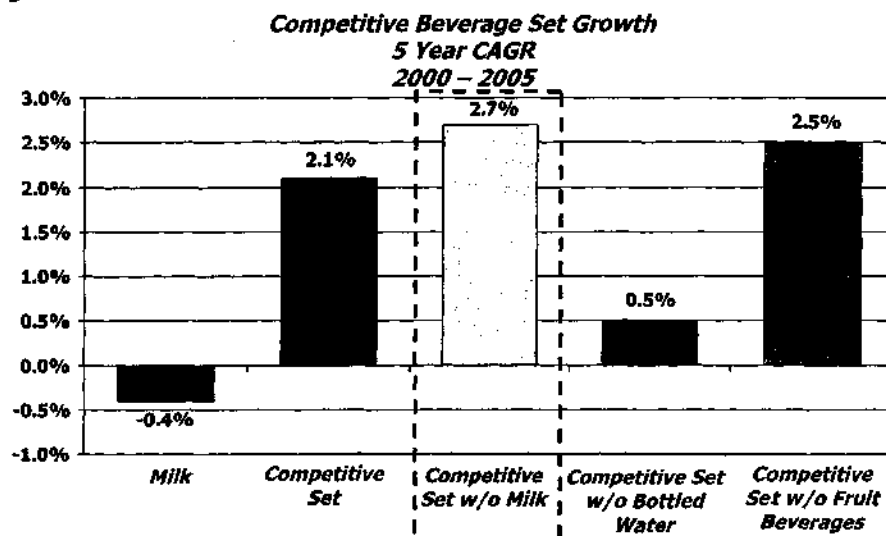
In 2005, fluid milk volume declined by 0.1 percent to 6.20 billion gallons, a smaller decline than the previous year. Over the last 6 years, fluid milk volume has essentially been stable, fluctuating within a narrow band of volume between 6.2 and 6.3 billion gallons. Milk volume declined 6 million gallons in 2005 compared to 50 million gallons in 2004. The history of volume changes for fluid milk sales over the past 6 years is shown in Figure 4-1. Milk's compound annual growth rate (CAGR) for the five-year period of 2000 to 2005 was -0.4 percent, a reflection of the negligible swings in year-over-year milk consumption since 2000.

Within its competitive set, milk is the third-largest beverage category by volume (Figure 4-2). In 2005, bottled water, which has been showing dramatic growth for the last decade, strengthened its position as the second-largest beverage category. Meanwhile, carbonated soft drinks remain the largest category in the competitive set, by far, with 15.3 billion gallons in 2005. While the "new age" type beverages (i.e., sports beverages and RTD tea) experienced some sort of an increase over the previous year, fruit beverages, milk, and carbonated soft drinks suffered minor declines.

As a whole, volume of the combined competitive set categories increased by 2.4 percent to 34.9 billion gallons, up from 34.1 billion gallons in 2004. This increase was primarily driven by bottled water, sports beverages, and ready-to-drink teas. From 2000 to 2005, the competitive set has grown at a CAGR of 2.1 percent (Figure 4-3). Without milk, the performance of the competitive set would have been slightly better – increasing at a CAGR of 2.7 percent from 2000 to 2005. Without bottled water, the competitive set grew by a CAGR of 0.5 percent over that same 5-year time span. Bottled water accounted for nearly 89 percent of the volume increase of the competitive set in 2005.

BMC has quantified milk's share of the volume increase compared to that of the entire competitive set annually over the last 18 years. This index reveals whether milk has gained or

Figure 4-3

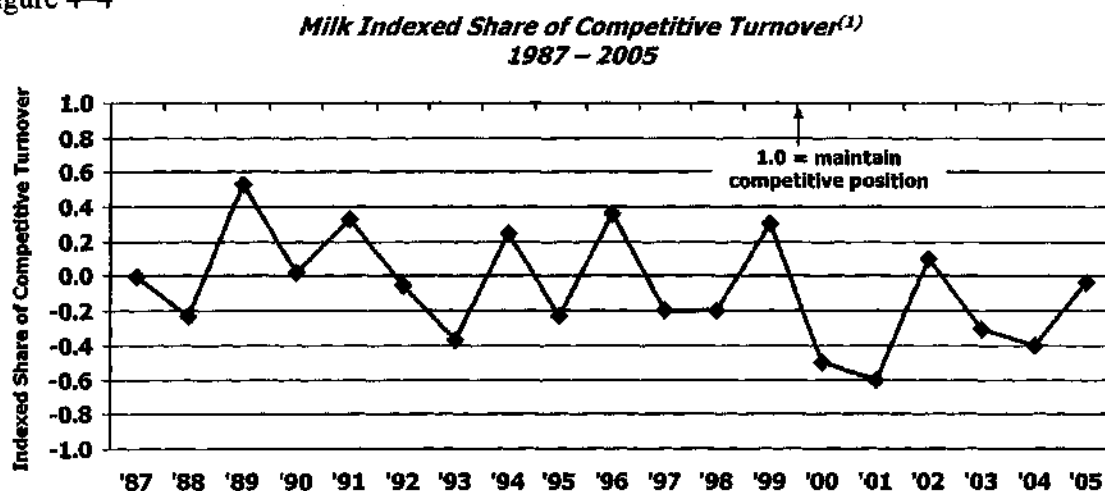


Source: Beverage Marketing Corporation

lost competitive share over this time span. This measure of milk's performance is an index based on its share of competitive volume change, divided by milk's market share of the competitive set at the onset of the year. An index greater than one indicates milk is improving its share and thus outperforming the competitive set; an index less than one reveals that milk's share of the competitive set is declining. In Figure 4-4, this index for milk is illustrated over an 18-year period.

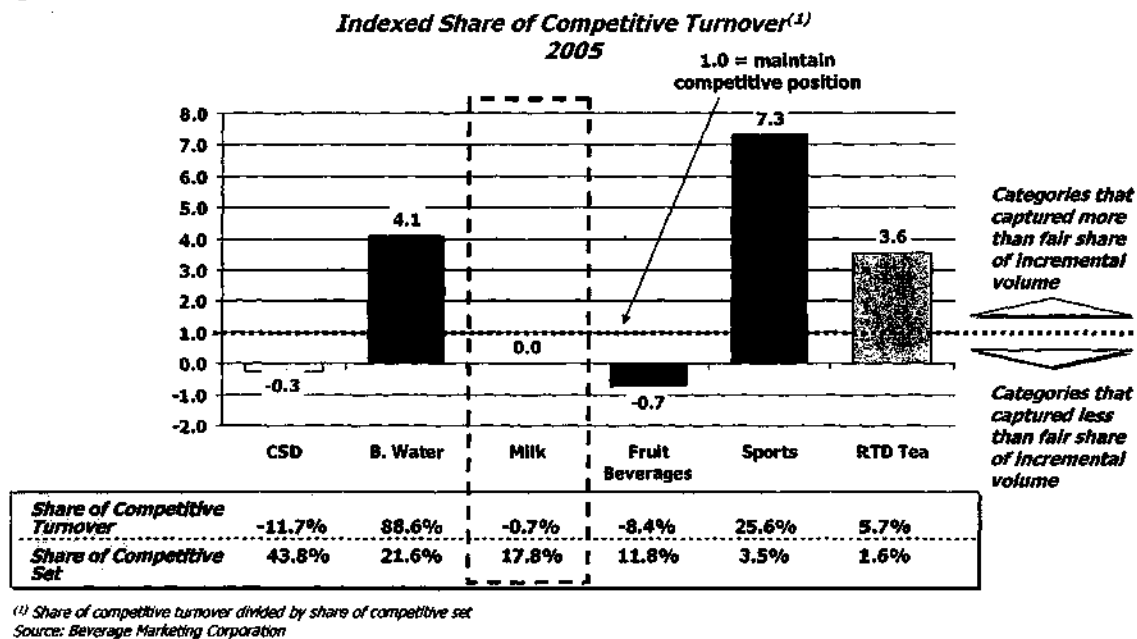
Milk has consistently underperformed the competitive set and has thus lost competitive share each year since 1987 as Figure 4-4 illustrates. Conversely, bottled water and sports drinks have consistently outperformed the competitive set and have gained competitive share (Figure 4-5). Bottled water, in particular, has shown dramatic growth in recent years, driven primarily by heightened consumer demand for healthier beverage alternatives and greater convenience.

Figure 4-4



⁽¹⁾ Share of competitive turnover divided by share of competitive set
Source: Beverage Marketing Corporation

Figure 4-5



While there are many factors associated with these consumption trends, advertising expenditures is one factor that is easily measured. In 2005, every category within the competitive set except for milk experienced an increase in media spending per gallon (Figure 4-6). Just as in previous years, milk is one of the lowest categories in media spending per gallon. The milk category spent about 2 cents on advertising for every gallon of milk sold, whereas carbonated soft drinks spent about 5 cents for every gallon sold. Only bottled water spends less per gallon than milk. Bottled water's success has been primarily distribution- and consumer-driven and has continued even without significant marketing dollar expenditures.

Figure 4-6

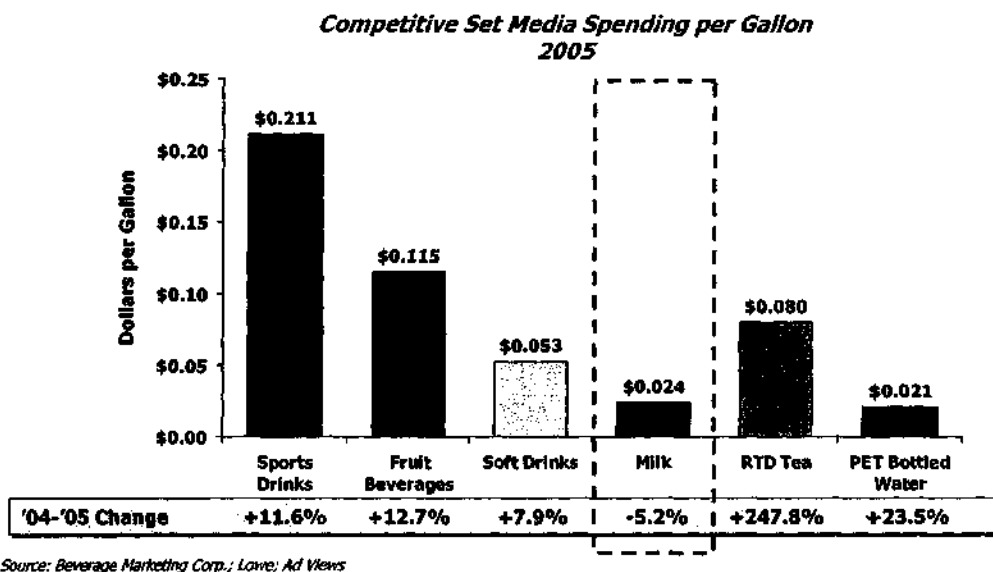
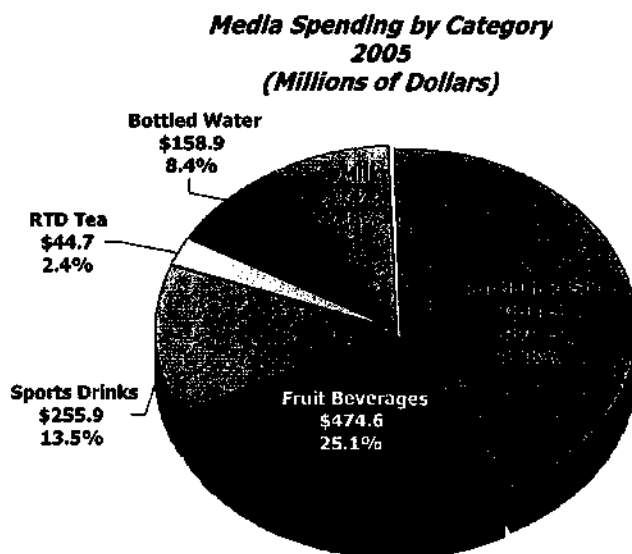


Figure 4-7



Source: Beverage Marketing Corporation

In 2005, all categories in the competitive set except for milk increased advertising from 2004. Carbonated soft drinks accounted for approximately 40 percent of all advertising dollars spent within the competitive set, at approximately \$808 million. At \$475 million in spending, fruit beverages accounted for approximately 25 percent. At \$147 million in 2005, milk ranked 5th within the competitive set, accounting for less than 8 percent of spending (Figure 4-7). Milk advertising spending is comprised primarily of the national generic campaign, regional generic spending and limited branded product spending. While such spending is significant, milk accounts for about 18 percent of the competitive set volume and thus, remains significantly underrepresented in share of voice.

Clearly, simple measurement of media spending does not take into account the effectiveness of the campaigns, nor does it measure the impact of millions of dollars spent on promotions and other non-media programs. Promotional expenditures can not be measured in an objective manner because promotions are not tracked by syndicated methods and companies tend not to divulge this data. Nevertheless, millions of dollars are spent on promotional programs within the competitive set, including for milk. BMC believes that milk, despite past year increases in non-media programs, continues to be outspent on promotional programs and that this is a contributory factor to milk's flat volume performance.

Furthermore, the milk category is disadvantaged relative to the other competitive set categories for other reasons, outlined below. While the milk category has begun to make progress in many of these areas, it continues to trail the other categories in all of them.

Consumer Attention

Consumer penetration of milk and awareness of milk advertising is high; however, the category lacks other competitive categories' high-level of consumer-focused marketing brand activities (e.g., promotions and innovations).

The consumer-relevant new science that links milk to weight loss has been effectively communicated through advertising, public relations, and other tools. However, in 2005, milk once again lagged the competitive set in its share of advertising expenditures in contrast to its volume share. Milk's low share of voice, declining over a number of years, is likely to have both real-time immediate as well as cumulative negative impact on milk consumption, despite the category's highly relevant and differentiated messaging.

Beverage product innovation has accelerated in recent years for all categories within the competitive set. Innovation adds news and excitement to categories, bringing more focus and attention to them compared to less innovative categories. Limited innovation in the milk category has caused milk to lag other competitive set categories in number of new product introductions. Additionally, milk new products have largely been limited to package changes, with little creativity around flavors and/or added functionality. The net result is that consumers have more choices than ever outside of milk. The news related to innovation has the added effect of increasing the impact of advertising. Many of these new products, such as soy beverages and calcium fortified fruit beverages, have innovated into milk's territory co-opting milk's healthy positioning.

Product Attributes and Innovation

Recent innovation in the milk category has centered on flavored milk—primarily variations of chocolate and single-serve packaging. There have been additional pockets of growth in specific milk segments including organic, reduced lactose and fortified milk products. While this represents an improvement after years of very little innovation, other competitive set categories have been more aggressive with a wider variety of product innovation and a greater assortment of packaging formats and sizes. Among other innovations, beverage fortification with vitamins, minerals, herbs, and other ingredients have added functional benefits in many categories.

In 2005, milk's new product introductions dropped to 174, while other categories within the competitive set experienced a large increase in new product introductions. Milk ranks last in the competitive set for new product introductions in 2005, dropping two places from third in 2004. The category is in need of more innovation, both evolutionary (e.g., packages and flavors) and revolutionary (e.g., functionality and technology) in the coming years.

A new product is only an innovation for a short time—until consumers become accustomed to it or competitors meet or beat the innovation. Thus, continued innovation is a requirement for competitive advantage.

Branding

One of the more significant disparities in milk versus its competitive set is the distinct lack of large milk brands and the impact of brand-building support on the total category. In comparison, the competitive set is dominated by mega-brands that have been built and nurtured by world-class marketing organizations.

The milk category is dominated by private label. In 2005, only 32.7 percent of milk volume in the grocery channel was accounted for by branded products. No other category in the competitive set has less than half its volume accounted for by branded products. BMC believes this disparity places milk at a distinct disadvantage with the rest of the competitive set because of the challenges inherent in marketing a category versus brands.

Additionally, private label products, particularly milk products, are generally sold in less-premium, undifferentiated packages and with little or no marketing support. Thus, the high share of private label milk reinforces milk's commodity image, making competitive premium-image branded products more attractive to consumers.

Distribution

Milk is widely available; nevertheless, its availability does continue to have some significant limitations. Milk availability is concentrated in take-home retail channels, especially supermarkets. In other outlets where milk is available, it often does not have the range of packaging and flavor options that consumers seek and that are offered by other competitive set products. This places milk at a competitive disadvantage.

As consumer lifestyles become more and more on-the-go, beverage manufacturers respond by developing products in convenient single-serve packaging distributed in immediate consumption channels such as convenience stores, foodservice, and vending. In 2005, only about 19 percent of milk volume was sold for immediate consumption, whereas about half the volume of carbonated soft drinks, sports drinks, and ready-to-drink tea was purchased for immediate consumption.

Pricing

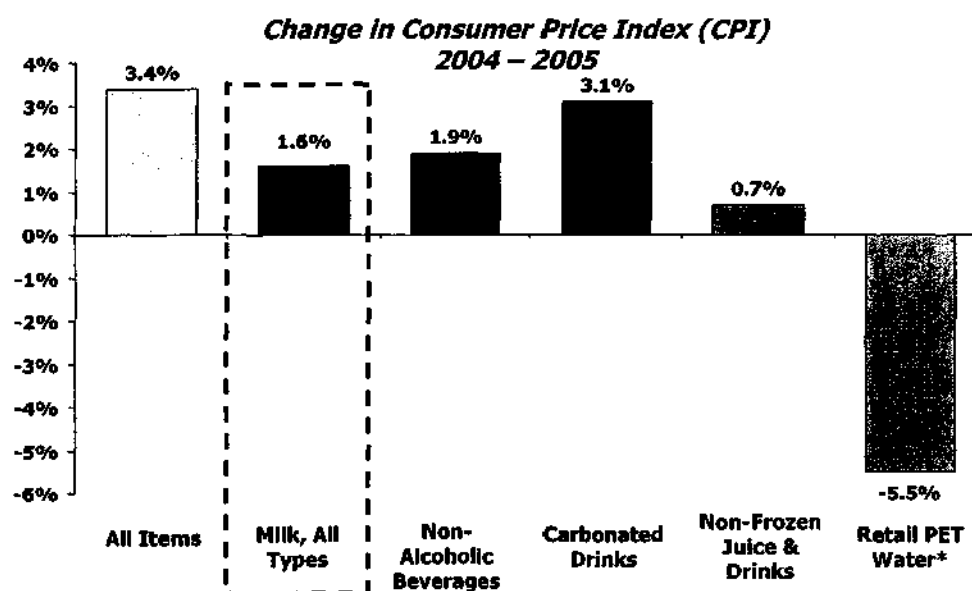
Price promotion is a key tool beverage marketers have used to spur sales, and this is true of all categories in the competitive set except for milk. The industry is limited structurally and legally in its use of price promotion. Because milk is less responsive to price changes—flavored even more than white milk—price increases impact volume sales significantly.

In 2005, milk experienced a lower consumer price index increase compared to 2004, a year that saw large year-over-year price increases. In 2005, milk's was also one of the lower price increases out of all the categories in the competitive set tracked by the Bureau of Labor Statistics. However, milk prices in 2005 remained historically high (Figure 4-8).

BMC's Assessment of Current Milk Marketing Programs

BMC believes the marketing campaign developed under the Dairy Production Stabilization Act of 1983 and the Fluid Milk Promotion Act has served to stem declines in milk consumption in the face of vastly heightened competition. While over the last five years there has been a slight decline in milk consumption, BMC believes these declines would have been more significant without the industry's weight loss messaging, 3-A-Day™ for Stronger Bones, and got milk?®

Figure 4-8



* Estimated

Source: Beverage Marketing Corp.; Bureau of Labor Statistics

celebrity milk moustache campaigns. This belief is supported by the milk category marketing mix analysis conducted in 2005 by Marketing Mix Analytics.

Supported by dairy farmers' investment in the weight and dairy science, in 2005, milk advertising continued to build on the emergence of new scientific evidence that milk consumption can be linked to weight loss. This has allowed for differentiated opportunity to drive milk sales. With the generic program shifting gears and realigning the advertising budget and other program efforts (e.g., public relations, promotions, and research) behind weight loss communications, there has been measurable success in achieving consumer acceptance of the weight loss-milk link. In addition, dairy processors have integrated the weight loss programming into their own business and brand-building initiatives.

In accordance with the new weight loss efforts, there has been a shift in target and product focus. Generic media spending allocations have continued to move from kids and teens to women/moms. The continuation of the milk moustache campaign driven by new celebrities is also tied-in with weight loss. Despite the shift away from teen-targeted advertising, grassroots sponsorships focusing on teens continued, and included a 3v3 soccer tournament, action sports, Disney Wide World of Sports, and the NFL partnership.

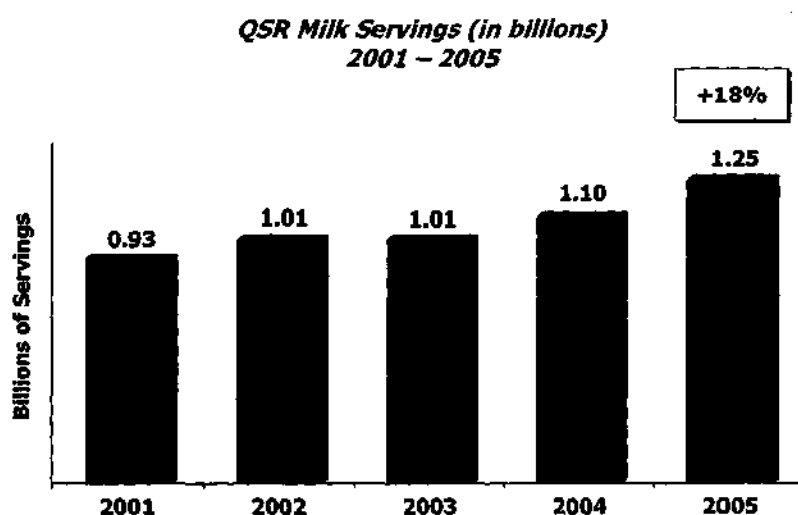
Programs from DMI and MilkPEP continued to focus on milk vending, foodservice, and school milk improvements in 2005, as did Hispanic consumer-targeted programs—all with positive results. The milk vending initiative appears to be gaining momentum, with BMC estimating there are now approximately 9,500 dedicated milk vending placements, many in the key secondary school channel.

Recapturing milk as the beverage of choice for children continues to be the primary, overarching goal that guides DMI's school foodservice/quick service restaurant (QSR) marketing efforts. Foodservice milk sales, especially through QSRs, are gaining traction after the industry-sponsored tests with Wendy's® and McDonalds® (Figure 4-9). Additionally, more schools than ever are involved in upgrading school milk to drive increased consumption for kids and teens. Currently, The New Look of School Milk Program has been adopted in 3800 schools (over 500 school districts with 38 processors) and is reaching 2.3 million kids with an improved single-serve milk in plastic package product. Tracking studies show that this program has generated 30 million incremental pounds of milk sales to date.

Even against these improvements, milk remains at a disadvantage against the competitive set. Its price has increased faster than any other category, while its spending is declining. The last four years have seen declines in the fluid milk generic media budget – from \$82 million in 2001 to \$48.6 million in 2005, with a particular large decline this year from \$65.7 million in 2004. BMC believes this decline in spending may have a negative impact on milk consumption in the face of sizeable spending by other categories in the competitive set. Most of the categories in the competitive set (except ready-to-drink tea, a much smaller category) outspent milk again in 2005.

On the other hand, the generic milk programs recognize that there are increasing limitations to traditional media advertising, particularly for some target consumers such as kids and teens, in part due to increasing media costs. Thus, the generic programs have been increasingly and successfully utilizing alternative communications and marketing vehicles to drive milk sales. Total spending budget has shifted from 69 percent spent on advertising in 2002 to 60 percent in

Figure 4-9



QSR= Quick Service Restaurants
Source: Beverage Marketing Corporation; NPD

Figure 4-10

**Historical Spending by Discipline
In % Budget Allocation**

	MilkPEP & DMI			
	2002	2003	2004	2005
Advertising	69.0	70.7	58.6	59.9
Promotion	10.0	11.7	15.0	14.5
Events/ Sponsorship	8.0	7.1	9.5	10.2
PR	10.0	6.4	4.7	4.5
Research	2.0	2.3	2.4	2.8
Other⁽¹⁾	1.0	1.5	9.9	8.2

⁽¹⁾ Other includes FMSTI (MilkPEP), School Marketing and Foodservice Programs (DMI)

Source: Beverage Marketing Corporation; MilkPEP; DMI

2005 (Figure 4-10). This portion of the advertising budget has been strategically reallocated to increase promotions, events/sponsorships, and other programs that are focused largely on expanding milk availability and consumer appeal through innovation.

The new emphasis on weight-loss benefits also has invited new challenges for milk. The set of direct competitors may now include other weight-loss products such as meal replacement beverages and bars, and even programs such as Weight Watchers and Jenny Craig. Additionally, with competitors' aggressive advertising, promotion, as well as focus on convenience and innovation, BMC believes that milk is perceived by consumers as being less contemporary compared to the alternatives.

The shift in target to women/moms has lessened milk advertising focus on previously targeted teens/kids. Positive consumption trends were seen with teens/kids in prior years and the industry should be concerned about losing traction with those consumers. It will be critical for the generic programs to continue to focus or refocus resources at the primary targets—including teens, while continuing to evolve the messaging. The industry will have to accurately gauge consumer response to the weight-loss message and its sustainability, and eventually evolve or perhaps move onto another benefit communication. Additionally, the focus on weight-loss should not be at the expense of other long-term relevant industry platforms such as product innovation, availability enhancements and significant brand-building focus.

With price increases stabilizing, continued focus against strategic consumer targets and market opportunities and improving integration of generic programs into processor and retailer marketing tactics in 2006, the outlook seems positive, especially given the growing acceptance of the weight-loss platform and its expansion into the teen segment. BMC predicts a slight increase or at least no decline in volume for the upcoming year.

Part II – National Fluid Milk Processor Promotion Program: Highlights by the National Fluid Milk Processor Promotion Board

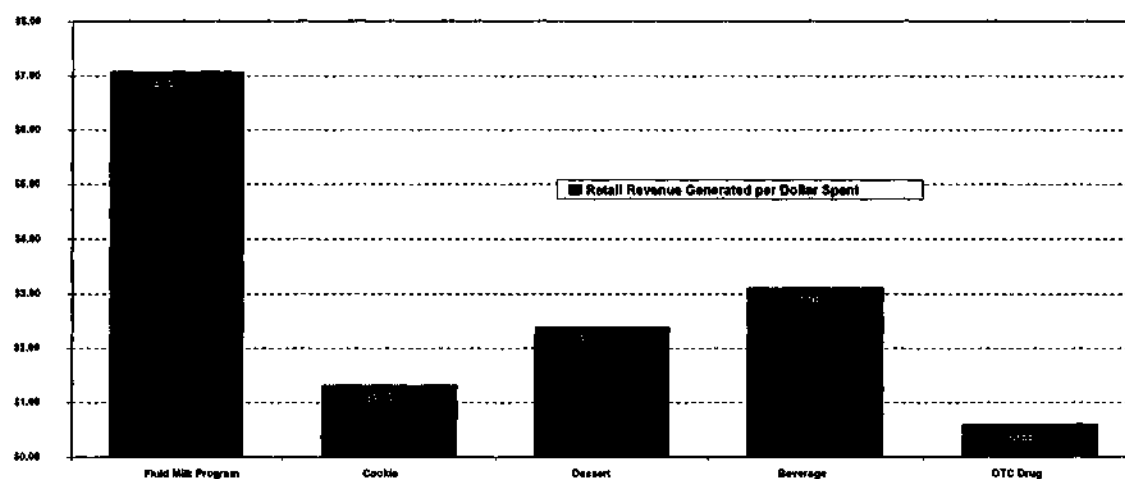
This section, prepared by the staff of the National Fluid Milk Processor Promotion Board (Fluid Milk Board), will examine the overall impact of the Fluid Milk Program in terms of its impact on the core measures of sales and consumption, an estimate of the impact of industry investment, and the competitive situation in which the fluid milk industry competes. It also will detail one of the main program areas (promoting weight loss benefits of milk consumption to women), as well as an example of a longer-term business development goal (promoting new opportunities for vending single-serve milks.)

Overall Sales and Consumption Impact

Using the program's newest measurement resources, it is possible to assess the impact and value of the program at the retail level (RII)¹, for the industry's marketing investment. The Fluid Milk Board's marketing mix analysis showed that the share of total national milk volume attributable to the fluid milk program went up from 3.8 percent in 2004 to 4.5 percent in 2005. In actual volume, that 2005 contribution represents approximately 129 million gallons, or approximately \$496.3 million in retail sales revenue nationwide. This represents a return of \$7 at retail for every \$1 spent in 2005 comparing favorably to similar calculations for other industries and companies (Figure 4-11).

In terms of per capita consumption of milk by the groups that the fluid milk program targets, both the primary target of adult women/moms and the Hispanic ethnic target saw increases in 2005, while teenagers' consumption declined slightly as program resources were shifted away from this group (Figure 4-12.)

Figure 4-11

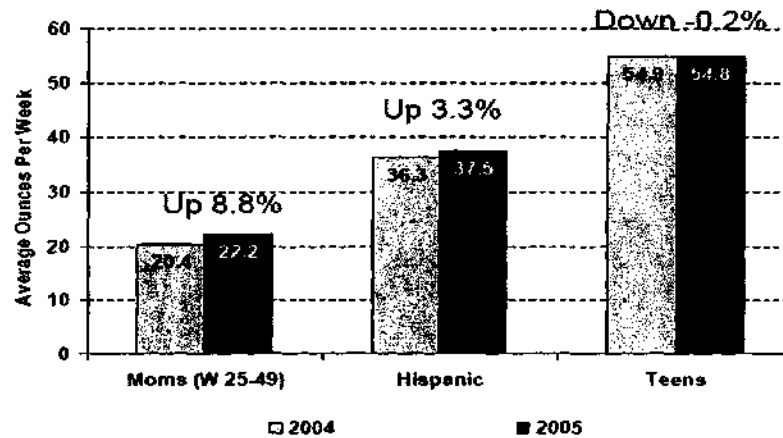


Source: Marketing Management Analytics

¹ The term "RII" for Retail Impact of Investment compares the incremental retail value for its return and the direct spending on consumer activities as its investment.

Figure 4-12

2004-2005 Milk Per Capita Consumption by MilkPEP Target Group



Source: TNS-NFO eSIP data

Competitive Assessment of Milk Industry's Position

Largely driven by its commodity status and its high degree of regulation, the fluid milk industry operates at a disadvantage to competitive beverages.

In 2005 that competitive position worsened on several fronts. While milk is the number three beverage in its competitive set, it continues to lose ground to key competitors--primarily bottled water--while carbonated soft drinks remain the dominant beverage of choice for Americans (Figure 4-2). Fluid milk suffers in the market due to relative pricing (Figure 4-13), a lack of brand marketing infrastructure, poor "out-of-home"/immediate consumption availability (Figure 4-14), and lower spending (Figure 4-6). In this context, the need for the fluid milk program remains as strong or stronger than at its inception in 1995.

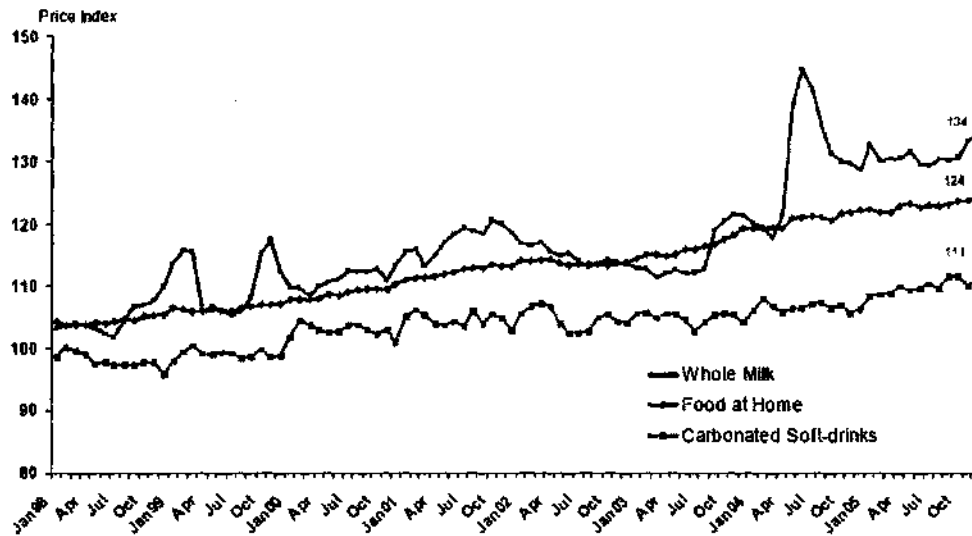
Success of Weight-Related Benefit Promotion

A wide range of studies, more than 50 over the last 6 years, suggest that consuming the recommended 3 servings of milk and dairy products as part of a balanced, reduced-calorie diet can be a healthy and effective way to lose weight. Promoting the weight-loss benefits of milk consumption represented over 65 percent of all program resources in 2005 and was the primary program objective. The Fluid Milk Program has successfully informed American women and they have responded with positive changes in their consumption of milk. Among the key indicators of how this marketing communication program is changing consumer behavior are:

- Recall of the link between drinking milk and losing weight is at 80 percent (Figure 4-15).

Figure 4-13

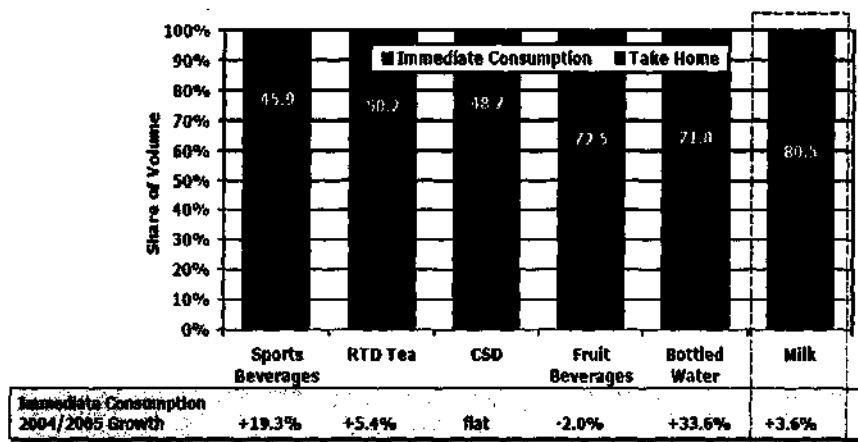
**Indexed Cost of Whole Milk, CSD, and Food at Home;
1998-2005 (Base =1996)**



Source: Bureau of Labor Statistics

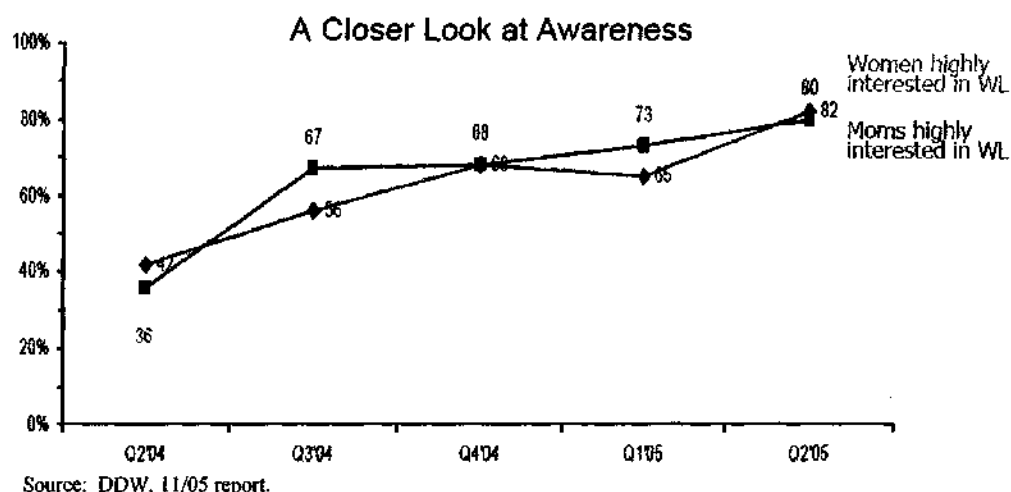
Figure 4-14

**Immediate Consumption vs. Take Home Distribution
2005**



Source: Beverage Marketing Corp./ Information Resources, Inc.

Figure 4–15



- Per capita consumption is up among the “mom” demographic of 25–49 year-old women from 20.4 to 22.2 ounces per week in 2005 (Figure 4–11).
- “Trying to lose weight” is the number two reason women cited for “drinking more milk” (Figure 4–16).
- Additionally, based on the Fluid Milk Board’s marketing mix analysis, the program’s three main marketing activities—public relations, television advertising to moms and print advertising to moms—were focused almost exclusively on this message in 2005. These activities appear to have driven the highest levels of incremental volume at greatest efficiency.

Growth of Vended Milk Business

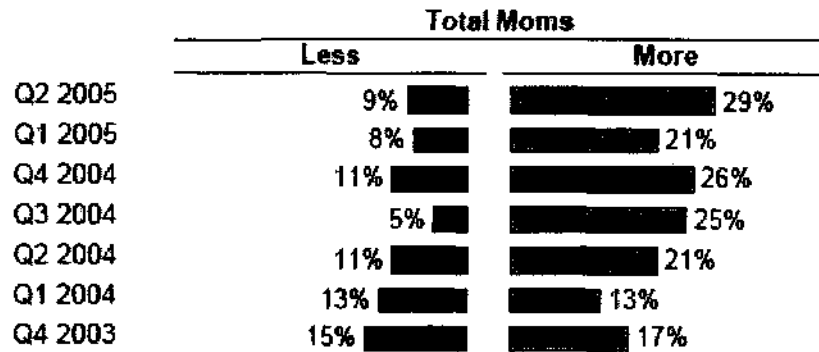
This business area report shows the Fluid Milk Program’s positive results of more than 6 years of research and business development activity in milk vending. The Fluid Milk Board first identified milk vending as an underutilized channel and important growth opportunity in 1999. Though a relatively small portion of total sales volume (less than 3 percent), vending continues to represent solid potential for growth. This activity was designed to create new opportunities for sales and consumption where the industry’s competitive position has been historically poor, but where milk needs to be more present in the marketplace (away-from-home consumption).

Since that time the Fluid Milk Board has invested over \$3 million to build this area of the business. Among the key measures of the impact of these activities are:

- In 2003 and 2004 (last years for which full sales figures are available), milk sales growth in vending outpaced all other vended foods and beverages, in a period in which the vending industry was flat or declining (Figure 4–17).

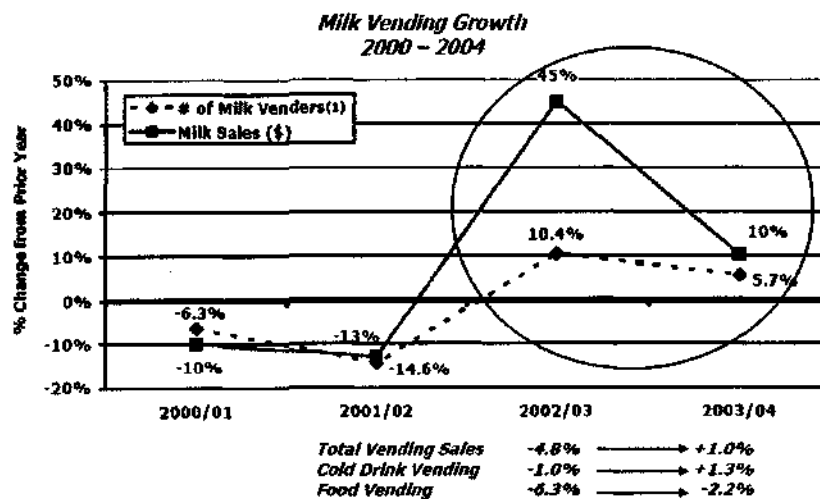
Figure 4-16

Impact on Claimed Consumption



Main Reasons For Drinking More Milk*						
	2004				2005	
	Q1	Q2	Q3	Q4	Q1	Q2
	%	%	%	%	%	%
Just Like It	5	9	21	23	18	2
Healthier For Me	23	15	22	17	18	35
Trying To Lose Weight	23	12	11	17	37	29
Pregnant/Nursing	-	9	7	13	6	6
Need The Calcium	36	14	7	5	6	8

Figure 4-17



(1) Milk-Dedicated vending machines (may include other products, but milk is dominant)
 Source: Beverage Marketing Corporation; Automatic Merchandiser State of the Vending Industry Report

- Vending operators, who in previous research indicated that they believed milk vending was a business area with little or no growth potential, have experienced a significant turn-around in their attitudes toward milk with more than half of all company executives surveyed agreeing that milk vending was likely to grow in the next year.
- Finally, a critical subset of the vending story is the growth of milk vending machines in the nation's schools, estimated at approximately 8,000 vending machines in over 7,300 schools nationwide. This growth is primarily due to the efforts of the dairy industry over the past five years from both Dairy Management Inc. and the Fluid Milk Board, and contributes to national efforts in both the public and private sectors to persuade young people to make healthier food and beverage choices.

Summary of Program Effectiveness

Overall, in this highly competitive beverage marketplace where the milk industry is significantly disadvantaged against key competitors, the fluid milk program in 2005 was effective in driving incremental volume and mitigating the long-term loss of market share. The program advanced its effectiveness by focusing on new ideas such as science supporting the positive impact of milk consumption on maintaining a healthy weight and by promoting milk as a viable product for new channels of distribution such as vending.

The program remains a good example of how Congress can promote and support national health and nutrition goals and the economic strength of a critical industry segment by enabling an industry to fund the programs it needs to sustain itself with no net cost to the taxpayer.

Despite decreases in the spending levels of the program, increased spending by beverage competitors, and additional declines in the Fluid Milk Board's purchasing power due to higher media costs, the Fluid Milk Program generated a higher volume of incremental sales (up 15 percent) and a higher retail impact of investment (ROI) than the previous year (\$7 for every \$1 spent vs. \$5.50 for every \$1 in 2004). The increase was primarily attributable to increases in program efficiency.

As in the past, the program has demonstrated its ability to change consumer behavior. Per capita consumption among 25–49 year-old women improved in 2005, in response to the Fluid Milk Program shifting the majority of its resources to this target to promote the weight-loss benefits of milk consumption. This new benefit, tied to recent scientific and medical research, has proved an effective message for the Fluid Milk Program in persuading moms to reconsider and increase their consumption of milk.

The Fluid Milk Program continues to promote the milk industry by supporting the Federal nutritional goals—as well as the nutrition goals outlined in the Dietary Guidelines for Americans and the Food Guide Pyramid. The Fluid Milk Program is a national marketing voice for milk in a marketing environment restricted by a high degree of Federal and State regulation that helps to maintain the strength and stability of the milk industry to the benefit of the nation's health.

Part III – National Dairy Promotion and Research Program: Highlights by Dairy Management Inc.

This section, prepared by Dairy Management Inc. (DMI), the staff of the National Dairy Board, will examine the impacts of the National Dairy Promotion and Research Program (National Program) during the past year. The goal of the National Program is to leverage dairy producer-funded activities to drive increased sales of and demand for U.S. dairy products and ingredients, domestically and internationally. Since the program's inception in the early 1980s, the per capita consumption of dairy has climbed to 592 pounds in 2004 compared to 522 in 1983, according to the United States Department of Agriculture (USDA). For dairy farmers to produce – and Americans to have available – safe, plentiful and affordable dairy products and ingredients it is critical that markets for dairy continue to expand, sales increase, and producers continue to invest in the National Dairy Promotion and Research Program.

This goal is accomplished through: (1) dedicated teams that are funded and directed by dairy producers who partner with dairy and food industry leaders and innovators on nutrition, research and marketing efforts to drive sales; (2) outreach programs to kids to reverse the long-term downward trend of fluid milk consumption with this age group including innovative solutions such as the adoption of single-serve plastic milk bottles in the nation's schools and national restaurant chains; and (3) discovering new uses for cheese, dairy proteins, and other components.

Three Servings A Day of Dairy

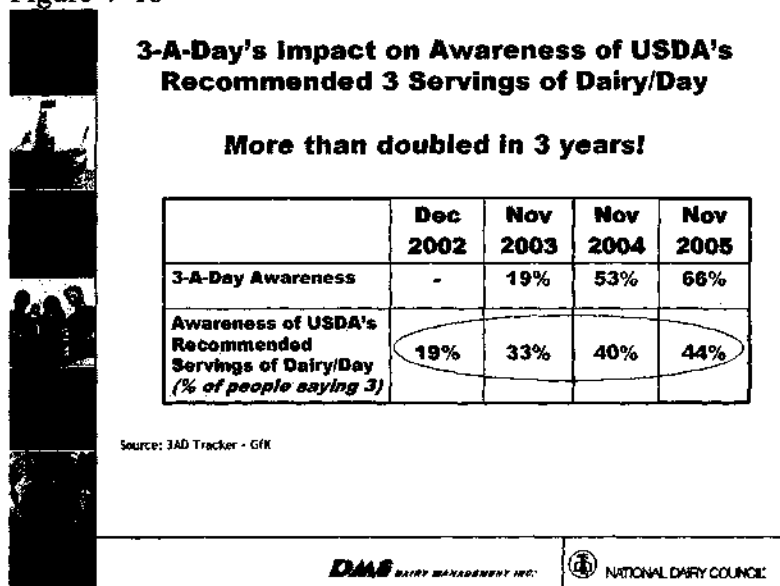
The National Dairy Promotion and Research Program developed the 3-A-Day of Dairy™ nutrition-based marketing and education program to communicate the health benefits of eating three servings of milk, cheese or yogurt daily.

In January 2005, the U.S. Department of Health and Human Services and USDA announced the new Dietary Guidelines for Americans, that raised the recommended 2-3 servings to 3 servings of low-fat and fat-free dairy foods every day – the first time that dairy recommendations have changed in 20 years. The new Federal guidelines are the basis for many Federal feeding programs, as well as health professional recommendations. The 3-A-Day of Dairy™ program is an easy actionable way to ensure Americans get several important nutrients. This initiative includes education efforts and partnerships with health professionals, manufacturers and retailers.

To date, 3-A-Day of Dairy™ has achieved unprecedented accomplishments demonstrated through growth in sales, support, and awareness with a variety of influential audiences. Below are a few highlights of this effort:

- Overall awareness of 3-A-Day of Dairy™ increased from 19 percent to 66 percent in just 2 years. (Source: GFK Media Tracker)

Figure 4-18



- Based on the National Dairy Promotion and Research Program's 3-A-Day of Dairy™, industry partners invested more than \$25 million in marketing, education and consumer-directed efforts. (Source: J. Brown & Associates)
- 3-A-Day of Dairy™ awareness and logo recognition helped to increase consumer knowledge of USDA's recommendation for 3 servings of dairy a day. People responding to "3" as the correct number of servings increased from 19 percent to 44 percent in three years (Figure 4-18). (Source: GfK Media Tracker)
- Among health professionals, the 3-A-Day of Dairy™ program has reached more than 50 percent awareness. Producer funded research shows that a majority of dietitians, family practitioners, and pediatricians recommend at least 3 servings of dairy a day for all ages and life stages. (Source: GfK Media Tracker)
- In a poll conducted by DMI, 76 percent of moms surveyed recalled 3-A-Day of Dairy's™ connection to weight loss. (Source: GfK Media Tracker)
- According to an independent marketing mix analysis, the 3-A-Day™ efforts delivered 1.4 billion pounds of milk equivalent at retail; added 3 percent of cheese, 2 percent of fluid milk and 4 percent of yogurt retail sales volume. (Source: Marketing Mix Analytics)
- There are more than 2.5 billion qualified packages carrying the 3-A-Day of Dairy™ logo. (Source: DMI Industry Survey)

3-A-Day of Dairy™ for Strong Bones and Weight Management

Based on dairy producer-funded research, DMI works closely with major reputable health organizations such as the American Academy of Pediatrics, the American Dietetic Association, the American Academy of Family Physicians, and the National Medical Association to encourage their clients to enjoy 3 servings of dairy each day for stronger bones. The U.S. Surgeon General concurs with this recommendation based on the dairy producer-funded sound science.

In addition, a growing body of evidence supports the connection between weight management and 3 servings of dairy a day. Clinical studies (complete list of study citations is available at: www.nationaldairycouncil.org/NationalDairyCouncil/Healthyweight/Science.htm) suggest that including 3 servings of dairy a day as part of a reduced-calorie diet may help people lose more weight and more fat than just cutting calories alone.

Checkoff-funded research supporting dairy foods' role in weight management continues to grow. Branded companies are using the science to increase sales of their products. For example, in 2005, according to a large consumer company's annual report, retail sales grew 24 percent for 1 major yogurt manufacturer due to advertising efforts that focused on yogurt as a great choice for consumers managing their weight. The yogurt category as a whole continues to see strong growth as evidenced in Figure 4-19.

Recapturing Milk as Kids' "Beverage of Choice"

Efforts to build lifelong dairy consumers start at childhood. Offering kids a different milk experience at school can influence them throughout their lifetimes. The National Dairy Promotion and Research Program is making aggressive efforts to address the high percentage of children ages 9-19 who do not meet the recommended daily intake of 3 servings a day. For example, according to the March 2005 USDA Pyramid Servings Intake, Community Nutrition Research Group, 83 percent of teenage girls ages 12-19 are not consuming the recommended 3 servings of dairy a day. Similarly, 68 percent of boys in the same age group are not consuming 3 servings of dairy a day. Milk consumption among children continues to decline with significant volume lost at school. Producer-funded research shows that children will drink milk if it's offered in plastic bottles, in flavors, and at a colder temperature.

Figure 4-19

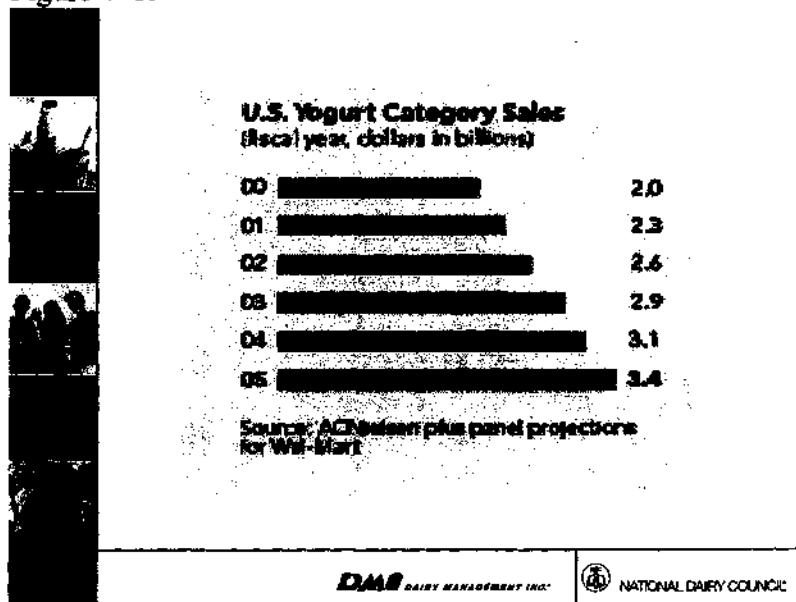
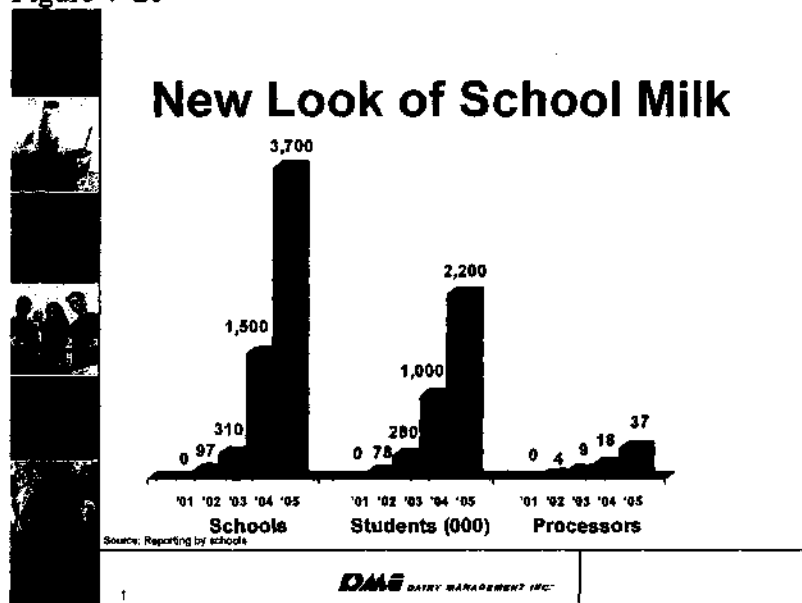


Figure 4-20



To help identify and build opportunities in the school channel, the National Dairy Promotion and Research Program utilized a School Account Development Process that strategically targets the top school districts. Approximately 70 promotion program staff members are in place throughout the country and serve as a “consultant” to school districts and their school nutrition directors, educating them about the nutritional and financial benefits of school milk programs.

For example, through the adoption of the New Look of School Milk (NLSM), more than 3,700 schools across the country are providing nearly 2.5 million students with a nutritional product they also find appealing and tastes great (Figure 4-20). NLSM is based on the highly successful School Milk Pilot Test, funded through the National Program that was conducted in 2002 by the National Dairy Council® and the School Nutrition Association. Results confirmed that more children drink milk when it’s served in plastic bottles, served cold in a variety of flavors, and made widely available on the meal line, a la carte and in vending machines. To date, the NLSM program has resulted in approximately 30 million incremental pounds of milk being consumed according to individual school reports and the 2002 New Look of School Milk Pilot Test.

The National Dairy Promotion and Research Program staff is working proactively with schools in the education of how dairy producer-funded efforts and nutrition research may play a role in School Wellness Policies. These wellness policies help to ensure that children learn practical, lifelong lessons about the balance of good nutrition and physical activity. Each school district is required by law to have a Wellness Policy by July 2006. Because low-fat and fat-free dairy foods are one of 3 food groups that Americans are encouraged to eat more of, the inclusion of milk, cheese and yogurt in the school environment and school wellness policies will help drive better nutrition for children. In a recent informal Web-based survey at www.3aday.org among 4,000 moms, 92 percent said they were comfortable with their child drinking flavored milk at school.

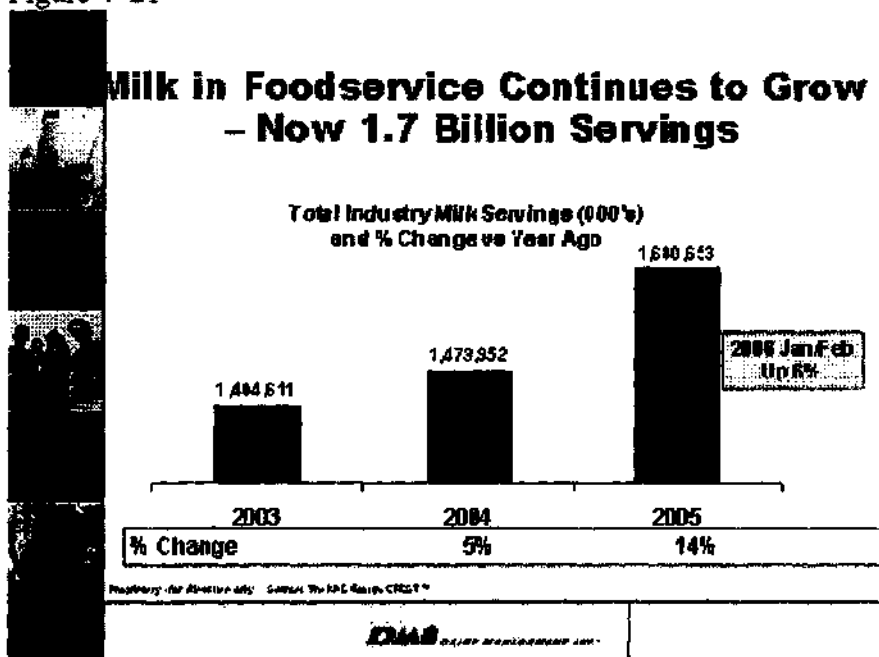
In the foodservice sector, the National Program has forged strong, innovative partnerships with fast-food restaurant companies such as Burger King®, McDonalds®, Wendy's®, and Sonic® Drive-Ins to test and serve plastic single-serve milk as a viable beverage option for their customers. At Wendy's® and McDonalds®, according to their 2005 store level data, the efforts to help introduce white and chocolate milk in plastic, resealable bottles in nearly 20,000 restaurants resulted in combined weekly sales of 5.2 million units per week compared to 690,000 units of milk when it was offered in paper cartons. As more Americans eat away from home, the need to offer products they want, where and how they want them is at the heart of a continued strategy to fulfill unmet demand. Figure 4-21 shows the continued strong growth of milk in foodservice.

The companies who are committed to growing the business see that, at a minimum, the plastic and flavor conversion could add 1 billion pounds of consumption at school and foodservice annually if offered universally across the United States (based on foodservice, retail, and school estimates from DMI.) Over time, this will impact long-term consumption as these generations remain milk drinkers as adults.

Meeting Unmet Demand through Exports and Ingredients

Another area with high growth potential is the use of dairy ingredients such as milk protein concentrate, nonfat dry milk and whey. The National Dairy Promotion and Research Program is working with exporters and manufacturers to provide solutions for increased consumption of dairy products through innovative applications of dairy ingredients. According to the National Panel Dairy, ingredients alone allow dairy to be part of an additional 82.3 percent of total eating occasions (Figure 4-22).

Figure 4-21



Customizing whey proteins for unique applications and targeting market segments with growth such as beverages, yogurt and sports/nutrition products was a successful strategy in 2005. The introduction of a new protein bar using whey protein concentrate and whey protein isolate resulted in an additional 500,000–1 million pounds of whey protein ingredients in the first 12 months of the product launch according to company data.

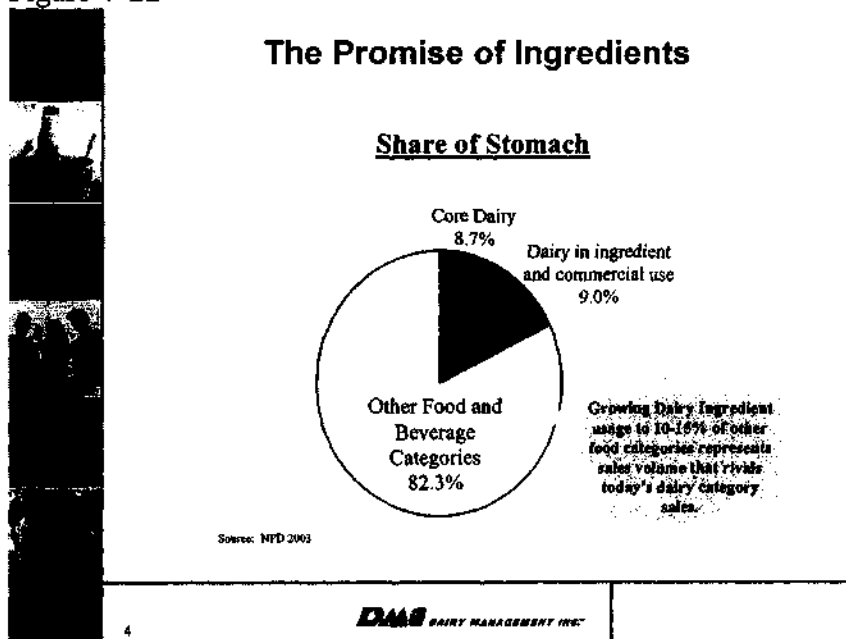
The National Dairy Promotion and Research Program's work with manufacturers on dairy ingredients has created the same effect. A major yogurt product recently generated nearly 2.5 million pounds of incremental milk volume using the basics of milk powder in their new drinkable yogurt line. Another line of yogurt was developed using milk protein concentrate and ultra filtered milk that generated between 3 and 4 million pounds of total incremental milk equivalent value according to company data. Overall, the promise of yogurt continues to be strong as manufacturers leverage the science that supports the nutritional and weight management benefits of this product.

Exports continue to be a promising opportunity for U.S. production. In 2005, there were significant increases in the quantities of whey solids and other nonfat milk solids sold overseas. Export sales totaled 751 million pounds of milk solids in 2005. U.S. whey protein exports to China grew from 51.4 million pounds to 151.6 million pounds in the 5 years since 2000.

Conclusion

In 2005, The National Dairy Promotion and Research Program's many accomplishments paved the road to increased dairy consumption. Successful outreach programs such as the development of nutrition and science research, the New Look of School Milk, single-serve milk at foodservice,

Figure 4-22



new uses of dairy as an ingredient, and the 3-A-Day of Dairy program all were possible because of the dairy producer-funded promotion program.

The best way to understand the opportunities is to acknowledge that the growth of dairy in traditional forms – white milk in gallons, American-style and mozzarella cheese sold domestically – will increase but not at historic levels. Therefore, focusing on production-driven demand, as in the past, is not the way to drive growth.

To increase dairy sales, there is a need to focus on the amount of unmet consumer-driven demand. Consumer-driven demand is characterized by products that are not currently offered that consumers want. The keys to continued growth will be milk in single-serve plastic containers, innovation in cheese products and innovative uses for cheese, expanding exports and enhancing the value of dairy ingredients.

Appendix A
National Dairy Promotion and Research Board
Current Member Listing

Region 1 (Oregon and Washington)

Elizabeth L. (Liz) Anderson
Onalaska, Washington
Term expires 10/31/2006

Marlin J. Rasmussen
St. Paul, Oregon
Term expires 10/31/2007

Region 2 (California)

Mary E. Cameron
Hanford, California
Term expires 10/31/2006

Kimberly K. Clauss
Hilmar, California
Term expires 10/31/2006

Deborah Dykstra
Caruthas, California
Term expires 10/31/2007

Margaret A. Gambonini
Petaluma, California
Term expires 10/31/2007

Linda P. Macedo
Merced, California
Term expires 10/31/2007

Harvey S. Moranda
Orland, California
Term expires 10/31/2007

Ronald L. Koetsier
Visalia, California
Term expires 10/31/2008

Region 3 (Arizona, Colorado, Idaho, Montana, Nevada, Utah, and Wyoming)

Lester E. Hardesty
Greeley, Colorado
Term expires 10/31/2008

Grant B. Kohler
Midway, Utah
Term expires 10/31/2007

William C. Stouder
Wendell, Idaho
Term expires 10/31/2006

Appendix A, continued

Region 4 (Arkansas, New Mexico, Oklahoma, and Texas)

Charles W. Bryant
Austin, Arkansas
Term expires 10/31/2006

Joe L. Gonzalez
Mesquite, New Mexico
Term expires 10/31/2007

William R. Anglin
Bentonville, Arkansas
Term expires 10/31/2008

Region 5 (Minnesota, North Dakota, and South Dakota)

Arlon E. Fritsche
New Ulm, Minnesota
Term expires 10/31/2006

Donna L. Sharp
Bath, South Dakota
Term expires 10/31/2008

Region 6 (Wisconsin)

Carl F. VanDen Avond
Green Bay, Wisconsin
Term expires 10/31/2008

Rosalie M. Geiger
Reedsville, Wisconsin
Term expires 10/31/2007

Bradford A. McCauley
Viola, Wisconsin
Term expires 10/31/2008

Ronald Johnsrud
Gays Mills, Wisconsin
Term expires 10/31/2006

Connie M. Seefeldt
Coleman, Wisconsin
Term expires 10/31/2006

Region 7 (Illinois, Iowa, Missouri, and Nebraska)

Douglas D. Nuttelman
Stromsburg, Nebraska
Term expires 10/31/2008

James R. Bartelson
Anita, Iowa
Term expires 10/31/2006

Appendix A, continued

Region 8 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Michael M. Ferguson
Senatobia, Mississippi
Term expires 10/31/2008

Region 9 (Indiana, Michigan, Ohio, and West Virginia)

Donald E. Gurtner
Fremont, Indiana
Term expires 10/31/2006

Alice S. Moore
Fazeysburg, Ohio
Term expires 10/31/2007

Carl A. Schmitz
Wadesville, Indiana
Term expires 10/31/2008

Region 10 (Florida, Georgia, North Carolina, South Carolina, and Virginia)

John M. Larson
Okeechobee, Florida
Term expires 10/31/2007

Region 11 (Delaware, Maryland, New Jersey, and Pennsylvania)

Paula A. Meabon
Wattsburg, Pennsylvania
Term expires 10/31/2007

Lewis Gardner
Galeton, Pennsylvania
Term expires 10/31/2006

Joyce A. Bupp
Seven Valleys, Pennsylvania
Term expires 10/31/2008

Region 12 (New York)

Ronald R. McCormick
Java Center, New York
Term expires 10/31/2008

David E. Hardie
Lansing, New York
Term expires 10/31/2007

Appendix A, continued

Region 12 (New York)

Edgar A. King
Schuylerville, New York
Term expires 10/31/2006

Region 13 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, & Vermont)

Deborah A. Erb
Landaff, New Hampshire
Term expires 10/31/2008

Appendix B
National Fluid Milk Processor Promotion Board
Current Member Listing

Region 1 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Michael F. Touhey
Dean Foods Company
Franklin, Massachusetts
Term expires 06/30/2007

Region 2 (New Jersey and New York)

Joseph Cervantes
Crowley Foods, L.L.C.
Binghamton, New York
Term expires 06/30/2008

Region 3 (Delaware, District of Columbia, Maryland, Pennsylvania, and Virginia)

Michael F. Nosewicz
The Kroger Company
Cincinnati, Ohio
Term expires 06/30/2009

Region 4 (Georgia, North Carolina, and South Carolina)

Charles L. Gaither
Milkco, Inc.
Asheville, North Carolina
Term expires 06/30/2007

Region 5 (Florida)

James S. Jaskiewicz
Publix Super Markets, Inc.
Lakeland, Florida
Term expires 06/30/2008

Appendix B, continued

Region 6 (Ohio and West Virginia)

William R. McCabe
Smith Dairy Products Company
Orrville, Ohio
Term expires 06/30/2009

Region 7 (Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin)

Current National Fluid Milk Board Member

Rachel A. Kylo
Kemps, L.L.C. Foods, Inc.
St. Paul, Minnesota
Term expires 06/30/2007

Region 8 (Illinois and Indiana)

Brian Haugh
National Dairy Holdings
Dallas, Texas
Term expires 06/30/2008

Region 9 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Edward L. Mullins
Prairie Farms Dairy, Inc.
Carlinville, Illinois
Term expires 06/30/2009

Region 10 (Texas)

Robert M. McCullough
H. E. Butt Grocery Company
San Antonio, Texas
Term expires 06/30/2007

Appendix B, continued

Region 11 (Arkansas, Iowa, Kansas, Missouri, Nebraska, and Oklahoma)

Gary L. Aggus
Hiland Dairy Foods Company, L.L.C.
Springfield, Missouri
Term expires 06/30/2008

Region 12 (Arizona, Colorado, New Mexico, Nevada, and Utah)

Patrick R. Beaman
Dean Foods Company
Dallas, Texas
Term expires 06/30/2009

Region 13 (Idaho, Montana, Oregon, Washington, and Wyoming)

James T. Wilcox, III
Wilcox Farms, Inc.
Roy, Washington
Term expires 06/30/2007

Region 14 (Northern California)

Jerry N. Tidwell
Safeway, Inc.
Pleasanton, California
Term expires 06/30/2008

Region 15 (Southern California)

Paul W. Bikowitz
Heartland Farms
City of Industry, California
Term expires 06/30/2009

Appendix B, continued

Members-At-Large

Lisa M. Hillenbrand
Public Member
Versoix, Switzerland
Term expires 06/30/2009

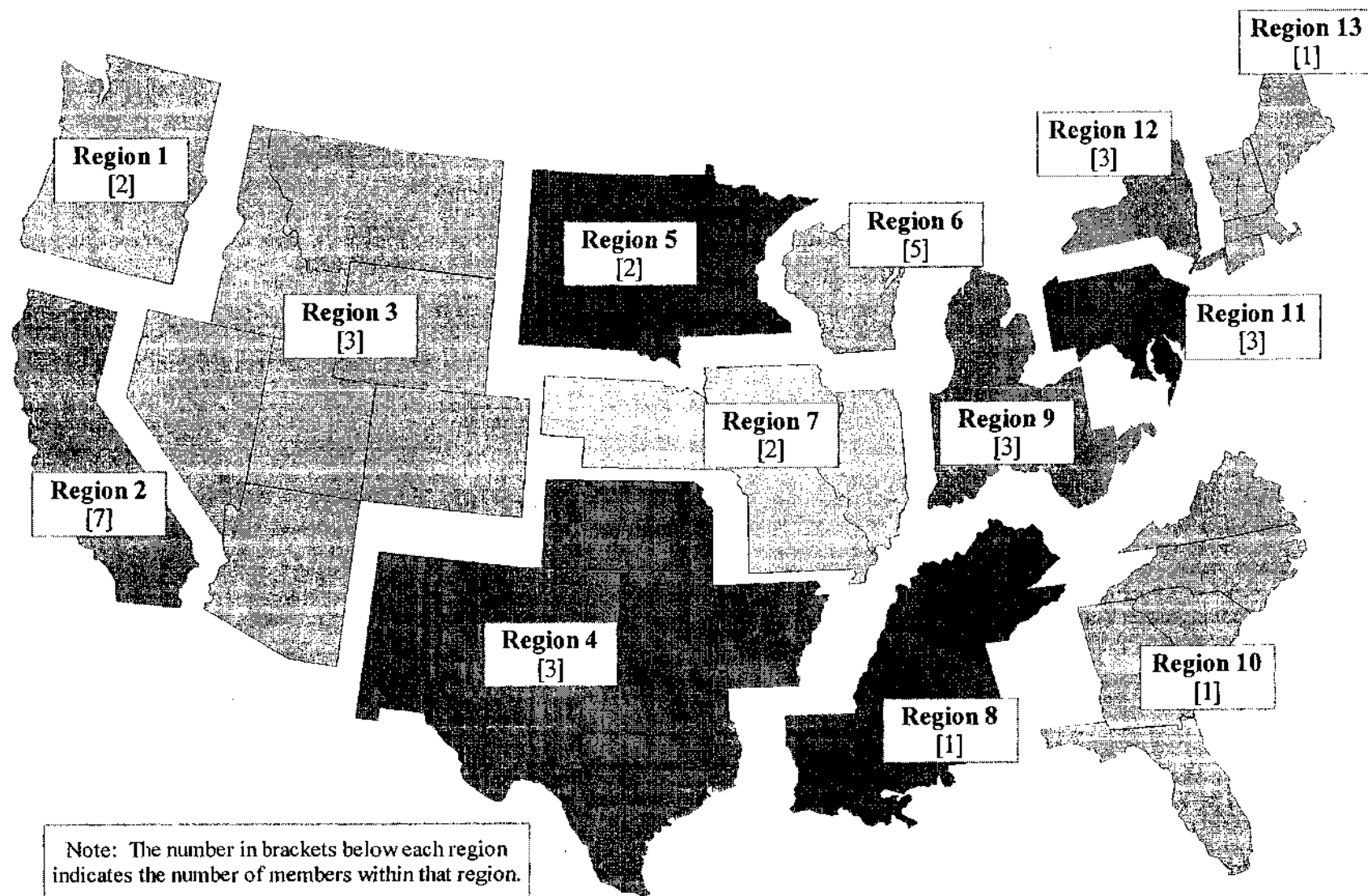
Susan D. Meadows
Dean Foods Company
Dallas, Texas
Term expires 06/30/2009

Randy D. Mooney
Hiland Dairy Foods Company, L.L.C.
Springfield, Missouri
Term expires 06/30/2007

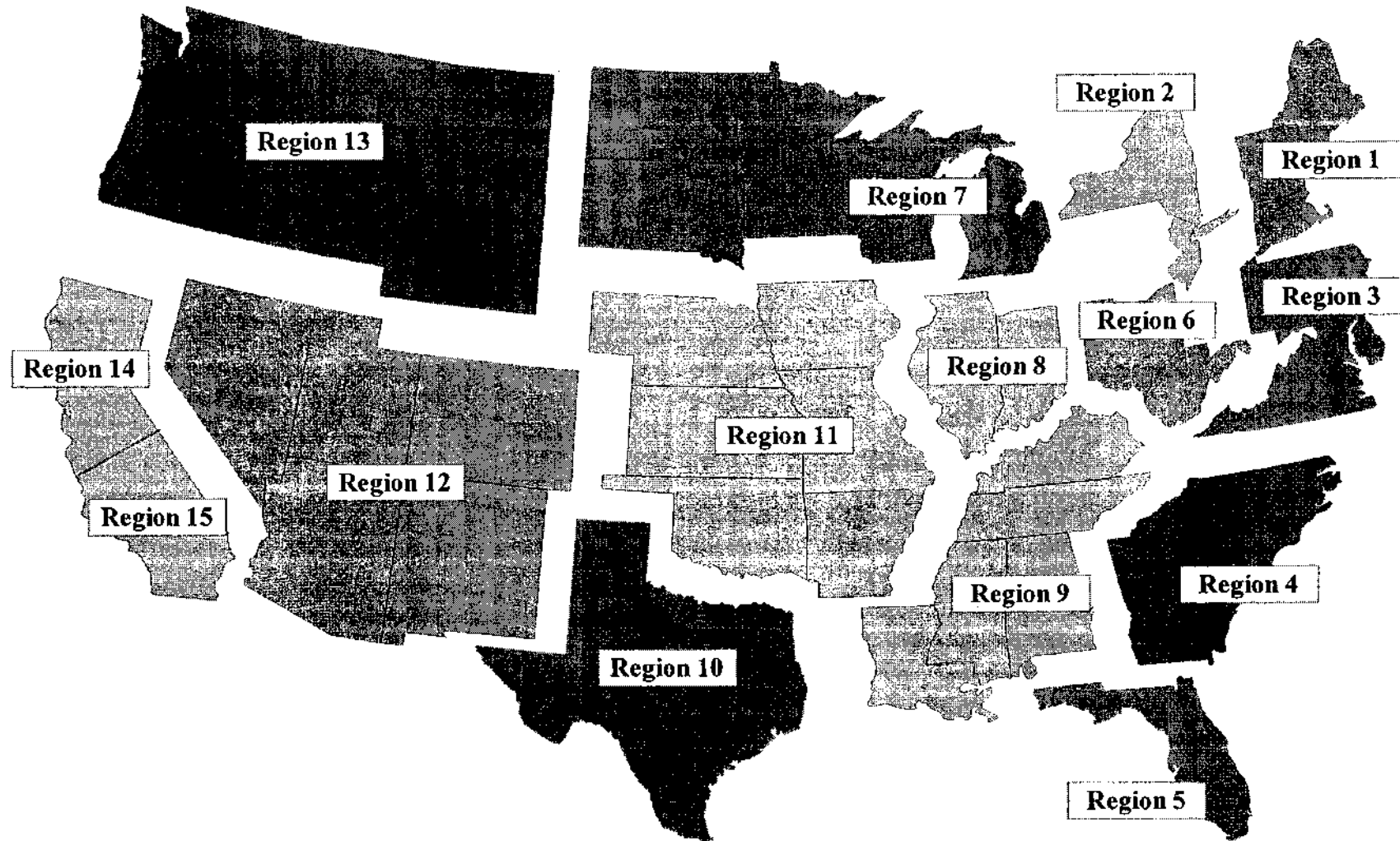
Michael A. Krueger
Shamrock Foods Company
Phoenix, Arizona
Term expires 06/30/2008

Teresa E. Webb
Farmland Dairies L.L.C.
Wallington, New Jersey
Term expires 06/30/2007

Appendix C-1
Regions of the National Dairy Promotion and Research Board



Appendix C-2
Regions of the National Fluid Milk Processor Promotion Board



Appendix D-1
National Dairy Promotion and Research Board
Actual Income and Expenses
FY 2004–2005
(in \$000's)

	2004	2005
Income		
Assessments	\$85,716	\$88,621
Interest	<u>29</u>	<u>201</u>
Total Income	\$85,745	\$91,322
 General Expenditures		
General and Administrative	\$3,470	\$3,628
USDA Oversight	<u>659</u>	<u>589</u>
Total General Expenditures	\$4,129	\$4,217
 Program Expenditures		
Communications and Member Relations	\$11,595	\$11,005
Domestic Marketing	60,491	56,066
Export Enhancement	5,483	5,443
Hurricane Fund	0	500
Planning and Research	<u>3,082</u>	<u>2,386</u>
Total Program Expenditures	\$80,651	\$75,400
 Excess of Revenue (Under) Over Expenditures	\$965	\$9,205
 Fund Balance, Beginning of Year	\$4,924	\$5,889
 Fund Balance, End of Year	\$5,889	\$15,094

Source: Independent Auditor's Report of the National Dairy Board and USDA records.

Appendix D-2
USDA Oversight Costs for the
National Dairy Promotion and Research Board
FY 2004–2005

	2004	2005
Salaries and Benefits	\$359,338	\$319,403
Travel	36,906	36,405
Miscellaneous ¹	32,984	55,202
Equipment	6,651	1,651
Printing	3,261	4,744
USDA Oversight Total	\$439,140	\$417,405
 Independent Evaluation	 \$154,543	 \$92,888
 Total²	 \$593,683	 \$510,293

¹Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of the General Counsel costs.

²The totals for USDA expenses differ slightly from those shown in Appendix D-1 because of end-of-year estimates which are adjusted in the following year.

Appendix D-3
National Dairy Promotion and Research Board
Approved Budgets
FY 2005–2006
(in \$000's)

	2005	2006
Revenues		
Assessments	\$86,315	\$86,600
Program Development Fund Draw	2,500	5,900
Interest	<u>50</u>	<u>100</u>
Total Income	\$88,865	\$92,600
Expenses		
General and Administrative	\$3,721	\$3,853
Hurricane Fund	500	-
USDA Oversight	<u>540</u>	<u>600</u>
Subtotal	\$4,761	\$4,453
Program Budget		
Communications and Member Relations	\$11,596	\$13,472
Domestic Marketing	62,508	41,779
Air Emissions Research	-	6,000
Export Enhancement	5,460	4,890
Research and Evaluation	2,869	3,256
Business Plan Development Fund	-	13,050
Emerging Opportunities	<u>1,671</u>	<u>5,700</u>
Subtotal	\$84,104	\$88,147
Total Budget	\$88,865	\$92,600

Source: Budgets from the National Dairy Board received and approved by USDA.

Appendix D-4
National Fluid Milk Processor Promotion Board
Actual Income and Expenses
FY 2004-2005
(in \$000's)

	2004	2005
Income		
Assessments	\$105,728	\$107,061
Late Payment Charges	54	99
Interest	252	276
Other	<u>4</u>	<u>510</u>
Total Income	\$106,038	\$107,946
 General Expenditures		
California Refund	\$10,175	10,199
Administrative	2,152	2,001
USDA Oversight	318	256
USDA Assessment Verification	<u>113</u>	<u>95</u>
Total General Expenditures	\$12,757	\$12,551
 Program Expenditures		
Media	\$69,508	\$59,949
Public Relations	13,312	9,979
Promotions	9,690	9,425
Strategic Thinking	1,864	2,092
Medical Advisory Panel	189	210
American Heart Association	240	16
Research, Local Markets, and Program Measurement	2,129	1,711
Program Management	<u>334</u>	<u>145</u>
Total Program Expenditures	\$80,651	\$83,527
 Excess of Revenue (Under) Over Expenditures	\$3,887	\$11,867
 Fund Balance, Beginning of Year	\$16,447	\$12,560
 Fund Balance, End of Year	\$12,560	\$24,427

SOURCE: Independent Auditor's Report of the Fluid Milk Board and USDA Records

Appendix D-5
USDA Oversight Costs for the
National Fluid Milk Processor Promotion Board
FY 2004–2005
(\$000's)

	2004	2005
Salaries and Benefits	\$262,626	\$312,353
Travel	18,385	19,648
Miscellaneous ¹	28,161	48,705
Equipment	2,910	1,651
Printing	<u>3,024</u>	<u>5,913</u>
USDA Oversight Total	\$315,106	\$388,270
 Independent Evaluation	 \$98,375	 \$30,963
 Total²	 \$413,481	 \$419,233

¹ Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of the General Counsel costs.

² The totals for USDA expenses differ slightly from those shown in Appendix D–4 because of end-of-year estimates which are adjusted in the following year.

Appendix D-6
National Fluid Milk Processor Promotion Board
Approved Budgets
FY 2005-2006
(in \$000's)

	2005	2006
Revenues		
Assessments	\$104,900	\$106,600
Interest	-	-
Total Income	<u>\$104,900</u>	<u>\$106,600</u>
 Reserve Fund	 -	 -
Carryover from Previous Fiscal Year	<u>\$5,175</u>	<u>\$5,535</u>
Total Available Funds	<u>\$110,075</u>	<u>\$112,535</u>
 Expenses		
General and Administrative	\$2,192	2,213
USDA Oversight	380	380
Independent Evaluation	¹	¹
Processor Compliance	²	²
California Refund	<u>10,300</u>	<u>10,300</u>
Subtotal	\$12,872	\$12,893
 Program Budget		
Advertising	\$60,695	\$69,010
Public Relations	10,285	11,810
Promotions	10,535	11,570
Strategic Thinking	2,155	2,305
Medical Advisory Panel	225	330
Research	2,020	2,095
Medical Research	201	205
Program Management	150	-
Program Measurement	<u>164</u>	<u>215</u>
Subtotal	\$86,430	\$97,540
Unallocated	<u>10,773</u>	<u>1,702</u>
 Total Budget	 \$110,775	 \$112,135

¹Independent Evaluation costs are included in Program Measurement Expenses.

²Processor Compliance is included in General and Administrative Expenses.

Source: Budgets from the National Fluid Milk Board received and approved by USDA.

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

**National Dairy Promotion and Research Board
Years Ended December 31, 2005 and 2004**

National Dairy Promotion and Research Board
Financial Statements and Supplemental Schedule
Years Ended December 31, 2005 and 2004

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Report of Independent Auditors

The Board of Directors
National Dairy Promotion and Research Board

We have audited the accompanying statement of financial position of National Dairy Promotion and Research Board (NDB) as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of NDB's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NDB for the year ended December 31, 2004, were audited by other auditors, whose report dated April 8, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of NDB's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NDB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the 2005 financial statements taken as a whole. The schedule of reconciliation of operations budget is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2005 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 financial statements taken as a whole.

Ernst + Young LLP

April 7, 2006

National Dairy Promotion and Research Board

Balance Sheets

	December 31	
	2005	2004
Assets		
Cash and cash equivalents	\$ 11,596,487	\$ 4,544,245
Assessments receivable, net	8,813,977	7,588,476
Accrued interest receivable	984	184
Fixed assets (net of accumulated depreciation of \$139,026 and \$126,730 in 2005 and 2004, respectively)	46,740	11,186
Total assets	\$ 20,458,188	\$ 12,144,091
Liabilities and net assets		
Liabilities:		
Due to related party – DMI	\$ 4,776,017	\$ 5,883,443
Accounts payable	162,787	236,859
Accrued expenses and other liabilities	260,096	134,337
Total liabilities	5,198,900	6,254,639
Net assets – unrestricted	15,259,288	5,889,452
Total liabilities and net assets	\$ 20,458,188	\$ 12,144,091

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Activities

	Years Ended December 31	
	2005	2004
Revenues		
Assessments	\$ 88,621,371	\$ 85,716,090
Interest income	200,678	28,759
Total revenues	<u>88,822,049</u>	<u>85,744,849</u>
Expenses		
Program:		
Domestic marketing group	55,901,430	60,491,075
Research and evaluation group	2,385,345	3,081,654
Communications/member relations group	11,005,496	11,595,023
Export group	5,443,200	5,482,500
Hurricane Fund	500,000	—
United States Department of Agriculture	588,852	659,305
Total program	<u>75,824,323</u>	<u>81,309,557</u>
General and administrative:		
DMI general and administrative	3,136,334	2,972,207
General and administrative	491,556	497,605
Total general and administrative	<u>3,627,890</u>	<u>3,469,812</u>
Total expenses	<u>79,452,213</u>	<u>84,779,369</u>
Increase in net assets	9,369,836	965,480
Net assets at beginning of year	5,889,452	4,923,972
Net assets at end of year	<u>\$ 15,259,288</u>	<u>\$ 5,889,452</u>

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Cash Flows

	Years Ended December 31	
	2005	2004
Operating activities		
Increase in net assets	\$ 9,369,836	\$ 965,480
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	12,296	8,921
Changes in assets and liabilities:		
Assessments receivable	(1,225,501)	80,403
Accrued interest receivable	(800)	(93)
Accounts payable	(1,181,498)	(2,005,267)
Accrued expenses and other liabilities	125,759	(196,862)
Net cash provided by (used in) operating activities	7,100,092	(1,147,418)
Investing activities		
Purchases of fixed assets	(47,850)	-
Net increase (decrease) in cash and cash equivalents	7,052,242	(1,147,418)
Cash and cash equivalents at beginning of year	4,544,245	5,691,663
Cash and cash equivalents at end of year	<u>\$ 11,596,487</u>	<u>\$ 4,544,245</u>

See accompanying notes.

National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2005 and 2004

1. Organization

The National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to The Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies in the United States (U.S.) and increase human consumption of U.S.-produced fluid milk and other dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the U.S. dairy industry's position in the marketplace and to maintain and expand domestic and international markets' usage of U.S.-produced fluid milk and other dairy products.

The United States Department of Agriculture (USDA) approved a joint venture between NDB and the United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related organization, is to promote greater coordination, efficiency, and effectiveness and avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA. NDB and UDIA will jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the approval of the USDA.

NDB funds DMI on a cost reimbursement basis. Core costs, which include staff salaries and benefits, travel, Board of Directors, and office operating expenses, are primarily funded by NDB, with UDIA funding one-half of Board of Directors and executive office costs. Marketing program costs, which include expenses associated with implementing the marketing programs of NDB and UDIA, are funded by NDB and UDIA based on the annual Unified Marketing Plan budget. NDB has funded DMI core costs of \$15,612,201 and \$15,481,616 and program costs of \$62,259,604 and \$68,140,843, for activity related to the years ended December 31, 2005 and 2004, respectively.

The U.S. Dairy Export Council (USDEC) is a related organization that was founded by the boards of both NDB and UDIA and began operations effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting the acceptability, consumption, and purchase of U.S. dairy products in international markets. For the years ended December 31, 2005 and 2004, NDB reimbursed DMI \$5,443,200 and \$5,482,500, respectively, for USDEC's operations.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions in accordance with the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as follows:

- Permanently Restricted Net Assets are assets subject to donor-imposed restrictions requiring the asset be retained permanently and invested. Restrictions permit the use of some or all of the income earned on the invested assets for specific purposes.
- Temporarily Restricted Net Assets are assets with donor restrictions that expire with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. Earnings related to temporarily restricted net assets are recorded as temporarily restricted net assets until amounts are expensed in accordance with donor's specified purposes. When donor restrictions are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as "net assets released from restrictions."
- Unrestricted Net Assets are not subject to donor-imposed stipulations. Board-Designated Net Assets are Unrestricted Net Assets designated by the Board to be used for several specific purposes. The Board retains control over these net assets and may, at its discretion, subsequently use the net assets for other purposes.

All net assets of the NDB at December 31, 2005 and 2004 are unrestricted.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents include all liquid investments with a maturity of three months or less at the date of acquisition.

Assessments

Assessment revenue is generated by a mandatory assessment of \$.15 per hundredweight on all milk produced and marketed in the contiguous United States. Milk producers can direct up to \$.10 per hundredweight to USDA qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2005 and 2004, the net NDB assessment was approximately \$.0506 and \$.0507 per hundredweight of milk marketed, respectively. Assessment revenue is recognized in the month in which milk is marketed.

During 2005, the Dairy Promotion and Research Order was amended to allow organic dairy producers, as defined, to be exempt from paying assessments. The amount of exempted assessments in 2005 was approximately \$127,000.

Fixed Assets

Fixed assets consist of computer software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the costs of depreciable assets to operations over estimated service lives of five years using the straight-line method.

Contract and Grant Expense

Expenses related to contracts are recognized as incurred. Grants for research projects typically require periodic reporting of project status and payments. Such payments are expensed as progress is achieved.

Income Taxes

NDB has received a determination letter from the Internal Revenue Service indicating that it is exempt from federal and state income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. There was no unrelated business taxable income for the years ended December 31, 2005 and 2004; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Employee Costs

NDB's operations are staffed by DMI employees, who receive vacation, retirement, health, and other benefits provided by DMI.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31:

	<u>2005</u>	<u>2004</u>
Operating cash in banks and on hand	\$ 261,302	\$ 305,034
Federal agency discounted securities	11,335,185	4,239,211
	<u>\$11,596,487</u>	<u>\$ 4,544,245</u>

4. Assessments Receivable

Assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight. In accordance with Public Law 98-180, NDB forwards unpaid assessments to the USDA for collection and other legal proceedings. As of December 31, 2005 and 2004, approximately \$101,000 and \$101,000, respectively, of cumulative unpaid assessments were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2005 and 2004, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file required milk marketed assessment reports with NDB.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

5. Net Assets

During 2005 and 2004, NDB's Board designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

	<u>2005</u>	<u>2004</u>
Designated assets – cash reserves	\$ 1,800,000	\$ 1,800,000
Undesignated net assets	13,459,288	4,089,452
Total net assets	<u>\$ 15,259,288</u>	<u>\$ 5,889,452</u>

6. Transactions With the United States Department of Agriculture

NDB reimburses the USDA for the cost of administrative oversight and compliance audit activities. These reimbursements amounted to \$588,852 and \$659,305 for the years ended December 31, 2005 and 2004, respectively.

7. Litigation

NDB and the USDA were defendants in a lawsuit that claims the Dairy Promotion Program established by the Dairy Promotion Stabilization Act of 1983 (the Dairy Act) violates the First Amendment right to free speech and free association. The lawsuit sought injunctive relief from the mandatory assessment fees paid to NDB on milk produced and marketed in the contiguous United States. These mandatory assessment fees are the primary revenue source for NDB. During fiscal year 2005, this case was settled in NDB and the USDA's favor.

Supplemental Schedule

National Dairy Promotion and Research Board
Schedule of Reconciliation of Operations Budget

Year Ended December 31, 2005

	2005 Total Expenses	2005 Commitments Expensed in 2004	2005 Operations Budget Statement
Organizational group expenses			
Domestic marketing group	\$ 55,901,430	\$ 164,147	\$ 56,065,577
Research and evaluation group	2,385,345	—	2,385,345
Communications/member relations group	11,005,496	—	11,005,496
Export group	5,443,200	—	5,443,200
Hurricane Fund	500,000	—	500,000
United States Department of Agriculture	588,852	—	588,852
DMI general and administrative	3,136,334	—	3,136,334
General and administrative	491,556	—	491,556
Total organizational group expenses	<u>\$ 79,452,213</u>	<u>\$ 164,147</u>	<u>\$ 79,616,360</u>

This schedule reconciles the total expenses from the statement of activities presented in accordance with accounting principles generally accepted in the United States of America to those reflected in the Operations Budget Statement which is used for management's internal purposes.

The 2005 commitments expensed in 2004 represent programs that management committed as part of the 2005 marketing plan.

See accompanying independent auditors' report.

Report of Independent Accountants on Applying Agreed-upon Procedures

**The Board of Directors and Management
National Dairy Promotion and Research Board:**

We have performed the procedures enumerated below, which were agreed to by the U.S. Department of Agriculture (USDA) and National Dairy Promotion and Research Board (NDB), solely to assist you with respect to evaluating NDB's compliance with the Dairy and Tobacco Adjustment Act of 1983 (the Act), the Dairy Promotion and Research Order (Order), and the Agricultural Marketing Services Directive (Directive) entitled Investments of Public Funds as of and for the year ended December 31, 2005. NDB is responsible for its compliance with the Act, Order, and Directive. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

- a. We obtained NDB's budget for the year ended December 31, 2005, and sighted the signature of the Secretary of the USDA.
- b. We selected four investment purchase transactions from calendar year 2005, compared and agreed them against their respective brokers' advices, and noted the following:
 - The investments were in either U.S. Government Securities or Federal Agency Securities.
 - The investments had maturity periods of one year or less.
 - The U.S. Government Securities and Federal Agency Securities were held in the name of NDB at the designated financial institution.
- c. We obtained the 1999 investment files and sighted various broker's advices noting that the investment records have been maintained for six years.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the above compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of directors and management of NDB and USDA, and is not intended to be and should not be used by anyone other than these specified parties.

April 15, 2006

Ernst & Young LLP

April 7, 2006

The Board of Directors

National Dairy Promotion and Research Board
Rosemont, Illinois

In planning and performing our audit of the financial statements of the National Dairy Promotion and Research Board for the year ended December 31, 2005, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the United States Department of Agriculture, the Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst & Young LLP

April 7, 2006

**National Fluid Milk Processor
Promotion Board**

**Financial Statements
and
Independent Auditor's Report**

Year Ended December 31, 2005

**1250 H Street, N.W., Suite 950
Washington, D.C. 20005**

Part I

Financial Statements and Independent Auditor's Report for
the Year Ended December 31, 2005

Part II

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

Part III

Independent Auditor's Comments on Compliance with
Government Auditing Standards

PART I

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SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

We have audited the accompanying balance sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2005, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated March 6, 2006 on our consideration of the National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting information included in the report for 2005 (Pages 11 through 16) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the National Fluid Milk Processor Promotion Board. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 6, 2006
Bethesda, Maryland

National Fluid Milk Processor Promotion Board

Balance Sheet

December 31, 2005

Assets

Current assets:

Cash and cash equivalents	\$ 14,822,201
Assessments receivable, net of allowance for uncollectible accounts of \$144,915	11,563,165
Interest receivable	21,557
Future year costs	5,550,801
Other receivables	<u>159,867</u>

Total assets **\$ 32,117,591**

Liabilities and net assets

Current liabilities:

Accounts payable	<u>\$ 7,689,802</u>
------------------	---------------------

Net assets:

Designated for contingencies	2,500,000
Undesignated	<u>21,927,789</u>

Total net assets **24,427,789**

Total liabilities and net assets **\$ 32,117,591**

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2005

Revenues:

Assessments	\$ 107,060,754
Late payment charges	99,131
Interest income	276,135
Other	<u>509,591</u>

Total revenues 107,945,611

Expenses:

Program expenses:

Media	59,949,054
Promotions	9,424,612
Public relations	9,978,572
Strategic thinking	2,091,931
Research	1,711,525
Medical advisory panel	210,194
Medical research	16,098
Program measurement	<u>144,716</u>

Total program expenses 83,526,702

Other expenses:

California grant	10,199,294
Administrative	2,000,686
USDA oversight	258,000
USDA compliance audit	<u>95,443</u>

Total other expenses 12,551,423

Total expenses 96,078,125

Excess of revenues over expenses 11,867,486

Net assets - beginning 12,560,303

Net assets - ending \$ 24,427,789

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statement of Cash Flows

For the year ended December 31, 2005

Cash flows from operating activities:

Excess of revenues over expenses	\$ 11,867,486
Changes in assets and liabilities:	
Increase in assessments receivable	(349,439)
Increase in interest receivable	(15,910)
Decrease in future year costs	9,239,105
Decrease in other receivables	54,572
Decrease in accounts payable	<u>(11,633,790)</u>

**Net cash provided by operating activities and
net increase in cash and cash equivalents**

9,162,024

Cash and cash equivalents - beginning

5,660,177

Cash and cash equivalents - ending

\$ 14,822,201

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2005

Note 1: Summary of significant accounting policies:

The National Fluid Milk Processor Promotion Board (the Board) was established pursuant to the authority of the Fluid Milk Promotion Act (the Act) of 1990, Subtitle H of the Title XIX of the Food, Agriculture, Conservation and Trade Act of 1990. The purpose of the Board is to administer the provisions of the Fluid Milk Promotion Order (the Order) established pursuant to the Act which establishes an orderly procedure for the development, and the financing through an assessment, of a coordinated program of advertising, promotion, and education for fluid milk products.

The Act requires that a referendum be conducted among processors to determine if a majority favored implementing the fluid milk program. In the October 1993 initial referendum, the majority of processors voted to approve the implementation of the fluid milk program. A continuation referendum was held in February-March 1996. Of the processors voting in that referendum, the majority favored continuation of the fluid milk program. In November 1998, another continuation referendum was held at the request of the Board and processors voted to continue the fluid milk program as established by the Order. The Act and Order state that the United States Department of Agriculture (USDA) will hold future referenda upon the request of the Board, processors representing 10 percent or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the U.S. Secretary of Agriculture. On March 30, 2004, a Notice of Review and Request was published in the Federal Register. The purpose of the Review was to determine whether the Order should continue without change. No comments were received and the Order will continue without change.

For financial reporting purposes, the Board is considered a quasi-governmental agency of the U.S. government. As such, it is exempt from income taxes under the Internal Revenue Code. The USDA and its affiliated agencies operate in an oversight capacity of the Board.

The financial statements of the Board are prepared in conformity with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Assessments - Effective August 1, 2002, assessments are generated from those processors marketing more than 3,000,000 pounds of fluid milk per month by a 20-cent per hundred weight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the 48 contiguous United States and the District of Columbia. Prior to August 1, 2002, the minimum monthly assessments were generated from processors marketing more than 500,000 pounds of fluid milk per month. Assessment revenue is recognized in the month in which the fluid milk product is processed.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2005

Note 1: Summary of significant accounting policies: (continued)

Late payment charges are assessed, as provided under the Act, to processors who do not remit monthly assessments within 30 days following the month of assessment. The late payment charge is equal to 1.5% of unpaid assessments and accrues monthly. At no time does the Board stop accruing interest on these assessments. For 2005, allowance for doubtful accounts has not been recorded for late fee charges because the Board's management considers all late fees to be fully collectible.

California grant - In accordance with the Act, the Board is required to provide a grant to a third party equal to 80% of the assessments collected from Regions 14 and 15 to implement a fluid milk promotion campaign. Disbursements under these provisions are recorded as "California Grant" in the accompanying financial statements.

Cash equivalents - For purposes of the statement of cash flows, the Board considers investments with an original maturity of three months or less to be cash equivalents.

Future year costs - Future year costs represent costs incurred for 2006 budget year projects.

Assessments receivable - An allowance for uncollectible accounts has been established for those assessments which management has determined as uncollectible.

Use of estimates - The Board has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Advertising - In accordance with its mission, the Board has approved the development of direct and nondirect response advertising and promotional activities. All costs related to these activities are charged to expense as incurred.

Note 2: Cash and cash equivalents:

At December 31, 2005, the bank balance of the Board's cash deposits was entirely covered by federal depository insurance or was covered by collateral held by the Board's agent in the Board's name.

	<u>Carrying Value</u>
Cash deposits	\$11,295,987
Repurchase agreements	924,132
Investments	<u>2,602,082</u>
	<u>\$14,822,201</u>

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2005

Note 2: Cash and cash equivalents: (continued)

At December 31, 2005, the repurchase agreements were secured as to principal plus accrued interest by U.S. government securities held in the respective banks' safekeeping account, in the Board's name, with the Federal Reserve Bank.

The Board is required to follow the Agricultural Marketing Service (AMS) investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, and must mature within one year or less from the date of purchase. At December 31, 2005, investments consist entirely of U.S. government agency obligations. Investments are carried at cost, which approximates fair value. The Board's investments are held by the counterparty's trust department or agent in the Board's name.

At December 31, 2005, investments consisted of the following:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Carrying Amount</u>
U.S. Securities:				
FNMA discount note	10/18/05	02/08/06	3.96%	<u>\$2,602,082</u>

At December 31, 2005, the Board was owed accrued interest of \$21,557.

Included in cash and cash equivalents is \$2,500,000 of Board designated cash reserves.

Note 3: Compliance matters:

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the year ended December 31, 2005, the Board did not exceed this limitation.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2005

Note 4: Program administration:

The Board entered into an agreement with the International Dairy Foods Association (IDFA) to administer the fluid milk program. Under this agreement, IDFA engages outside organizations to develop programs for advertising, promotion, consumer education, and certain minority initiatives. The organizations are:

- Draft
- Lowe & Partners Worldwide
- Weber Shandwick Worldwide
- Siboney USA

Under this and related agreements, IDFA also directly provides program management, administrative support and employee benefits management services and leases office space to the Board. During the year ended December 31, 2005, the Board incurred approximately \$1,120,255 for directly provided services. At December 31, 2005, the Board owed IDFA \$545,030 for costs billed under these agreements.

Note 5: Commitments:

The Board entered into an agreement during fiscal year 2000 with Walt Disney World Hospitality & Recreation Corporation (WDWHRC), whereby the Board will pay WDWHRC \$1,800,000 each year for the next six years through 2006 in exchange for the sponsorship and certain promotional rights at the Sports Complex in order to cooperatively develop programs to promote fluid milk products at Walt Disney World Resort. In December 2003, both parties agreed to extend the term of the agreement for another three years through 2009 at the previously agreed rate of \$1,800,000 to be increased annually by the change in the Consumer Price Index.

In 2002, the Board entered into a five-year agreement with the American Heart Association. Under the agreement, the Board pays the American Heart Association \$120,000 annually from 2002 to 2007 for use of the logo on the processors' milk containers.

During 2004, IDFA and Flair Communications Agency, Inc. (Flair) agreed to submit to binding arbitration for Flair's claim of additional amounts due of \$504,788 with respect to services it performed under marketing agreements entered into by IDFA as a contractor to the Board. As a result of this claim, the Board accrued \$504,788 in 2004 as a potential obligation pending resolution of the binding arbitration process. In June 2005, a decision was reached in which the arbitrator ruled that the Board has no further obligations to Flair. Accordingly, in 2005 this accrual was reversed and is included in miscellaneous income on the statement of revenues, expenses and changes in net assets.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2005

Note 6: Operating lease:

The Board incurred \$129,000 of rental expense during 2005, under a sublease with an automatic renewal option. For 2006, the annual lease payment under the contract will be \$129,000.

Note 7: Transactions with the United States Department of Agriculture:

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs. These costs were \$351,443 during 2005.

Note 8: Related party activity:

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was \$310,000 during 2005. A principal of RK&A serves as the Chief Financial Officer of the Board and receives compensation for services performed.

The Board has entered into an employment agreement with its Chief Executive Officer (CEO). The agreement runs from January 1, 2004 to December 31, 2006 and provides for annual compensation, benefits, and increases based upon the CEO's annual performance evaluation. The agreement also includes provisions that would require severance payments upon early termination of the agreement.

Included with other receivables is \$143,392 due from IDFA which represents excess retirement plan fundings associated with the CEO's employment contract. This amount will be adjusted on an annual basis, and will be refunded to the Board upon the earlier of the CEO's termination or retirement.

**SUPPLEMENTARY
INFORMATION**



SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report on Supplementary Information

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

Our report on our audit of the basic financial statements of the National Fluid Milk Processor Promotion Board for 2005 appears on page 1. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 13 to 16 for the year ended December 31, 2005 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 6, 2006
Bethesda, Maryland

National Fluid Milk Processor Promotion Board

Schedule of Revenues and Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2005

	Unexpended/ Amended Budget	Current Year Actual	Actual Over (Under) Budget
Revenues:			
Assessments	\$ 104,900,000	\$ 107,060,754	\$ 2,160,754
Late payment charges	-	99,131	99,131
Interest income	-	276,135	276,135
Other	-	509,591	509,591
Carryover - prior years	<u>5,175,000</u>	<u>-</u>	<u>(5,175,000)</u>
Total revenues	<u>110,075,000</u>	<u>107,945,611</u>	<u>(2,129,389)</u>
Expenses:			
Program expenses:			
Program - current year	86,429,700	82,412,286	(4,017,414)
Program - prior years	<u>6,873,470</u>	<u>1,114,416</u>	<u>(5,759,054)</u>
Total program expenses	<u>93,303,170</u>	<u>83,526,702</u>	<u>(9,776,468)</u>
Other expenses:			
California grant	10,300,000	10,199,294	(100,706)
Administrative	2,192,000	2,000,686	(191,314)
USDA oversight	<u>380,000</u>	<u>351,443</u>	<u>(28,557)</u>
Total other expenses	<u>12,872,000</u>	<u>12,551,423</u>	<u>(320,577)</u>
Less encumbrances - prior years	<u>(6,873,470)</u>	<u>-</u>	<u>6,873,470</u>
Total expenses	<u>99,301,700</u>	<u>96,078,125</u>	<u>(3,223,575)</u>
Unallocated budget	<u>10,773,300</u>	<u>-</u>	<u>(10,773,300)</u>
Excess of revenues over expenses	<u>\$ -</u>	<u>\$ 11,867,486</u>	<u>\$ 11,867,486</u>

National Fluid Milk Processor Promotion Board

Schedule of Program Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2005

	<u>Current Year Amended Budget</u>	<u>Expended Current Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Prior Year Unexpended Budget</u>	<u>Expended Prior Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Total Program Activity</u>
Expenses - 2005 budget							
Media	\$ 60,695,000	\$ 59,816,286	\$ (878,714)	\$ 601,151	\$ 132,768	\$ (468,383)	\$ 59,949,054
Promotions	10,535,000	9,111,140	(1,423,860)	3,856,853	313,472	(3,543,381)	9,424,612
Public relations	10,285,000	9,851,429	(433,571)	433,474	127,143	(306,331)	9,978,572
Strategic thinking	2,155,000	1,874,183	(280,817)	537,223	217,748	(319,475)	2,091,931
Research	2,020,000	1,418,392	(601,608)	926,243	293,133	(633,110)	1,711,525
Medical advisory board	225,000	205,696	(19,304)	215,244	4,498	(210,746)	210,194
American Heart Association	-	-	-	120,000	-	(120,000)	-
Medical research	201,000	16,098	(184,902)	139,560	-	(139,560)	16,098
Program measurement	163,700	119,062	(44,638)	43,722	25,654	(18,068)	144,716
Program management	150,000	-	(150,000)	-	-	-	-
Total program expenses	\$ 86,429,700	\$ 82,412,286	\$ (4,017,414)	\$ 6,873,470	\$ 1,114,416	\$ (5,759,054)	\$ 83,526,702

National Fluid Milk Processor Promotion Board

Schedule of Administrative Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2005

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
Management contract	\$ 320,000	\$ 318,040	\$ (1,960)
Board meeting expenses	350,000	230,177	(119,823)
Staff salaries and benefits:			
Staff salaries and compensation	423,286	417,658	(5,628)
Staff retirement benefit	42,329	22,565	(19,764)
Payroll taxes	14,763	14,983	220
Health insurance	8,446	3,034	(5,412)
Life insurance	1,442	1,608	166
Disability insurance	1,545	777	(768)
Workers compensation	721	1,048	327
Other employee benefits	2,266	2,300	34
Total staff salaries and benefits	494,798	463,973	(30,825)
Finance and administration:			
Contract staff	140,000	139,955	(45)
Financial services	310,000	310,000	-
Total finance and administration	450,000	449,955	(45)
Other operating expenses:			
Legal	200,000	171,453	(28,547)
Audits	80,000	87,834	7,834
Office facilities	111,000	111,000	-
Support and maintenance	18,000	18,000	-
Staff travel	105,000	89,899	(15,101)
Telephone	3,000	1,979	(1,021)
Insurance	35,000	35,940	940
Postage and delivery	15,000	16,856	1,856
Unallocated administrative expense	10,202	5,580	(4,622)
Total other operating expenses	577,202	538,541	(38,661)
Total administrative expenses	\$ 2,192,000	\$ 2,000,686	\$ (191,314)

National Fluid Milk Processor Promotion Board

Schedule of Cash Receipts and Disbursements

For the year ended December 31, 2005

Cash receipts from operations:

Assessments	\$ 106,765,887
Late payment charges	99,131
Interest income	260,225
Other	<u>4,803</u>
Total revenues	107,130,046

Cash disbursements for operations (97,968,022)

Excess of operating receipts over disbursements 9,162,024

Cash and cash equivalents - beginning 5,660,177

Cash and cash equivalents - ending \$ 14,822,201

PART II



SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

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

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

We have audited the financial statements of the National Fluid Milk Processor Promotion Board as of and for the year ended December 31, 2005, and have issued our report thereon dated March 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the National Fluid Milk Processor Promotion Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the National Fluid Milk Processor Promotion Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted during the course of our audit one instance where a subcontractor was reimbursed for first class airfare totaling \$548. Upon discovery, the subcontractor was contacted and a refund of \$121, the difference between the price of a first class ticket and a coach class ticket, was obtained.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Certified Public Accountants and Business Advisors

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Independent Member

BKR

Division of Principal Cities Westfield



To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the National Fluid Milk Processor Promotion Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Colyer, Hamilton & Associates, P.C.

March 6, 2006
Bethesda, Maryland

PART III



SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

**To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 6, 2006. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention, insofar as it relates to accounting matters, that causes us to believe that the National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212 of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the year ended December 31, 2005;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board, except as described below;

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From the Principal Cities Worldwide



**To the Board of Directors
National Fluid Milk Processor
Promotion Board**
Page two

- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by the National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments;
- Failed to comply with internal controls, except as described below;
- Failed to comply with disclosure requirements for lease commitments;
- Failed to comply with standards established requiring signed contracts, USDA approval letters (if necessary), contract term documentation within the file, and CFO's signature on the Board approval letter; or
- Failed to comply with the by-laws of the National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

During the course of our audit, we noted one instance where a subcontractor was paid for services rendered prior to having a written contract or agreement with the Board. This situation was discovered by the Board's management during the calendar year and subsequently corrected by obtaining a refund from the subcontractor. Once a contract was executed, the payment was reissued. We also noted one instance where a subcontractor was reimbursed by the Board for first class airfare. Upon discovery, the subcontractor was contacted and a refund was obtained for the difference between the price of a first class ticket and a coach class ticket.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 6, 2006
Bethesda, Maryland

Appendix F-1
National Dairy Promotion and Research Board
and Dairy Management Inc.
Contracts Reviewed by USDA, 2005

Advertising and Marketing Services

Affina Corporation—Real Seal® Certification Program
American School Food Service Association—School Foodservice Publications; School Milk Pilot Consulting Services
Broadcast Traffic and Residuals, Inc.—Fluid Milk and Cheese Broadcast Materials and Talent Activities
Campbell Mithun (Lowe Worldwide)—Foodservice Promotion Activities
DDB Worldwide Communications Group—Media Planning Services; 3-A-Day of Dairy Creative Advertising
Dairy Farmers, Inc.—Professional Services
Flair Communications Agency—Marketing and Program Constitution and Management
General Mills Marketing—41st Pillsbury Bake-off Contest; Print Media Buying
Initiative Media Worldwide—Advertising Commission Review
J. Brown and Associates—DMI Cheese Co-Marketing Program
Kellogg's USA, Inc.—NASCAR Sponsorship; Joint Milk and Cereal Promotion Activities
McDonald's Corporation—Happy Meal Promotion
Media Management Services—School Marketing Program Support
Media Vest Worldwide—3-A-Day Advertising Services
Midwest Dairy Association—National Retail Account Services; Chicago School Marketing
NFL Properties, LLC—Promotional Activities; Logo Usage Rights
National School Board Association—Marketing Partnership
Olson Communications—School Foodservice Merchandising Materials; Mealtime Sampler Activities; Milk Vending Promotion Kits; School Cafeteria Promotion Activities; Foodservice Program Activities; School Promotion Activities; ADA Trade Booth
School Foodservice and Nutrition—Nutrition Magazine Inserts
Slack Barshinger and Partners—Integrated Marketing Communications
Team Services, LLC—NFL and Sports Marketing Services
WebMD—3-A-Day Weight Loss Activities (Web-based)
Wendy's International—Plastic Milk Container Tests; Kids Meal Promotion
Wisconsin Milk Marketing Board—National Butter Program

Appendix F-1, continued

Public Relations and Nutrition Education

7th Wave Communications—Brag Book Video Project
American Dietetics Association—3-A-Day Avertorial
Association Partners Plus—Communications and Cooperative Education Projects
Association of School Business Officials International—School Milk Marketing
Cardan Company—Grade 2 Nutrition Education Programs
Child Nutrition Foundation—School Foodservice Program Activities
Cleveland Dovington Partners, Inc.—Information Technology Services and Consulting; Web site development (Intranet) www.TeamDairy.com
Dairy Farmers, Inc.—Communication Activities
Destination Imagination, Inc.—Destination Imagination Sponsorship; 3-A-Day of Dairy Improv Challenge
Edelman Public Relations Worldwide—Web site www.butterisbest.com Maintenance; DMI Health Professional Public Relations Program; Dairy Spokesperson Network, Nutrition Communications Program; Dairy Image Media Relations; 3-A-Day Public Relations-Retail/Foodservice; DMI Dairy Image Program; Centers of Influence; Healthy Weight with Dairy Activities
Fleishman Hillard—Reputation Management Program
Food, Research, and Action Center—Food Breakfast Expansion
The Fratelli Group—Dairy Image Protection
Health and Nutrition Network—Media Training & Consulting Services
Healthy Schools, Inc.—Action For Healthy Kids Sponsorship
I-Site Web Design—School Marketing Web Program
Image Base Corporation—Video News Release Production; International School Milk Conference Services
Integer Group—Dairy Producer Communications Program
J.M. Smucker—Return to School Promotion Activities
Jack Morton Worldwide—Web site Design; Web Activities
Jerry Dryer Group—Dairy Issues Management
Media Management Services—Pyramid Café/Pyramid Explorations Newsletter
National Dairy Shrine—Dairy Scholarship Program
Nutrition Impact LLC—Consulting
Osborn and Barr—Communications; Industry Relations Consulting Project
Results Direct—DMI Website Activities
Weber Shandwick, Inc.—Issues Monitoring and Response; Crisis Communications Program

Export

3 A Business Consulting—Europe's Sport Nutrition Market Review
ABC Translation Services—Technical and Safety Evaluation Assessments

Appendix F-1, continued

Export, continued

American-Mexican Marketing—Mexican Market Representation and Program Activities; Mexican Trade Show and Cheese Promotion Activities
Another Color, Inc.—USDEC Publications Development and Design
Arab Marketing Finance, Inc.—Middle East Market Representation and Program Activities
Brooke Scientific Consulting—USDEC Export Guide
Contacts International Consulting, Ltd.—South American Market Representation and Program Activities
Dairymark.com—Whey Permeate Product Supplier Study; Global Strategic Plan for Dairy Research; Global Dairy Industry Patent Review
Foodtrends—Production of Training Manual and Video for Caribbean Deli Program
Functional Ingredients Research, Inc.—Korean Whey Nutrient-Marketing Conference and Trade Mission
GVI Productions—Development and Production of Promotional Video
The Garrison Group—Consulting, Editorial, and Promotional Services
Global Foods & Nutrition—Education Seminar and Trade Mission, Central Asia; Europe Newsletter
Global Trade Information Services—Purchase of *World Trade Atlas*
Grassland Media—Production of Deli Training Video
International Dairy Foods Association—Export Manual Updates
International Trade Services—International Manuals Updates
IntNet—Korean Market Representation and Program Activities; Trade
Islamic Food & Nutrition—Halal Certification Services
Jerry Dryer Group—USDEC Domestic Communications Plan
Landell Mills—Update of Global Dairy Blends Study; Brazilian Market Research; Milk Minerals Research; Indian Dairy Market Study; Soy and Whey Competitive Study
Levitt Communication—International Consulting Services
Market Makers—Japanese Market Representative & Program Activities
Mistral Group, Ltd.—European Market Representation and Program Activities
National Milk Producers Federation—Global and Domestic Research Activities; Farm to Consumer Program Activities
PR Consultants—Chinese Market Representation and Program Activities
Pacrim Associates—Southeast Asian Market Representation and Program Activities
Patricia R. Fuchs & Associates—USDEC Print Project Management
Promar International—Study Dairy Products in Russia
Results Direct—USDEC Web site Activities www.usdec.org Activities
Stanton, Emms, and Sia—Study of Markets for Dairy Products in Vietnam
TCE Consulting Group—Food and Nutrition Conference Activities, Tunis
Uniflex Marketing—Japanese Market Representation and Program Activities; Japanese Dry Ingredients Program

Appendix F-1, continued

Export, continued

World Perspectives—Market Research for Cheese in the Foodservice Sector in the Caribbean
U.S. Whey Research Consortium—The effect of Whey Protein on Body Weight, Body Fat, and Health

Market and Economic Research

Academic Network—Food Guide Pyramid Strategic Counseling
ARS Group—Print Advertising Evaluation
BBDO—Pizza Qualitative Research
Beverage Marketing Corporation of New York—Evaluation of the Effectiveness of Generic Milk Programs; Vending Tracking Study
Burrelle's Newsclip Analysis Service—Media Monitoring and Analysis
CFE Solutions, Inc.— Consulting Services
C & R Research—Educational Materials Research Evaluation
CY Research, Inc.—Milk and Cheese Creative Testing; Dairy Weight Loss Research Awareness
Container Recycling Service—School Recycling Project
Custom Research, Inc.—Cheese and 3-A-Day Advertising Campaign Impact Assessment; Health Professional Dairy Nutrition Tracking Study
Datacore Marketing—Database Management and Consulting
Doyle Research Associates—Web Site Usability Qualitative Research; Business to Business Qualitative Research; Chocolate/White Milk Qualitative Research
Environ—Flavored Milk Research Project
Focus Management Services—U.S. Milk Industry School Audit
Fresh Look Marketing Group—Top-line Random Weight Cheese Data
GFK Custom Research—3-Day Tracking Study; Health Professional Tracking Study;
Green House Communications—Pizza Recipe Development
Information Resources, Inc.—Milk and Cheese Category Volume Reports
K.A. Enterprise—African American Usage, Attitudes, and Associations with Dairy Products
KRC Research—3-A-Day Tracking Survey
Knowledge Networks—NASCAR Promotion Awareness Research; Fluid Milk Advertising Tracking Research/Mom's Tracking Study
MSW—3-A-Day Weight Loss Advertising Test; Test; Advertising Focus Group Analysis
MangoLogic—Online Consumer Surveys
Markecture—Attitudes and Usage Trends Study Analysis; Tracking Activities of Public Opinion Toward Dairy Products and the Dairy Industry (Issues Tracker); Whey Protein Study
Marketing Concepts—Product Innovation and Research Program
Marketing Management—Marketing Mix Analysis
Maskowitz-Jacobs—Consumer Interviews on Milk and Soy Preferences
Mintel International Group—New Products Database and Market Intelligence Reports
National Medical Association—Role of Dairy in the African American Diet

Appendix F-1, continued

Market and Economic Research, continued

National Milk Producers Federation—Domestic Research Program Activities/Animal Health and Welfare Issues Activities

NFO Research—INFOfast Subscription; Dairy Restrictors Research; Purchase and Analysis of Marketing Data

NPD Group—Whey Protein Survey; Organic Milk Survey; Milk Allergen Labeling Study; Cheese Consumption Tracking Activity; CREST Foodservice Data; Eating Patterns Data Report; Food Safety and Dieting Monitor Report; Eating Trends and Beverage Study; Breakfast in America Report; Food World Subscription

Peryam and Kroll—School Milk Container Test; Frozen Pizza Qualitative Study

PHD Technologies—Whey Protein Concentrate-Processed Meat Applications

Prime Consulting Group—Retail Innovation Study Results Workshop

Promar International—School Milk Analysis and Consultation

Promata-Leemiss Services—Online Advertising Activity Data

Pursuant, Inc.—Milk-Producing Livestock Cloning/Dairy Consumption Research; Obesity and Healthcare Research; Dairy Production Practices Attitude Research

RSC-The Quality Measurement Co.—3-A-Day Testing Activities

Results Direct—Database Development

Roper ASW—Plate Waste Study; Student Surveys

Sachs Marketing and Research—Dairy Weight Loss Claims Study

Spectra Marketing Systems—Marketing Research Activities

Summit Research, Inc.—Milk Pilot Satisfaction Survey

Talent Partners—Broadcast Traffic Services

TDI Management—Planning Services

Technomic—Understanding Obesity and its Foodservice Impact

Teri Gacek Associates—Qualitative Market Research Assignments; Focus Group Testing; Organic Milk Focus Groups

The Travis Company—NDC Promotional Kit Evaluation Research

Trion Group LP—School Milk Training Project

Turover Straus Group—Strategic Blueprint Development; Concept Development: Dairy-Based Salad Dressing and Spreads

Upshot Corporation—Sales Force Outreach and Data Delivery System

Video Monitoring Services—Broadcast Monitoring

Western Wats—School Vending Awareness and Usage Survey

Widener-Burrows and Associates—Qualitative Research for Chocolate Milk Program Analysis

Wirthlin Worldwide—Producer Communications Survey; Pyramid Education Program Research

Appendix F-2
National Fluid Milk Processor Promotion Board
and International Dairy Foods Association
Contracts Reviewed by USDA, 2005

Contractor and Initiatives

Susan Barr, Ph.D.—Medical Advisory Board Member Services
Robert P. Heaney, M.D.-Creighton University—Medical Advisory Board Member Services
James O. Hill, Ph.D.—Medical Advisory Board Member Services
Rachel Johnson, Ph.D., R.D.—Medical Advisory Board Member Services
Jeanette M. Newton-Keith, M.D.—Medical Advisory Board Member Services
Ronald M. Krauss, M.D.—Medical Advisory Board Member Services
American Heart Association—Certification Mark Licensing Agreement; Product Nomenclature
Beverage Marketing Corporation of New York—Consulting/Competitive Strategy Development
Blueprint Communications—Media Buy Performance Analysis
California Milk Processor Board—Licensing Agreement
CMGRP, Inc., d.b.a. Weber Shandwick—Public Relations Services
Data Development Corporation—Market Research
Draft, Inc.—Promotional Marketing Services
Energy Infuser, Inc.—Focus Groups
Environ International Corporation—Consulting Services and Research
Fixation Marketing—Graphics Design
Information Resources, Inc.—Market Analysis
Inland Printing—Customer Service Activities
Insight Express—Market Research
Lowe Worldwide—Advertising Services
Menendez International—Hispanic Market Research
Outloud—Marketing Communications
Potomac Digitek—www.Milkplan.org Web site Services
P.O.V. Marketing—Consulting Services
Prime Consulting Group—Consulting Services, Survey Analysis; Promotion Assessments
Publicidad Siboney—Hispanic Marketing Program
School Nutrition Association—Educational Seminars
Snyder, Cohn, Collyer, Hamilton & Associates, P.C.—Audit Services
Taylor Nelson Sofres—Hispanic Consumer Market Research
Technomic, Inc.—Marketing Study and Analysis
The Innovation Resources—Consulting Services
Willard Bishop—Consulting Services

Appendix G-1
Nutrition and Health Research Institute
and Dairy Foods Research Centers, 2005

Nutrition and Health Research Institute

Genetics and Nutrition Institute

Children's Hospital, Oakland Research Institute: Relationship of Genetics, Dietary Fat (Especially Dairy Fat), and Heart Disease

Dairy Foods Research Centers

California Dairy Research Foundation

(University of California–Davis and California Polytechnic State University–San Luis Obispo)
Specializes in product technology development, ingredient technology, product health enhancement properties, food safety, and quality assurance.

Minnesota/South Dakota Dairy Food Research Center

(University of Minnesota–St. Paul and South Dakota State University–Brookings)
Concentrates on natural and processed cheese functionality and flavor, fluid milk flavor and shelf life, genomics of probiotic bacteria, and utilization of acid and salt whey.

Northeast Dairy Foods Research Center

(Cornell University–Ithaca and University of Vermont–Burlington)
Focuses attention on developing and improving processing technologies to enhance dairy product quality, safety, and functionality, improving the safety of foods and processing systems, and modifying dairy product composition to ensure that dairy foods and ingredients remain a part of a healthy diet.

Southeast Dairy Foods Research Center

(North Carolina State University–Raleigh and Mississippi State University–Starkville)
Specializes in milk and whey ingredient functionality, thermal and biological processing, sensory properties of cheese and dairy ingredients, dairy food safety, and microbial technologies for starter cultures and probiotics.

Western Dairy Center

(Utah State University–Logan, Oregon State University–Corvallis, Washington State University–Pullman, and University of Idaho–Moscow)
Specializes in cheese flavor and functionality, fluid milk processing, whey and milk utilization, and microbial genetics and physiology.

Appendix G-1, continued

Wisconsin Center for Dairy Research

(University of Wisconsin–Madison)

Explores functional flavor and physical properties of cheese and cheese products, whey and whey components, and milk components used as ingredients and as finished products, cheese making and whey processing and separation procedures, use of milkfat, and food safety and quality technology.

Appendix G-2

Dairy Foods Competitive Research Activities, 2005

Principal Investigator, Institution, and Project Title

Valente B. Alvarez, Ph.D. (Ohio State University Research Foundation): Stability, Flavor Changes, and Shelf Life of PET Bottled Ultrapasteurized Milk [continued in 2005]

Joseph E. Marcy, Ph.D. (Virginia Polytechnic Institute): Ensuring Stability of Natamycin on Shredded Cheese to Prevent Mold Growth [continued in 2005]

Charles Morr (Independent): Developing a Membrane Fractionation Process Removing Lactose from Skim Milk [completed in 2005]

K. Schmidt, Ph.D. (Kansas State University): Ingredient Technology and Interactions for Stable, Nutritionally Designed Milk-Based Beverages [completed in 2005]

Appendix G-3

Nutrition Competitive Research Activities, 2005

Principal Investigator, Institution, and Project Title

Leann L. Birch, Ph.D. (Pennsylvania State University): Parental Influence on Girls' Calcium Intake and Bone Mineral Content and Weight Status—Phase II [continued in 2005]

Michael D. Brot, Ph.D. (MDS Pharma Services): The Effectiveness of Dairy-Based High Calcium Diets in Accelerating Weight and Fat Loss Secondary to Energy Restriction in a Transgenic Mouse Model of Obesity [began in 2005]

Joseph Donnelly, Ph.D. (University of Kansas Center for Research, Inc.): The Effects of Dairy Intake on Weight Maintenance and Metabolic Profile [continued in 2005]; Substrate Oxidation in Children in Response to Exercise with High and Low Intake [began in 2005]

Penny Kris-Etherton, Ph.D. (Pennsylvania State University): Effects of a Dairy-Rich Diet on Blood Pressure and Vascular Reactivity [completed in 2005]

Christine Economos, Ph.D. (Tufts University): What Predicts Dairy Intake, Bone Mass, and Body Composition in Early Children [completed in 2005]

Stan Heshka, Ph.D. (St. Luke's-Roosevelt Hospital): The Effect of a Mixed Nutrient Versus a Single Nutrient Beverage on Energy Metabolism, Substrate Oxidation, and Indices of Satiety and Food Intake in Children [completed in 2005]

Michael Huncharek, Ph.D. (Meta-Analysis Research Group and Marshfield Clinic): Effects of Dairy Products on Total Dietary Calcium Intake on Bone Health in Children and Young Adults: A Meta-Analytic Evaluation of Existing Scientific Data [began in 2005]

Elsa M. Janle, Ph.D. (Purdue University): Potential of Dietary Whey Protein to Ameliorate the Development of Diabetes in the Zucker Diabetic Rat [began in 2005]

Joan M. Lappe, Ph.D. (Creighton University): Pilot Project Preparatory to a Definitive Study of the Efficacy of Milk Minerals in Human Bone Health [began in 2005]

Richard Mattes, Ph.D. (Purdue University): Effect of Dairy Product Consumption on Food Intake and Hunger in Adult Humans [completed in 2005]

Edward Melanson, Ph.D. (University of Colorado): Effects of High and Low Calcium Diets on Fat Metabolism During and After Exercise [continued in 2005]

Appendix G-3, continued

Lynn L. Moore, Ph.D. (Boston University School of Medicine): The Effect of Dietary Calcium on Body Fat Levels in Children and Adults– Phase II [continued in 2005]; Dairy Intake: Its Determinants and Relation to a Healthy Diet [continued in 2005]; and Dietary Intake Patterns and Metabolic Syndrome Among Children and Adolescents [continued in 2005]

Ratna Mukherjea, Ph.D. (Children's Hospital Oakland Research Institute): Effect of Moderate Dairy Intake on Insulin Resistance, Glucose Tolerance, and Body Fat in Overweight Young Adolescent Girls [continued in 2005]

Mary Murphy, M.S., R.D. (ENVIRON): Flavored Milk Study [began in 2005]

Stuart Phillips, Ph.D. (McMaster University): The Effectiveness of Milk Consumption in the Promotion of Resistance Training-induced Lean Mass Gains in Novice Weightlifters [completed in 2005]; Impact of Whey, Casein, and Soy Supplementation on Human Muscle Protein Turnover after Resistance Training [began in 2005]; Whey Protein Beverage Study [began in 2005]

Victor Shen, Ph.D. (MDS Pharma Services): The Effect of Calcium, Milk Mineral, and Nonfat Dry Milk on Bone Quality and Strength in Estrogen Deficient Rats [began in 2005]

Debra Sullivan, Ph.D. (University of Kansas Medical Center): Synergistic Effect of Dairy Foods on Metabolism—A Mechanistic Study [continued in 2005]

Dorothy Teegarden, Ph.D. (Purdue University): Effect of Calcium Education Intervention on Body Fat Mass in Adolescents [continued in 2005]

Martha VanLoan, Ph.D. (USDA-Agricultural Research Service-Western Human Nutrition Research Center): The Role of Dairy Foods in Enhancing Central Fat Loss and Weight Loss with Moderate Energy Restriction in Overweight and Obese Adults [began in 2005]

Connie Weaver, Ph.D. (Purdue University): Dairy versus Calcium Carbonate in Promoting and Retaining Peak Bone Mass [continued in 2005]; Calcium, Dairy, and Body Fat in Adolescents [continued in 2005]

Robert Wolfe, Ph.D. (University of Texas Medical Branch): Dose Dependent Effects of Whey Protein on Muscle Protein Synthesis [continued in 2005]

Michael B. Zemel, Ph.D. (University of Tennessee Research Foundation): Role of Dairy Components in Weight Control and Fat Loss [continued in 2005]; Role of Dairy Products in Weight Maintenance: Prevention of Weight Regain Following Weight Loss [continued in 2005]

Appendix H
Qualified State or Regional Dairy Product Promotion,
Research, or Nutrition Education Programs, 2005

Allied Milk Producers' Cooperative, Inc.
495 Blough Road
Hooversville, PA 15936-8207

**American Dairy Association and
Dairy Council Mid East**
5950 Sharon Woods Boulevard
Columbus, OH 43229

**American Dairy Association and Dairy
Council, Inc.**
219 South West Street, Suite 100
Syracuse, NY 13202

American Dairy Association of Alabama
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Georgia
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Kentucky
9201 Bunsen Parkway, Suite 100
Louisville, KY 40220

American Dairy Association of Michigan, Inc.
2163 Jolly Road
Okemos, MI 48864

American Dairy Association of Mississippi
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of Nebraska, Inc.
8205 F Street
Omaha, NE 68127-1779

**American Dairy Association of
North Carolina**
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**American Dairy Association of
South Carolina**
5340 West Fayetteville Road
Atlanta, GA 30349-5416

American Dairy Association of South Dakota
2015 Rice Street
St. Paul, MN 55113

American Dairy Association of Virginia
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**California Manufacturing Milk Producers
Advisory Board**
3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

California Milk Producers Advisory Board
3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492

Dairy Council of California
1101 National Drive, Suite B
Sacramento, CA 95834-1945

Dairy Council of Michigan, Inc.
2163 Jolly Road
Okemos, MI 48864

Dairy Council of Nebraska, Inc
8205 F Street
Omaha, NE 68127-1779

Appendix H, continued

Dairy Farmers, Inc.

166 Lookout Place, Suite 100
Maitland, FL 32751-4496

Dairy MAX, Inc.

2415 Avenue J, Suite 111
Arlington, TX 76006-6119

Dairy Promotion, Inc.

Dairy Farmers of America
P.O. Box 909700
Kansas City, MO 64190-9700

Georgia Agricultural Commodity**Commission for Milk**

19 Martin Luther King Jr. Dr., S.W., Room 328
Atlanta, GA 30334

Granite State Dairy Promotion

c/o New Hampshire Department of Agriculture
25 Capitol Street, Box 2042
Concord, NH 03302-2042

Idaho Dairy Products Commission

10221 West Emerald, Suite 180
Boise, ID 83704

Illinois Milk Promotion Board

1701 N. Towanda Avenue
P.O. Box 2901
Bloomington, IL 61702-2901

Indiana Dairy Industry Development Board

200 W. Washington Street
242 State House
Indianapolis, IN 46204

Kansas Dairy Commission

4210 Wam-Teau Drive
Wamego, KS 66547

Louisiana Dairy Industry Promotion Board

c/o Louisiana Department of Agriculture and
Forestry
P.O. Box 3334
Baton Rouge, LA 70821-3334

Maine Dairy and Nutrition Council

333 Cony Road
Augusta, ME 04330

Maine Dairy Promotion Board

333 Cony Road
Augusta, ME 04330

Michigan Dairy Market Program

P.O. Box 8002
Novi, MI 48376-8002

Mid-Atlantic Dairy Association

325 Chestnut Street, Suite 600
Philadelphia, PA 19106

Midwest Dairy Association

2015 Rice Street
St. Paul, MN 55113

Midwest Dairy Council

2015 Rice Street
St. Paul, MN 55113

Milk for Health on the Niagara Frontier, Inc.

4185 Seneca Street
West Seneca, NY 14224

Milk Promotion Services of Indiana, Inc.

9360 Castlegate Drive
Indianapolis, IN 46256

**Minnesota Dairy Research and
Promotion Council**

2015 Rice Street
St. Paul, MN 55113

Appendix H, continued

Nebraska Dairy Industry Development Board
8205 F Street
Omaha, NE 68127-1779

**Nevada Farm Bureau Dairy
Producers' Committee**
2165 Green Vista Drive, Suite 205
Sparks, NV 89431

New England Dairy and Food Council
1034 Commonwealth Avenue
Boston, MA 02215

New England Dairy Promotion Board, Inc.
1034 Commonwealth Avenue
Boston, MA 02215

New Jersey Dairy Industry Advisory Council
c/o New Jersey Department of Agriculture
P.O. Box 330
Trenton, NJ 08625-0330

**New York State Department of
Agriculture and Markets**
Division of Milk Control and Dairy Services
10 B Airline Drive
Albany, NY 12235

North Dakota Dairy Promotion Commission
2015 Rice Street
St. Paul, MN 55113

Oregon Dairy Products Commission
10505 Southwest Barbur Boulevard
Portland, OR 97219

Pennsylvania Dairy Promotion Program
c/o Pennsylvania Department of Agriculture
2301 North Cameron Street
Harrisburg, PA 17110-9408

Promotion Services, Inc.
5340 West Fayetteville Road
Atlanta, GA 30349-5416

Rochester Health Foundation, Inc.
c/o American Dairy Association and
Dairy Council, Inc.
219 South West Street, Suite 100
Syracuse, NY 13202

St. Louis District Dairy Council
1254 Hanley Industrial Court
St. Louis, MO 63144-1912

**Southeast United Dairy Industry
Association, Inc.**
5340 West Fayetteville Road
Atlanta, GA 30349-5416

Southwest Dairy Museum, Inc.
P.O. Box 936
Sulphur Springs, TX 75483

Tennessee Dairy Promotion Committee
9201 Bunsen Parkway, Suite 100
Louisville, KY 40220

United Dairymen of Arizona
2008 South Hardy Drive
Tempe, AZ 85282

**Utah Dairy Commission-Dairy
Council of Utah/Nevada**
1213 East 2100 South
Salt Lake City, UT 84106

Appendix H, continued

Vermont Dairy Promotion Council

116 State Street, Drawer 20
Montpelier, VT 05620-2901

Washington State Dairy Council

4201 198th Street, S.W., Suite 101
Lynnwood, WA 98036-6757

Washington State Dairy

Products Commission

4201 198th Street, S.W., Suite 101
Lynnwood, WA 98036

Western Dairy Farmers' Promotion Association

12000 North Washington Street, Suite 200
Thornton, CO 80241

Wisconsin Milk Marketing Board, Inc.

8418 Excelsior Drive
Madison, WI 53717

Appendix I

2005 Fluid Milk Print Advertisements

Active and Weight Loss Messages

Target Audience: Moms/Women

Source: MilkPEP/Lowe Worldwide



Meredith Vieira



Serena Williams



Bebe Neuwirth



Red Curtain Advertorial



Skinny Glass Advertorial



Stockard Channing



Diane Heavin

Appendix I, continued

Active, Bone Growth, and Bone Fractures Messages

Target Audience: Teen Girls and Teen Boys

Source: MilkPEP/Lowe Worldwide



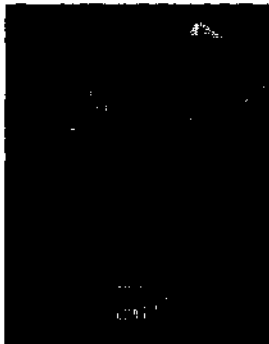
Michelle Kwan



Carmelo Anthony



Donovan McNabb /
Teddy Bruschi



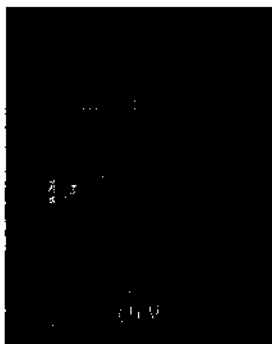
Batman



Joss Stone



Teddy Bruschi



Donovan McNabb



Lindsay Lohan



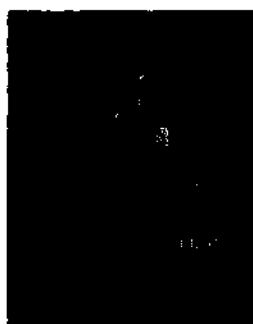
Manning Family

Appendix I, continued

Active, Bone Growth, and Bone Fractures Messages

Target Audience: Teen Girls and Teen Boys

Source: MilkPEP/Lowe Worldwide



Tracy McGrady



Mia Hamm



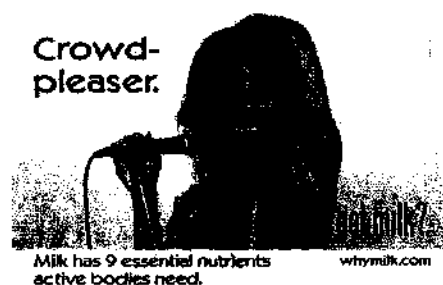
Jason Kidd

2005 School Milk Posters

Source: MilkPEP/Lowe Worldwide



Tracy McGrady



Kelly Clarkson



Michelle Kwan



Donovan McNabb

Appendix I, continued

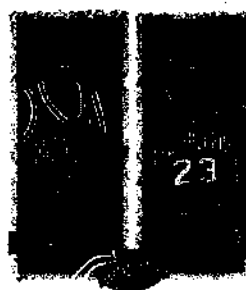
2005 Got Milk?®/NBA® Rookies of the Month/Rookie of the Year Source: MilkPEP/Lowe Worldwide



January
Ben Gordon/J.R. Smith



February
Ben Gordon/J.R. Smith



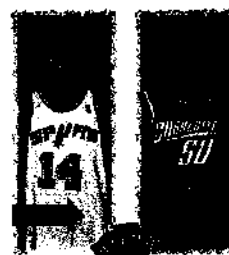
March
Ben Gordon/J.R. Smith



April
Emeka Okafor/
Shawn Livingston



November
Devin Harris/Emeka Okafor



December
Beno Udrih/Emeka Okafor

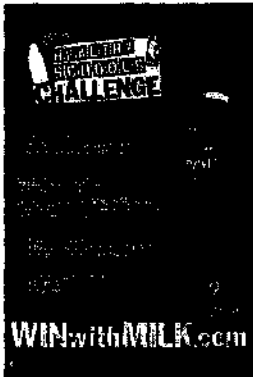


Rookie of the Year
Emeka Okafor

Appendix I, continued

Contest/Sweepstakes/Trade Advertisements

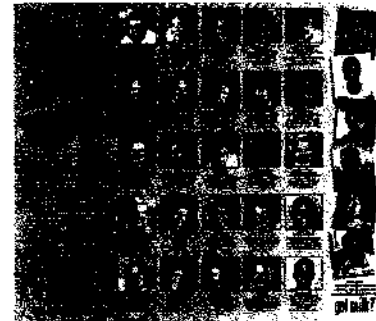
Source: MilkPEP/Lowe Worldwide



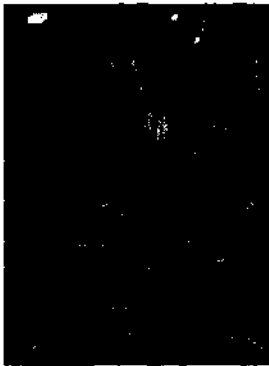
Healthy Schools
Challenge



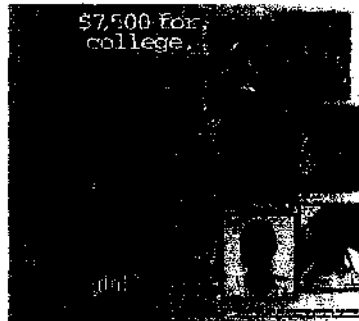
Karen Johnson Trade Ad



2005 SAMMY Winners



Rolling Stone winner,
Nathan Fernandez



2006 SAMMY Kickoff



Win With Milk Contest

Appendix I, continued

Hispanic Advertisements

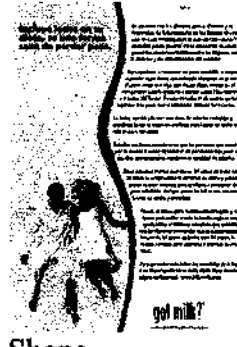
Source: MilkPEP/Siboney, U.S.A.



Dr. Aliza



Giselle Blondett



Shape



People En Espanol



Nuestra Gente



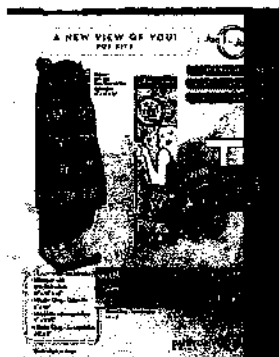
People En Espanol



24/24 Leche POS

Appendix I, continued

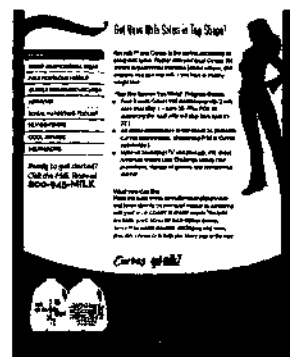
2005 Promotions and Public Relations Materials Source: MilkPEP/DRAFT and Weber Shandwick



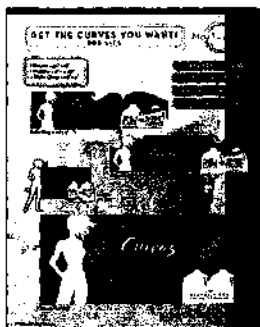
New View of You POS



Flavored Milk Brochure



Get the Curves You Want Website



Get the Curves You Want
POS Reference Sheet



Get the Curves You Want POS



Fuel Up With Milk
Online Auction



Healthy Schools Challenge



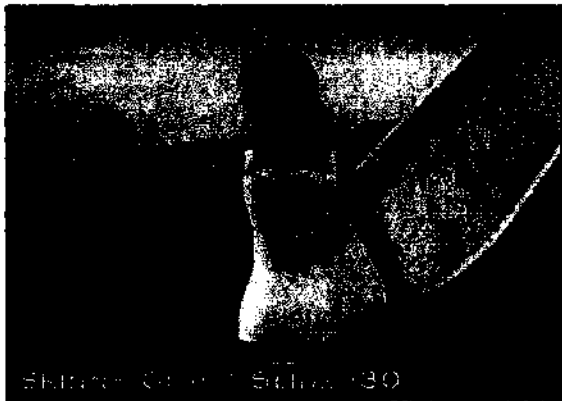
Milk Mustache Mobile Tour



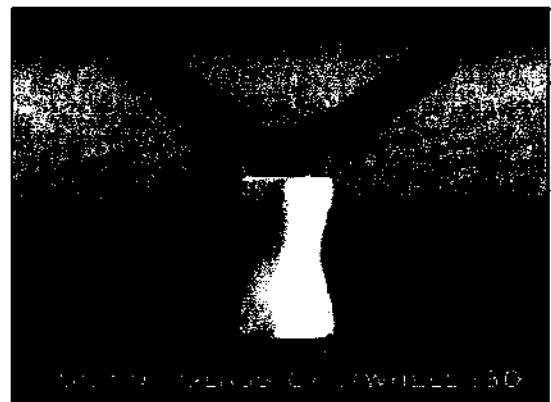
Great American
Weight Loss Challenge

Appendix I, continued

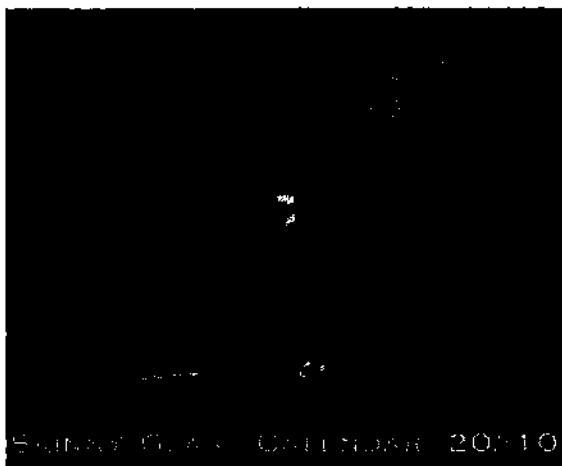
2005 Television Advertisements
Source: MilkPEP/Lowe Worldwide



"Skinny Glass Slide" (:30 TV spot)



"Skinny Glass Cartwheel" (:30 TV spot)



"Skinny Glass Calendar" (:30 TV spot)

**Notes to Reviewers for 2006 Report to Congress on the National Dairy
Promotion and Research Program and the National Fluid Milk
Processor Promotion Program**

- (1) Appendix E-1 – The National Dairy Promotion and Research Board (Dairy Board) Independent Audit has been approved by the Dairy Board Finance Committee but has not been approved by the full Dairy Board. The draft audit is a place holder and the full Board is expected to approve the audit at its July 11, 2006, meeting.
- (2) Appendix E-1 (pages 84-99) and Appendix E-2 (pages 100-125) were received via write-protected file from the Board auditors. The print contractor will paginate the audits electronically in the final printed version.
- (3) Page iii – [FPO – recycle symbol] – Print contractor will add recycle image electronically.
- (4) The final report will be issued in full color.

For questions regarding the report, please contact Michael Johnson at (202) 306-1747 or by email at michael.johnson2@usda.gov.

Report to Congress

on the

**National Dairy Promotion
and Research Program**

and the

**National Fluid Milk
Processor Promotion Program**

July 1, 2006

Contact Information

To obtain additional copies of the 2006 Report to Congress on the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program and the complete independent analysis of the programs, please contact:

Promotion and Research Branch
Dairy Programs, Agricultural Marketing Service, USDA
Stop 0233, Room 2958-South
1400 Independence Avenue, SW
Washington, DC 20250-0233
(202) 720-6909
<http://www.ams.usda.gov/dairy/dairyrp.htm>

To obtain copies of the complete independent analysis report or for questions on Chapter 3, please contact:

Harry M. Kaiser, Ph.D.
Cornell Commodity Promotion Research Program
Department of Agricultural, Resource, and Managerial Economics
Cornell University
349 Warren Hall
Ithaca, NY 14853
(607) 255-1620

To obtain copies of or for questions on the Fluid Milk Market and Promotion Assessment by Beverage Marketing Corporation of New York, please contact:

Gary Hemphill
850 Third Avenue, 14th Floor
New York, NY 10022
(212) 688-7640

For additional information about the National Dairy Promotion and Research Board and Dairy Management Inc., please contact:

National Dairy Promotion and Research Board
Dairy Management Inc.
10255 West Higgins Road, Suite 900
Rosemont, IL 60018-5616
(847) 803-2000
<http://www.dairyinfo.com>

For additional information about the National Fluid Milk Processor Promotion Board, please contact:

National Fluid Milk Processor Promotion Board
1250 H Street, NW, Suite 950
Washington, DC 20005
(202) 737-0153
<http://www.whymilk.com>

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Executive Summary

The enabling legislation of both the producer and processor dairy promotion programs (7 U.S.C. 4514 and 7 U.S.C. 6407) requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry by July 1. The producer and processor programs are conducted under the Dairy Promotion and Research Order (Dairy Order) (7 CFR § 1150) and the Fluid Milk Promotion Order (Fluid Milk Order) (7 CFR § 1160), respectively. This report includes a description of activities for both the producer and processor programs and summarizes activities of the national fluid milk programs. An accounting of funds collected and spent, an independent analysis of the effectiveness of the advertising campaigns of the two programs, and an industry-commissioned review of fluid milk markets and program operations are included. Unless otherwise noted, this report addresses program activities for the fiscal period January 1 – December 31, 2005, of the Dairy Promotion Program and the Fluid Milk Processor Promotion Program.

Producer Dairy Promotion Program

The Dairy Production Stabilization Act of 1983, as amended, (Dairy Act) (7 U.S.C. 4501, *et seq.*) authorized a national producer program for generic dairy product promotion, research, and nutrition education as part of a comprehensive strategy to increase human consumption of milk and dairy products. Dairy farmers fund this self-help program through a mandatory 15-cent per hundredweight assessment on all milk produced in the contiguous 48 States and marketed commercially. Dairy farmers appointed by the Secretary administer the national program through the National Dairy Promotion and Research Board (Dairy Board). The Dairy Act provides that dairy farmers can receive a credit of up to 10 cents per hundredweight of the assessment for contributions to qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs).

The Dairy Order became effective on May 1, 1984. The Dairy Act required the Secretary of Agriculture to conduct a referendum among dairy farmers by September 30, 1985, to determine if a majority favored continuation of the program. Nearly 90 percent of the dairy farmers voting in the August-September 1985 referendum favored continuing the program. USDA held a second referendum on the dairy promotion program in August 1993. Approximately 71 percent of the dairy farmers who voted in the referendum favored continuing the program. USDA will hold future referenda at the direction of the Secretary or upon the request of at least 10 percent of the affected dairy farmers.

Mandatory assessments collected under the Dairy Act totaled \$273.5 million in 2005. The Dairy Board portion of the revenue from the 15-cent per hundredweight producer assessment was \$86.1 million for 2005, and Qualified Programs revenue from the producer assessment was \$187.4 million for the same year. Expenditures by the Dairy Board and many of the Qualified Programs are integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. Details of the 2005 activities of the dairy producer program can be found in Chapter 1.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 1 2006

The Honorable Robert Goodlatte
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

In accordance with the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4514) and the Fluid Milk Promotion Act of 1990 (7 U.S.C. 6407), enclosed is the 2006 Annual Report describing activities of the Dairy Promotion Programs.

A similar letter has been sent to Congressman Peterson and Senators Chambliss and Harkin.

Sincerely,

A handwritten signature in black ink, which appears to read "Mike Johanns", is positioned above the typed name and title.

Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 1 2006

The Honorable Collin C. Peterson
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
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AUG 1 2006

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Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

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Mike Johanns
Secretary

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Washington, D.C. 20250

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 6 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
And Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Kohl:

As requested by the House Report 109-102 accompanying the fiscal year 2006 Agriculture Appropriations Bill, enclosed is a summary of actions taken by the Animal and Plant Health Inspection Service (APHIS) toward development and implementation of a National Animal Identification System (NAIS).

As APHIS moves to implement NAIS, we will continue our efforts to detect foreign animal diseases, monitor disease trends and threats in the United States and other countries, detect and assess risk, provide animal health information, as well as coordinate and evaluate animal health emergency response activities.

As we work to accelerate these efforts, we stand ready to provide you and your staff with any additional information and briefings you may require. Similar reports are being sent to Congressman Henry Bonilla, Congresswoman Rosa DeLauro, and Senator Robert F. Bennett.

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Mike Johanns
Secretary

Enclosure

**United States Department of Agriculture
Animal Health Monitoring and Surveillance Status
of the National Animal Identification System**

As requested in the House Report accompanying the fiscal year (FY) 2006 Agriculture Appropriations Bill, this document provides an updated summary of actions and an accounting of funds by the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) toward the implementation of the National Animal Identification System (NAIS).

BACKGROUND:

NAIS is a cooperative State-Federal-industry program to standardize and expand animal identification. The ultimate long-term goal of NAIS is to provide animal health officials with the capability to identify all animals and premises that have had direct contact with a disease of concern within 48 hours after discovery.

On April 27, 2004, \$18.8 million was transferred from the Commodity Credit Corporation (CCC) to APHIS to initiate implementation of the NAIS. Of the funding available, approximately \$14.5 million was used to establish cooperative agreements with or provide in-kind services to States and Tribes to focus their activities on registering premises using either USDA's Standardized Premises Registration System (SPRS), or one of the compliant systems available. Sixteen projects were funded to evaluate and test the practicality of various technologies that can be used by stakeholders in identifying animals and automating the collection of animal identification numbers as animals move through various sectors of the pre-harvest production chain. The CCC funding was also used for communications and outreach to increase awareness of the purpose of the NAIS.

The FY 2005 Consolidated Appropriations Act included approximately \$33 million to APHIS to continue implementing the NAIS. APHIS obligated approximately \$14.8 million of this funding on cooperative agreements and in-kind services for State and Tribal governments to continue registering premises. An additional \$7.1 million was used to support the NAIS information system, including the development, maintenance, and operations of the SPRS and the Animal Identification Numbering (AIN) Management System, and the integration of the NAIS with other existing databases that support animal disease programs. Of the remaining funds, approximately \$4.3 million was obligated for communication and outreach efforts and staff support. Approximately \$6.7 million was carried over into FY 2006 for additional cooperative agreements and in-kind services for States and Tribes, as well as information technology development and training.

CURRENT AND FUTURE PLANNED ACTIVITIES:

The FY 2006 Agriculture Appropriations Act included approximately \$33 million for NAIS. Of the amount available, APHIS allocated to use \$9.2 million to support information technology (IT) infrastructure and approximately \$18 million for cooperative agreements with States and Tribes and in-kind services to support NAIS integration with disease eradication and control

programs. APHIS also allocated \$3.7 million in outreach and education activities; and \$2.1 million for staff support, materials, equipment, and travel. Through September 2006, APHIS has obligated approximately \$2.47 million on IT work and support; \$1.8 million on communications and outreach; and \$1.8 million on staff and materials. Cooperative agreements are still being drafted, and many will be obligated during the next few months. As of September 2006, 50 States, 2 territories, and 5 tribes are operational on a premises registration system, and approximately 315,000 premises have been registered.

In addition to supporting the registration of premises, APHIS has also begun rolling out the next phase of the voluntary NAIS—individual animal identification. This phase encompasses the evaluation and approval of identification devices, the allocation of AIN's to approved tag manufacturers, and the distribution of AIN tags to producers. On March 9, 2006, USDA announced plans to begin allocating AINs to tag manufacturers to initiate the process of approving visual identification tags for use under the NAIS, paving the way for distribution of these tags to producers. The use of AINs with other types of identification devices (e.g., implants) used in other species will be considered as the NAIS species working groups finalize their recommendations for utilizing the AIN. During the third quarter of FY 2006, the use of animal identification tags were implemented in disease control and eradication programs, such as Scrapie, Chronic Wasting Disease, and Tuberculosis. As of August 2006, USDA had authorized manufacturers to produce AIN tags for general use in the NAIS.

USDA is providing an option for producers to use supplemental identification methods or technologies (e.g., radio-frequency and biometrics) that enhance the utility of AIN tags. Supplemental identification methods or technologies are optional and may vary among species. To ensure compatibility and uniformity are achieved in the national program, APHIS will establish technology standards, when applicable, along with performance requirements for these technologies.

In April 2006, USDA announced the release of an implementation plan that outlines timelines and benchmarks for the establishment of the NAIS, along with a plan for the initial integration of private and state animal tracking databases with NAIS.

The implementation plan continues to set an aggressive timeline. It establishes benchmarks for incrementally accomplishing the remaining implementation goals to enable the NAIS to be operational by 2007. As mentioned above, several important components have already been accomplished. These include the development of premises registration systems in each State and the issuance of guidelines for the manufacture and distribution of animal identification numbers.

USDA has also released the general technical standards for animal tracking databases that will enable integration of private systems with the NAIS. Private database owners have been invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established. USDA will enter into cooperative agreements with owners of databases that meet the standards. In fact, USDA recently signed the first of these cooperative agreements with more to follow in the near future.

By early 2007, USDA expects to have the technology in place, called the Animal Trace Processing System, that will allow State and Federal animal health officials to query the NAIS and private databases during a disease investigation. The animal tracking databases will record and store animal movement tracking information for livestock that State and Federal animal health officials will query for animals of interest in a disease investigation.

The NAIS is being developed for use with animals that will benefit from a system that facilitates rapid tracing in the event of a disease concern. Working groups have been formed and are developing plans for camelids (llamas and alpacas), cattle and bison, cervids (deer and elk), equine, goats, poultry, sheep, and swine, in addition to markets and processors.

Participation in the NAIS is voluntary, allowing producers and other stakeholders to participate in the design, development, and testing of the system to ensure that practical solutions evolve.

The FY 2007 President's Budget requests approximately \$33 million for NAIS. Of the \$33 million requested, APHIS plans to use \$5 million to support IT infrastructure, a reduction of \$4.2 million compared to the FY 2006 budget. The reduction reflects a shift from IT development to maintenance. APHIS also proposes to use approximately \$21.1 million for cooperative agreements with and in-kind services for States and Tribes; \$2.4 million for outreach and education activities; and \$4.5 million for staff support, materials, equipment, and travel.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV - 6 2006

The Honorable Robert F. Bennett
Chairman, Subcommittee on Agriculture, Rural Development
And Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

As requested by the House Report 109-102 accompanying the fiscal year 2006 Agriculture Appropriations Bill, enclosed is a summary of actions taken by the Animal and Plant Health Inspection Service (APHIS) toward development and implementation of a National Animal Identification System (NAIS).

As APHIS moves to implement NAIS, we will continue our efforts to detect foreign animal diseases, monitor disease trends and threats in the United States and other countries, detect and assess risk, provide animal health information, as well as coordinate and evaluate animal health emergency response activities.

As we work to accelerate these efforts, we stand ready to provide you and your staff with any additional information and briefings you may require. Similar reports are being sent to Congressman Henry Bonilla, Congresswoman Rosa DeLauro, and Senator Herb Kohl.

Sincerely,

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Mike Johanns
Secretary

Enclosure

**United States Department of Agriculture
Animal Health Monitoring and Surveillance Status
of the National Animal Identification System**

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BACKGROUND:

NAIS is a cooperative State-Federal-industry program to standardize and expand animal identification. The ultimate long-term goal of NAIS is to provide animal health officials with the capability to identify all animals and premises that have had direct contact with a disease of concern within 48 hours after discovery.

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The FY 2005 Consolidated Appropriations Act included approximately \$33 million to APHIS to continue implementing the NAIS. APHIS obligated approximately \$14.8 million of this funding on cooperative agreements and in-kind services for State and Tribal governments to continue registering premises. An additional \$7.1 million was used to support the NAIS information system, including the development, maintenance, and operations of the SPRS and the Animal Identification Numbering (AIN) Management System, and the integration of the NAIS with other existing databases that support animal disease programs. Of the remaining funds, approximately \$4.3 million was obligated for communication and outreach efforts and staff support. Approximately \$6.7 million was carried over into FY 2006 for additional cooperative agreements and in-kind services for States and Tribes, as well as information technology development and training.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 6 2005

The Honorable Rosa DeLauro
Subcommittee on Agriculture, Rural Development
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2262 Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Congresswoman DeLauro:

As requested by the House Report 109-102 accompanying the fiscal year 2006 Agriculture Appropriations Bill, enclosed is a summary of actions taken by the Animal and Plant Health Inspection Service (APHIS) toward development and implementation of a National Animal Identification System (NAIS).

As APHIS moves to implement NAIS, we will continue our efforts to detect foreign animal diseases, monitor disease trends and threats in the United States and other countries, detect and assess risk, provide animal health information, as well as coordinate and evaluate animal health emergency response activities.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV -- 6 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Mr. Chairman:

As requested by the House Report 109-102 accompanying the fiscal year 2006 Agriculture Appropriations Bill, enclosed is a summary of actions taken by the Animal and Plant Health Inspection Service (APHIS) toward development and implementation of a National Animal Identification System (NAIS).

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Secretary

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As requested in the House Report accompanying the fiscal year (FY) 2006 Agriculture Appropriations Bill, this document provides an updated summary of actions and an accounting of funds by the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) toward the implementation of the National Animal Identification System (NAIS).

BACKGROUND:

NAIS is a cooperative State-Federal-industry program to standardize and expand animal identification. The ultimate long-term goal of NAIS is to provide animal health officials with the capability to identify all animals and premises that have had direct contact with a disease of concern within 48 hours after discovery.

On April 27, 2004, \$18.8 million was transferred from the Commodity Credit Corporation (CCC) to APHIS to initiate implementation of the NAIS. Of the funding available, approximately \$14.5 million was used to establish cooperative agreements with or provide in-kind services to States and Tribes to focus their activities on registering premises using either USDA's Standardized Premises Registration System (SPRS), or one of the compliant systems available. Sixteen projects were funded to evaluate and test the practicality of various technologies that can be used by stakeholders in identifying animals and automating the collection of animal identification numbers as animals move through various sectors of the pre-harvest production chain. The CCC funding was also used for communications and outreach to increase awareness of the purpose of the NAIS.

The FY 2005 Consolidated Appropriations Act included approximately \$33 million to APHIS to continue implementing the NAIS. APHIS obligated approximately \$14.8 million of this funding on cooperative agreements and in-kind services for State and Tribal governments to continue registering premises. An additional \$7.1 million was used to support the NAIS information system, including the development, maintenance, and operations of the SPRS and the Animal Identification Numbering (AIN) Management System, and the integration of the NAIS with other existing databases that support animal disease programs. Of the remaining funds, approximately \$4.3 million was obligated for communication and outreach efforts and staff support. Approximately \$6.7 million was carried over into FY 2006 for additional cooperative agreements and in-kind services for States and Tribes, as well as information technology development and training.

CURRENT AND FUTURE PLANNED ACTIVITIES:

The FY 2006 Agriculture Appropriations Act included approximately \$33 million for NAIS. Of the amount available, APHIS allocated to use \$9.2 million to support information technology (IT) infrastructure and approximately \$18 million for cooperative agreements with States and Tribes and in-kind services to support NAIS integration with disease eradication and control

programs. APHIS also allocated \$3.7 million in outreach and education activities; and \$2.1 million for staff support, materials, equipment, and travel. Through September 2006, APHIS has obligated approximately \$2.47 million on IT work and support; \$1.8 million on communications and outreach; and \$1.8 million on staff and materials. Cooperative agreements are still being drafted, and many will be obligated during the next few months. As of September 2006, 50 States, 2 territories, and 5 tribes are operational on a premises registration system, and approximately 315,000 premises have been registered.

In addition to supporting the registration of premises, APHIS has also begun rolling out the next phase of the voluntary NAIS---individual animal identification. This phase encompasses the evaluation and approval of identification devices, the allocation of AIN's to approved tag manufacturers, and the distribution of AIN tags to producers. On March 9, 2006, USDA announced plans to begin allocating AINs to tag manufacturers to initiate the process of approving visual identification tags for use under the NAIS, paving the way for distribution of these tags to producers. The use of AINs with other types of identification devices (e.g., implants) used in other species will be considered as the NAIS species working groups finalize their recommendations for utilizing the AIN. During the third quarter of FY 2006, the use of animal identification tags were implemented in disease control and eradication programs, such as Scrapie, Chronic Wasting Disease, and Tuberculosis. As of August 2006, USDA had authorized manufacturers to produce AIN tags for general use in the NAIS.

USDA is providing an option for producers to use supplemental identification methods or technologies (e.g., radio-frequency and biometrics) that enhance the utility of AIN tags. Supplemental identification methods or technologies are optional and may vary among species. To ensure compatibility and uniformity are achieved in the national program, APHIS will establish technology standards, when applicable, along with performance requirements for these technologies.

In April 2006, USDA announced the release of an implementation plan that outlines timelines and benchmarks for the establishment of the NAIS, along with a plan for the initial integration of private and state animal tracking databases with NAIS.

The implementation plan continues to set an aggressive timeline. It establishes benchmarks for incrementally accomplishing the remaining implementation goals to enable the NAIS to be operational by 2007. As mentioned above, several important components have already been accomplished. These include the development of premises registration systems in each State and the issuance of guidelines for the manufacture and distribution of animal identification numbers.

USDA has also released the general technical standards for animal tracking databases that will enable integration of private systems with the NAIS. Private database owners have been invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established. USDA will enter into cooperative agreements with owners of databases that meet the standards. In fact, USDA recently signed the first of these cooperative agreements with more to follow in the near future.

By early 2007, USDA expects to have the technology in place, called the Animal Trace Processing System, that will allow State and Federal animal health officials to query the NAIS and private databases during a disease investigation. The animal tracking databases will record and store animal movement tracking information for livestock that State and Federal animal health officials will query for animals of interest in a disease investigation.

The NAIS is being developed for use with animals that will benefit from a system that facilitates rapid tracing in the event of a disease concern. Working groups have been formed and are developing plans for camelids (llamas and alpacas), cattle and bison, cervids (deer and elk), equine, goats, poultry, sheep, and swine, in addition to markets and processors.

Participation in the NAIS is voluntary, allowing producers and other stakeholders to participate in the design, development, and testing of the system to ensure that practical solutions evolve.

The FY 2007 President's Budget requests approximately \$33 million for NAIS. Of the \$33 million requested, APHIS plans to use \$5 million to support IT infrastructure, a reduction of \$4.2 million compared to the FY 2006 budget. The reduction reflects a shift from IT development to maintenance. APHIS also proposes to use approximately \$21.1 million for cooperative agreements with and in-kind services for States and Tribes; \$2.4 million for outreach and education activities; and \$4.5 million for staff support, materials, equipment, and travel.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

SEP 19 2006

INFORMATIONAL MEMORANDUM FOR THE SECRETARY

FROM: Nancy Montanez Johner *NMJ*
Under Secretary
Food, Nutrition, and Consumer Services

SUBJECT: Special Supplemental Nutrition Program for Women, Infants and Children (WIC) - Report to Congress Regarding the WIC Food Packages

ISSUE:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P. L. 108-7, directed the Secretary of Agriculture to report quarterly to the Committee regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), until a final rule is published.

DISCUSSION:

As you know, on August 7, 2006, we published in the Federal Register a proposal that would implement the first comprehensive revisions to the WIC food packages since 1980. The proposed changes largely follow recommendations made by the National Academies' Institute of Medicine (IOM) in its final report of its review of the WIC food packages, WIC Food Packages: Time for a Change, as well as the latest nutrition science and the Dietary Guidelines. The 90-day public comment period for this important rule ends on November 6, 2006.

The Child Nutrition and WIC Reauthorization Act of 2004 requires the Department to develop a final rule to update the WIC food packages within 18 months of the release of the IOM's final report (November 2006). We will work expeditiously to issue an interim final rule.

As directed by House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P.L. 108-7, the attached letter provides an update on the status of proposed regulatory revisions to the WIC food packages.

Attachment



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 06 2006

The Honorable Herbert Kohl
Ranking Democratic Member
Subcommittee on Agriculture, Rural Development,
and Related Agencies
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Kohl:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P. L. 108-7, direct the Secretary of Agriculture to report to the Committee on a quarterly basis regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) until a final rule is published.

We are pleased to report that on August 7, 2006, the U.S. Department of Agriculture (USDA) published a proposed rule (copy enclosed) in the Federal Register that would implement the first comprehensive revisions to the WIC food packages since 1980. The proposed revisions largely follow recommendations made by the National Academies' Institute of Medicine in the final report of its review of the WIC food packages, "WIC Food Packages: Time for a Change," as well as the Dietary Guidelines for Americans and the latest nutrition research.

The 90-day public comment period for this important rule ends on November 6, 2006. USDA will work to issue an interim final rule expeditiously. A similar letter is being sent to Congressman Henry Bonilla, Congresswoman Rosa DeLauro, and Senator Robert Bennett.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Johanns", written in a cursive style.

Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 06 2006

The Honorable Robert Bennett
Chairman
Subcommittee on Agriculture, Rural Development,
and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P. L. 108-7, direct the Secretary of Agriculture to report to the Committee on a quarterly basis regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) until a final rule is published.

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Sincerely,

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 06 2006

The Honorable Rosa DeLauro
Ranking Democratic Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congresswoman DeLauro:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P. L. 108-7, direct the Secretary of Agriculture to report to the Committee on a quarterly basis regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) until a final rule is published.

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 06 2006

The Honorable Henry Bonilla
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P. L. 108-7, direct the Secretary of Agriculture to report to the Committee on a quarterly basis regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) until a final rule is published.

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 31 2006

The Honorable Rosa DeLauro
Subcommittee on Agriculture, Rural Development
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2262 Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Congresswoman DeLauro:

The report accompanying the Senate's Fiscal Year 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations bill includes the following language: "The Committee is aware that the Animal and Plant Health Inspection Service (APHIS) and State cooperators participate in sterile fruit fly programs to control damage to fruit production caused primarily by Medfly. However, agricultural production in Hawaii is also threatened by three other fruit fly species for which there is currently no sterile fly program. The Committee directs APHIS to consult with appropriate agricultural representatives in Hawaii regarding this problem and report to the Committee on recommendations to control these additional pests, including the possibility of initiating sterile fly programs."

The primary goal of APHIS' fruit fly programs is to reduce the risk of exotic fruit flies being introduced into the United States, and to mitigate the impact of exotic fruit flies that have become established in parts of the continental United States, Hawaii, and United States territories. In January 2006, APHIS' Associate Deputy Administrator for Plant Protection and Quarantine programs, APHIS' Director of Fruit Fly Programs, and the Hawaii State Plant Health Director held several meetings in Hawaii to address the threats caused by the three other fruit fly species. Also participating in these meetings were representatives from the Hawaii Department of Agriculture (HDA), including Sandra Kunimoto, Chairperson of the Board of Agriculture; and Lyle Wong, the HDA's Director of Plant Industry. Participants discussed APHIS' role in Hawaii and a wide range of fruit fly issues. APHIS consulted with HDA about its recently established surveillance program to monitor the four fruit fly species that are established in Hawaii—*Ceratitis capitata* (Medfly), *Bactrocera cucurbitae* (melon fly), *Bactrocera dorsalis* (Oriental fruit fly), and *Bactrocera latifrons* (solanum fruit fly)—and to detect incursions of any exotic species not known to occur in Hawaii. In addition, we reaffirmed the continued maintenance of the HDA's technology development laboratory—the Center for Plant Health Science and Technology Fruit Fly Genetics and Management Laboratory (FFGML)—in Waimanalo, Hawaii. This laboratory develops alternative control techniques for flies of the *Bactrocera* genus and supports domestic and off-shore APHIS programs. We are continuing our discussions with the HDA.

APHIS' 2006 Strategic Plan for fruit fly programs identifies the critical need to develop alternative technologies to control *Bactrocera* flies to enhance our response capabilities and strengthen our preventative release programs (PRPs). Although Medfly and Mexfly are the primary focus of APHIS' domestic and offshore fruit fly activities, the *Bactrocera* flies present in Hawaii are also serious potential threats to U.S. industry on the mainland. In the past decade, the increase in Oriental Fruit Fly detections in California and Florida has clearly demonstrated the potential for establishment of this pest. In addition, *Bactrocera carambolae* (carambola fruit fly) has invaded Surinam from Asia and threatens the Caribbean Basin.

Although APHIS is pursuing the development of sterile insect technology for the Oriental Fruit Fly, it can be eliminated quickly, effectively, and relatively inexpensively with current methods. Male fruit flies of most *Bactrocera* species are strongly-to-moderately attracted to scents commonly used as food additives known as para-pheromones. These synthetic lures are used to attract males and—along with pesticides (such as Methyl Eugenol)—form the basis of the male annihilation technique (MAT), our primary control strategy. As long as MAT is available for area-wide suppression, the permanent establishment on the mainland of *Bactrocera* species that respond similarly to para-pheromones is unlikely. Currently, our Agricultural Research Service (ARS) is demonstrating the effectiveness of this technique in Hawaii as part of its area-wide fruit fly suppression program. While MAT is more effective and less expensive than sterile insect technology, we continue to develop the sterile insect technique for Oriental Fruit Fly in case the chemicals used in MAT are prohibited from use. Additionally, the MAT is not available for some *Bactrocera* species, including melon fly and solanum fruit fly.

APHIS operated a sterile Medfly facility in Waimanalo, Hawaii, for many years, but closed it in 2003 due—in part—to environmental concerns. The Agency's 2006 Strategic Plan for Fruit Fly programs recognizes the need to maintain a backup facility for sterile Medfly and *Anastrepha ludens* (Mexfly) production to ensure that our PRPs remain effective. To address this need, we are exploring options for constructing a multi-species rearing facility and/or privatizing sterile fly production. By November 2006, we plan to publish in the *Federal Register* a Notice of Request of Expression of Interest for Potential Sites for a Fruit Fly Production Facility or Potential Sources of Sterile Fruit Flies to explore further options to reach our goals for the sterile insect technique as outlined in the strategic plan. Wherever the new production facility is located, we will continue to provide a strong presence in Hawaii to support the fruit fly mission. Hawaii provides an excellent natural laboratory for research and development to address national and local fruit fly needs. Currently, APHIS and ARS are exploring new cost effective lures and control techniques, and are considering SIT for several *Bactrocera* species. However, SIT is a species-specific population management tool that relies on mass production methodologies and facilities for each target fruit fly species. In addition, several years and extensive resources are required to implement SIT for a new species. In addition, we are expanding fruit fly detection activities in Hawaii to serve as an early warning for the introduction of new exotic fruit flies and to support the local management of established species.

The Honorable Rosa DeLauro

Page 3

We appreciate the Committee's consideration of this matter and would be happy to answer any questions. We are sending a similar letter to Congressman Bonilla, and Senators Bennett and Kohl.

Sincerely,

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 31 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Mr. Chairman:

The report accompanying the Senate's Fiscal Year 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations bill includes the following language: "The Committee is aware that the Animal and Plant Health Inspection Service (APHIS) and State cooperators participate in sterile fruit fly programs to control damage to fruit production caused primarily by Medfly. However, agricultural production in Hawaii is also threatened by three other fruit fly species for which there is currently no sterile fly program. The Committee directs APHIS to consult with appropriate agricultural representatives in Hawaii regarding this problem and report to the Committee on recommendations to control these additional pests, including the possibility of initiating sterile fly programs."

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The Honorable Henry Bonilla

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 31 2006

The Honorable Robert F. Bennett
Chairman, Subcommittee on Agriculture, Rural Development
And Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The report accompanying the Senate's Fiscal Year 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations bill includes the following language: "The Committee is aware that the Animal and Plant Health Inspection Service (APHIS) and State cooperators participate in sterile fruit fly programs to control damage to fruit production caused primarily by Medfly. However, agricultural production in Hawaii is also threatened by three other fruit fly species for which there is currently no sterile fly program. The Committee directs APHIS to consult with appropriate agricultural representatives in Hawaii regarding this problem and report to the Committee on recommendations to control these additional pests, including the possibility of initiating sterile fly programs."

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The Honorable Robert F. Bennett

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 31 2006

The Honorable Herb Kohl
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Kohl:

The report accompanying the Senate's Fiscal Year 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations bill includes the following language: "The Committee is aware that the Animal and Plant Health Inspection Service (APHIS) and State cooperators participate in sterile fruit fly programs to control damage to fruit production caused primarily by Medfly. However, agricultural production in Hawaii is also threatened by three other fruit fly species for which there is currently no sterile fly program. The Committee directs APHIS to consult with appropriate agricultural representatives in Hawaii regarding this problem and report to the Committee on recommendations to control these additional pests, including the possibility of initiating sterile fly programs."

The primary goal of APHIS' fruit fly programs is to reduce the risk of exotic fruit flies being introduced into the United States, and to mitigate the impact of exotic fruit flies that have become established in parts of the continental United States, Hawaii, and United States territories. In January 2006, APHIS' Associate Deputy Administrator for Plant Protection and Quarantine programs, APHIS' Director of Fruit Fly Programs, and the Hawaii State Plant Health Director held several meetings in Hawaii to address the threats caused by the three other fruit fly species. Also participating in these meetings were representatives from the Hawaii Department of Agriculture (HDA), including Sandra Kunitomo, Chairperson of the Board of Agriculture; and Lyle Wong, the HDA's Director of Plant Industry. Participants discussed APHIS' role in Hawaii and a wide range of fruit fly issues. APHIS consulted with HDA about its recently established surveillance program to monitor the four fruit fly species that are established in Hawaii—*Ceratitis Capitata* (Medfly), *Bactrocera cucurbitae* (melon fly), *Bactrocera dorsalis* (Oriental fruit fly), and *Bactrocera latifrons* (solanum fruit fly)—and to detect incursions of any exotic species not known to occur in Hawaii. In addition, we reaffirmed the continued maintenance of the HDA's technology development laboratory—the Center for Plant Health Science and Technology Fruit Fly Genetics and Management Laboratory (FFGML)—in Waimanalo, Hawaii. This laboratory develops alternative control techniques for flies of the *Bactrocera* genus and supports domestic and off-shore APHIS programs. We are continuing our discussions with the HDA.

APHIS' 2006 Strategic Plan for fruit fly programs identifies the critical need to develop alternative technologies to control *Bactrocera* flies to enhance our response capabilities and strengthen our preventative release programs (PRPs). Although Medfly and Mexfly are the primary focus of APHIS' domestic and offshore fruit fly activities, the *Bactrocera* flies present in Hawaii are also serious potential threats to U.S. industry on the mainland. In the past decade, the increase in Oriental Fruit Fly detections in California and Florida has clearly demonstrated the potential for establishment of this pest. In addition, *Bactrocera carambolae* (carambola fruit fly) has invaded Surinam from Asia and threatens the Caribbean Basin.

Although APHIS is pursuing the development of sterile insect technology for the Oriental Fruit Fly, it can be eliminated quickly, effectively, and relatively inexpensively with current methods. Male fruit flies of most *Bactrocera* species are strongly-to-moderately attracted to scents commonly used as food additives known as para-pheromones. These synthetic lures are used to attract males and—along with pesticides (such as Methyl Eugenol)—form the basis of the male annihilation technique (MAT), our primary control strategy. As long as MAT is available for area-wide suppression, the permanent establishment on the mainland of *Bactrocera* species that respond similarly to para-pheromones is unlikely. Currently, our Agricultural Research Service (ARS) is demonstrating the effectiveness of this technique in Hawaii as part of its area-wide fruit fly suppression program. While MAT is more effective and less expensive than sterile insect technology, we continue to develop the sterile insect technique for Oriental Fruit Fly in case the chemicals used in MAT are prohibited from use. Additionally, the MAT is not available for some *Bactrocera* species, including melon fly and solanum fruit fly.

APHIS operated a sterile Medfly facility in Waimanalo, Hawaii, for many years, but closed it in 2003 due—in part—to environmental concerns. The Agency's 2006 Strategic Plan for Fruit Fly programs recognizes the need to maintain a backup facility for sterile Medfly and *Anastrepha ludens* (Mexfly) production to ensure that our PRPs remain effective. To address this need, we are exploring options for constructing a multi-species rearing facility and/or privatizing sterile fly production. By November 2006, we plan to publish in the *Federal Register* a Notice of Request of Expression of Interest for Potential Sites for a Fruit Fly Production Facility or Potential Sources of Sterile Fruit Flies to explore further options to reach our goals for the sterile insect technique as outlined in the strategic plan. Wherever the new production facility is located, we will continue to provide a strong presence in Hawaii to support the fruit fly mission. Hawaii provides an excellent natural laboratory for research and development to address national and local fruit fly needs. Currently, APHIS and ARS are exploring new cost effective lures and control techniques, and are considering SIT for several *Bactrocera* species. However, SIT is a species-specific population management tool that relies on mass production methodologies and facilities for each target fruit fly species. In addition, several years and extensive resources are required to implement SIT for a new species. In addition, we are expanding fruit fly detection activities in Hawaii to serve as an early warning for the introduction of new exotic fruit flies and to support the local management of established species.

The Honorable Herb Kohl

Page 3

We appreciate the Committee's consideration of this matter and would be happy to answer any questions. We are sending a similar letter to Congressman Bonilla, Congresswoman DeLauro, and Senator Bennett.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Johanns". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 20 2006

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended September 30, 2006.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

A handwritten signature in black ink, which appears to read "Mike Johanns", is positioned above the typed name and title.

Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 20 2006

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

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This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

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Mike Johanns
Secretary

Enclosure



December 7, 2006

The Honorable Nancy Pelosi
Speaker-elect of the House
Office of the Speaker of the House
2371 RHOB
Washington, DC 20515

The Honorable Harry Reid
Senate Majority Leader-elect
Office of the Senate Majority Leader
SH-528 HSOB
Washington, DC 20510

The Honorable John Boehner
House Majority Leader-elect
Office of the House Majority Leader
1011 LHOB
Washington, DC 20515

The Honorable Mitch McConnell
Senate Minority Leader-elect
Office of the Senate Minority Leader
SR-361A RSOB
Washington, DC 20510

Dear Senators Reid and McConnell and Representatives Pelosi and Boehner:

We are pleased to provide you with a new *Implementation Plan* that will help set the course for the second five years of "*A Collaborative Approach for Reducing Wildland Fire Risks to Communities and the Environment: 10-Year Strategy*."

The *10-Year Strategy* was requested by the Congress in 2000. The fires that year focused national attention on the threats wildland fire poses to people, communities, and natural resources. All levels of government responded and, in concert with a wide spectrum of non-governmental interests, joined forces to develop a comprehensive nationwide approach to lessen the impacts of unwanted fires. In August 2001, the Western Governors' Association, the Secretaries of the Departments of Agriculture and the Interior, and many others, including southern Governors, the National Association of Counties and tribes approved the *10-Year Strategy*. The original *Implementation Plan* for the *10-Year Strategy* was approved in May 2002.

Governmental and non-governmental entities are collaborating and making significant progress on the ground and in management to address this nation's fire and forest health needs. The introduction to the new *Implementation Plan* describes this progress. Yet, despite our best efforts thus far, substantial work on our forest and rangeland remains. The new *Implementation Plan* sets forth desired outcomes, performance measures, and responsibilities for the *Strategy's* four goals: improving fire prevention and suppression, reducing hazardous fuels, restoring ecosystems and promoting community assistance. The goals are interrelated and mutually reinforcing: restoring ecosystems and reducing hazardous fuels reduces risks to communities and provides economic benefits, in addition to improving fire prevention and suppression.

This new *Implementation Plan* emphasizes:


- Information sharing and monitoring of accomplishments and forest conditions to improve transparency.
- A long-term commitment to maintaining the essential resources for implementation.
- A landscape-level vision for restoration of fire adapted ecosystems.
- The importance of using fire as a management tool.
- Continued improvement in our collaboration efforts.

We have again worked closely with a range of stakeholders and experts to craft the new *Implementation Plan*. These individuals have endorsed its content. They are listed in Appendix C of the enclosure.

We believe, over time, that the approach detailed in the new *Implementation Plan* will significantly diminish the risks posed by wildfire to our communities and the environment. We look forward to reporting our progress to you.

Sincerely,

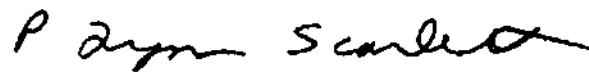

M. Michael Rounds
Governor of South Dakota
Chairman



Dave Freudenthal
Governor of Wyoming
Vice Chairman



Janet Napolitano
Governor of Arizona


James E. Risch
Governor of Idaho


Mike Johanns
Secretary of Department of Agriculture


P. Lynn Scarlett
Deputy Secretary of the Department of the Interior


Colleen Landkamer
Commissioner, Blue Earth County, MN
President of the National Association of Counties


E. Austin Short, III
Delaware State Forester
President of the National Association of State Foresters

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 31 2006

The Honorable Henry Bonilla
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

House Report 109-463 accompanying the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, 2007, requires the Secretary of Agriculture to provide quarterly reports, beginning July 31, 2006, on the status of continuity of operations of the National Finance Center (NFC), remote mirror imaging, the reestablishment of payroll and cross-servicing operations and function in New Orleans, Louisiana, selection of a new alternate worksite, and plans for the new primary computing facility. The enclosed report, "Continuity of Operations of the National Finance Center, the Reestablishment of Payroll and Cross-Servicing Operations and Functions in New Orleans, and Plans for Back-Up Facilities," complies with the Conferees' directive. This enclosure provides information on NFC's response to Hurricane Katrina, its accomplishments in restoring its business functions and operations, and the status of and plans for risk-managed back-up facilities.

If you have any questions or wish to discuss this report in more detail, please have a member of your staff contact Charles R. Christopherson, Jr., USDA's Chief Financial Officer, at 202-720-5539. Identical letters are being sent to Congresswoman DeLauro, Senator Bennett and Senator Kohl.

Sincerely,

A handwritten signature in black ink, reading "Mike Johanns", is positioned above the typed name and title.

Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 31 2006

The Honorable Robert Bennett
Chairman, Subcommittee on Agriculture, Rural Development,
and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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Sincerely,

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 31 2006

The Honorable Rosa DeLauro
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2262 Rayburn House Office Building
Washington, D.C. 20515

Dear Congresswoman DeLauro:

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Sincerely,

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 31 2006

The Honorable Herbert Kohl
Ranking Member, Subcommittee on Agriculture,
Rural Development, and Related Agencies
Committee on Appropriations
United States Senate
123 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Kohl:

House Report 109-463 accompanying the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, 2007, requires the Secretary of Agriculture to provide quarterly reports, beginning July 31, 2006, on the status of continuity of operations of the National Finance Center (NFC), remote mirror imaging, the reestablishment of payroll and cross-servicing operations and function in New Orleans, Louisiana, selection of a new alternate worksite, and plans for the new primary computing facility. The enclosed report, "Continuity of Operations of the National Finance Center, the Reestablishment of Payroll and Cross-Servicing Operations and Functions in New Orleans, and Plans for Back-Up Facilities," complies with the Conferees' directive. This enclosure provides information on NFC's response to Hurricane Katrina, its accomplishments in restoring its business functions and operations, and the status of and plans for risk-managed back-up facilities.

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Sincerely,

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Mike Johanns
Secretary

Enclosure

Assessment of the Livestock and Poultry Industries FY 2006 Report



United States Department of Agriculture
Grain Inspection, Packers and Stockyards Administration

March 2007

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Executive Summary

This report is prepared in accordance with the Grain Standards and Warehouse Improvement Act of 2000 (PL 106-472, Nov. 2000). The Act requires by March 1st of each year, the Secretary of Agriculture shall submit to Congress a report that: 1) assesses the general economic state of the cattle and hog industries; 2) describes the changing business practices in those industries; and 3) identifies market operations or activities in those industries that appear to raise concerns under the Packers and Stockyards Act.

This is the sixth annual report made by the Grain Inspection, Packers and Stockyards Administration (GIPSA) to Congress. The report focuses on data GIPSA collects under its regulatory authority for the livestock and meat market channels in the cattle-beef and hog-pork industries. Additionally, the report includes sections on the sheep-lamb and poultry industries. By focusing on the marketing segment (livestock dealers, markets, and packers) that GIPSA regulates, the report highlights information unavailable from other sources. The report covers events and data available as of September 30, 2006, which is the close of the government fiscal year. Most of the discussion of the projected annual outcomes, however, is on a calendar year basis.

Data available from annual reports filed with GIPSA by packers provide a snapshot of the industry each year through the most recent year of data available. The data were used to reveal trends over time in key industry characteristics and project expectations for 2006. The data show that the four largest firms' share of the total value of livestock purchases, i.e., aggregate industry concentration, has trended steadily upward over the last 10 years. Patterns of concentration in purchase of different types of livestock, however, have exhibited different trends. Four firm concentration by volume of slaughter in total cattle, steer and heifer slaughter, boxed beef production, and poultry slaughter have all been relatively stable in recent years, while cow and bull slaughter and hog slaughter have exhibited increases in concentration, and concentration in sheep slaughter has declined over this period.

Trends in marketing practices of packers vary by species. For example, carcass-basis purchases of cattle exhibited a strong upward trend from 1998 through 2002, remained about the same in 2003 before falling in 2004, then increased in 2005. By comparison, carcass-basis purchases of hogs increased steadily from 1995 through 1999, fell slightly in 2000, and have increased at a relatively slow rate since 2000. The four largest beef packers' use of committed procurement methods increased slightly in 2005, but packer feeding and use of marketing agreements have both declined notably since the first three years of this decade. Only forward contracting exhibits a continuing upward trend. Forward contracts currently, however, represent a relatively small portion of total cattle procurement. Another source of information on marketing arrangements is the Swine Contract Library (SCL) maintained in accordance with the Livestock Mandatory Reporting Act of 1999. Reports to the SCL of estimated future deliveries under contracts provided a useful indication of expected future trends in deliveries prior to the expiration of the Act in September 2005. The Act was recently renewed.

As carcass-based procurement has historically increased in volume, packers have increased the development and testing of carcass evaluation devices in the beef industry. Changes to carcass merit programs for hogs were not significant in 2006, perhaps reflecting the fact that trends in carcass basis purchases of hogs have stabilized at already-high levels in recent years.

I. General Economic State of the Industries

The Packers and Stockyards Program (P&SP) of the Grain Inspection, Packers and Stockyards Administration (GIPSA) administers and enforces the Packers and Stockyards Act (P&S Act) and monitors financial and business practices in the livestock, meatpacking, and poultry industries. Every packer, live poultry dealer, stockyard owner, market agency, and dealer must file a report annually with GIPSA. Since reporting year 1977, packers that operate in interstate commerce and purchase \$500,000 or more of livestock on an annual basis are required to file an annual report with GIPSA. The reports filed by these packers contain data on the quantity and costs of the firms' purchases of livestock for slaughter, the firms' business practices, and financial aspects of the slaughter firms' operations. Data available from these reports provide a snapshot of the industry each year. Data from reports for reporting years through 2005 are used below to describe recent trends in key characteristics.¹ The data were also used to develop simple statistical estimates (predictions) of expected ranges for those characteristics in 2006. If additional information is available to GIPSA, the predictions based upon the statistical estimates have been adjusted to reflect that data. All analysis is based on data and information available to GIPSA at the end of Fiscal Year 2006. Because most of the data series are on a calendar year basis, the anticipated outcomes that are described refer to calendar year 2006.

A. Aggregate Livestock Industry

Data on the value of livestock purchased for slaughter reveal that the four largest packing firms' share of total industry expenditures on livestock for slaughter has trended upward over the last 10 years (Figure 1). If the trend continued the four largest firms' share of total industry procurement expenditure for 2006 would be between 65.0 and 72 percent.

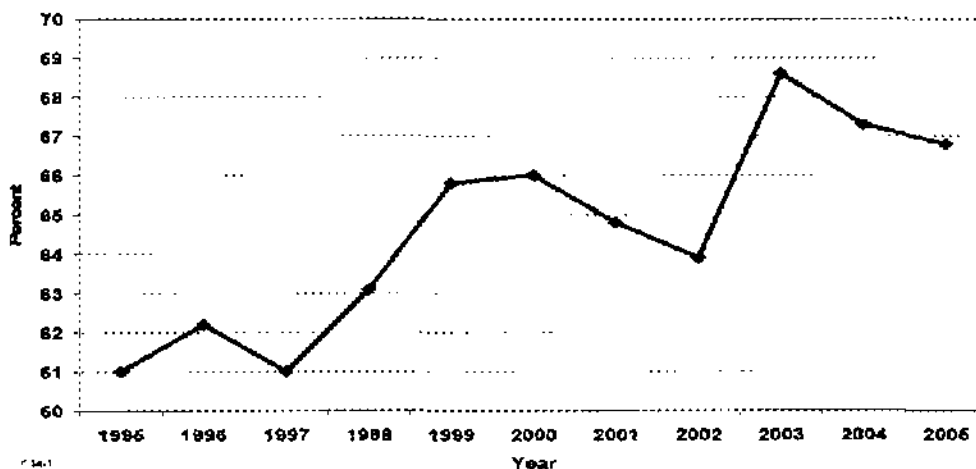


Figure 1. Share of Total Industry Livestock Procurement Expenditures for the Four Largest Slaughter Firms, Firm Size Ranked by Total Livestock Procurement Expenditure

¹ Unless otherwise indicated, data represented in the graphs and discussed in this report are as reported in various issues of the annual *Packers and Stockyards Statistical Report* (see <http://www.gipsa.usda.gov/GIPSA/webapp?area=newsroom&subject=landing&topic=pub-stat>), supplemented with other data from reports filed with Packers and Stockyards Program by business entities subject to the Packers and Stockyards Act. The majority of firms file reports on a calendar year basis, and the reports for 2006 are not due until April 15, 2007. GIPSA provides a 90-day extension when requested, and performs a data verification process after receiving the reports. Thus 2006 data will be published in early 2008 in the GIPSA publication *Packers and Stockyards Statistical Report 2006 Reporting Year*.

Several financial ratios can be used to provide a summary of financial conditions in the meat packing industry. Two examples, one for expenses and one for income, are used below. First, trends in operating expenses as a percentage of sales illustrate the combined effects of changes in input costs and in firms' production practices on the costs of doing business over time. Second, trends in operating income as a percentage of sales over time provide a measure of profitability.

Operating expenses expressed as a percentage of sales of meat packing firms have trended upward over the last several years. Manufacturing costs, i.e. the costs of actual slaughter and processing operations including labor, make up the greatest component of operating expenses.² This ratio for large firms tends to be lower than is the case for smaller firms. For example, in every year but one since 1997, this ratio as a percentage of sales has been lower for the four largest firms than for firms ranked 21st through 40th (size rankings based on total livestock procurement expenditures) (Figure 2).³ GIPSA anticipates that total operating expenses for the top four firms for 2006 will be between 18.8 and 22 percent of the value of sales. GIPSA expects that the anticipated range of total operating expenses for the 21st-40th firms for 2006 will be between 18.6 and 24.4 percent of the value of sales.

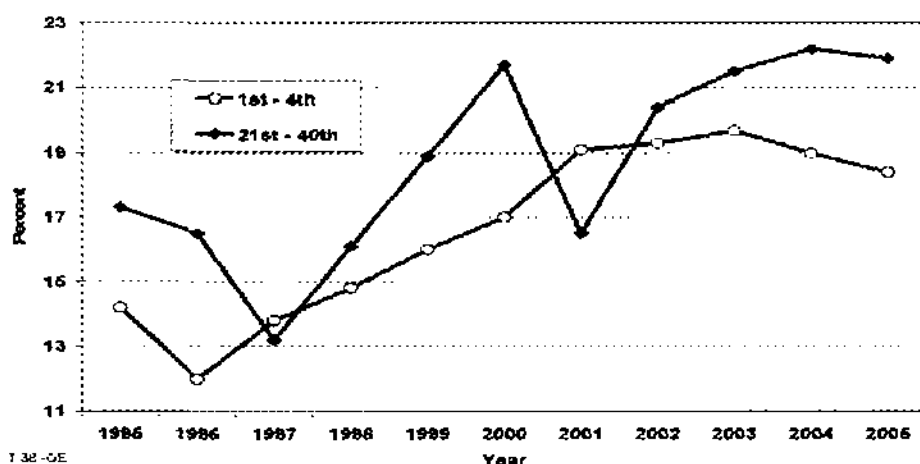


Figure 2. Total Operating Expenses as a Percentage of Sales for the Top 4 and the 21st-40th Firms, Ranked by Total Livestock Procurement Expenditure

Operating income as a percentage of sales of meat packing firms has trended slightly upward in recent years, with considerable year-to-year variation (Figure 3).⁴ Since 2000 the four largest firms have had lower operating income as a percentage of sales than the firms ranked 21st through 40th, a reversal of the relationship that existed prior to 2000. The lower operating income of the larger packers, despite having lower operating expenses (Figure 1), is due to the larger packers paying a higher average cost for livestock.⁵ The anticipated range of operating income as a percentage of sales for the top four firms, ranked by total livestock procurement expenditure, for 2006 is between 0.7 and 2.8 percent. The anticipated range of operating income as a percentage of sales for the 21st-40th firms for 2006 is between 1.5 and 2.9 percent.

² Operating expenses include manufacturing, advertising and selling, administrative, depreciation and amortization, interest, and other day-to-day expenses of running the business. Note that financial data reported to GIPSA by some firms may include information on operations other than meat packing and processing.

³ While this difference may suggest that larger firms tend to operate larger, lower-cost plants than the smaller firms, these financial data are highly aggregated across a variety of types of firms. There are differences both across and within size groups in combinations of species slaughtered (beef, pork, sheep, poultry) by the included firms and also in other types of non-meat activities included in the data from some firms.

⁴ Operating income as summarized here is sales minus cost of sales (primarily cost of livestock) and minus operating expenses, and is essentially a measure of profit before taxes.

⁵ See Table 35, *Packers and Stockyards Statistical Report, 2006 Reporting Year*.

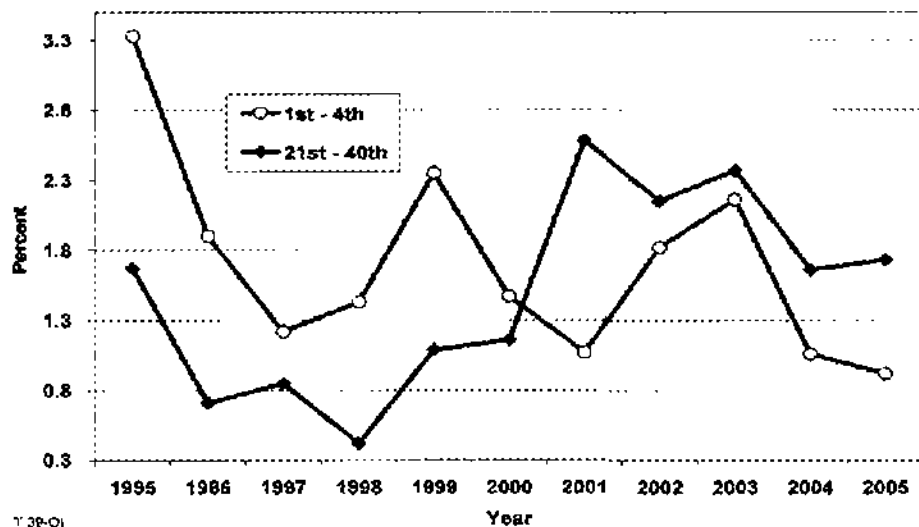


Figure 3. Operating Income as a Percentage of Sales for the Top 4 and the 21st-40th Firms, Ranked by Total Livestock Procurement Expenditure

B. Cattle Industry

The volume of cattle slaughtered by firms reporting to GIPSA fluctuates with the cattle cycle and changes in total U.S. commercial slaughter and has trended downward over the last 10 years (Figure 4).⁶ Total cattle purchases for 2006 for firms reporting to GIPSA are anticipated to range between 31 million head and 34 million head with the expected value being closer to the lower boundary.

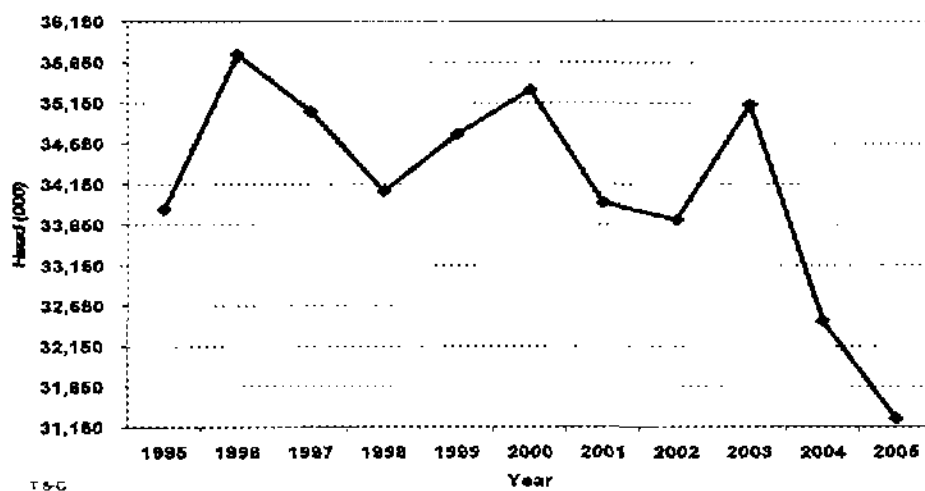


Figure 4. Total Slaughter Cattle Purchases for Firms Reporting to GIPSA

The number of plants reporting to GIPSA declined by approximately 100 plants or 38 percent from 1995 through 2003 as plant size increased and smaller plants closed, but that trend shows some signs of slowing since 2002 (Figure 5). Based on preliminary information on changes in the number of cattle

⁶ Total cattle includes steers and heifers (often collectively called "fed cattle"), cows, and bulls. In most but not all cases, individual plants operated by firms that report to GIPSA tend to slaughter either fed cattle, or cows and bulls.

slaughter plants. GIPSA anticipates that the downward trend of the late 1990s has stabilized at 150 to 170 plants for 2006.

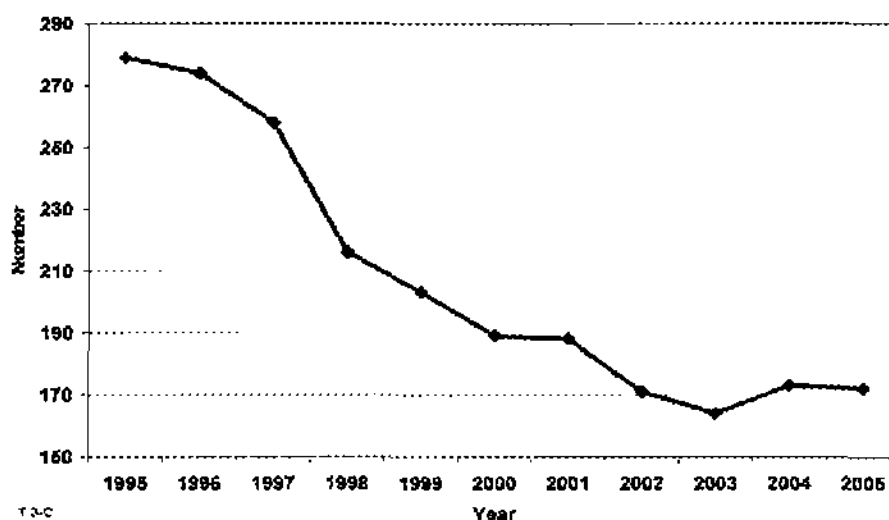


Figure 5. Number of Cattle Slaughter Plants for Firms Reporting to GIPSA

The percentage of the total volume of steer and heifer purchases accounted for by the four largest firms that slaughter steers and heifers has remained between 78 and 82 percent since 1995 (Figure 6). Projecting the trend since 1995 would suggest that this measure of concentration in 2006 would range between 79 and 83 percent.⁷ Several factors, however, have influenced the combined market share of the four largest firms slaughtering steers and heifers since 2004. Acquisitions by larger firms were largely offset by plant closings among those firms, but several smaller packers also ceased operating. Taking these partially-offsetting factors into account suggests a modest additional increase from the 2004 level in the combined market share of the four largest firms in 2006. While continuation of the trend in boxed beef since 1995 (Figure 7) would result in concentration between 80 and 84 percent in 2006, the same factors influencing changes in market shares in steer and heifer slaughter will likely lead to a modest increase from the 2004 level in concentration in boxed beef production as well.

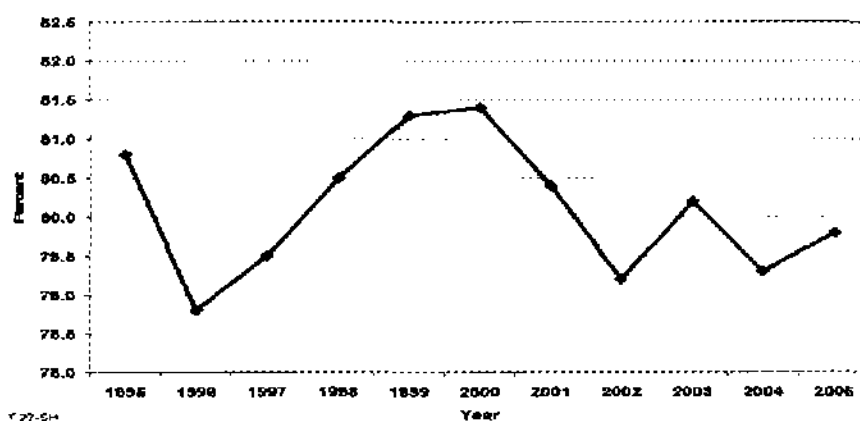


Figure 6. Combined Market Share (by Volume) for the Four Largest Steer and Heifer Slaughter Firms.

⁷ In this report the terms "concentration" and "combined market share" are both used to refer to the combined volume of the four largest firms as a share of the total volume of all industry firms.

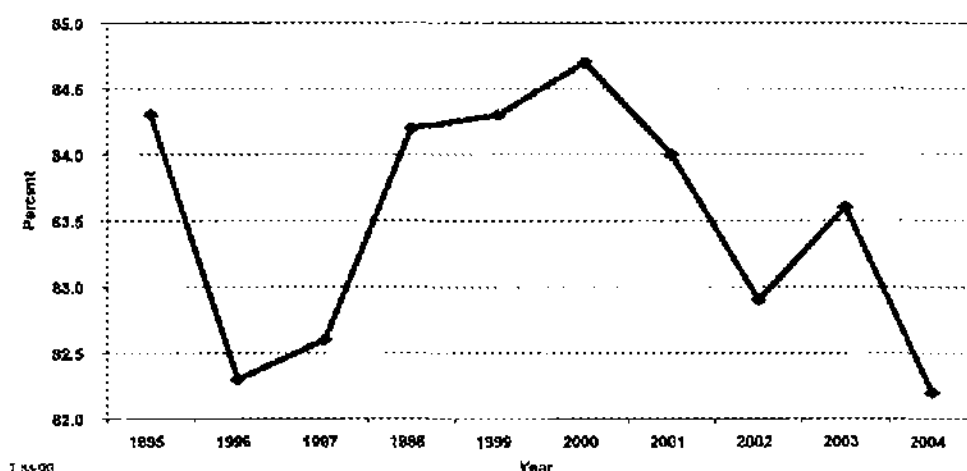


Figure 7. Combined Market Share (by Volume) for the Four Largest Firms Producing Boxed Fed Beef.

Concentration in cow and bull slaughter has trended upward since 1995 (Figure 8). In 2006, plant closings were offset by capacity increases driven by acquisitions by larger firms. Several smaller packers also ceased operating. Taking these factors into account leads to the suggestion that the combined market share of the four largest firms slaughtering cows and bulls could increase to 50 percent in 2006.

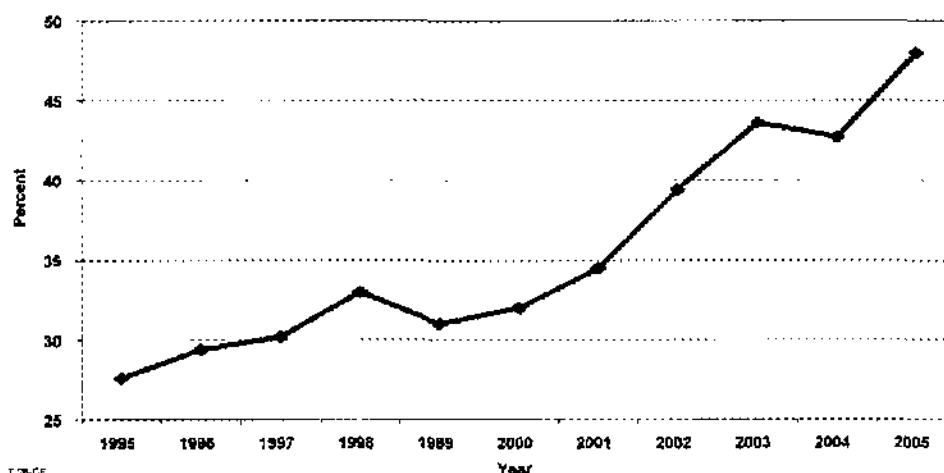


Figure 8. Combined Market Share (by Volume) for the Four Largest Cow and Bull Slaughter Firms.

C. Hog Industry

Hog slaughter has trended upward in the last 10 years, with slaughter plants reporting purchasing about 101.1 million hogs for slaughter in 2005 (Figure 9). Continuation of recent trends would result in an anticipated number of total hog purchases for 2006 between 96.8 and 102.5 million head. With respect to number of hog slaughter plants, continuation of the trend since 1995 would suggest that the anticipated number for 2006 could range between 136 and 150. However, the rate of decline has slowed since 1999 and the number of hog slaughter plants increased in 2004 (Figure 10). Based on preliminary data on

changes in number of plants since 2004, GIPSA believes it is likely that the number of plants in 2006 will be slightly above the upper end of that range.

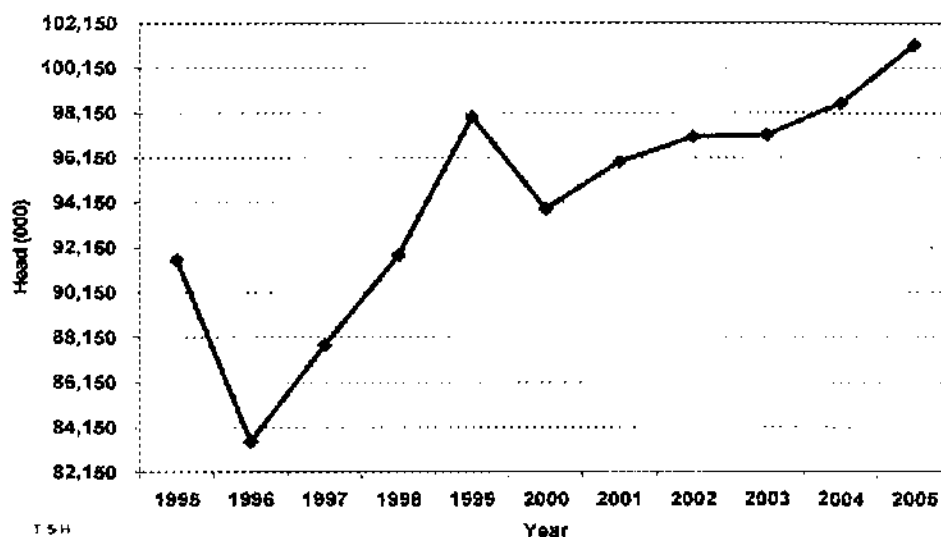


Figure 9. Total Hog Purchases for Slaughter for Firms Reporting to GIPSA

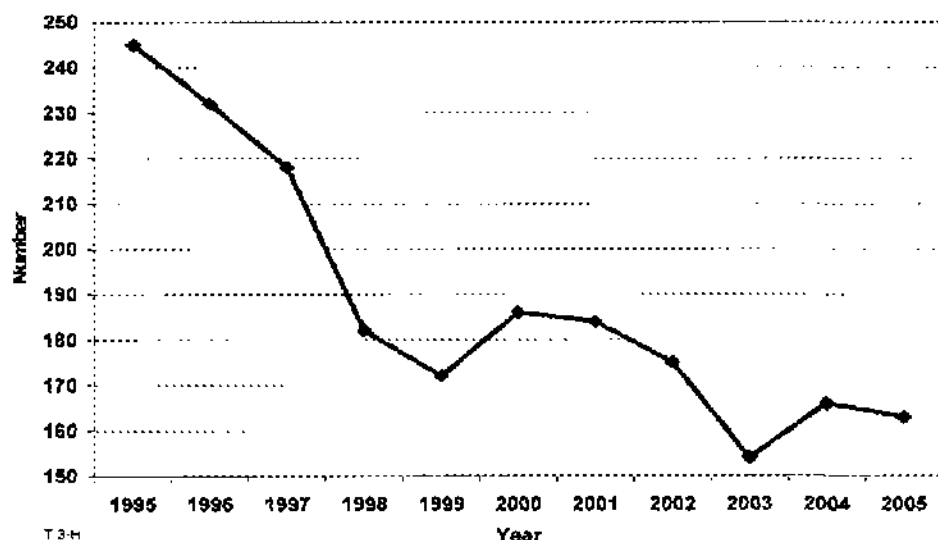


Figure 10. Number of Hog Slaughter Plants for Firms Reporting to GIPSA

After remaining stable in the latter half of the 1990s, hog slaughter concentration increased from 55 percent in 2002 to about 64 percent in 2003 and remained at 64 percent since (Figure 11). Based on the trend since 1995, the four largest firms' share of total hog slaughter for 2006 could range between 61.6 and 68.5 percent. The mix of plant closings and openings since 2005 by firms of different sizes is expected to reduce the four largest firms' market share to the lower end of that 2006 range estimate.⁸

⁸ Smithfield's announced acquisition of Premium Standard Farms likely would not affect concentration for 2006

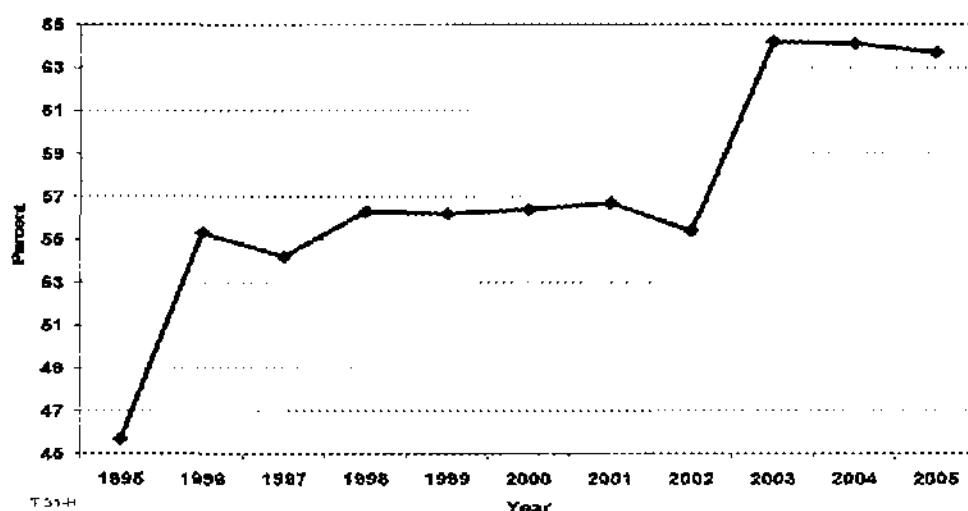


Figure 11. Combined Market Share (by Volume) for the Four Largest Hog Slaughter Firms

In FY 2004, GIPSA implemented a web-based Swine Contract Library (SCL) in accordance with the requirements of the Livestock Mandatory Reporting Act of 1999 (LMRA). After the LMRA expired in September 2005 approximately half the previously responding plants continued reporting to GIPSA on a voluntary basis.⁹ The SCL reports swine contract information from swine (hog) packing plants with a slaughter capacity of 100,000 swine or more per year. The SCL reports information from the submitted contracts by region, including price, premiums, discounts, grids, formulas, and other important contract terms that GIPSA extracts from offered and available contracts that packing firms use to purchase hogs. Each month the SCL also reports estimates of total future deliveries of hogs under contract for the following 6-month and 12-month periods. The SCL data are known in advance of AMS data on actual deliveries and thus provide a forecast estimate (Figure 12).

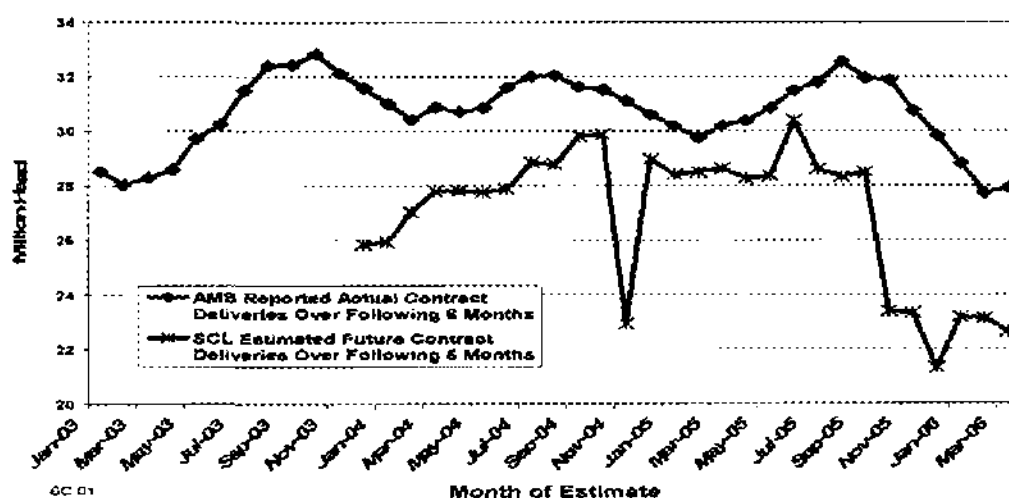


Figure 12. Actual Total Contract Deliveries Over Following Six Months Versus Swine Contract Library Estimates of Future Deliveries Over Same Periods, National Totals, All Contract Types

⁹ The Act actually expired briefly in the fall of 2004 but was extended for one year. During that period about half of the plants reported to GIPSA on a voluntary basis, thus the large decline in late 2004 shown in the graph.

Prior to the expiration of the LMRA, GIPSA found that packers' reports to the SCL of estimated future deliveries under contract tended to under-estimate actual deliveries subsequently reported by AMS but still provided a useful indication of the trend in deliveries. When reporting to the SCL and to AMS became voluntary in September 2005, fewer plants provided data to the SCL about estimated future deliveries under contract than those that voluntarily provided data to AMS about actual deliveries. As a result, SCL estimates became a less accurate predictor of the trend than they had been previously. In October 2006 President Bush signed legislation renewing the Livestock Mandatory Reporting Act including the SCL provision. GIPSA expects that the relationship between estimated and actual deliveries should approach a more consistent pattern once all packers resume filing reports to the SCL as required.

D. Sheep and Lamb Industry

The volume of sheep and lambs slaughtered by packers reporting to GIPSA increased in 2004 for the first time since 1998 but declined in 2005 (Figure 13). Total purchases of sheep and lambs for slaughter for 2006 for firms reporting to GIPSA are anticipated to range between 1.8 million head and 2.5 million head. The number of plants slaughtering sheep and lambs declined by 43 from 1995 through 2002 but has been relatively stable since then (Figure 14). GIPSA expects between 53 and 56 reporting sheep slaughter plants in 2006.

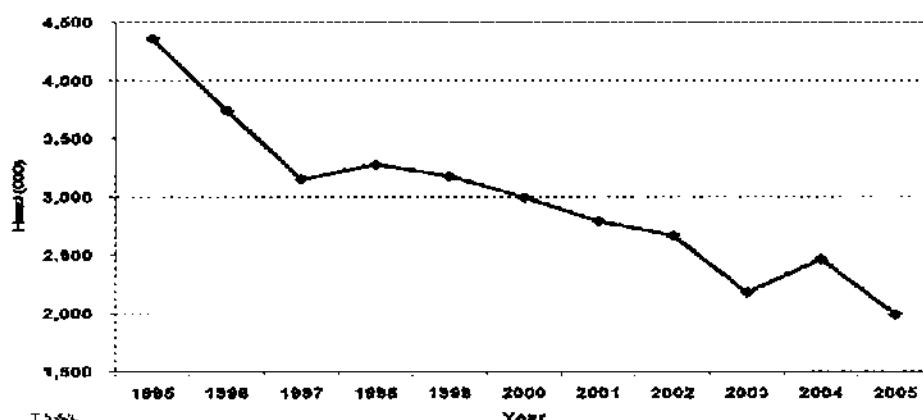


Figure 13. Total Slaughter Sheep and Lamb Purchases for Firms Reporting to GIPSA

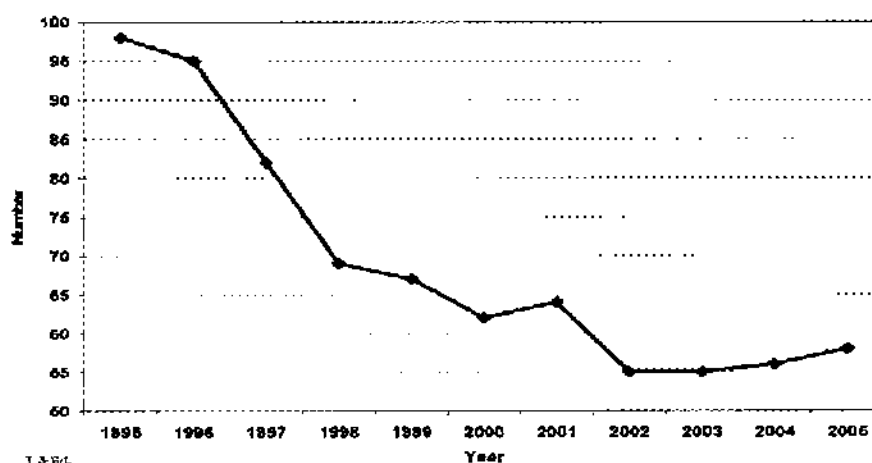


Figure 14. Number of Sheep and Lamb Slaughter Plants for Firms Reporting to GIPSA

The combined market share of the four largest sheep and lamb slaughter firms has trended downward since 1998. Preliminary data indicate an increase in 2005 as the four largest firms increased their combined slaughter volume while total industry slaughter declined (Figure 15). The projected range in the largest four firms' share of total purchases for slaughter in 2006 would be between 60 and 63 percent if the trend from 1995 through 2004 continued. Based on available information on actual changes in firms and plants since 2004, GIPSA expects concentration to be closer to the high end of that range.

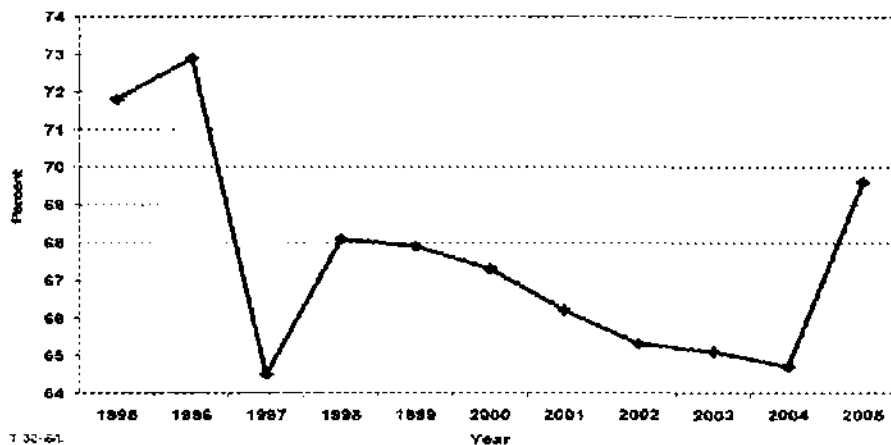


Figure 15. Combined Market Share (by Volume) for the Four Largest Sheep and Lamb Slaughter Firms.

E. Poultry Industry

Federally-inspected broiler slaughter (measured in pounds of ready-to-cook broilers) has trended upward since 1995, while turkey slaughter has been relatively constant (Figure 16). USDA's World Agricultural Outlook Board (WAOB) estimates that broiler and turkey slaughter will be 1.4 percent and 3 percent higher, respectively, in 2006 than in 2005.¹⁰

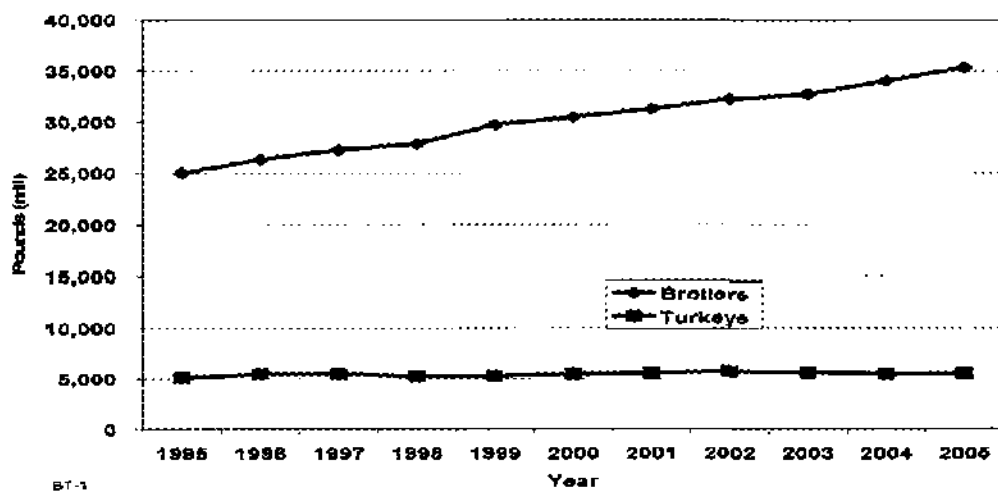


Figure 16. Total Federally-Inspected Broiler and Turkey Slaughter (Pounds Ready-to-Cook).
Source: World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates*, various issues

¹⁰ World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates*, Table WASDE-440-31, WASDE-440, November 9, 2006, <http://usda.mannlib.cornell.edu/usda/current/wasde/wasde-11-09-2006.pdf>.

Concentration in broiler and in turkey slaughter has remained fairly constant since 2003, with slight declines in both in 2005 (Figures 17, 18).¹⁷ Recent firm acquisitions will likely increase concentration in broiler slaughter and turkey slaughter slightly in 2006.

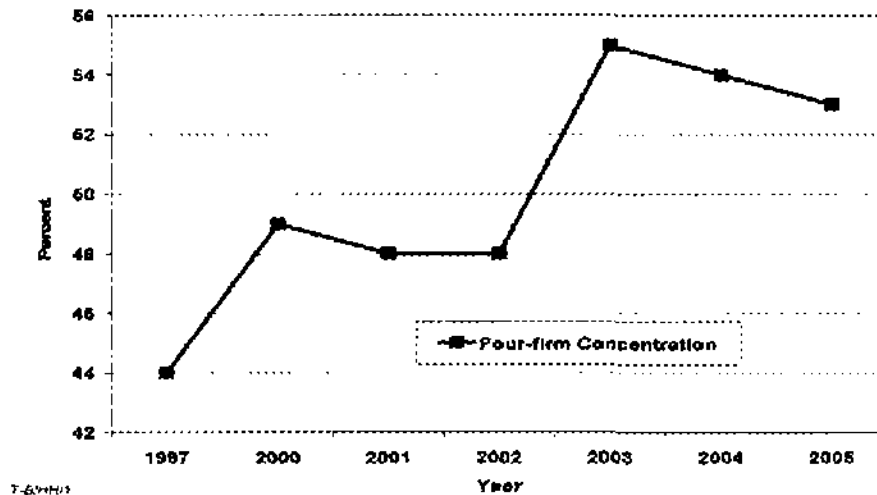


Figure 17. Combined Market Share for the Four Largest Broiler Slaughter Firms
Source: Warr Poultry USA. "WATT Poultry USA Rankings," various years.

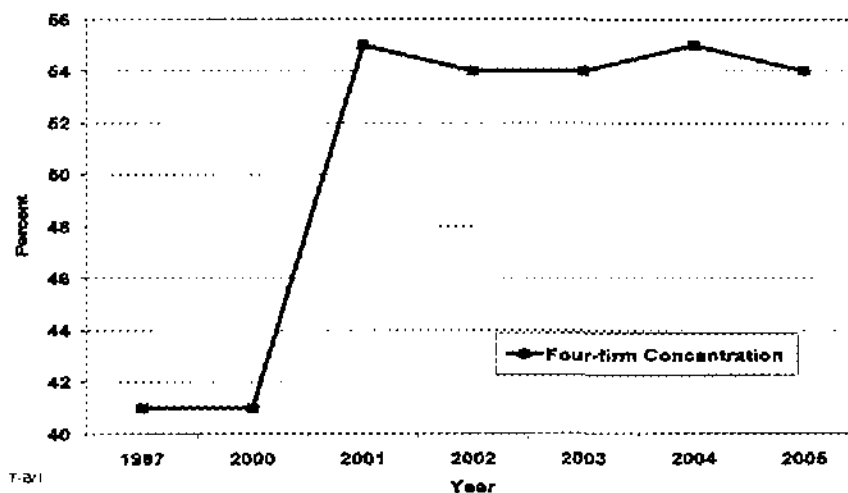


Figure 18. Combined Market Share for the Four Largest Turkey Slaughter Firms
Source: Warr Poultry USA. "WATT Poultry USA Rankings," various years.

F. Livestock and Poultry Producers

GIPSA does not have jurisdiction over livestock producers and poultry growers and does not obtain data from those operations. The Economic Research Service (ERS) and World Agricultural Outlook Board (WAOB) within USDA devote considerable resources to the tracking and analyzing of economic conditions in livestock and poultry production. Analyses and projections by those agencies indicate that

¹⁷ Concentration or 4-firm market shares reported here for broilers and turkey refers to share of total industry output, rather than share of total industry input as in other sections of this report for livestock slaughter firms.

livestock and poultry producers likely experienced a reduction in income in 2006 as a result of a combination of lower prices and higher input costs. The decline in 2006 was relative to high levels of the last previous 2 years, as high livestock prices relative to historical averages resulted in cash receipts for livestock producers that set successive records in 2004 and 2005. Hog producers' incomes for 2006 likely fell somewhat more than poultry and beef producers' incomes.¹² Estimates released by the WAOB indicate that annual turkey prices averaged higher in 2006 than in 2005 while fed cattle, hog, and broiler prices were all lower in 2006 than in 2005.¹³ All prices average higher in the latter half of the year, suggesting improvement in returns to producers as the year progressed.¹⁴

¹² A variety of publications and data sources on economic conditions are available on the ERS web page at <http://www.ers.usda.gov/>. See especially "Income Outlook and Financial Circumstances Varies Among Farms," at <http://www.ers.usda.gov/Briefing/FarmIncome/BusinessIncome.htm> (accessed November 9, 2006).

¹³ World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates*, Table WASDE-440-31, WASDE-440, November 9, 2006, <http://usda.mannlib.cornell.edu/usda/current/wasde/wasde-11-09-2006.pdf>

¹⁴ Economic Research Service, *Livestock, Dairy, and Poultry Outlook*, LDP-M-147 and LDP-M-148 (September 18 and October 19, 2006) <http://usda.mannlib.cornell.edu/usda/ers/LDP-M/2000s/2006/LDP-M-09-18-2006.pdf> and <http://usda.mannlib.cornell.edu/usda/ers/LDP-M/2000s/2006/LDP-M-10-19-2006.pdf>

II: Changing Business Practices of the Livestock and Poultry Industries

A. Aggregate Livestock Industry

A long-term decline in the number of livestock slaughter firms reporting to GIPSA has been accompanied by a trend to increased specialization in slaughter. This is illustrated by a greater decline since 1995 in the number of firms slaughtering two or more classes of livestock than in the number of firms slaughtering a single class (Figure 19).¹⁵ The anticipated number of firms slaughtering one class of livestock for 2006 could range between 107 and 115. The anticipated number of firms slaughtering two or more classes of livestock for 2006 could range between 78 and 95.

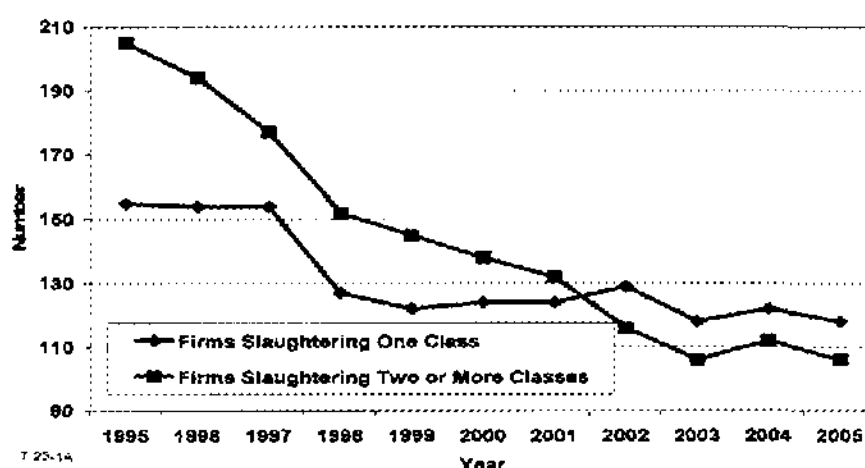


Figure 19. Number of Firms Slaughtering One Class and Number of Firms Slaughtering Two or More Classes of Livestock

B. Cattle Industry

Major Acquisitions, Divestitures and Plant Closures in the Cattle Industry

There were several ownership changes and plant closures among large beef slaughter firms in 2006. Tyson Foods closed its fed cattle slaughter facility in West Point, NE. Cargill Meat Solutions acquired Fresno, CA based Beef Packers, Inc. Swift & Company announced it had agreed to sell its two non-fed cattle processing facilities in Nampa, ID (which had been closed since August 2005) and Omaha, NE to XL Foods, of Calgary, Alberta. National Beef Packing, Company LLC acquired Brawley Beef LLC of Brawley, CA. Tyson Foods announced that it would close its Boise, ID fed cattle slaughter plant.

The cattle industry continued to be affected by restrictions on imports from Canada of cattle over 30 months of age. The reduced numbers of imports resulted in some cow and bull slaughter plant closures prior to 2006, and continue to impact plant utilization in some areas of the northern U.S.

Carcass Basis Purchases

¹⁵ For purposes of this comparison, the separate classes of livestock are steers and heifers; cows and bulls; calves; sheep and lambs, and hogs.

Purchases of cattle on a carcass basis as opposed to on a live-weight basis, trended upward from 1995 through 2002 (Figure 20). Although there were declines in 2003 and 2004, an increase followed in 2005 and GIPSA believes the upward trend will continue. GIPSA anticipates that packers reporting to GIPSA will purchase between 19 and 22 million head of cattle on a carcass basis in 2006.

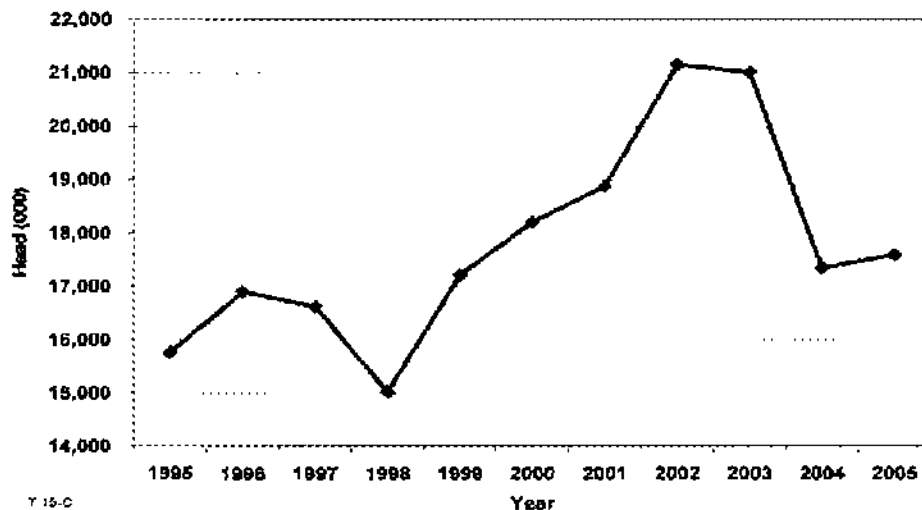


Figure 20. Cattle Purchases on a Carcass Basis

As carcass-based procurement has become increasingly important, packers have increased the development and testing of carcass evaluation devices in the beef industry. GIPSA has attended carcass tests conducted jointly by AMS and device manufacturers to evaluate device performance under real time conditions in packing plants. While these devices are not yet being used as a basis for payment to producers, the industry is poised to augment traditional USDA AMS meat grading services with complex images that provide a "score" of carcasses for both yield grade and marbling.

Procurement Methods

Packers use multiple procurement methods to obtain live cattle for slaughter.¹⁶ The methods commonly fall into two categories: (1) cash sales for immediate delivery or sometimes on a delayed delivery, normally within a 2 week period, and (2) "committed procurement" arrangements that create an assured exchange and commit the cattle to a particular packer in excess of 14 days prior to delivery. GIPSA collects and audits data on the three major committed procurement methods used by the four largest firms that slaughter fed cattle. These methods include packer feeding, forward contracts, and marketing agreements.

GIPSA defines "packer fed" livestock as all livestock obtained for slaughter that a packer, a subsidiary of the packer, the packer's parent firm, or a subsidiary of the packer's parent firm owns, in whole or part, for more than 14 days before the packer slaughters the livestock. The percentage of total purchases of fed cattle that are obtained through packer feeding arrangements by the four largest steer and heifer slaughter firms declined in 2004 and 2005 (Figure 21). GIPSA expects that the percentage of total procurement obtained from packer feeding by these firms in 2006 will be between 5 and 7 percent.

¹⁶ Data included in the graphs and discussed in this section for 2005 are preliminary.

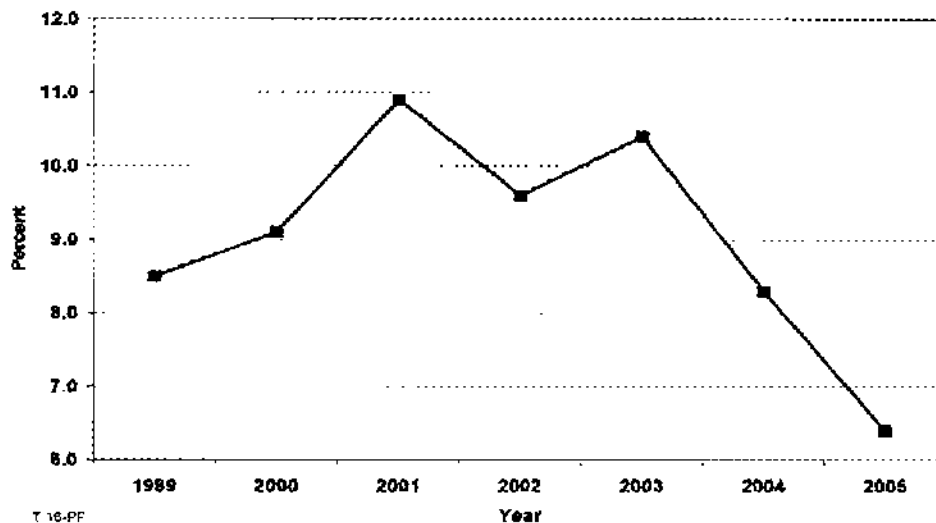


Figure 21. Percentage of Steers and Heifers Procured through Packer Feeding Arrangements by the Four Largest Steer and Heifer Slaughter Firms.

“Forward contracts” are agreements between packers and sellers for future delivery of a specific lot or quantity of livestock. The price of the cattle in a forward contract can be set at the time of the contract or determined upon delivery based upon an agreed pricing arrangement, e.g., using prices from the Chicago Mercantile Exchange futures market for live cattle with an adjustment for the basis at the time of delivery.

The four largest firms’ use of forward contracts accounts for a small percentage of total procurement of fed cattle but the proportion has been trending upward in recent years (Figure 22). The percentage of fed cattle procured through the use of forward contracts by the four largest steer and heifer slaughter firms in 2006 is expected to lie between 5 and 7 percent.

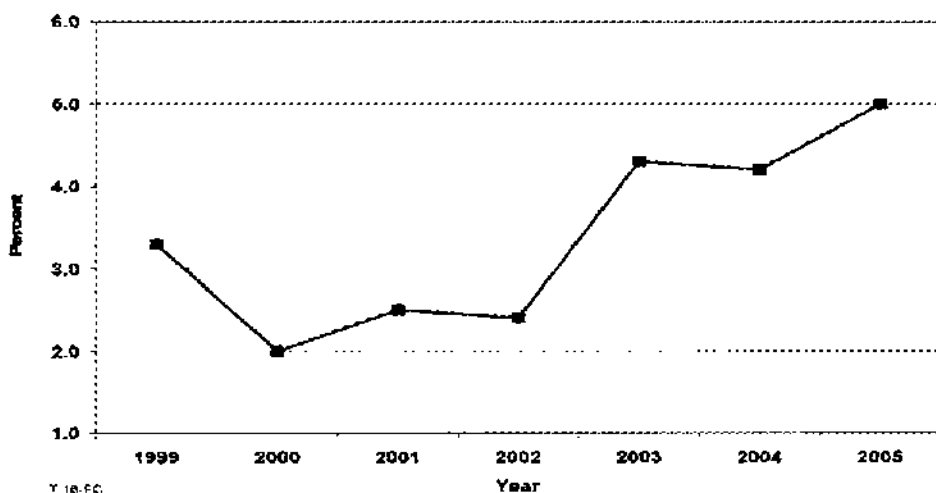


Figure 22. Percentage of Steers and Heifers Procured through Forward Contracts by the Four Largest Steer and Heifer Slaughter Firms.

The term “marketing agreements” includes a variety of agreements that establish an ongoing relationship for trading multiple lots of cattle rather than negotiating single lots of cattle. In these arrangements the

seller agrees to deliver cattle to the packer at a future date with the price generally being determined by some type of formula pricing mechanism. The price is often based on the current cash market at the time of delivery with premiums or discounts determined by evaluation of carcass characteristics. Many of these arrangements commit livestock through an alliance or cooperative of some type.

Of the three categories of committed procurement, marketing agreements account for the largest proportion of total committed procurement. The percentage of fed cattle procured through the use of marketing agreements by the four largest steer and heifer slaughter firms fell in 2003 and 2004, and increased very little in 2005 (Figure 23). GIPSA expects that marketing agreements will account for between 23 and 25 percent of total procurement in 2006 by the four largest steer and heifer slaughter firms.

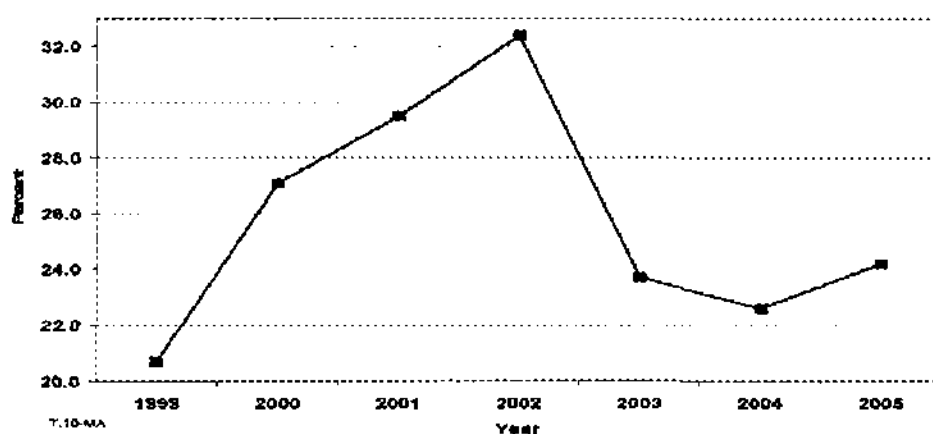


Figure 23. Percentage of Steers and Heifers Procured through Marketing Agreements for the Four Largest Steer and Heifer Slaughter Firms.

Since marketing agreements account for a large portion of total committed procurement, the trend in the percentage of fed cattle procured through the use of all methods of committed procurement closely resembles that for marketing agreements (Figure 24). Total committed procurement (packer feeding, forward contracts, and marketing agreements) by the four largest steer and heifer slaughter firms in 2006 is expected to lie between 33 and 39 percent of those four firms' total procurement for slaughter.



Figure 24. Percentage of Steers and Heifers Procured through all Methods of Committed Procurement for the Four Largest Steer and Heifer Slaughter Firms

Importance of Commission Firms

Although the volume of cattle handled by commission firms has trended downward over the last 10 years, these firms continue to play an important role in the cattle industry (Figure 25). The expected volume of cattle marketed through firms selling on a commission basis in 2006 is between 37 million and 39 million head.

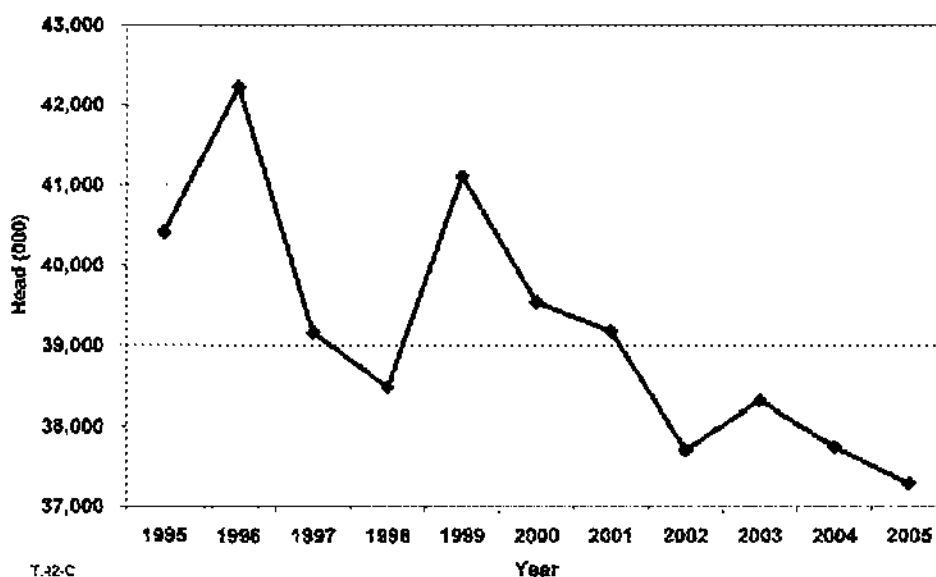


Figure 25. Volume of Cattle (Slaughter and non-slaughter) Marketed through Firms Selling on a Commission Basis.

B. Hog Industry

Major Acquisitions, Divestitures and Plant Closures in the Hog Industry

Smithfield Foods closed the Smithfield Packing plant in Smithfield, Virginia, and in September announced intent to purchase Premium Standard Farms. Triumph Foods opened a slaughter plant in St Joseph, Missouri, and later expanded production by adding a second 8-hour shift.

Carcass-Basis Purchases

Carcass-basis purchases of hogs have stabilized at high levels in recent years, gradually increasing from 70,000 head in 1999 to 80,000 head in 2005, after increasing more rapidly from 1995 through 1999 (Figure 26). With continuation of long-term trends, carcass-basis hog purchases for 2006 would range between 76.3 million head and 93.4 million head. However, given the stability since 1999, GIPSA expects that the number will be near the bottom end of this range.

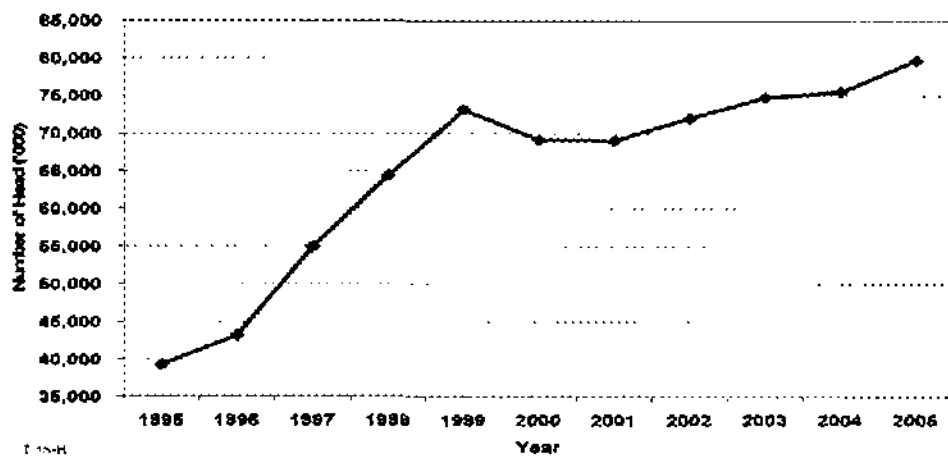


Figure 26. Hog Purchases on a Carcass-basis

Procurement Methods

Production contracts and marketing contracts continue to be the most common methods used by packers to procure hogs. In production contracts, contractors provide hogs, retain ownership, and contract with growers to care for and raise hogs according to contract standards. In marketing contracts, producers who own the hogs contract with a packer to sell them under agreed-upon terms. Although these methods continue to evolve, GIPSA has not observed major changes in use of production and marketing contracts during 2006.¹²

Importance of Commission Firms

As with cattle, the volume of hogs marketed through firms selling on commission has declined over time but has stabilized in recent years (Figure 27). The level at which the industry has stabilized is considerably lower for hogs than for cattle. The volume of hogs marketed through commission firms for 2006 could range between 3.7 million and 7.4 million head, but is expected to remain at the upper end of the range.

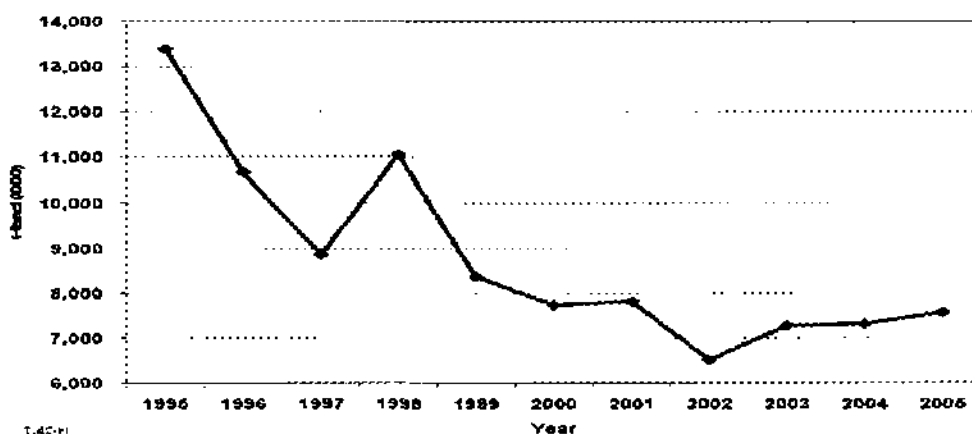


Figure 27. Volume of Hogs Marketed through Firms Selling on Commission

¹² GIPSA provided a more comprehensive description of hog production contracting and marketing agreements in *Assessment of the Cattle, Hog, Poultry, and Sheep Industries 2003 Report*, October 2004. <http://archive.gipsa.usda.gov/pubs/packers/assessment02-03.pdf>.

D. Sheep and Lamb Industry

Major Acquisitions, Divestitures and Plant Closures in the Sheep and Lamb Industry

Producers Lamb & Goat, L.P., which had started business as a new firm in 2005 by re-opening a closed plant previously operated by Rancher's Lamb in San Angelo, TX, ceased operations in the spring of 2006.

Carcass-Basis Purchases

The volume of sheep purchased on a carcass basis has fallen by half since 1995, although with considerable year-to-year variation (Figure 28). The volume was stable from 2003 to 2004 and is expected to range between 1.1 and 1.3 million head in 2006.

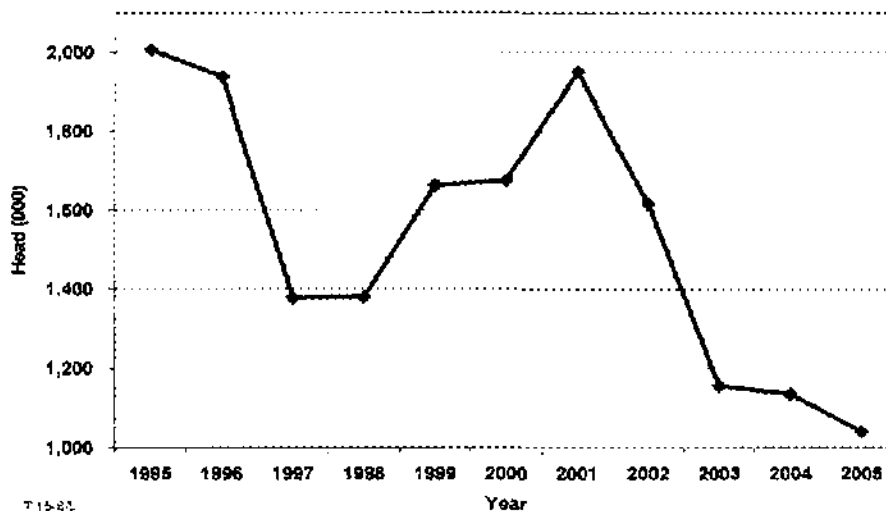


Figure 28. Sheep Purchased on a Carcass Basis

Procurement Methods

Procurement methods used in the purchase of lambs for slaughter are similar to those used for other species and include purchase in spot markets, use of marketing agreements, use of various other forms of advance sales contracts, and packer feeding. Some lamb producers who feed their own lambs market their lambs through a lamb feeding operation or feedlot that has a supply contract agreement with a packer. There are also business arrangements where individuals who have a financial interest in large lamb packing companies also have lamb feeding operations and supply lambs to the packing company. Some producers participate in cooperatives, associations, or pools of lamb producers to collectively market their lambs and lamb products. As with other species, the various procurement methods used for lambs continue to evolve but GIPSA has not observed major changes in the methods during 2006.¹⁸

Use of Commission Firms

Use of commission firms for sale of sheep has followed a downward trend similar to the trends for cattle and hogs (Figure 29). The anticipated number of sheep and lambs marketed through firms selling on commission for 2006 is between 3.2 million and 3.5 million head.

¹⁸ GIPSA provided a more comprehensive description of sheep and lamb procurement methods in *Assessment of the Cattle, Hog, Poultry, and Sheep Industries 2003 Report*, October 2004, <http://archive.gipsa.usda.gov/pubs/packers/assessment/r2-03.pdf>.

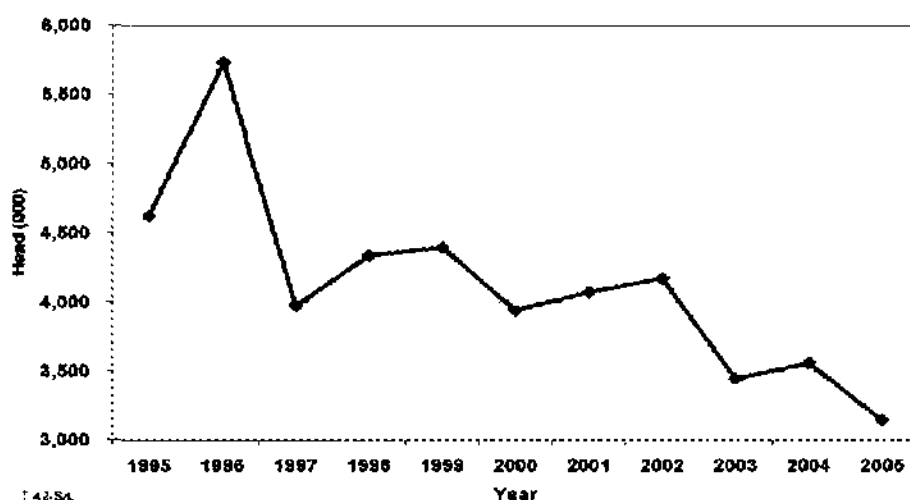


Figure 29. Volume of Sheep Marketed through Firms Selling on a Commission Basis.

E. Poultry Industry

Major Acquisitions, Divestitures and Plant Closures in the Poultry Industry

In 2006, Koch Foods, Inc. purchased Alabama-based broiler processor Sylvest Farms, Inc. ConAgra Foods sold its turkey operations to Carolina Turkeys, and Carolina Turkeys then created a new company, Butterball LLC. Pilgrim's Pride Corporation purchased Gold Kist Inc.

Procurement Methods

The poultry industry has been almost completely vertically integrated for several decades, and the use of spot markets for poultry is virtually nonexistent. Live poultry production is coordinated through production (grow-out) contracts, company-owned farms, and marketing agreements. With production contracts, the integrator (poultry slaughter and processing firm) owns the birds and the feed and provides them to the contract grower. The growers' compensation is based on the services the grower provides including labor, housing, water, and in some cases other purchased inputs. With marketing agreements, growers retain ownership of both the birds and the feed, and growers' compensation is determined by the difference between the stipulated price of the finished product and the cost of producing it. There are no marketing agreements in broiler production, but they are used in turkey production. GIPSA did not observe any major changes in the basic industry structure and procurement methods used in the poultry industry in 2006.¹⁹

Changing Production Technology

Genetic and nutritional improvements in broiler production have increased the efficiency of broiler meat production, but reaching the full genetic and growth potential of broilers requires a controlled environment in the broiler house. Housing construction, equipment, and operating methods affect the

¹⁹ GIPSA provided a more complete description of industry structure and coordination methods for poultry in *Assessment of the Cattle, Hog, Poultry, and Sheep Industries 2003 Report*, October 2004, <http://archive.gipsa.usda.gov/pubs/packers/assessment02-03.pdf>

efficiency of broiler houses. Contract growers continue to face rapidly rising energy costs. Some older houses that are currently structurally capable of growing birds are rapidly becoming "energy obsolete" because of high operating costs. Although modernization of broiler houses may benefit some growers by improving their productivity, the modernization cost of upgrading broiler houses will most likely fall directly on the growers with a possible net negative effect on the cash flow of some broiler operations.

III: Operations or Activities in the Livestock and Poultry Industries that Raise Concerns under the Packers and Stockyards Act

Adequacy of Bonds for Regulated Entities

The Packers and Stockyards Act (P&S Act) provides that the Secretary may require that packers, market agencies, and dealers have a reasonable bond (7USC§204). The regulations under the P&S Act prescribe bond requirements and bonding formulas for packers purchasing over \$500,000 of livestock annually; market agencies buying or selling on commission or acting as clearing agencies; and dealers. These entities must maintain a bond or bond equivalent to protect livestock sellers. The regulation that establishes formulas for computing required bond amounts was last modified in 1983. These bonding formulas do not always provide full coverage to livestock sellers when bonded entities fail financially. Between FY 2000 and FY 2005, sellers who were not paid as a result of financial failures by market agencies selling on commission recovered 31–78 percent of their total claim amounts each year. During the same period, the recovery rate was 8–28 percent for dealers that failed financially. Members of the livestock industry have raised concerns about the adequacy of bonds.

GIPSA Actions: GIPSA implemented a Bonding Task Force, to evaluate and recommend an appropriate course of action on current bond regulations to increase bond recoveries. The Bonding Task Force completed its evaluation of GIPSA's bonding program and submitted recommendations to GIPSA managers for their review and approval. The Task Force identified specific conditions they thought lead to the financial failure of a firm or create financial risk factors that increase likelihood of financial failure. Risk factors were identified for each type of entity (livestock dealer, auction market, or packer) subject to the P&S Act. The task force also proposed using these conditions to make heuristic assessments of firms for required bond amounts. GIPSA extended the approach taken by the task force, using methods that the insurance and financial industries use to calculate "credit ratings," to calculate risk factors that can be used to identify firms most likely to fail. Those risk scores can then serve as criteria to set bond rates. The methods used to estimate this "credit" score have been submitted to independent review for additional assessment. GIPSA is prioritizing its audits based on the preliminary risk assessment to also evaluate the method and potential refinements. GIPSA is also exploring potential bond substitutes such as an indemnity fund.

Delayed Receipt of Annual Reports

Regulations issued under the authority of the P&S Act require that every packer, live poultry dealer, stockyard owner, market agency, and dealer, unless exempt, must file a report annually with GIPSA (9 CFR 201.97).²⁰ Entities that operate on a calendar-year basis generally must file their report not later than April 15. Those that operate on a fiscal-year basis must file their report not later than 90 days after the close of their fiscal year. GIPSA frequently grants extensions of up to 90 days to firms that report difficulty in completing reports by the normal due date. After receiving the reports, GIPSA conducts a report review to ensure data accuracy and completeness. During this process, GIPSA frequently finds it necessary to contact the reporting firms for clarifications or corrections. As a result of delays in receiving reports and the length of time necessary to ensure data are complete and correct, bonding requirements often lag behind actual business volumes, and final data on industry structure and practices are generally not available for public release until significant time has elapsed after the end of a given reporting year.

²⁰ As noted in Section I of this report, since 1977 packers that purchase less than \$500,000 of livestock on an annual basis have been exempt from filing an annual report with GIPSA.

Additionally, the lack of completeness requires knowledgeable auditors and economists to interpret the reports for data entry into electronic systems rather than data entry clerks, substantially increasing costs of data processing for GIPSA.

GIPSA Actions: Although the P&S Act and regulations under the P&S Act require that subject firms file reports, GIPSA has historically relied heavily on voluntary compliance, including granting extensions and working with respondents to correct and complete reports. GIPSA is reviewing alternatives for improving the timeliness and efficiency of Annual Report collection and processing.

Integrator Requirements to Upgrade Broiler Housing Types

A range of poultry housing technologies is currently in use in the broiler industry. Older conventional houses are generally equipped with fans for circulating air and have clear side curtains on the house for ventilation. Older conventional houses are being replaced with broiler houses that use technologies (called tunnel ventilated and cool cell) to enhance the grower's ability to control the birds' environment. This control allows growers to produce birds using less feed with lower chick mortality rates and in turn reduces the integrator's costs of growing broilers. These new houses may also benefit growers by allowing integrators to place more birds per square foot in houses in the summer, increasing output per square foot of house and thus payments to growers.

The adoption of the new technologies requires the grower to make substantial investments in housing improvements or build entirely new broiler houses. In order to encourage growers to adopt these technologies, integrators often offer a higher base pay or a base pay adjustment to growers producing in houses using the improved technologies. These practices may result in different growers receiving different base compensation per pound for producing the same size broiler. Moreover, the growers using improved housing technologies have an advantage in competing with growers using older technologies under the relative performance payment systems used in many broiler contracts.²¹ In addition, more favorable contract terms, such as longer contract length, may be offered to growers using the improved housing technologies but not to growers who retain conventional housing.

GIPSA Actions: Differences in contracts or payments are not prohibited by the Packers and Stockyards Act unless they constitute engaging in or using an unfair or unjustly discriminatory or deceptive practice or device, in commerce, or unless they constitute a making or giving, in commerce, of an undue or unreasonable preference or advantage, or result in undue or unreasonable prejudice or disadvantage as between persons or localities. Integrators may have valid business reasons for requiring upgrades to broiler houses and growers may benefit from increased productivity and reduced growing costs. To constitute a violation of the P&S Act such practices must be shown to result in an adverse impact on competition or that they are likely to produce an adverse competitive impact. Specific examples of practices that potentially could be deemed unfair include:

- Live Poultry Dealers may contract with some of their poultry growers with less advantageous contract terms than those offered their other poultry growers without a justifiable and reasonable business reason.
- Live Poultry Dealers may enter into poultry growing arrangements with poultry growers and subsequently change the terms of the arrangement in a manner that disadvantages growers in follow-on contracts; and

²¹ Under relative performance payment systems, a group of growers receives birds for feeding simultaneously, and payment to an individual grower is in part determined by the cost per pound to the integrator for birds grown by that grower relative to the cost per pound for birds grown by other growers in the group.

- Live Poultry Dealers may abuse their negotiating power by requiring poultry growers already under contract to make significant capital improvements in their operations as a condition for continued placement of chicks, for premium payments, or other benefits, with no guarantee that the growers will continue to be offered contracts or placements of chicks for a period long enough to recover their investment.

GIPSA is actively monitoring developments in this area of concern to determine whether action is warranted, and if so, the nature of the action.

Structural Change and Increased Coordination in Meat Packing

Concerns about increases in concentration and related changes in industry structure, and the perception that these changes are inherently anticompetitive, continue to be among the leading, if not the leading, criticisms of economic efficiency within the livestock and meat industry. Although concentration has stabilized somewhat in recent years in some segments of the livestock and meat industry, continued mergers and acquisitions, plant closings, and plans of leading firms to build new plants all suggest concentration and structural change will continue to be a source of concern. With increasing concentration (share of total market or production at a given stage) there has also been an increase in consolidation of control by individual firms. Consolidation refers to changes that often reduce the number of firms but also increase individual firms' coordination and control of activities across stages of the production and marketing system. Increased cross-stage coordination and control are often associated with use of production contracts, marketing contracts and outright ownership of production operations at another stage in the production and marketing system.

GIPSA Actions: GIPSA has administrative authority in the livestock sector under the P&S Act and acts to ensure that these markets operate competitively. GIPSA does not have authority over mergers and acquisitions but often cooperates with and lends its industry expertise to the Department of Justice (DOJ) in DOJ's review of mergers in the livestock, meatpacking, and poultry industries.

Concentration, vertical integration, and other changes in industry structure may lead GIPSA to focus more attention on particular firms or behavior. However, these industry-wide changes, in and of themselves, are not prohibited by the P&S Act. It is important to note that many of the changes in coordination associated with industry consolidation may also provide for improved performance of the industry. For example, structural change can lead to downstream market alliances to facilitate penetration of retail markets with branded products. Merger and acquisition activity in recent years has increased the market shares of firms with management expertise in supply chain management across channels, including value-added processing and branded product retailing. The capability to increase branded retail products depends on high levels of input supply management to achieve uniform and high levels of packing plant utilization, and production of carcasses that can be processed into uniform retail products.

In fiscal year 2003, GIPSA received \$4.5 million in appropriations for a broad study of marketing practices in the entire livestock and red meat industries from farmers to retailers, food service firms, and exporters. The study is addressing many questions and concerns that have been raised about changes in the structure and business practices in the livestock and meat industries. An award to the Research Triangle Institute (RTI) to conduct the study was announced on June 18, 2004. RTI provided an interim study report, which describes alternative marketing arrangements and their terms, and reasons that industry participants give for using alternative arrangements, on July 28, 2005. The second and final report was submitted to GIPSA in January of 2007. That report describes analysis of prices, costs, efficiency, livestock and meat quality, and of risk levels associated with alternative arrangements, and assesses the implications of potential future changes in the use of various types of marketing arrangements.

Increased consolidation calls for increased vigilance by the P&S program due to the increasingly complex nature of new marketing and procurement practices, and arguably increased potential for anticompetitive behavior. GIPSA will continue to evaluate complaints alleging anticompetitive behavior, including those that arise from concerns about high levels of concentration, such as attempted restriction of competition, failure to compete, buyers acting in concert to purchase livestock, apportionment of territory, price discrimination, price manipulation, and predatory pricing. While GIPSA is not able to direct the form of continuing consolidation and increased coordination, it can and will play a role in helping to ensure that the marketing system operates in a competitive manner to the maximum potential benefit of the industry members and also to the benefit of U.S. food consumers.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 28 1997

The Honorable Richard Cheney
President of the United States Senate
Washington, D.C. 20510

Dear Mr. President:

The Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) amended the Packers and Stockyards Act (P&S Act) of 1921 (7 U.S.C. 181, et seq.) to require the Secretary to submit to Congress an annual assessment of the cattle and hog industries. The amendment reads as follows:

Not later than March 1 of each year, the Secretary shall submit to Congress and make publicly available a report that—

- (1) assesses the general economic state of the cattle and hog industries;
- (2) describes changing business practices in those industries; and
- (3) identifies market operations or activities in those industries that appear to raise concerns under this Act.

This is the Grain Inspection, Packers and Stockyards Administration's (GIPSA) sixth report to Congress on the general economic state of the cattle and hog industries, changing business practices in those industries, and activities that appear to raise concerns under the Packers and Stockyards Act (P&S Act). This report also includes the sheep and lamb industry, and the poultry industry, along with description of operations and activities that appear to raise concerns under the P&S Act.

If you have any questions regarding these issues, please contact James E. Link, Administrator, of GIPSA at 202-720-0219.

An identical letter has been sent to the Speaker of the House of Representatives.

Sincerely,

A handwritten signature in black ink that reads "Mike Johanns".

Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 28 1997

The Honorable Nancy Pelosi
Speaker of the House of Representatives
235 Cannon House Office Building
Washington, D.C. 20515-0508

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Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 14 2007

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20502

Dear Mr. President:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended March 31, 2007.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Johanns". The signature is fluid and cursive, with the first name "Mike" and last name "Johanns" clearly distinguishable.

Mike Johanns
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 14 2007

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

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Mike Johanns
Secretary

Enclosure

Key OIG Accomplishments in This Reporting Period

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	38
Number of Recommendations	172

Management Decisions Made

Number of Reports	25
Number of Recommendations	233

Total Dollar Impact (Millions)

Of Management-Decided Reports.....	\$11.4
<i>Questioned/Unsupported Costs</i>	\$11.3
<i>Funds To Be Put to Better Use</i>	\$0.1

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued155

Impact of Investigations

Indictments	171
Convictions.....	101
Arrests.....	453

Total Dollar Impact (Millions)\$43.5

Administrative Sanctions58

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2006)

- Interagency Communications, Coordination, and Program Integration Need Improvement
Related material can be found on pages 11 and 14.
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed
Related material can be found on pages 5, 12-14, and 16-17.
- Continuing Improvements Needed in Information Technology (IT) Security
Related material can be found on pages 9 and 15.
- Implementation of Improper Payments Information Act Requirements Needs Improvement
Related material can be found on page 16.
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
Related material can be found on pages 1-2.
- Departmentwide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need To Be Strengthened
Related work is ongoing in FY 2007; see page 4.
- USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight
Related material can be found on pages 10-11.

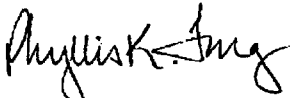
Message From the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), for the 6-month period that ended March 31, 2007. During this reporting period, we conducted successful investigations and audits that led to 453 arrests, 101 convictions, \$43.5 million in recoveries and restitutions, 142 program improvement recommendations, and \$11.4 million in financial recommendations. This report summarizes the most significant OIG activities during the period by our three strategic goals:

- **Safety, Security, and Public Health** – Our audit work determined that the Animal and Plant Health Inspection Service needed to strengthen its policy guidance over agricultural inspection activities and that USDA had successfully implemented key homeland security initiatives and directives. Our investigative work saw convictions or pleas and recoveries related to violations of the Federal Endangered Species Act and food safety laws.
- **Integrity of Benefits and Entitlements Programs** – Our audit work found that indemnity payments of \$2.3 million in a crop insurance pilot program were unsupported and that errors in loss adjustments on crop insurance indemnity payments were made on citrus crops in Florida. Our investigative work resulted in convictions and money recoveries for schemes to defraud the Food Stamp Program, National School Lunch Program, Child and Adult Care Food Program, Market Access Program, and farm and rural development loan programs.
- **Management of Public Resources** – Our audit work found that Forest Service's escalating costs to fight wildfires were largely due to its efforts to protect property in the wildland urban interface and that the Foreign Agricultural Service needed to complete a Global Market Strategy to increase the Nation's agricultural exports. The USDA consolidated financial statements for FY 2006/2005 received an unqualified audit opinion for the fifth consecutive year. In the information technology area, the Office of the Chief Information Officer's Information Technology Services (ITS) received a qualified opinion on its internal control structure and its effectiveness. In our ongoing effort to determine USDA's compliance with Improper Payments Information Act of 2002 (IPIA) requirements, we found that implementation of IPIA needs improvement in two USDA agencies.

While the Department has been a leader in providing support to the Gulf Coast region following the 2005 hurricane season, such large and, by necessity, quick outlays of funds can be subject to increased risk for fraud. In our 18 investigations in Mississippi and Louisiana concerning cases in which USDA agencies were defrauded by individuals to obtain disaster benefits, 37 individuals have been indicted, 9 of whom have pled guilty and been sentenced. Our audits found that unnecessary housing assistance was provided to hurricane victims and that USDA needs a response and recovery plan for future grain transportation disruptions.

These results would not be possible without the strong interest and support of the Secretary, the Deputy Secretary, and the Congress. I speak for the entire OIG in expressing our appreciation for their work to improve the integrity and efficiency of the Department's programs and operations.



Phyllis K. Fong
Inspector General

Contents

Safety, Security, and Public Health	1
Integrity of Benefits and Entitlements Programs	5
Management of Public Resources	9
Gauging the Impact of the OIG	22
Abbreviations of Organizations	38

Safety, Security, and Public Health

OIG Strategic Goal 1:

Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns

To help USDA and the American people meet the critical challenges in safety, security, and public health, it is our responsibility in OIG to provide independent, professional audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, safety of the food supply, and homeland security.

In the first half of fiscal year (FY) 2007, we devoted 17.0 percent of our total audit and investigative direct resources to Goal 1, with 95.0 percent of these resources assigned to critical/high-impact work. A total of 56.3 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 68.4 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued three audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 12 indictments, 12 convictions, and about \$625,716 in monetary results during this reporting period.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

Animal and Plant Health Inspection Service (APHIS) Needs To Strengthen Its Policy Guidance Over U.S. Customs and Border Protection's (CBP) Agricultural Inspection Activities

USDA OIG teamed with the Department of Homeland Security (DHS) OIG to evaluate the post-transition effectiveness of APHIS and CBP in safeguarding U.S. agriculture from incursions by foreign pests and diseases. The audit disclosed that the two Departments had made progress in correcting the deficiencies noted in previous audits, resolving several outstanding recommendations. Based on issues identified in the new review, however, DHS OIG issued several recommendations to CBP to improve operational areas at the ports of entry. In response to USDA OIG recommendations, APHIS agreed to issue policy guidance to clarify CBP's responsibilities for Transportation and Exportation permits that allow prohibited and restricted agricultural commodities to be trans-shipped across the country to foreign destinations and for the handling of seized agricultural products at ports of entry. APHIS also agreed to develop a process to allow both agencies to assess the risk of agricultural products entering the country by rail. In addition, we are

Management Challenges Addressed Under Goal 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2 and 3)
- Continuing Improvements Needed in IT Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- Departmentwide Efforts and Initiatives on GEOs Need To Be Strengthened

working to resolve the remaining recommendations from a previous audit of agricultural inspection activities. (Audit Report No. 33601-07-Ch, Review of CBP's Agriculture Inspection Activities)

Owner and Corporation Plead Guilty to Defrauding Bovine Spongiform Encephalopathy (BSE) Surveillance Program

An Arizona meat processing company and its owner pled guilty in February 2007 to charges of theft of Government funds, mail fraud, and wire fraud. The owner and his company defrauded the BSE Surveillance Program when they falsified BSE Surveillance Data Collection Forms and then submitted payment requests to USDA for the services. In addition to the targeted sample population (those cattle that were more than 30 months old or had other risk factors for BSE), the owner submitted to USDA, or caused to be submitted, BSE obex (brain stem) samples from healthy USDA-inspected cattle. As a result, the owner fraudulently received approximately \$390,000. Sentencing is scheduled for May 2007.

Investigation Uncovers \$5.2 Million in Illegally Exported Fruit

From April 2000 to November 2006, agents and investigators of OIG and APHIS' Investigative and Enforcement Services conducted an investigation into the illegal exportation of apples and stone fruit into Mexico from the United States. In a cooperative effort between the Governments of the United States and Mexico, the investigation identified approximately 480 truckloads of illegally exported fruit valued at over \$5.2 million. The investigation disclosed that seven marketing firms and three freight-forwarding firms conspired to circumvent international treaties and minimum reference price requirements by using counterfeit U.S. Government Phytosanitary Certificates. The counterfeit certificates were used to falsely certify inspections of the illegally exported fruit, the charging of the minimum reference price on apples, the performance of cold treatment (cooling fruit to eliminate the risk of

fruit flies), and an inflated quality grade of stone fruit. The investigation resulted in two criminal convictions, four civil judgments, and asset forfeiture and fines totaling \$95,225.

Meat Processing Plant Agrees To Pay More Than \$100,000 in a Civil Settlement for Falsifying Fat Content in Sausage Products

In October 2006, a former federally inspected facility entered into a settlement agreement with the U.S. Attorney's Office, District of Maine. The agreement required the firm to pay to the United States more than \$100,000 for selling a variety of meat products that exceeded Federal standards for fat content and for falsifying required test results. In April 2004, a former quality assurance manager of the firm was found guilty of obstruction of justice and was sentenced to serve a prison term, followed by supervised release, and ordered to pay a \$3,100 fine.

Texas Businessman Sentenced for Making False Statements and Claims To Obtain USDA Commodity Contracts for Nonfat Dry Milk Valued at More Than \$1.5 Million

In November 2006, an El Paso, Texas, businessman and his company independently pled guilty to making false statements to USDA. The businessman, on behalf of his company, submitted false statements to USDA from October 2003 to November 2004 to obtain contracts to purchase over 1.5 million pounds of nonfat dry milk from the Commodity Credit Corporation (CCC) at a reduced price of \$511,686, a discount of more than \$1 million. By failing to produce the required product for human consumption, the businessman did not fulfill the contract requirements. The company falsely certified that the product was for human consumption and that it was licensed to process products for human consumption. Instead, the milk was used in the production of animal feed. In January 2007, the businessman made the first installment (\$50,000) of a \$100,000 court-ordered forfeiture, and the businessman and his company were sentenced to 36 months of probation. Based on its claim of insolvency, the company was assessed no fine or restitution.

USDA Implements Homeland Security Initiatives and Directives

Our review found that the Department had completed its required actions in implementing sections 17 and 8(b) of Homeland Security Presidential Directive-9. This directive established a national policy to protect the U.S. agriculture and food system in the event of emergencies such as bioterrorist attacks or major disasters. Section 17 requires USDA to make recommendations to the President's Homeland Security Council about financial risk management tools that encourage self-protection for vulnerable agriculture and food enterprises, while section 8(b) emphasizes the need for monitoring and surveillance programs to track commodities.

We also reviewed USDA's role in implementing a requirement of the Public Health Security and Bioterrorism Preparedness Response Act of 2002 that would facilitate the tracing of commodities to the original vendor/facility after a disaster. Although the Act requires the Food and Drug Administration (FDA) to register and monitor such vendors/facilities, we suggested that the Department could play a key role in strengthening the safety and security of this process by providing information to FDA on vendors/facilities that conduct business with the Department but have not registered. (Audit Report No. 50701-2-KC, USDA Homeland Security Initiatives and Directives)

Corporate Shareholder Sentenced for Illegal Sale of Ocelot

As reported last period, in April 2006, an Oregon woman was sentenced to 30 days in prison and ordered to make a \$25,000 community service payment for illegally offering to sell an ocelot, which is protected under the Federal Endangered Species Act. During this period, in January 2007, the shareholder of a California corporation that conducted business with the Oregon woman was sentenced after an August 2006 guilty plea to illegally offering to sell ocelots. The corporate shareowner was sentenced to 24 months of supervised release and ordered to make a \$60,000 community service payment to the Oregon Zoo Endangered Species Justice Fund.

Emergency Response Program

OIG's Emergency Response Program (ERP) consists of two teams with unique missions, the Emergency Response Team (ERT) and the Wildland Fire Investigations Team (WFIT). ERT responds to and investigates threats or attacks against the Nation's food supply, agriculture infrastructure, or USDA interests; and provides expertise to government agencies at all levels. In December 2006, ERT attended AgTerror training in Tennessee, sponsored by DHS in cooperation with Kirkwood Community College. Members were certified by DHS to conduct AgTerror awareness training. Also in December 2006, the team participated in advanced Crime Scene Processing training, using agriculture-related scenarios.

During this reporting period, members of ERT worked closely with and participated on the FBI's Joint Terrorism Task Forces, the FBI-sponsored Agro-Terrorism Working Groups, and the U.S. Attorney's Offices' Anti-Terrorism Advisory Councils. In addition, members of the ERT regularly participated in working groups with State and local law enforcement agencies and first responders to educate and foster cooperation to ensure the safety of the Nation's crops and food supply. ERT members provided presentations to task forces and working groups on its role in an agricultural event and participated in tabletop exercises to prepare for such an event.

OIG is mandated by law to investigate any Forest Service (FS) firefighter deaths caused by wildfire entrapment or burnover and report to Congress and the Secretary of Agriculture on the results. Participation on WFIT is a collateral duty for team members and requires a great deal of commitment due to the unique training requirements of the position. Members undergo extensive training that includes attending the Basic Fire Academy located in Boise, Idaho. The Basic Fire Academy incorporates training in Incident Command, Basic Wildfire Suppression Orientation, Firefighter Training, and Introduction to Wildland Fire. In addition, WFIT members attend the National Wildfire Investigation Training Program, conducted by the Federal Law Enforcement Training Center, as well as the Bureau of Land Management's Serious Accident Investigation Training. In October 2006, the Esperanza Wildland Fire in California resulted in the deaths of five FS firefighters by entrapment or burnover. The WFIT investigation of these firefighter deaths is ongoing.

GOVERNMENTWIDE ACTIVITIES - GOAL 1

Participation on Committees, Working Groups, and Task Forces

- An OIG investigator is serving on the Maryland Agriculture Working Group, sponsored by the Federal Bureau of Investigation's (FBI) Weapons of Mass Destruction coordinator for the Baltimore Division. The group consists of law enforcement, emergency management, and public safety officials from Federal, State, and local governments within the FBI's Baltimore investigative jurisdiction (Maryland and Delaware). The group is writing a communications plan to assist in coordinating and responding locally to a food and/or agriculture event of significance.
- An OIG investigator is assigned to the FBI's National Joint Terrorism Task Force (NJTF). The agent attends the NJTF threat briefings and provides a variety of products related to terrorist intelligence to OIG and other agencies and offices within the Department.
- During the reporting period, the Inspector General (IG) and OIG staff participated in the President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable. Since June 2005, the roundtable, consisting of members from the inspector general community, has met to discuss a variety of matters related to homeland security. Ongoing OIG audit and investigative efforts related to Hurricane Katrina have been coordinated through the roundtable. We have benefited from sharing information and identifying best practices, offered suggestions for a revised roundtable charter, and nominated several topics for future joint projects.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

Topics that will be covered in ongoing or planned reviews under Goal 1 include:

- Farm Service Agency's (FSA) port approval and inspection process,
- Food Safety and Inspection Service (FSIS) meat, poultry, and egg product inspections in Puerto Rico,
- egg processing inspection (FSIS),
- controls over APHIS pilot certifications,
- controls over permits to import agricultural products (APHIS),
- USDA's controls over the importation and movement of live animals (APHIS),
- USDA's implementation of the national strategy for pandemic influenza (APHIS as lead),
- avian influenza testing laboratories' compliance with policies and procedures (APHIS),
- soundness of BSE maintenance sampling (APHIS),
- determination of actionable (nonexistent or rare in the United States) foreign pests (APHIS),
- FSIS' Management Control System,
- FSIS risk-based inspection,
- implementation of Performance-Based Inspection System enhancements for specified risk material (SRM) violations and improved inspection controls over SRMs (FSIS and APHIS),
- National Residue Program in cull cow plants (FSIS),
- Animal Care inspection of breeders (APHIS),
- fresh product grading and certification (Agricultural Marketing Service (AMS)),
- oversight of the National Organic Program (AMS),
- followup on APHIS licensing of animal exhibitors,
- implementation of flood-control dam rehabilitation (Natural Resources Conservation Service (NRCS)),
- USDA progress in enhancing agricultural biosecurity through diagnostic and reporting networks (APHIS, FSIS, and Cooperative State Research, Education, and Extension Service (CSREES)),
- USDA's role in the export of genetically engineered agricultural commodities (Foreign Agricultural Service (FAS), Grain Inspection, Packers and Stockyards Administration (GIPSA), APHIS, and AMS), and
- USDA controls over genetically engineered animals/insect research (APHIS and Agricultural Research Service (ARS)).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

Integrity of Benefits and Entitlements Programs

OIG Strategic Goal 2:

Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals

OIG conducts audits and investigations to ensure or restore integrity in the various benefits and entitlements programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. The size of these programs is daunting: the Food Stamp Program (FSP) alone accounts for nearly \$32 billion in benefits annually, while over \$20 billion annually is spent on USDA farm programs. Their intended beneficiaries include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and producers. These programs support nutrition, farm production, and rural development. A good deal of our ongoing work in Goal 2 is expected to come to fruition in the second half of FY 2007.

In the first half of FY 2007, we devoted 47.5 percent of our total audit and investigative direct resources to Goal 2, with 87.1 percent of these resources assigned to critical/high-impact work. A total of 91.9 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 78.8 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 13 audit reports under Goal 2 during this reporting period. However, there are several

additional audits in this area that were ongoing during this period and should be issued in the next reporting period. OIG investigations under Goal 2 yielded 104 indictments, 74 convictions, and about \$41.5 million in monetary results during the reporting period.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Adjusted Gross Revenue (AGR) Program Indemnity Payments of \$2.3 Million Unsupported

The Risk Management Agency's (RMA) AGR Program is a nontraditional crop insurance pilot program in which producers insure their farm revenue against losses caused by natural disasters and market fluctuations. During insurance years 2002 and 2003, 9 insurance providers in 18 States paid AGR indemnities of about \$24 million. We reviewed 11 claims paid by 5 providers and found that 4 of the providers either had issued policies to producers whose eligibility was unsupported or paid indemnities for unsupported loss claims totaling \$2.3 million. The deficiencies were not noted or detected by the underwriting review, the loss adjustor review, or the providers' quality control review prescribed by the Standard Reinsurance Agreement. Providers misunderstood, misinterpreted, or overlooked requirements for obtaining required documents or conducting adequate reviews.

Management Challenges Addressed Under Goal 2

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1 and 3)
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed (also under Goal 3)
- USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight (also under Goal 3)

Furthermore, RMA program managers were unaware of the deficiencies. In response to our audit, on February 15, 2007, RMA issued a notice to advise insurance providers of the unacceptable documents that have been used and to clarify what documents are acceptable for substantiating AGR policies and claims. RMA agreed to analyze and, if appropriate, seek recovery of the questioned indemnity payments. RMA will also ensure that review of the policyholder files for pilot programs will be included in its National Operations Reviews. (Audit Report No. 05601-4-SF, RMA AGR Program)

Loss Adjustment Errors Made on Citrus Crops in Florida

During 2004, Hurricanes Charley, Frances, and Jeanne in Florida resulted in crop insurance indemnity payments totaling \$50 million for 1,144 citrus claims. Of the 21 citrus indemnity payments reviewed, totaling \$10.3 million, approved insurance providers who administered the claims made loss adjustment errors on 15 claims that resulted in \$325,943 in overpayments and \$89,767 in underpayments. Loss adjusters did not always (1) verify crops' insurability, (2) verify the number of trees, (3) verify crops' risk class, (4) exclude production from uninsured acres, (5) sample trees from all groves, (6) appraise early and mid-season oranges separately, (7) compute claims correctly, or (8) use correct data when calculating claims. RMA agreed to review the erroneous loss adjustment determinations and collect any monies owed from the responsible insurance provider. (Audit Report No. 05099-27-At, *Citrus Indemnity Determinations Made for 2004 Hurricane Damages in Florida*)

Food Stamp Cases Yield Significant Jail Time and Restitution

OIG concluded a number of food stamp trafficking cases this reporting period that resulted in significant jail sentences and restitution:

- In October 2006, the owner of a Chicago grocery store was sentenced in U.S. District Court, Northern District of Illinois, to serve 57 months of incarceration, and

ordered to pay \$4.9 million in restitution and forfeit \$2.5 million in assets for food stamp trafficking. The grocery store owner was barred from participation in FSP for life. From January 1997 to August 2002, the grocery store owner and the store's manager were involved in a food stamp benefit trafficking scheme that resulted in a potential loss to USDA of approximately \$7 million.

- In October 2006, three individuals were ordered to pay a total of \$1.1 million in restitution for their role in committing food stamp trafficking via the Electronic Benefit Transfer (EBT) system by discounting large amounts of EBT benefits for cash at a Newark, New Jersey, grocery store. One individual received 21 months of incarceration and the other two received probation for a term of 36 months each. This investigation was worked jointly with the U.S. Secret Service (USSS).
- In November 2006, a Philadelphia man was sentenced in U.S. District Court, Eastern District of Pennsylvania, to serve 36 months in prison and 36 months of probation, and was ordered to pay \$510,658 in restitution. The man and his family had made false statements to numerous Government agencies to receive more than \$500,000 in food stamps, cash assistance, and medical benefits from August 1998 through January 2006. This investigation was worked jointly with USSS, the U.S. Postal Inspection Service, and the Internal Revenue Service's (IRS) Criminal Investigation (CI).
- In October 2006, two owners and an employee of a Houston grocery store were sentenced in U.S. District Court, Southern District of Texas, for food stamp trafficking. The two owners were sentenced to serve 37 months of imprisonment and ordered to jointly pay \$421,025 in restitution. The judge also signed Preliminary Orders of Forfeiture for two sport utility vehicles valued at approximately \$38,000. The store employee was sentenced to serve 15 months of imprisonment and ordered to pay \$1,859 in restitution. The owners and the employee had discounted EBT benefits for cash. This investigation was worked jointly with USSS.

- In January 2007, a Newark, New Jersey, food store manager was sentenced to 33 months of imprisonment, to be followed by 24 months of supervised release, for food stamp trafficking. In February 2007, a store employee was sentenced to 36 months of probation, to include 6 months of home confinement. They were ordered to pay restitution of \$248,147 to USDA. From May 1998 to June 1999, the store redeemed more than \$2.8 million in FSP benefits, most of which were fraudulent. In 2004, the store manager and employee were indicted in the District of New Jersey and charged with conspiracy to traffic in food stamp benefits. The manager then fled to the Dominican Republic until mid-2005, when he was extradited to the United States to face the charges. Both subjects subsequently entered guilty pleas.

New Jersey School Agrees To Pay \$1.3 Million for Committing National School Lunch Program (NSLP) Fraud

In October 2006, a civil settlement agreement was reached with a Lakewood charter school and the U.S. Attorney's Office, District of New Jersey. The school agreed not to seek reimbursement for \$895,550 in claims being held in a suspense account and agreed to pay an additional \$400,000 for losses to NSLP, a total of \$1,295,550 altogether. From 1996 to 2000, the school had defrauded NSLP of approximately \$1.3 million by submitting numerous false certifications to New Jersey's Bureau of Child Nutrition regarding student participation levels in NSLP.

Day Care Facility Owner in Louisiana Sentenced to Federal Prison, Ordered To Pay \$617,057 in Restitution for Child and Adult Care Food Program (CACFP) Fraud

In November 2006, the owner of a daycare facility in Monroe, Louisiana, was sentenced in U.S. District Court, Western District of Louisiana, to 87 months in prison, ordered to pay \$617,057 in restitution, and fined \$4,700. In July 2006, after pleading guilty to two counts of mail fraud and one count of false statements, a manager of the facility had been sentenced to 60 months of probation, ordered to pay \$142,143 in restitution, and fined \$300. From December 2003 through February 2004, the owner and the manager submitted three false claims to the

Louisiana Department of Education for reimbursements in connection with CACFP.

Two Pet Product Companies Agree To Pay \$736,000 for Ineligible Receipt of Market Access Program (MAP) Funds

In December 2006, two pet product companies agreed to a \$736,000 civil settlement with the U.S. Attorney's Office, Eastern District of Pennsylvania, after they received approximately \$600,000 in MAP funds for which they were not eligible. MAP funds are distributed by FAS to promote worldwide use and sale of agricultural products by U.S. small businesses, and companies must meet the Small Business Administration's definitions of "small business." In this case, the companies are affiliated, and the larger company employs more than 2,300 people with yearly revenues approaching \$1 billion, thereby making the first company ineligible to receive MAP funds.

Georgia Producer Ordered To Pay \$112,741 for Conversion of Mortgaged Property

In December 2006, a producer in Lenox, Georgia, was sentenced in U.S. District Court, Middle District of Georgia, to 18 months of imprisonment and ordered to pay \$112,741 in restitution for conversion of mortgaged property. In May 2002, the producer received a farm-operating loan from FSA secured with the producer's cotton, grape, peanut, and wheat crops. The producer harvested the crops and converted approximately \$74,000 in sales proceeds to his own use.

Oklahoma Man Sentenced to Prison, Ordered To Pay \$3.8 Million in Restitution for Obtaining Loans Using Falsified Documents

In January 2007, a former chief financial officer for an Okemah manufacturing company was sentenced in U.S. District Court, Northern District of Oklahoma, to 40 months of imprisonment and 60 months of supervised release, and ordered to pay \$3.8 million in restitution for obtaining Rural Development (RD) loans using falsified documents. The individual fraudulently obtained a \$2.9 million USDA-guaranteed loan and a \$2 million line of credit loan from a bank in Stillwater, Oklahoma, as well as a loan from another bank in Nowata, Oklahoma, for \$275,000. In January 2005, USDA paid the bank in Stillwater \$1.8 million as a result of the defaulted loans.

GOVERNMENTWIDE ACTIVITIES – GOAL 2

Participation on Committees, Working Groups, and Task Forces

- OIG continues to work with the PCIE and Department of Homeland Security (DHS) Working Groups to coordinate investigative efforts related to Hurricanes Katrina and Rita. OIG investigators worked to coordinate a request from the U.S. Department of Housing and Urban Development (HUD) OIG to enter into a computer-matching agreement with the Rural Housing Service (RHS) to identify improper and fraudulent disaster assistance payments, similar to the agreement in place between HUD and DHS' Federal Emergency Management Agency (FEMA).
- OIG investigators are participating in a task force to investigate criminal violations of FSP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Members include the Michigan State Police and IRS Criminal Investigation. The FBI and DHS' Immigration and Customs Enforcement have provided assistance during warrant operations. The initiative has resulted in numerous warrant operations, guilty pleas, and forfeitures of proceeds directly linked to trafficking in EBT and WIC benefits. The task force is expected to continue through FY 2008.
- An OIG investigator has been working with the FBI's Safe Streets Task Force in Indianapolis, Indiana, since 2000. The mission of the task force is to deter street gang and drug-related violence, as well as seek the most significant fugitives wanted for crimes of violence through long-term, proactive, and coordinated teams of Federal, State, and local law enforcement officers and prosecutors.
- An OIG investigator is participating on the Ohio Organized Crime Investigations Commission (OOCIC) Task Force in Dayton. OOCIC provides assistance to local law enforcement agencies in the investigation of organized criminal activity. OIG investigators have participated in the OOCIC Dayton Task Force since 1996 and have conducted investigations involving welfare recipients, food stamp trafficking, mortgaged farm equipment stolen from farmers, stolen property trafficking, and dog-fighting.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

Topics that will be covered in ongoing or planned reviews under Goal 2 include:

- continued monitoring of EBT implementation (Food and Nutrition Service (FNS)),
- Summer Food Service Program (FNS),
- WIC in Puerto Rico (FNS),
- Food Stamp Employment and Training Program (FNS),
- Child and Adult Care Food Program (FNS),
- food stamp retailer authorizations (FNS),
- FNS oversight of the National School Lunch Program,
- WIC vendor monitoring (FNS),
- Disaster Food Stamp Program for Hurricanes Katrina, Rita, and Wilma (FNS),
- crop loss and quality adjustments for aflatoxin-infected corn (RMA),
- Asian soybean rust claims (RMA),
- group risk crop insurance (RMA),
- catastrophic crop underwriting (RMA),
- prevented planting policy provisions (RMA),
- penalties assessed for inaccurate reporting of crop insurance acreage (RMA),
- implementation of \$500,000 claim decision process (RMA),
- Citrus Canker Eradication Compensation and Insurance Program (APHIS and RMA),
- implementation of the Tobacco Transition Payment (Tobacco Buyout) Program (FSA),
- programmatic treatment of crop base on land included in conservation easements (FSA and NRCS),
- interest assistance on guaranteed farm loans (FSA),
- adjusted gross income limitation (NRCS),
- emergency loan assistance (FSA),
- effectiveness of status reviews in assessing producer compliance with conservation provisions (NRCS and FSA),
- price support provisions for pulse crops (seeds of legumes used as food) (FSA),
- Conservation Security Program (NRCS), and
- Farm and Ranch Lands Protection Program – nationwide selected nongovernmental organization (NRCS).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

Management of Public Resources

OIG Strategic Goal 3:

Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources

OIG conducts audits and investigations that focus on, for example, improved financial management and accountability, IT security and management, protection of public assets, employee corruption, natural resources, research, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with \$128 billion in public resources annually and hundreds of billions of dollars more in fixed assets such as the 192 million acres of national forests and wetlands. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains.

In the first half of FY 2007, we devoted 35.5 percent of our total audit and investigative direct resources to

Goal 3, with 96.9 percent of these resources assigned to critical/high-impact work. A total of 93.1 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 65.6 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 22 audit reports under Goal 3 during this reporting period. OIG investigations under Goal 3 yielded 55 indictments, 15 convictions, and about \$1.4 million in monetary results during the reporting period.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

FY 2006 Office of the Chief Information Officer (OCIO) Information Technology Services (ITS) General Controls Review

Our report contained a qualified opinion on the ITS internal control structure and its effectiveness, and we believe the findings constitute a material internal control weakness to be reported in the agencies' (FSA, NRCS, and RD) Federal Managers' Financial Integrity Act reports. ITS has begun to implement controls over the weaknesses we identified.

We recommended that ITS ensure that security plans, risk assessments, contingency plans, and disaster recovery

Management Challenges Addressed Under Goal 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1 and 2)
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Implementation of Improper Payments Information Act Requirements Needs Improvement
- USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight (also under Goal 2)

plans meet Office of Management and Budget (OMB), National Institute of Standards and Technology (NIST), and Departmental requirements and be updated after major system changes. In addition, we recommended ITS ensure that effective centralized change management, backup/recovery and vulnerability remediation, security incident handling, physical security, and security clearance and hardware maintenance processes are in place and operational in accordance with OMB and NIST guidance. We also recommended that inventory records be adequately maintained and Service Level Agreements contain all information required by NIST. Further, we recommended that ITS effectively test, monitor, and audit backup/recovery procedures and ensure that automatic notification of backups are turned on and reviewed weekly; develop interconnection security agreements for all third-party connections to the network that conform to NIST and OMB guidance; ensure timely removal of separated employees as well as the creation, modification, and deletion of user accounts commensurate with their job responsibilities; and update all computer equipment with the latest security patches. The agencies generally agreed with our recommendations and are taking corrective actions. (Audit Report No. 88501-7-FM, General Controls Review – FY 2006 OCIO ITS)

OIG's Continuing Response to the Gulf Coast Region Hurricanes

In our last two semiannual reports, we have highlighted OIG's continuing role with respect to Federal recovery efforts in the Gulf Coast region after Hurricanes Katrina and Rita. OIG auditors have several ongoing or planned reviews related to the hurricanes (see the end of this section on Goal 3). OIG continues to work with the President's Council on Integrity and Efficiency and DHS Working Groups to coordinate investigative efforts, maximize resources, and prevent duplicative work.

- OIG special agents working Hurricane Katrina Fraud Task Force investigations continue to receive referrals throughout the country on individuals who have submitted false claims or provided false statements to obtain Federal benefits. As hurricane reconstruction efforts proceed, OIG has begun receiving investigative

referrals from FSA and RD that involve larger monetary amounts of fraud or theft and more complex fraud cases. To date, OIG has conducted 18 investigations in Mississippi and Louisiana concerning cases in which FNS, FSA, and RD have been defrauded by individuals to obtain Hurricane Katrina disaster benefits. From October 1, 2006, through February 6, 2007, 37 individuals were indicted, 9 of whom have pled guilty and received sentences ranging from 24 months of probation to 12 months of incarceration. All of those sentenced were ordered to pay restitution, ranging from \$2,000 to \$13,400.

- In one fraud case, in January 2007, a woman was sentenced in U.S. District Court, Southern District of Illinois, to serve 48 months in Federal prison, followed by 36 months of supervised release, and was ordered to pay \$23,982 in restitution and a \$1,100 fine. The woman had obtained \$23,000 in Hurricane Katrina housing, food stamp, and cash assistance to which she was not entitled. She had also falsely claimed to have lost two children in Hurricane Katrina. The woman pled guilty in October 2006 to mail fraud and false statements.
- Unnecessary Housing Assistance Provided to Hurricane Victims: In an audit focusing primarily on the \$54 million in loan and grant funds being disbursed to repair hurricane damage, we found that RHS and other Federal agencies had not coordinated activities to prevent the duplication of Government housing assistance to victims. In addition, RHS had not required victims to provide information about damage reimbursement from insurance companies and assistance from charitable organizations, resulting in some victims receiving assistance from both RHS and other sources.

Our review disclosed about \$320,000 in emergency grant funds were awarded for non-disaster repairs; almost \$70,000 were provided to victims for repairs and improvements not related to health, safety, or handicap accessibility; and unlicensed contractors were employed to repair almost \$210,000 in damage. Moreover, disaster funds were vulnerable to misuse at

some field offices because loan and grant applications were received, reviewed, and approved by the same employee. Finally, RHS had not determined the number of agency loan accounts in jeopardy of default, or the costs associated with uninhabitable properties that likely needed to be destroyed.

We recommended that for future disasters RHS coordinate assistance with other Federal agencies, obtain a formal Office of the General Counsel (OGC) opinion regarding the proper use of disaster funds before distribution, require applicants to disclose assistance received from insurance companies and charitable organizations, and monitor field activities immediately after a disaster. (Audit Report No. 04601-15-Ch, Controls Over Single Family Housing (SFH) Funds Provided for Hurricane Relief Efforts)

- **USDA Needs Response and Recovery Plan for Future Grain Transportation Disruptions:** OIG found that USDA needed a response and recovery plan to relieve disaster transportation congestion. After Hurricanes Rita and Katrina, USDA developed four initiatives to alleviate transportation congestion on the Mississippi River: providing grants for moving damaged corn from New Orleans, promoting alternative warehouse storage, moving agricultural commodities through other regions, and encouraging the unloading of commodities that were left on barges in the New Orleans area. FSA implemented the initiatives and provided monetary assistance through CCC.

Due to the urgency of the situation, USDA initially used ad hoc procedures to negotiate noncompetitive agreements, and awarded three noncompetitive grants for alternative grain storage and barge movement projects to two companies. However, those verbal agreements lacked transparency and competition to minimize costs and ensure relief to all affected companies. The noncompetitive agreements had notably higher rates than those for similar services later solicited through competitive bidding—the differences totaled \$5.6 million. Of the \$38.75 million USDA authorized to fund the initiatives, \$22.7 million was

disbursed. USDA incurred additional expenditures by awarding noncompetitive grants, even though a substantial amount of the maximum available funds went unobligated.

In response to audit recommendations, the FSA Administrator agreed to coordinate with the Under Secretary for Farm and Foreign Agricultural Services, industry stakeholders, and other involved USDA and Federal agencies to develop and formalize a response and recovery plan for disruptions to the grain transportation and storage system. (Audit Reports Nos. 03601-21-KC and 03601-22-KC, Hurricane Relief Initiatives: Barge Movement and Alternative Storage Agreements)

Review of FY 2005 Congressional Earmarks

In response to a congressional request, our review determined that in FY 2005 the Department had 1,167 congressional earmarks (funds designated for specific projects), totaling \$1,338,873,451. We also found that the Department did not have a formal process for compiling earmark fund totals and dollar amounts that are reported to the Secretary. Because OMB has recently issued guidance concerning the treatment of earmark funds, we did not make any recommendations. (Audit Report No. 50601-15-Te, Review of FY 2005 Congressional Earmarks)

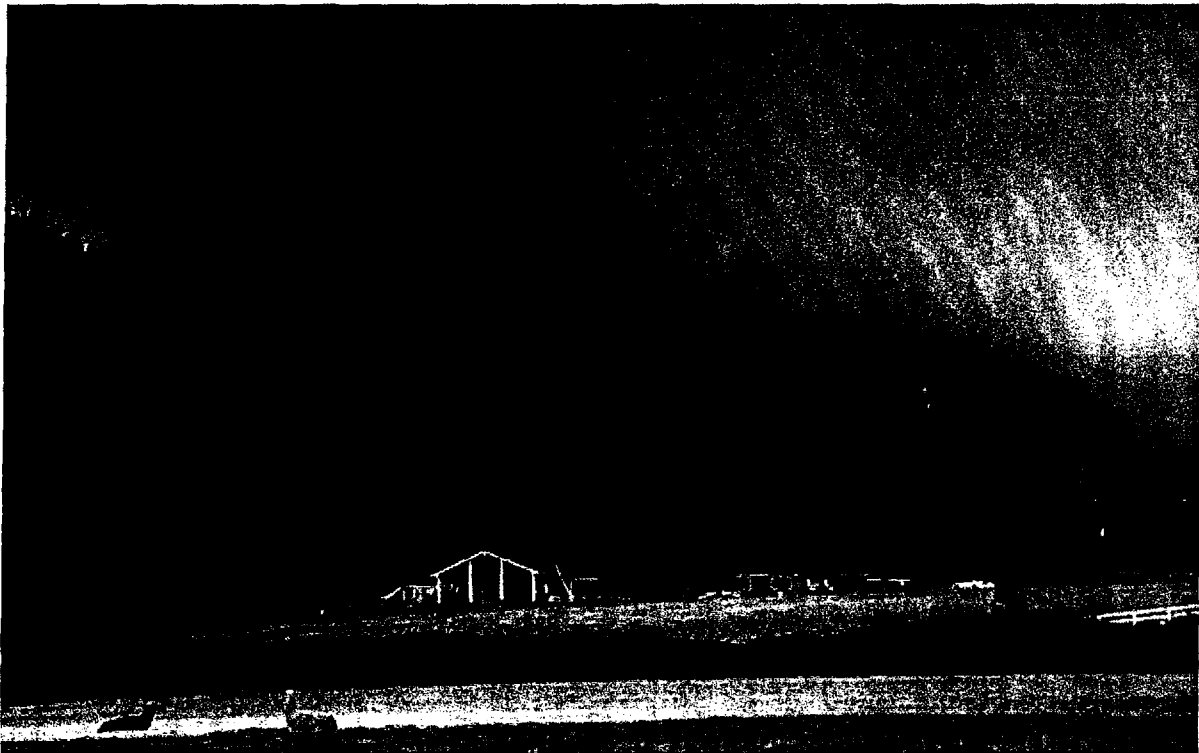
Saving the Chesapeake Bay Watershed Requires Better Coordination of Environmental and Agricultural Resources

This joint U.S. Environmental Protection Agency (EPA) OIG and USDA OIG review found that EPA must improve its coordination and collaboration with its bay partners and the agricultural community to better reduce nutrients and sediment entering the Chesapeake Bay watershed. USDA, a bay partner at the Federal level, could significantly assist EPA in implementing the needed conservation practices within the agricultural community, given its many conservation programs, extensive field organization, and long experience working with the agricultural community. However, USDA has not coordinated such a Departmentwide strategy or policy.

Responding expeditiously to our recommendations, USDA assigned a senior-level official – the Under Secretary for Natural Resources and Environment – to coordinate with EPA's Chesapeake Bay Program. He will direct and coordinate goals and programs across USDA mission areas and agencies. The Department also agreed to direct agencies to expedite the development and implementation of outcome-based performance measurements to evaluate the effectiveness of their conservation efforts and programs. Further, the Secretary's announcement of USDA's 2007 Farm Bill proposals included the creation of a new Regional Water Enhancement Program, focusing on cooperative approaches to enhancing water quantity and/or quality on a regional scale, which we anticipate will explore the feasibility of targeting USDA funds geographically. (Audit Report No. 50601-10-HQ, Saving the Chesapeake Bay Watershed Requires Better Coordination of Environmental and Agricultural Resources)

Without Major Changes, Large-Fire Suppression Costs Will Continue To Escalate

Our review concluded that FS's escalating costs to fight wildfires are largely due to its efforts to protect private property in the wildland urban interface (WUI) where private homes border FS lands. From FY 2000 to FY 2006, FS suppression costs averaged \$900 million annually and exceeded \$1 billion in 4 of those years. In some years, FS borrowed funds from other programs to pay for its wildfire suppression activities, adversely affecting FS' ability to accomplish work in other areas. Public expectations and uncertainties among Federal, State, and local fire management agencies about roles and responsibilities compel FS to suppress fires aggressively and at great expense when private property is at risk, even when there is little threat to National Forest System lands. Approximately 85 percent of WUI acreage is on non-Federal lands, but FS bears the majority of WUI protection costs, thus incurring



A home in the WUI being threatened by wildfire. FS photo.

50 to 100 percent of its large wildfire expenditures. Efforts to reduce these costs need to include more equitable burden-sharing with State and local governments who have the authority to regulate growth in WUI.

In addition, FS needs to modify its policies that unduly restrict the use of fire to reduce hazardous fuels (brush, dead trees) on FS land. The agency may also lack enough specialized personnel needed to take advantage of such opportunities. Further, FS lacked effective cost-containment controls: Managers' and incident commanders' decisions and oversight were neither tracked nor evaluated, agency performance measures and reporting mechanisms did not adequately allow FS management to assess the effectiveness of its wildfire suppression cost-containment efforts, and cost-containment reviews had limited effectiveness. FS concurred and is implementing corrective actions. (Audit Report No. 08601-44-SF, FS Large-Fire Suppression Costs)

FS Needs To Improve How It Conveys Excess Property

To help FS reduce its deferred maintenance backlog, Congress authorized the agency to sell surplus properties. We found that (1) FS' process for identifying excess properties and nominating them for sale was slow and could not ensure that all such properties were identified and nominated for the conveyance program and (2) FS was taking about 2 years to complete the conveyance process once sites were approved. Because properties with structures are not being maintained during this time, they continue to deteriorate and lose value. We concluded that FS could improve its procedures for timely identifying, nominating, and completing conveyance sales. Further, we found that FS needed to evaluate its marketing practices because it limited how it offered properties, both in terms of where it advertised and how long it left properties on the market. As a result, the agency may have sold 8 of 38 properties for a total of \$648,497 beneath the estimated market value of \$5.2 million. In addition, FS did not determine the most cost-effective marketing methods that are best

sued for the agency and will obtain the best prices for the property. FS agreed with our conclusions and agreed to take prompt corrective action. (Audit Report No. 08001-1-At, Implementation of the Capital Improvement Program)

FS' Controls Over Fleet Credit Cards Need Improvement

FS maintains USDA's largest vehicle fleet and assigns a fleet credit card to each vehicle. This card is used to fuel and (in emergencies) maintain the vehicles. FS personnel charged \$48 million to these cards in FYs 2004 and 2005. We found that FS lacked adequate control over use of these cards and, therefore, was unaware of approximately \$3.7 million in unsupported charges.

The agency relied on an automated control system, the Purchase Card Management System (PCMS). However, users of fleet credit cards were not required to keep receipts for non-fuel expenditures nor did they record odometer readings when they purchased fuel, actions necessary to verify the appropriateness of the purchases. In addition, FS employees were not using many of the controls PCMS offered, such as establishing reasonable profiles on each credit card to alert them of unusual transactions. Consequently, users charged \$2.5 million in non-fuel transactions, of which \$1.3 million was categorized as "miscellaneous," "null," and "unassigned." In addition, users purchasing prohibited premium and mid-grade fuels spent an estimated \$201,581 above the cost of regular unleaded fuel. Approximately \$2.1 million of the \$3.7 million in unsupported charges was charged to 1,871 fleet credit cards not assigned to a vehicle, violating USDA regulations and making it more difficult to assess the validity of expenditures.

FS agreed to (1) conduct management reviews of the fleet credit card operations, (2) strengthen controls over fleet credit cards and how PCMS is used to monitor those cards, and (3) require that receipts for non-fuel transactions be submitted for verification. (Audit Report No. 08601-3-Te, Controls Over FS Vehicle Fuel and Maintenance Costs)

FAS Needs To Engineer a Global Market Strategy To Improve U.S. Competitiveness in World Agricultural Export Markets

Our review determined that FAS had timely implemented 10 of the 13 provisions impacting international trade of agricultural commodities contained in the 2002 Farm Bill and improved the operation of its food aid programs in accordance with the recommendations of the 2002 President's Management Agenda (PMA). However, the agency has not developed a business process to complete a Global Market Strategy to increase the Nation's agricultural exports. From 1990 to 2005, the dollar value of U.S. exports rose by 39 percent, but larger export gains by foreign competitors eroded the United States' market share of global exports by 32 percent.

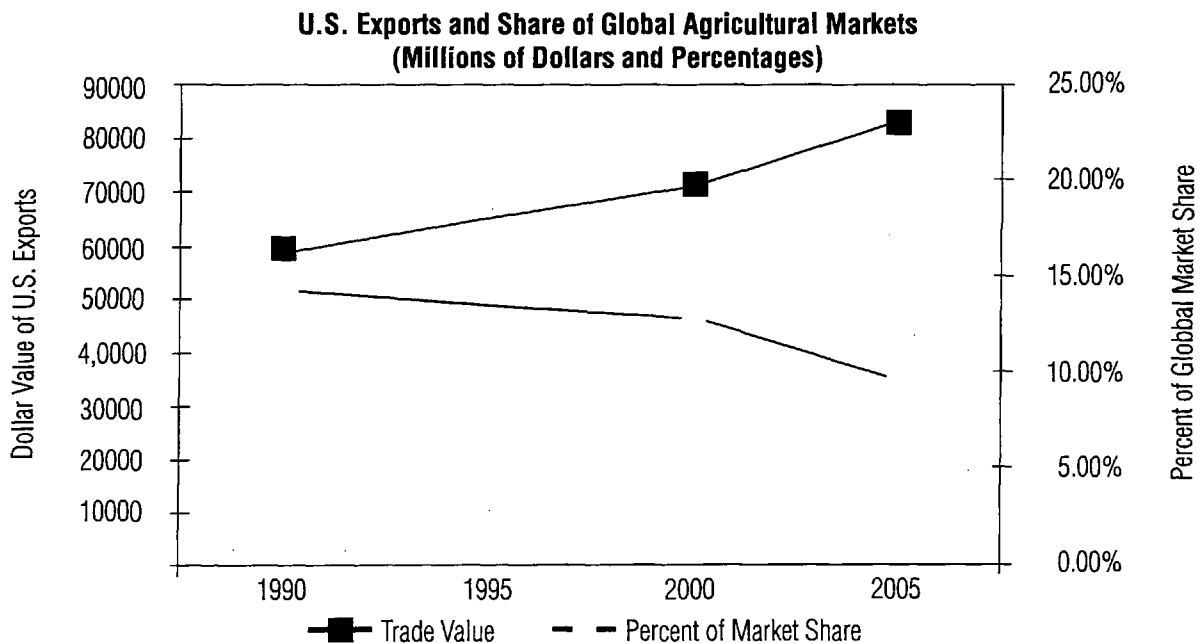
In addition, FAS lacks a standardized definition to distinguish unprocessed bulk farm commodities from high-value and processed products, to ensure that the agency targets 35 percent of its export credit guarantee program funds to support exports of high-value and processed products. Finally, FAS needs to complete outcome-oriented performance measures and its planned food aid information system to provide meaningful evaluation reports on the agency's efforts to achieve the legislated performance goals of its food aid programs. We recommended that FAS develop business processes to integrate agency reviews, analyses, and

other strategic information; clarify its definitions for bulk, high-value, and processed products; and adopt uniform outcome-based performance measures and implement its food aid information system. (Audit Report No. 50601-12-At, Implementation of Trade Title of 2002 Farm Bill and PMA)

FAS Trade Promotion Operations

In August 2006, three Members of Congress asked OIG to perform an expedited review of the FAS programs designed to foster expanded agricultural trade, determine how trade information is collected and disseminated to interested U.S. organizations, ascertain how FAS interacts with the U.S. Trade Representative, discuss linkages between USDA accomplishments for promoting exports with the National Export Strategy, and discuss the effectiveness of the Market Access Program (MAP).

We found that FAS does not formally track its efforts to expand trade activities in exporting U.S. agricultural products, nor does it have a mechanism for summarizing trade barrier information. The 2006 National Export Strategy submitted to Congress by the Secretary of Commerce did not present USDA's annual accomplishments for promoting the export of U.S. agricultural products, nor did it relate information to USDA's Performance and Accountability Report. Looking at the use of MAP funds in



Source: World Trade Organization International Trade Statistics and OIG Analysis

the Philippines, we found that as of September 2006, three participants in that country received more than \$780,000 in MAP funds during FY 2005 and requested more than \$609,000 for FY 2006. However, program evaluations, as prescribed by the MAP regulations, were not done.

FAS generally agreed with our five recommendations, but provided specific information on how it would implement only two of them. We will continue to work with the agency on the remaining recommendations. (Audit Report No. 07601-1-Hy, FAS Trade Promotion Operations)

FSA Has Adequate Controls To Minimize and Recover Overpayment for Advanced Counter-Cyclical Payments

FSA's Direct and Counter-Cyclical Payment Program protects agricultural producers from low market prices by issuing counter-cyclical payments – often in advance – up to the commodity's target price (statutory benchmark) in a given crop year (CY). If a commodity's effective price (the higher of the national average market price or crop loan rate, plus the direct (fixed) payment rate) for a given year is less than its target price, producers are paid the difference, known as a counter-cyclical payment. Producers must return the amount, if any, by which the advance payment exceeds the actual counter-cyclical payment.

For CYs 2003 and 2004, FSA made counter-cyclical payments totaling about \$1 billion and \$4.4 billion, respectively, including overpaying in advance \$477.4 and \$174.2 million, respectively. Of the \$652 million in advance overpayments made for CYs 2003 and 2004, \$651 million (99.9 percent) was recovered as of July 10, 2006. The overpayments was primarily recovered through offset of future Direct and Counter-Cyclical Payment Program payments, which is the established procedure. We found that FSA has adequate controls in place to minimize and recover advanced counter-cyclical overpayments and, accordingly, made no recommendations. (Audit Report No. 03008-1-At, Advanced Counter-Cyclical Overpayments and Recovery)

South Dakota Producer Pleads Guilty to Threatening FSA Employee

In September 2006, a Rapid City producer pled guilty in U.S. District Court, District of South Dakota, to verbally threatening an FSA employee and making false statements to FSA. In January 2007, the producer was sentenced to serve 24 months of probation and fined \$500. The producer had made false statements on applications to obtain loans totaling \$200,000. When confronted with the false information, the producer threatened to assault the FSA loan manager.

Michigan Farming Operation Found Liable Regarding Crop Insurance Fraud

In November 2006, a Federal judge in the Eastern District of Michigan found a Bay City family farming operation civilly liable on three counts of filing false multi-peril crop insurance claims. The judge ordered the farming operation to repay treble damages, totaling more than \$2.1 million, for False Claims Act violations. The judge also fined the farming operation \$15,000. The farming operation had concealed production from RMA to increase fraudulent crop insurance claims.

Former RD Employee Sentenced for Assault on Former Supervisor

In November 2006, a former RD employee was sentenced in Grand Traverse County, Michigan, Circuit Court to serve 9 months of probation and 14 days of community service, fined \$495, and ordered to attend numerous counseling programs for drunk and disorderly conduct after assaulting a former supervisor. In September 2006, the former RD employee assaulted the former supervisor when she attended an agency-sponsored conference in Traverse City, Michigan. The former employee claimed to have been too intoxicated on the night in question to recall the assault.

Improvements Needed in RD's Dedicated Loan Origination and Servicing System (DLOS) Security and Application Controls

DLOS is used to originate and service SFH loans totaling more than \$13 billion. Our audit found that RD had not established an effective security program, had not conducted a thorough certification and accreditation (C&A), and had not appropriately established interconnection security agreements. Further, RD did not adequately monitor contractor compliance with OMB and NIST guidance when the contractors prepared the documentation supporting the certification of the system. As a result, critical loan portfolio information was unnecessarily jeopardized.

We recommended that RD ensure that the DLOS security plan accurately reference ITS and National Information Technology Center (NITC) documents, and that adequate documentation be maintained to verify that all controls in the security plan were implemented; perform a C&A that fulfills the requirements of full system accreditation; and ensure that the C&A includes adequate Security Testing and Evaluation testing and appropriate supporting documentation. We also recommended that RD establish agreements with all entities with systems connecting with DLOS, NITC, and ITS general support systems that include rules of behavior and controls; establish controls to ensure staff and contractors do not exceed assigned levels of authority; ensure all testing of dataset rules is completed within the test libraries; and establish controls to ensure system software changes are properly authorized, tested, and documented before migration to the production environment. RD generally agreed, with the exception of the recommendation to revise its disaster recovery plan, stating that mainframe recovery is more crucial to restoring operations and the mainframe component can be used in lieu of the Web-based component to collect loan data. (Audit Report No. 85501-1-FM, Security and Application Controls – RD's DLOS)

Office of Procurement and Property Management (OPPM) Review of Acquisition Planning and Processing

USDA's Integrated Acquisition System (IAS) is intended to provide a single enterprise-wide acquisition system. We found that IAS had the potential to aid in meeting control objectives; however, it does not provide control over all areas and by itself cannot ensure that all control objectives of the acquisition process are met. In addition, we found that OPPM had not implemented procedures to confirm that component agencies comply with requirements not controlled by IAS, specifically, issuing solicitations and monitoring contractor performance. In addition, the Automated Workforce Tracking System (AWTS) did not have sufficient storage capacity to handle records for all acquisition workforce personnel. In response to our recommendations, OPPM agreed that additional controls through process reviews and increased IAS functionality would strengthen oversight of component agency activities. OPPM plans to issue additional policy to component agencies to increase the number of contract review boards specifically addressing solicitation review and proposal evaluation, strengthen component agency acquisition strategy planning, stress the importance of monitoring contractor performance, require agencies to periodically report to OPPM the results of their reviews, and expand the capabilities of AWTS or a replacement system. (Audit Report No. 89017-1-Hy, OPPM Review of Acquisition Planning and Processing)

NRCS Oversight of Contract Administration Needs Improvement

We determined that NRCS' administration of its procurement activity was conducted in accordance with Federal, Departmental, and agency regulations. However, NRCS' system of internal controls over its procurement activities needed to be strengthened. Specifically, NRCS did not complete a sufficient number of planned oversight reviews to ensure that procurement activities totaling more than \$170 million were consistently performed in an appropriate manner, and lacked other compensating controls. Firm-fixed-price contracts were increased without

justification, and sealed bids were opened and reviewed by only one individual. NRCS also had not fully implemented IAS. We recommended that NRCS develop and implement control techniques to ensure that a sufficient number of procurement oversight reviews are performed to detect and resolve identified deficiencies, implement a strategy to resolve resource-related impacts on its management controls over contracting, and implement policies and procedures on how the agency will use and monitor IAS. The agency concurred with our recommendations and has begun to implement corrective actions. (Audit Report No. 10001-01-Hy, Review of Contract Administration at NRCS)

USDA Implementation of the Improper Payments Information Act of 2002 (IPIA) Needs Improvement

The Office of the Chief Financial Officer (OCFO), the lead agency for coordinating and reporting the Department's efforts to implement IPIA, has designated compliance with IPIA as a top priority for FY 2007. In our ongoing effort to evaluate USDA's compliance with IPIA requirements, OIG audited the FS and RHS processes for determining improper payments that were reported in the FY 2006 Performance and Accountability Report. Our audits found that 1) valid statistical samples had not been performed, 2) improper payments reported in FY 2005 were not properly calculated, 3) RHS oversight of corrective actions was not sufficient to ensure they were effective, and 4) FS did not have a process in place for recovering improper payments and RHS overstated the amount recovered. We recommended that the agencies develop and implement controls to ensure that the identification and reporting of improper payments, including statistical sampling processes, comply with all OMB and OCFO requirements. The agencies concurred with our recommendations and are using the results of our work to improve the FY 2007 process. (Audit Reports Nos. 04601-14-Ch and 08601-47-SF; respectively, RHS' and FS' Progress To Implement IPIA)

USDA FY 2006/2005 Consolidated Financial Statements – Unqualified Opinion

The USDA consolidated financial statements for FY 2006/2005 received an unqualified audit opinion. In our report on internal controls over financial reporting, we identified three reportable conditions, of which two rose to the level of material weakness: improvements needed in overall financial management across USDA, and improvements needed in IT security and controls. The third reportable item was related to improvements needed in certain financial management practices and processes. We also reported three instances of noncompliance relating to the Federal Financial Management Improvement Act of 1996 (FFMIA), IPIA, and managerial cost accounting practices. In addition, the Department reported two potential Anti-Deficiency Act (ADA) violations in its FY 2006 Statement of Assurance relating to FS and CCC. The Department is working with the agencies and OGC to determine whether the potential ADA violations actually occurred. OCFO generally agreed with the recommendations and plans to develop corrective actions.

The stand-alone agencies of CCC, FS, RD, FNS, the Federal Crop Insurance Corporation (FCIC), and the Rural Telephone Bank (RTB) also received unqualified opinions.

The audit of CCC identified three material weaknesses related to improvements needed in information security controls, financial systems functionality and funds control, and financial accounting and reporting policies and procedures. Two reportable conditions were identified related to improvements needed in producer monitoring procedures and management's review procedures related to the development, implementation, and maintenance of credit reform cashflow models. Two instances of noncompliance were identified related to the Federal Information Security Management Act (FISMA) and FFMIA.

The audit of FS identified two material weaknesses related to improvements needed in FS' financial management and reporting process and general controls environment. Eleven reportable conditions were identified related to various financial and management issues, and two instances of noncompliance were identified related to appropriations law and FFMIA.

The audit of RD identified one material weakness related to IT; three reportable conditions related to the credit reform quality control process, the Rural Telecommunications Program unliquidated obligations certification process, and RD's liquidating methodology and subsidy allowance calculations; and one instance of noncompliance with FFMIA.

The audit of FNS identified the agency was not in full compliance with IPIA. The audits of FCIC and RTB

identified no material weaknesses, reportable conditions, or noncompliance with laws and regulations. (Audit Reports Nos. 50401-59-FM, 06401-21-FM, 27401-31-Hy, 08401-07-FM, 05401-15-FM, 85401-13-FM, and 15401-07-FM; respectively, USDA's, CCC's, FNS', FS', FCIC's, RD's, and RTB's Financial Statements for FY 2006/2005)

USDA Receives Clean Opinion on FY 2006 Special Purpose Financial Statements

USDA received an unqualified opinion on its FY 2006 special purpose financial statements. We found no material weaknesses in internal controls over the financial reporting process and our tests of compliance with Treasury Financial Manual Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under U.S. Government Auditing Standards and OMB Bulletin No. 06-03, as amended. (Audit Report No. 50401-61-FM, Audit of USDA's Closing Package for FY 2006)

GOVERNMENTWIDE ACTIVITIES – GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- As part of its continuing efforts to strengthen conflict-of-interest policies and procedures for the approved insurance providers (AIP) and their agents and loss adjustors involved in the Federal crop insurance program, RMA requested OIG auditors' comments and feedback on its draft policies and procedures. These continuing efforts, which began with the 2005 Standard Reinsurance Agreements with the AIPs, were partly prompted by OIG auditors' recommendations in previous audit reports. Specifically, RMA had sought our comments and feedback on a draft disclosure of the conflict-of-interest form to be used by the AIPs and their agents and loss adjustors. We commented both on the draft form and the accompanying draft question-and-answer document.
- OIG commented on the proposed rule to amend regulations that govern the selection and functions of FSA State and county committees, published at 71 Fed. Reg. 68,755 (Nov. 28, 2006). OIG noted that the proposed regulation may not comply with FSA's Uniform Guidelines for Conducting FSA County Committee Elections (see 70 Fed. Reg. 2837 (Jan. 18, 2005)) in terms of (1) balloting methods and (2) filing election reports. In addition, the proposed regulation may not sufficiently clarify the selection and function of area committees, as distinct from county committees. The proposed regulation also states that even if an eligible voter has an interest in land located in more than one local administrative area in a single county, the voter is still entitled to only one vote in one local administrative area in the county (see 71 Fed. Reg. 68,758). However, the regulation is not clear on how to determine exactly where the individual is eligible to vote. OIG recommended that the proposed rule clarify all the above issues.

Participation on Committees, Working Groups, and Task Forces

- In January, the USDA IG was elected to serve as the Chair of the PCIE's Legislation Committee. The Legislation Committee ensures that the PCIE is kept abreast of matters in the congressional arena of interest to the Inspector General community. The committee also develops, coordinates, and represents the official PCIE positions on legislative issues. Committee activities during this reporting period included reviewing pending legislation that would amend the IG Act and preparing comments on Federal Acquisition Regulation changes related to OIG hotlines.
- The IG completed her third year as a member of the Comptroller General's Advisory Council on Government Auditing Standards. Sponsored by the Government Accountability Office, the Advisory Council offers advice to the Comptroller General of the United States. The Council updated and issued the Government Auditing Standards (*Yellow Book*) in January 2007.
- The IG serves on the PCIE Audit Committee, which provides leadership and guidance to the Federal audit community by sponsoring audits of Governmentwide issues and developing and maintaining professional standards for OIG audit activities. Committee activities during this period included providing oversight for the Inspector General Auditor Training Institute, supporting the Government Accountability Office in updating the *Government Auditing Standards*, approving the FISMA framework, and leading a review on the quality of audits performed under the Single Audit Act.

GOVERNMENTWIDE ACTIVITIES – GOAL 3

- The PCIE IT Round Table established the Digital Forensic Working Group, consisting of 19 PCIE and Executive Council on Integrity and Efficiency (ECIE) agencies, including the U.S. Department of Justice's Computer Crime and Intellectual Property Section. In October 2006, the working group was convened to establish Computer Forensic Standards for the OIG community, similar to the *Government Auditing Standards* and the *Investigative Standards for GS-1811s*. The group determined that the best way to establish these standards was to incorporate them in the Quality Assurance Review (QAR) process, and developed questions for the QAR consistent with the Quality Standards for Investigations (QSI), which are specific to computer forensics. The Director of OIG's National Computer Forensic Division (NCFD) continues to participate in the development of questions for the QAR. NCFD has also provided copies of its policies and procedures to members of the round table as examples for OIG forensic units that are developing policies and procedures for their labs.

Testimony Delivered

- *IG Testifies Before the Senate Committee on Energy and Natural Resources, Regarding Wildland Fire Issues.* On January 30, 2007, the IG presented testimony on the major findings and recommendations from OIG audits regarding FS' Healthy Forests Initiative and large-fire suppression costs. The IG testified that FS' wildfire suppression costs exceeded \$1 billion in 4 of the past 7 years, and that the majority of FS' large-fire suppression costs are directly linked to protecting

private property – as opposed to National Forest System land – in the wildland urban interface (WUI). OIG recommended that FS managers evaluate their agreements with State and local governments to ensure that the costs of protecting the WUI are appropriately apportioned, since agency fire-suppression costs could be significantly reduced – and firefighter safety improved – if the Federal Government could proactively work with State and local governments regarding prudent “Firewise” zoning and building codes. OIG recommended that FS reduce the buildup of hazardous fuels, increase the number of qualified personnel, and expand Wildland Fire Use to help control future fire costs.

- *Phyllis Fong Testifies Before the House Committee on Appropriations' Subcommittee on Agriculture, Rural Development, and Related Agencies, Regarding OIG's FY 2008 Budget Request.* On March 1, 2007, the IG and OIG senior managers presented testimony in support of the President's FY 2008 budget request for OIG. Their testimony provided an overview of OIG's significant audit and investigative work in the prior 12 months and noted important work now underway or planned for 2007. The IG's testimony emphasized OIG's work involving food safety, the security of USDA's IT systems, food stamp and WIC investigations, the extensive OIG oversight response to Gulf Coast hurricanes, and reviews of improper payment issues at USDA agencies. The testimony also discussed OIG's work assessing the Department's response to avian influenza and several audits involving FAS and USDA farm programs.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

Topics that will be covered in ongoing or planned reviews under Goal 3 include:

Hurricane Relief Initiatives:

- Emergency Watershed Protection Program and Dead Animal Debris Disposal Project (NRCS),
- Emergency Conservation Program (FSA),
- Section 32 disaster programs including the Feed, Hurricane (crop), Livestock, and Tree Indemnity Programs and aquaculture grants (FSA and CCC),
- Emergency Forestry Conservation Reserve Program (FSA).

Other Goal 3 Work:

- USDA employee civil rights complaints (Office of Civil Rights (CR)),
- controls over producers disqualified from farm programs (FSA),
- financial management controls over reinsured companies (RMA),
- RMA compliance activities,
- contracting for services under the Agricultural Risk Protection Act of 2000 (RMA),
- RMA's 2005 emergency hurricane relief efforts in Florida,
- FS Air Safety Program,
- FS controls over documenting and reporting its hurricane relief expenditures to FEMA,
- FS Stewardship Contracting Program,
- FS Invasive Species Program,
- management of FS Forest Legacy Program,
- replacement plan for firefighting aerial resources (FS),
- FS' use of contracted labor,
- oversight and control of FS activities,
- effectiveness and enforcement of debarment and suspension regulations in USDA,
- implementation of renewable energy programs in USDA,
- security and application controls in RD's DLOS (RHS),
- RBS' Intermediary Relending Program,
- Business and Industry guaranteed lenders with loans in default (RBS),
- origination practices for the SFH Section 502 Direct Loan Program (RHS),
- Rural Rental Housing (RRH) construction costs (RHS),
- guaranteed loan losses (RHS),
- RHS force-placed hazard insurance,
- selected Section 538 project (RHS),
- servicing of lenders' guaranteed loans (RHS),
- Oklahoma RRH Management Company (RHS),

- Rural Utilities Service (RUS) controls over Water and Waste Disposal Loan and Grant Program,
- the Department and stand-alone agencies' financial statements for FYs 2006 and 2007 (OCFO),
- agreed-upon procedures: retirement, health, and life insurance withholdings/contribution and supplemental headcount report submitted to Office of Personnel Management (OPM) for FYs 2006 and 2007 (OCFO),
- continuing reviews of improper payments including the risk assessment process and monitoring the progress of corrective actions (FSA and RHS),
- application control review of the Store Tracking and Redemption Subsystem II (FNS),
- management and security over USDA wireless connections (OCIO),
- FY 2007 National Finance Center (NFC) general controls,
- FISMA - FY 2007 (OCIO),
- e-Gov security (OCIO),
- contract administration at NRCS,
- monitoring of USDA implementation of Cost Accounting System (OCFO),
- ITS general controls - FY 2007 (OCIO),
- minimum security requirements in USDA information systems (OCIO),
- NITC FY 2007 general controls (OCIO),
- management over Time & Attendance data processing by TIME at NFC (OCFO),
- controls over e-payments at OCFO/NFC,
- IT - stolen computer equipment containing sensitive information (OCIO),
- followup on the Packers and Stockyards Programs (GIPSA),
- effective use of satellite imagery by USDA agencies (FSA and NRCS),
- Wetlands Reserve Program restoration compliance (NRCS),
- contract administration at NRCS,
- grants to Tribal Land Grant Institutions (CSREES),
- National Research Initiative Competitive Grants (CSREES),
- international trade policy and procedures (FAS),
- Trade Adjustment Assistance for Farmers (FAS), and
- ARS research agreement monitoring.

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

Gauging the Impact of the OIG

PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our three strategic goals:

- Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.
- Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals
- Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources.

IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

A second way we gauge our impact is by tracking the outcomes of our audits and investigations. Many of these measures are codified in the Inspector General Act of

1978, as amended. The following pages present a statistical overview of the OIG's accomplishments this period.

FOR AUDITS WE SHOW

- reports issued
- management decisions made (number of reports and recommendations)
- total dollar impact of management-decided reports (questioned costs and funds to be put to better use)
- program improvement recommendations
- audits without management decision

FOR INVESTIGATIONS WE SHOW

- indictments
- convictions
- arrests
- total dollar impact (recoveries, restitutions, fines)
- administrative sanctions
- OIG Hotline complaints

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2006 Baseline	FY 2007 Target	FY 2007 1st Half Actual
Audit/Investigative resources dedicated to critical/high-impact work	91.8%	90%	92.0%
Audit recommendations resulting in management decision within 1 year	89.5%	85%	87.6%
Investigative cases where criminal, civil, or administrative action is taken in response to OIG reports	77.4%	65%	74.7%

SUMMARY OF AUDIT ACTIVITIES

OCTOBER 2006 - MARCH 2007

REPORTS ISSUED		
AUDITS PERFORMED BY OIG		29
EVALUATIONS PERFORMED BY OIG		0
AUDITS PERFORMED UNDER THE SINGLE AUDIT ACT		0
AUDITS PERFORMED BY OTHERS		9
MANAGEMENT DECISIONS MADE		
NUMBER OF REPORTS		25
NUMBER OF RECOMMENDATIONS		233
TOTAL DOLLAR IMPACT (MILLIONS) OF MANAGEMENT DECIDED REPORTS		
QUESTIONED/UNSUPPORTED COSTS		\$11.3 ^{ab}
RECOMMENDED FOR RECOVERY	\$0.9	
NOT RECOMMENDED FOR RECOVERY	\$10.3	
FUNDS TO BE PUT TO BETTER USE		\$0.1

^a These were the amounts the auditees agreed to at the time of management decision.

^b The recoveries realized could change as the auditees implement the agreed upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

SUMMARY OF INVESTIGATIVE ACTIVITIES

OCTOBER 2006 - MARCH 2007

Reports Issued		155
Cases Opened		209
Cases Closed		167
Cases Referred for Prosecution		107
IMPACT OF INVESTIGATIONS		
Indictments		171
Convictions		101 ^a
Searches		69
Arrests		453
TOTAL DOLLAR IMPACT (MILLIONS)		
Recoveries/Collections	\$7.9 ^b	
Restitutions	\$23.4 ^c	
Fines	\$2.4 ^d	
Claims Established	\$8.8 ^a	
Cost Avoidance	\$0.5 ^f	
Administrative Penalties	\$0.5 ^d	
ADMINISTRATIVE SANCTIONS		
Employees		17
Businesses/Persons		41
^a Includes money received by USDA or other Government agencies as a result of OIG investigations. ^b Restitutions are court-ordered repayments of money lost through a crime or program abuse. ^c Fines are court-ordered penalties. ^d Claims established are agency demands for repayment of USDA benefits. ^e Consists of loans or benefits not granted as the result of an OIG investigation. ^f Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.		

**INVENTORY OF AUDIT REPORTS
WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE**
FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007

		NUMBER	AMOUNT
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2006	9	\$323,696,063
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	3	\$5,988,842
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	1	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		\$115,878
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	11	\$329,569,027
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	7	\$323,455,788

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS

FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007

		DOLLAR VALUES		
		NUMBER OF REPORTS	QUESTIONED COSTS	QUESTIONED LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2006	21	\$109,749,010	\$49,055,663
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	5	\$6,505,601	\$2,370,789
TOTALS				
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	8		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$935,459	\$285,211
	NOT RECOMMENDED FOR RECOVERY		\$10,328,657	\$87,592
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$1,475,768	
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	18	\$103,750,430	\$50,357,412
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	14	\$97,337,682	\$48,074,215

* Unsupported values are included in questioned values.

PROGRAM IMPROVEMENT RECOMMENDATIONS

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 144 program improvement recommendations, and management agreed to implement a total of 142 program improvement recommendations that were issued this period or earlier. Examples of the program improvement recommendations issued this period (see the main text of this report for a summary of the audits that prompted these program improvement recommendations) include the following:

- APHIS agreed to issue policy to clarify CBP's responsibilities for Transportation and Exportation permits that allow prohibited and restricted agricultural commodities to be trans-shipped across the country to foreign destinations, and for the handling of seized agricultural products at ports of entry. APHIS also agreed to develop a process to allow both agencies to assess the risk of agricultural products entering the country by rail.
- RMA agreed to issue a notice to advise insurance providers of the unacceptable documents that have been used and to clarify what documents are acceptable for substantiating AGR policies and claims.
- USDA agreed to assign a senior-level official to coordinate with EPA's Chesapeake Bay Program, and to direct agencies to expedite the development and implementation of outcome-based performance measurements to evaluate the effectiveness of their conservation efforts and programs.
- FS agreed to modify its policies that unduly restrict the use of fire to reduce hazardous fuels (brush, dead trees) on FS land.
- FS agreed to determine the most cost-effective marketing methods for surplus properties that are best suited for the agency and will obtain the best prices for the property.
- FS agreed to (1) conduct management reviews of the fleet credit card operations and (2) strengthen controls over fleet credit cards and how PCMS is used to monitor those cards.
- RD agreed to ensure that adequate documentation is maintained to verify that all controls in the DLOS security plan were implemented; perform a C&A that fulfills the requirements of full system accreditation; and ensure that the C&A includes adequate Security Testing and Evaluation testing and appropriate supporting documentation.
- FS and RHS agreed to develop and implement controls to ensure that the identification and reporting of improper payments, including statistical sampling processes, comply with all OMB and OCFO requirements.

SUMMARY OF AUDIT REPORTS RELEASED FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007

DURING THE 6-MONTH PERIOD FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007, THE OFFICE OF INSPECTOR GENERAL ISSUED 38 AUDIT REPORTS, INCLUDING 9 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE	1			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
OFFICE OF THE CHIEF INFORMATION OFFICER	1			
COMMODITY CREDIT CORPORATION	1			
FARM SERVICE AGENCY	3			\$5,600,000
FOOD AND NUTRITION SERVICE	1			
FOREIGN AGRICULTURAL SERVICE	1			
FOREST SERVICE	10	\$3,783,205	\$87,592	
MULTIAGENCY	8			
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT	1			
RISK MANAGEMENT AGENCY	3	\$2,722,396	\$2,283,197	
RURAL BUSINESS-COOPERATIVE SERVICE (RBS)	1			
RURAL DEVELOPMENT	2			
RURAL HOUSING SERVICE	2			\$388,842
RURAL TELEPHONE BANK	1			
TOTALS		\$6,505,601	\$2,370,789	\$5,988,842
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	30			
MULTIAGENCY AUDIT	8			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	38			
TOTAL COMPLETED UNDER CONTRACT ^a	9			
TOTAL SINGLE AUDIT ISSUED ^c	0			
^a Unsupported values are included in questioned values ^b Indicates audits performed by others ^c Indicates audits completed as Single Audit				

-Continued

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007

REPORT NUMBER	RELEASE DATE	TITLE	QUESTIONS RECEIVED	QUESTIONS CLOSED	QUESTIONS PENDING	QUESTIONS NOT CLOSED	MONETARY VALUE (\$)
Agricultural Research Service							
020170006HQ	2006/10/30	DCAA Audit of International Science and Technology Center's and Science and Technology Center in Ukraine's Internal Controls Funded by ARS					
Total: Agricultural Research Service			1				
Animal and Plant Health Inspection Service							
336010007CH	2007/02/21	Review of Customs and Border Protection's Agricultural Inspection Activities					
Total: Animal and Plant Health Inspection Service			1				
Office of the Chief Information Officer							
885010007FM	2007/03/16	Information Technology Service's General Controls - Fiscal Year 2006					
Total: Office of the Chief Information Officer			1				
Commodity Credit Corporation							
064010021FM	2006/11/13	Audit of CCC's FY 2006 Financial Statements					
Total: Commodity Credit Corporation			1				
Farm Service Agency							
030080001AT	2006/12/12	FSA's Efforts to Identify and Recover Overpayments in the Counter-Cyclical Program					
036010021KC	2007/03/20	Hurricane Relief Initiatives: Barge Movement and Transportation Differential Agreements					\$3,400,000
036010022KC	2007/03/20	Hurricane Relief Initiatives: Emergency and Alternative Grain Storage					\$2,200,000
Total: Farm Service Agency			3				\$5,600,000

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007

REPORT NUMBER	RELEASE DATE	TITLE	QUESTIONS RAISED AND ISSUES	UNSUPPORTED FINDINGS	FINES AND PENALTIES
Food and Nutrition Service					
274010031HY	2006/11/08	FY 2006 FNS Financial Statements			
Total: Food and Nutrition Service			1		
Foreign Agricultural Service					
076010001HY	2007/02/22	Trade Promotion Operations			
Total: Foreign Agricultural Service			1		
Forest Service					
080010001AT	2006/11/03	Capital Improvement Program			
080170008HQ	2006/10/26	DCAA Audit of Reserve America Termination for Convenience			
080170009HQ	2007/01/19	DCAA Audit of Minden Air Corporation's Termination Proposal Funded by FS			
080170010HQ	2007/02/21	DCAA Audit of Warden Associates, Inc. Cost Verification		\$19,422	
080170011HQ	2007/02/26	DCAA Audit of National Fire Protection Association's December 31, 2005, Indirect Rates			
084010007FM	2006/11/13	Audit of FY 2006 Forest Service Financial Statements			
086010003TE	2007/03/30	Controls Over Forest Service Vehicle Fuel and Maintenance Costs		\$3,670,930	
086010044SF	2006/11/20	FS Large Fire Suppression Costs			
086010046SF	2006/11/07	FS Hurricane Relief Efforts			
086010047SF	2007/02/01	Improper Payments - Monitoring the Progress of Corrective Actions for High Risk Programs in FS		\$92,853	\$87,592
Total: Forest Service			10	\$3,783,205	\$87,592

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007

AGENCY	RELEASE DATE	TITLE	QUESTIONS	QUESTIONS	QUESTIONS	QUESTIONS
Wildlife Service						
500990051KC	2007/03/28	Zero Acreage Reporting Abuse				
504010059FM	2006/11/14	Fiscal Year 2006 USDA Financial Statements				
504010061FM	2006/11/17	Fiscal Year 2006 Audit of USDA's Closing Package				
505010008FM	2007/02/27	Information Technology – Lost or Stolen Items Containing Sensitive Information				
506010010HQ	2006/11/20	Chesapeake Bay Program – Joint Review				
506010012AT	2007/03/28	Implementation of Trade Title of 2002 Farm Bill and President's Management Agenda				
506010015TE	2007/03/12	Review of FY 2005 Congressional Earmarks				
507010002KC	2007/03/12	USDA Homeland Security Initiatives				
Total: Multi-Agency			8			
Natural Resources Conservation Service						
100010001HY	2007/03/20	Review of Contract Administration at the Natural Resources Conservation Service				
Total: Natural Resources Conservation Service			1			
Office of Procurement and Property Management						
890170001HY	2007/02/09	Review of Acquisition Planning and Processing				
Total: Office of Procurement and Property Management			1			
Risk Management Agency						
050990027AT	2007/03/28	Evaluation of RMA Indemnity Payments for 2004 Florida Hurricanes		\$415,710		
054010015FM	2006/11/08	Audit of Fiscal Year 2006 FCIC Financial Statements				
056010004SF	2007/01/23	Adjusted Gross Revenue Program		\$2,306,686	\$2,283,197	
Total: Risk Management Agency			3	\$2,722,396	\$2,283,197	

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM OCTOBER 1, 2006, THROUGH MARCH 31, 2007

REPORT NUMBER	RELEASE DATE	REPORT TITLE	QUESTIONS RECEIVED	QUESTIONS CLOSED	UNSUPPORTED COSTS AND FINDINGS	QUESTIONS RECEIVED
Rural Business- Cooperative Service						
340040008HY	2007/01/31	Business and Industry Loan for Lehigh Coal and Navigation Company				
Total: Rural Business-Cooperative Service			1			
Rural Development						
854010013FM	2006/11/09	Rural Development FY 2006 Financial Statements				
855010001FM	2007/02/12	Rural Development's Dedicated Loan Origination and Servicing System				
Total: Rural Development			1			
Rural Housing Service						
046010014CH	2007/03/20	Improper Payments -- Monitoring the Progress of Corrective Action for High Risk Programs in Rural Housing Service				
046010015CH	2007/03/30	Controls Over Single Family Housing Provided for Hurricane Relief Efforts				\$388,842
Total: Rural Development			2			\$388,842
Rural Telephone Bank						
154010007FM	2006/11/09	Rural Telephone Bank FY 2006 Financial Statements				
Total: Rural Telephone Bank			1			
Grand Total:			38	\$6,505,601	\$2,370,789	\$5,988,842

AUDITS WITHOUT MANAGEMENT DECISION				
NEW SINCE LAST REPORTING PERIOD				
OCIO	08/07/06	1. Management and Security Over the Universal Telecommunications Network (88501-6-FM)		
FSIS	09/19/06	2. FSIS State-Operated Inspection Programs (24005-1-At)	1,598,783	
RHS	08/14/06	3. Single-Family Housing, Borrower Income Verification Procedures (04099-341-At)		
	09/28/06	4. Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts (04601-13-Ch)	160,557	
PREVIOUSLY REPORTED BUT NOT YET RESOLVED				
These audits are still pending agency action or are under administrative or investigative proceedings. Details on the recommendations, findings, and management decisions have not been received from the agency. The agency's semiannual reports to Congress are required to include details on the actions that must be taken to reach management decisions on these audits. The agency's compliance with the recommendations and actions are being monitored closely by the OIG.				
APHIS	02/20/03	5. Safeguards To Prevent Entry of Prohibited Pests and Diseases Into the United States (33601-3-Ch)		
	09/30/04	6. Wildlife Services – Aerial Acquisition Procedures (33099-1-KC)	25,208	25,208
	09/30/05	7. APHIS Animal Care Program Inspection and Enforcement Activities (33002-3-SF)	689,354	291,000
CCC	11/09/05	8. Monitoring the Audit of CCC's FY 2005 Financial Statements (06401-20-FM)		
FAS	03/15/06	9. Private Voluntary Organization (PVO) Grant Fund Accountability (07016-1-At)	2,175,876	
FNS	09/06/01	10. NSLP – Food Service Management Companies (FSMC) Midwest Region (27601-24-Ch)	3,537,912	236,749
	11/21/01	11. CACFP – Wildwood, Inc. Phase II (27010-6-KC)	36,895,611	36,895,611
	12/09/05	12. NSLP Cost-Reimbursable Company (27601-13-KC) Contracts With FSMCs (27601-15-KC)	6,126,830	6,126,830
FSA	09/30/05	13. FSA Compliance Activities (03601-12-Ch)	3,741,157	3,741,157
FSIS	06/21/00	14. Implementation of the Hazard Analysis and Critical Control Point (HACCP) System (24001-3-At)		
	09/30/03	15. Oversight of Production Process and Recall at ConAgra Plant (Establishment 969) (24601-2-KC)		
	06/24/05	16. HACCP – Compliance by Very Small Plants (24601-5-At)		
Multiagency	09/30/03	17. Implementation of Agricultural Risk Protection Act (50099-12-KC)		
	02/23/04	18. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)		
	12/08/05	19. Controls Over APHIS Issuance of Genetically Engineered Organisms Release Permits (50601-8-Te)		

RBS	01/28/02	20. Lender Servicing of B&I Guaranteed Loans, Florida (34601-3-Ar)	1,536,060	1,536,060
	01/10/03	21. Lender Servicing of B&I Guaranteed Loans in Georgia (34601-4-Ar)	3,766,908	3,706,908
	08/27/03	22. RD - Lender Servicing of B&I Guaranteed Loans in Georgia (34601-5-Ar)	9,145,549	224,951
	09/29/05	23. Request Audit of B&I Guaranteed Loan in Arkansas (34099-7-Te)	2,502,954	
RHS	09/28/01	24. RRH Program Insurance Expenses, Phase II (04601-4-KC)	596,665	79,442
	06/26/03	25. RD, RRH Program, Tenant Income Verification - Gainesville, FL (04004-3-Ar)	7,781,635	3,183,305
	09/30/04	26. RRH Project Costs, Cairo, IL (04099-143-Ch)*	164,000	164,000
	03/23/05	27. Subsidy Payment Accuracy In Multi-Family Housing Programs (04099-339-Ar)		
RMA	03/15/02	28. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)		
	11/09/05	29. RMA Prevented Planting Claims (05099-11-SF)	96,489	96,489
RUS	09/30/05	30. Broadband Grant and Loan Programs (09601-4-Te)	340,376,319	30,377,069

AUDITS WITHOUT MANAGEMENT DECISION – NARRATIVE FOR NEW ENTRIES

1. Management and Security Over the Universal Telecommunications Network (88501-6-FM), Issued August 7, 2006

We found that OCIO had not conducted required failover testing, security control testing, and certification and accreditation of the Universal Telecommunications Network (UTN) before implementation. OCIO agreed with all five recommendations, and we have reached management decision on two of them. For the remaining three, OCIO needs to ensure that controls are in place to capture total costs of a system, conduct a full and comprehensive failover test, and have an independent third-party review of security controls over UTN, according to detailed, time-phased plans with completion dates.

2. FSIS State-Operated Inspection Programs, (24005-1-At), Issued September 19, 2006

FSIS was not providing timely oversight of State Meat and Poultry Inspection (MPI) programs. From October 2003 through June 2005, FSIS had conducted only 8 initial onsite reviews of the 28 State MPI programs. FSIS had not performed timely onsite fiscal reviews and reviews of new programs, and did not timely implement its yearend grant closeout procedures to ensure that State MPI programs promptly returned any excess Federal funds. Of the 12 recommendations, management decision has been reached on 10, and we are awaiting a response from FSIS to address the remaining 2. The funds noted in the total value at issuance were related to the Texas MPI program, which is current as of FY 2005 as to monies owed to FSIS.

3. Single-Family Housing, Borrower Income Verification Procedures (04099-341-At), Issued August 14, 2006

Although RHS' Centralized Servicing Center (CSC) regularly conducts quality control (QC) reviews to ascertain the accuracy of single-family housing (SFH) loan payments subsidies, we found two procedural errors compromising their validity. First, CSC's QC review was not properly designed to produce statistically valid conclusions for the entire universe of

borrower renewals. CSC incorrectly limited the QC universe to only renewals that had previously received a supervisory review. The overall payment subsidy error rate calculated from this limited sample may not necessarily correspond to the true rate of error for the entire SFH loan subsidy program. Second, CSC does not obtain documents to independently verify Federal income tax information borrowers submit as part of their subsidy renewals. Thus, CSC's QC reviews do not provide management with a reliable means of estimating payment subsidy errors and overall program effectiveness. We have agreed to assist CSC officials by providing them with an example of a valid sampling plan for them to use as guidance in developing their own sampling plan. CSC has also agreed to obtain and use the Federal income tax information when performing their QC review. Of seven recommendations, six remain without management decision.

4. Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts (04601- 13-Ch), Issued September 28, 2006

RHS' quick response in placing victims into RRH units won praise in the Administration's report, *The Federal Response to Hurricane Katrina: Lessons Learned*. However, in focusing on quickly placing victims into RRH units, agency officials overlooked some basic management controls needed to ensure that the appropriate amount of housing assistance was provided to victims, and that only victims received assistance. We concluded that much of the \$2.6 million in emergency rental assistance (as of March 31, 2006) that RHS provided to disaster victims was unnecessary. (This amount may actually be higher because RHS' data system did not include all hurricane relief information.)

In the absence of any formal written emergency procedures to address a disaster of this magnitude, RHS officials provided guidance following the hurricanes in the form of five unnumbered letters, four of which were issued in September 2005. While this guidance generally answered immediately pressing questions for field staff, it did not address some major control issues. Thus, in light of the problems that occurred after the Gulf Coast disaster, and the likelihood that other disasters will occur in the future, agency officials should develop and implement controls before the next disaster to ensure that rental assistance is properly spent. We are awaiting a response from the agency to address our recommendations.

INDICTMENTS AND CONVICTIONS

From October 1, 2006, through March 31, 2007, OIG completed 155 investigations. We referred 107 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 171 indictments and 101 convictions. The period of time to obtain court action on an indictment varies widely;

therefore, the 101 convictions do not necessarily relate to the 171 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$43.5 million.

The following is a breakdown, by agency, of indictments and convictions for the reporting period.

Indictments and Convictions October 1, 2006 - March 31, 2007		
Agency	Indictments	Convictions
APHIS	7	8
ARS	1	0
FAS	0	1
FNS	123	56
FS	2	1
FSA	14	21
FSIS	4	4
NRCS	0	1
OCFO	1	0
OIG**	1	1
RBS	1	1
RHS	6	4
RMA	7	0
RUS	3	2
SEC	1	1
Totals	171	101
<p>*This category includes pretrial diversions.</p> <p>**An individual impersonated an OIG special agent and was found guilty.</p>		

OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this

reporting period, the OIG Hotline received 684 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

Figure 1. Volume and Type of Complaints Received

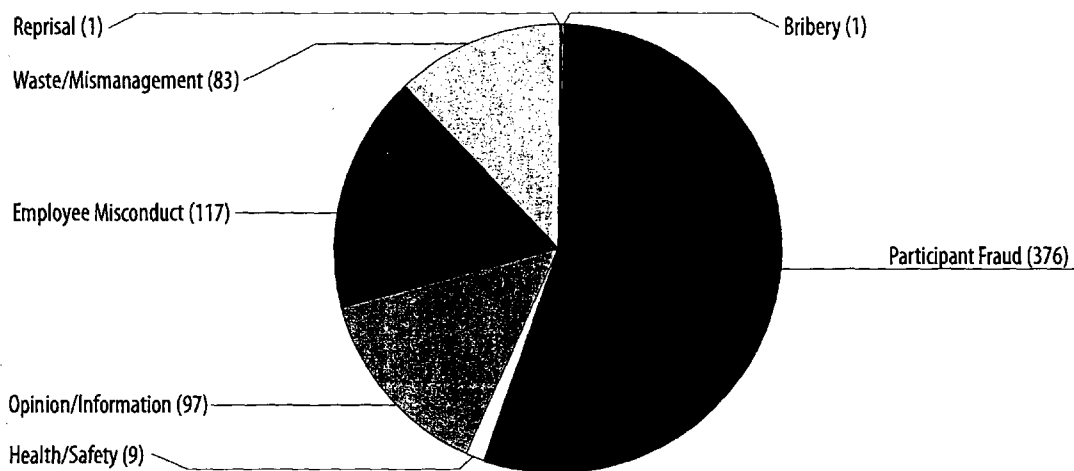
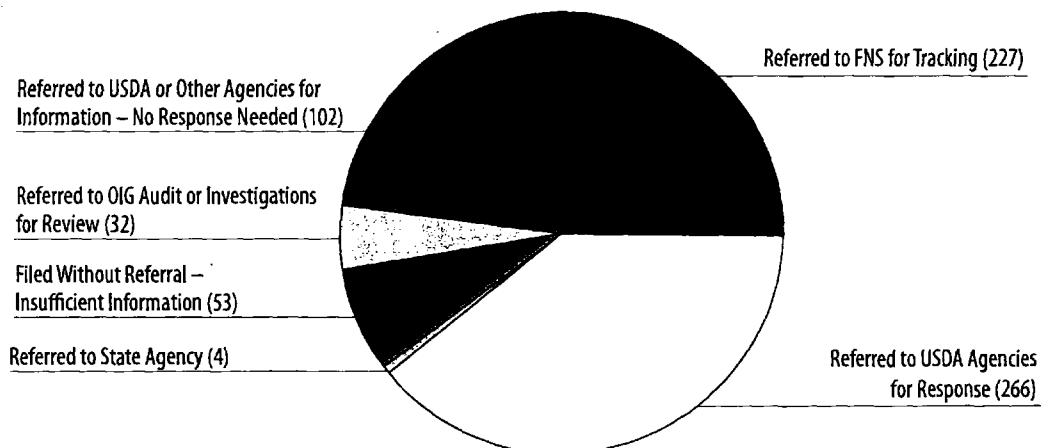


Figure 2. Disposition of Complaints Received



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA)

REQUESTS FOR THE PERIOD OCTOBER 1, 2006,
TO MARCH 31, 2007

Number of FOIA/PA Requests Received	69
Number of FOIA/PA Requests Processed	73
Number Granted	17
Number Partially Granted	32
Number Not Granted	25
Reasons for Denial	
No Records Available	6
Referred to Other Agencies	1
Requests Denied in Full (Exemption 5)	1
Requests Denied in Full (Exemption 7A)	6
Requests Denied in Full (Exemption 7C)	2
Request Withdrawn	2
Fee-Related	0
Not a Proper FOIA Request	3
Not an Agency Record	1
Duplicate Request	2
Other	1
Requests for OIG Reports From Congress and Other Government Agencies	
Received	15
Processed	15
Appeals Received	5
Appeals Processed	7
Appeals Completely Upheld	4
Appeals Partially Reversed	3
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0
Other	1
Number of OIG Reports/Documents Released in Response to Requests	32
NOTE 1: A request may involve more than one report.	
NOTE 2: During this 6-month period, 31 audit reports were posted to the Internet at the OIG Web site: http://www.usda.gov/oig	

Abbreviations of Organizations	
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CBP	U.S. Customs and Border Protection
CCC	Commodity Credit Corporation
CI	Criminal Investigation
CR	Office of Civil Rights
CSC	Centralized Service Center
CSREES	Cooperative State Research, Education, and Extension Service
DHS	U.S. Department of Homeland Security
ECIE	Executive Council on Integrity and Efficiency
EPA	U.S. Environmental Protection Agency
ERT	Emergency Response Team
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FEMA	Federal Emergency Management Agency
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers and Stockyards Administration
HUD	U.S. Department of Housing and Urban Development
IRS	Internal Revenue Service
ITS	Information Technology Services
NJTTF	National Joint Terrorism Task Force
NFC	National Finance Center
NIST	National Institute of Standards and Technology
NITC	National Information Technology Center

Abbreviations of Organizations	
NRCS	Natural Resources Conservation Service
OOCIC	Ohio Organized Crime Investigations Commission
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPPM	Office of Procurement and Property Management
PCIE	President's Council on Integrity and Efficiency
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SEC	Office of the Secretary
USDA	U.S. Department of Agriculture
USSS	U.S. Secret Service
WFIT	Wildland Fire Investigations Team

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (142 TOTAL)

- APHIS agreed to issue policy to clarify CBP's responsibilities for Transportation and Exportation permits that allow prohibited and restricted agricultural commodities to be trans-shipped across the country to foreign destinations, and for the handling of seized agricultural products at ports of entry. APHIS also agreed to develop a process to allow both agencies to assess the risk of agricultural products entering the country by rail.
- RMA agreed to issue a notice to advise insurance providers of the unacceptable documents that have been used and to clarify what documents are acceptable for substantiating AGR policies and claims.
- USDA agreed to assign a senior-level official to coordinate with EPA's Chesapeake Bay Program, and to direct agencies to expedite the development and implementation of outcome-based performance measurements to evaluate the effectiveness of their conservation efforts and programs.
- FS agreed to modify its policies that unduly restrict the use of fire to reduce hazardous fuels (brush, dead trees) on FS land.
- FS agreed to determine the most cost-effective marketing methods for surplus properties that are best suited for the agency and will obtain the best prices for the property.
- FS agreed to (1) conduct management reviews of the fleet credit card operations and (2) strengthen controls over fleet credit cards and how PCMS is used to monitor those cards.
- RD agreed to ensure that adequate documentation is maintained to verify that all controls in the DLOS security plan were implemented; perform a C&A that fulfills the requirements of full system accreditation; and ensure that the C&A includes adequate Security Testing and Evaluation testing and appropriate supporting documentation.
- FS and RHS agreed to develop and implement controls to ensure that the identification and reporting of improper payments, including statistical sampling processes, comply with all OMB and OCFO requirements.

MISSION OF OIG

OIG assists USDA by promoting effectiveness and integrity in the hundreds of programs of the Department. These programs encompass a broad spectrum, involving such areas as consumer protection, nutrition, animal and plant health, agricultural production, agricultural product inspection and marketing, rural development, research, conservation, and forestry. They affect our citizens, our communities, and our economy.

OIG STRATEGIC GOALS

We have focused nearly all of our audit and investigative direct resources on our three strategic goals:

Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.

Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.

Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources.

To learn more about OIG, visit our Web site at www.usda.gov/oig/home.htm

How To Report Suspected Wrongdoing in USDA Programs

Fraud, Waste, and Abuse

In Washington, DC: 202.690.1622

Outside DC: 800.424.9121

TDD (Call Collect): 202.690.1202

Bribes or Gratuities

202.720.7257 (24 hours)

888-620-4185 (24 hours)

OIG Hotline Through the Web

www.usda.gov/oig/horline.htm

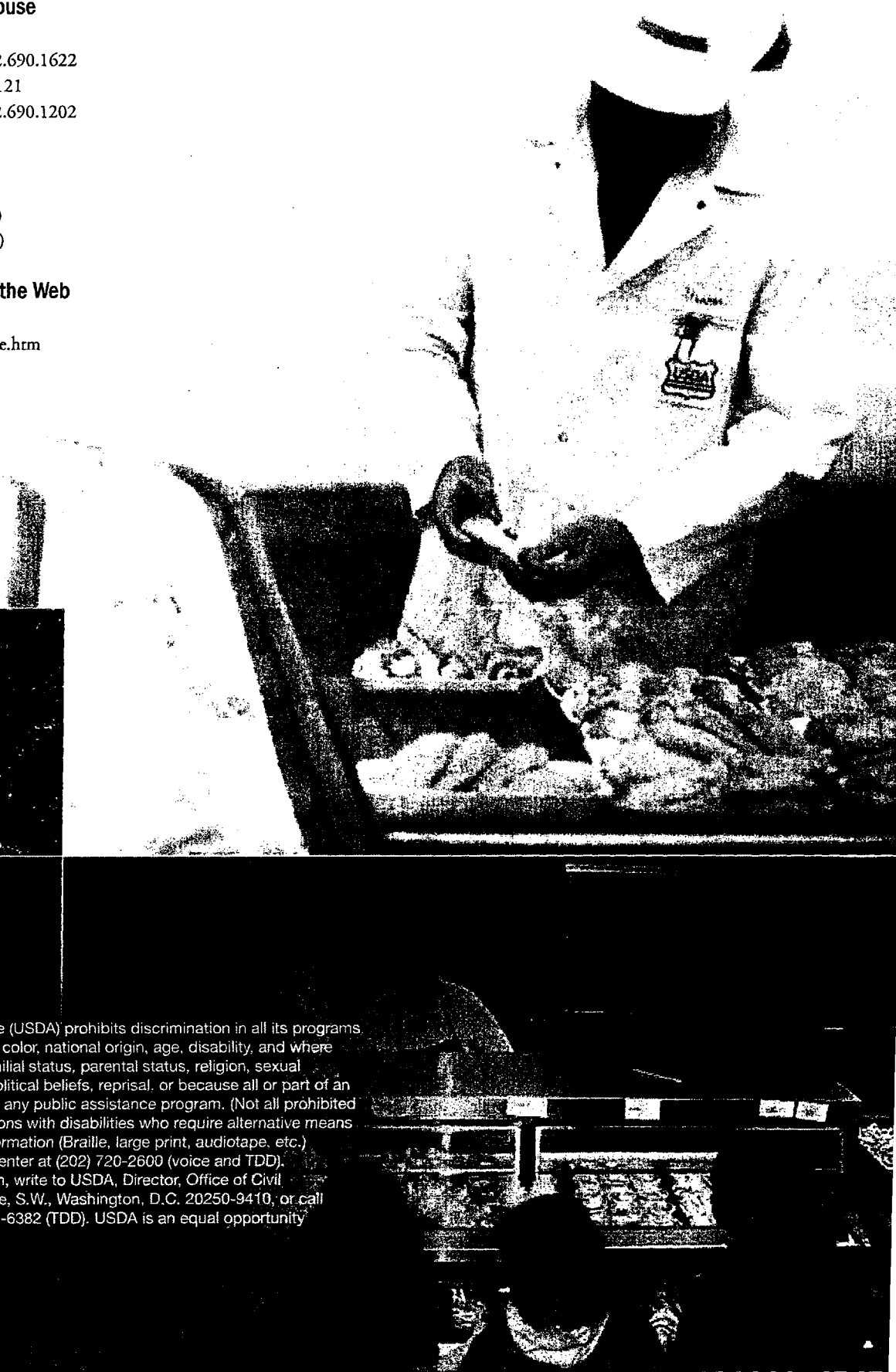


United States
Department of Agriculture

Office of the Inspector General

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May 2007





United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 16 2007

INFORMATIONAL MEMORANDUM TO THE SECRETARY

FROM: Nancy Montanez Johner *K. Houston for NWS*
Under Secretary
Food, Nutrition, and Consumer Services

SUBJECT: Special Supplemental Nutrition Program for Women, Infants and Children (WIC) -- Report to Congress Regarding the WIC Food Packages

ISSUE:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P. L. 108-7, and more recently House Report 109-463, directed the Secretary of Agriculture to report quarterly to the Committee regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), until a final rule is published.

DISCUSSION:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P. L. 108-7, and more recently House Report 109-463, directed the Secretary of Agriculture to report quarterly to the Committee regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), until a final rule is published. The Food and Nutrition Service has completed the comment analysis process and the interim final rule is now in Departmental clearance. The rule is expected to be published by the fall of 2007.

SUMMARY:

As directed by House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P.L. 108-7, and more recently House Report 109-463, the attached letter provides an update on the status of proposed regulatory revisions to the WIC food packages.

Attachment



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 25 2007

The Honorable Robert Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Bennett:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P.L. 108-7, and more recently House Report 109-463, directed the Secretary of Agriculture to report quarterly to the Committee regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children, until a final rule is published.

The Food and Nutrition Service has completed the comment analysis process and the interim final rule is now in clearance. The rule is expected to be published by the fall of 2007. A similar letter is being sent to Congresswoman Rosa DeLauro, Congressman Jack Kingston, and Senator Herbert Kohl.

Sincerely,

A handwritten signature in black ink, which appears to read "Mike Johanns", is positioned above the typed name and title.

Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 25 2007

The Honorable Herbert Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P.L. 108-7, and more recently House Report 109-463, directed the Secretary of Agriculture to report quarterly to the Committee regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children, until a final rule is published.

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 25 2007

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Congressman Kingston:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P.L. 108-7, and more recently House Report 109-463, directed the Secretary of Agriculture to report quarterly to the Committee regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children, until a final rule is published.

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Sincerely,

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Mike Johanns
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 25 2007

The Honorable Rosa DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

House Report 107-623 and Senate Report 107-223 accompanying the Consolidated Appropriations Resolution, 2003, P.L. 108-7, and more recently House Report 109-463, directed the Secretary of Agriculture to report quarterly to the Committee regarding the status of the proposed rule to amend the food packages provided by the Special Supplemental Nutrition Program for Women, Infants and Children, until a final rule is published.

The Food and Nutrition Service has completed the comment analysis process and the interim final rule is now in clearance. The rule is expected to be published by the fall of 2007. A similar letter is being sent to Congressman Jack Kingston and Senators Herbert Kohl and Robert Bennett.

Sincerely,

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Mike Johanns
Secretary

USDA Reports to Congress Not Published on Public Web Sites
Released by the USDA Office of The Chief Financial Officer,

FILE #2

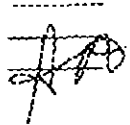


DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

DEC 4 2007

TO: The Secretary
Through: DS
COS
ES 
FROM: Director
Centers for Disease Control and Prevention

SUBJECT: Report to Congress on Thefts, Losses, or Releases of a Select Agent or Toxin

BACKGROUND

Section 201(a) of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188) required the Secretary to report to Congress annually on the number and nature of notifications received in accordance with subsection (e)(8) (relating to theft or loss) and subsection (j) (relating to releases) of a select agent or toxin.

As required by the Act, the Department of Health and Human Services promulgated an interim final rule on December 13, 2002 (67 FR 76835) and published the final rule on March 18, 2005 (70 FR 13294) regarding the possession, use, and transfer of select agents and toxins. All provisions of the final rule supersede those contained in the interim final rule. The final rule became effective on April 12, 2005. As part of that rule, an individual or entity must immediately report any theft, loss, or release of a select agent or toxin and submit a completed Report of Theft, Loss, or Release of Select Agents and Toxins (Form 3) within seven days of the incident.

To comply with the requirement of the Act, the CDC Select Agent Program requests to submit the attached report in coordination with the Select Agent Program at the Department of Agriculture (USDA) to Congress to report the eighty-three (83) reports of Theft, Loss, or Release of a select agent or toxin received by CDC and USDA between February 7, 2003 (the effective date of the interim final rule) and December 31, 2006.

RECOMMENDATION

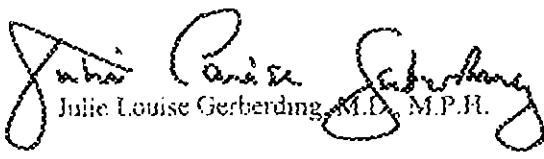
I recommend that you review and approve the attached report.


DECISION

Approved _____

Disapproved _____

Date **MAR - 6 2008**


Julie Louise Gerberding, M.D., M.P.H.

Attachments (2)

Tab A - Transmittal letters

Tab B - Report to Congress



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation. The report of notifications received of a theft, loss, or release of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006, is enclosed.

Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Madam Speaker:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

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Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Mitch McConnell
Senate Minority Leader
Washington, D.C. 20510

Dear Senator McConnell:

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Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Steny H. Hoyer
House Majority Leader
Washington, D.C. 20515

Dear Congressman Hoyer:

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U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

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Michael O. Leavitt
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Department of Health and Human Services

Enclosure

**The Department of Agriculture
and
The Department of Health and Human Services
Report to Congress
on
Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006**

November 2007

**The Department of Agriculture and the Department of Health and Human Services
Report to Congress on Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006**

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Overview

The Select Agent Programs at the Department of Health and Human Services (HHS) and the Department of Agriculture (USDA) received 83 reports¹ of Theft, Loss², or Release³ of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006. As a result of the follow-up investigations conducted by HHS, USDA, and the Federal Bureau of Investigation (FBI) regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- No confirmed losses of a select agent; and
- Five confirmed releases of a select agent.

Nine reports involved an apparent non-compliance with the Select Agent Regulations. Of the 9 reports, 6 reports were referred to the HHS Office of Inspector General (OIG) and 3 reports were referred to the USDA, Animal and Plant Health Inspection Service, Investigative and Enforcement Services (IES) for further investigation and enforcement.

Nine reports did not involve a select agent. For the remaining 74 of the initial 83 reports received by HHS and USDA, there were 28 reports of a possible loss of a select agent and 46 reports of a possible release of a select agent.

Reports of Possible Losses

Of the 74 reports involving select agents, there were 28 reports of a possible loss of a select agent. Of the 28 reports,

- Twelve reports involved a transfer in which the entire shipment of select agents did not occur.

¹ This report does not include reports from the Texas A&M University investigation. The reports will be included in the annual report for 2007.

² A loss is defined as a failure to account for a select agent or toxin.

³ A release is defined as an occupational exposure or release of a select agent or toxin outside of the primary barriers of the biocontainment area.

Thefts, Losses, or Releases of Select Agents or Toxins

February 7, 2003, to December 31, 2006

Page 2

- Ten reports involved an inventory discrepancy where the entity could not account for vials containing a select agent. Based on the investigations conducted by HHS, FBI, USDA IES, or USDA OIG, the accounting discrepancies were determined to be a result of poor recordkeeping by the entities. Five of the 10 reports involved an apparent non-compliance with the Select Agent Regulations. Two reports were referred to HHS OIG and the other 3 reports were referred to USDA IES for further investigation and enforcement.
- Three reports involved a possible loss where the entity could not account for mice infected with a select agent. Based on the investigation conducted by HHS and the FBI, the mice were believed to have been cannibalized by other mice in the cage or buried under the bedding and autoclaved by mistake by the animal care staff. Two of the 3 reports involved an apparent non-compliance of the Select Agent Regulations and were referred to HHS OIG for further investigation and enforcement.
- Two reports involved a delay in transfer of a select agent. For one report, the delay was due to a hurricane. For the other report, the delay was due to high volume of shipments related to the holiday season.
- One report identified a loss during transit. After the entity reported the loss of select agents in transit during importation into the United States, the FBI tracked the packages to Belgium where the select agents were incinerated.

Reports of Possible Releases

Of the 74 reports involving select agents, there were 46 reports regarding a possible release of a select agent. It is important to note that none of the reported releases were considered by HHS or USDA to be a threat to public, animal, or plant health. Of the 46 reports:

- There were 5 confirmed reports of releases of a select agent. These releases were identified by illnesses in 7 laboratorians that had occurred as a result of working with these materials.
 - Two of these reports involved exposure to Newcastle disease virus (velogenic) and resulted in conjunctivitis.
 - One of these reports involved exposure of 3 laboratorians to a virulent strain of *Francisella tularensis*. This resulted from an error in the identification of the strain, which led the laboratorians to manipulate the strain under Biosafety Level 2 conditions, which in turn failed to protect the workers from possible aerosol exposure.

Thefts, Losses, or Releases of Select Agents or Toxins

February 7, 2003, to December 31, 2006

Page 3

- Two of the reports involved exposure to *Brucella* that resulted in illness. One of these two reports involved an exposure to a virulent *Brucella melitensis* strain in a diagnostic laboratory. As with the *Francisella tularensis* incident, a significant factor in this release was the incorrect identification of the organism. In this case, prior to its identification as *Brucella*, this strain was handled in conditions that did not protect the worker from potential aerosol exposure. The second report involved the exposure of a laboratorian to *Brucella* in a research laboratory in which the exact incident involving the exposure was not determined.
- In all cases, the individuals involved have recovered from their illnesses.
- Twenty-three reports involved incidents where a possible exposure of the select agent may have occurred and medical treatment was provided as a precaution, but no illnesses or other evidence of infection occurred. Two of the 23 reports involved an apparent non-compliance of the Select Agent Regulations and were referred to HHS OIG for further investigation and enforcement.
- Fourteen reports involved a release outside the primary barrier of containment. However, after the investigation was conducted by HHS and USDA Select Agent Programs, it was determined that an occupational exposure was unlikely.
- Four reports were determined to not be occupational exposures or releases outside the primary barrier of containment after investigations were conducted by the HHS Select Agent Program.

Summary

In summary, the Select Agent Program received 83 reports of Theft, Loss, or Release of a select agent or toxin between February 7, 2003, and December 31, 2006. As a result of the follow-up investigations conducted by HHS, USDA, and the FBI regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- No confirmed losses of a select agent; and
- Five confirmed releases of a select agent.

Stewart, Janet -USDA

From: Agnes Thomas@HHS.GOV
Sent: Friday, March 14, 2008 11:22 AM
To: Stewart, Janet -USDA
Subject: Report to Congress - Thefts, Losses, or Releases
Attachments: ATTACHMENT.TXT; swift~akb01q.pdf

Ms. Stewart

Per our phone conversation, please find attached for your files the final report that was released on March 6, 2008.

3/14/2008

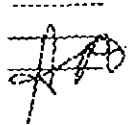


DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

DEC 4 2007

TO: The Secretary
Through: DS
COS
ES 
FROM: Director
Centers for Disease Control and Prevention

SUBJECT: Report to Congress on Thefts, Losses, or Releases of a Select Agent or Toxin

BACKGROUND

Section 201(a) of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-1988) required the Secretary to report to Congress annually on the number and nature of notifications received in accordance with subsection (e)(8) (relating to theft or loss) and subsection (j) (relating to releases) of a select agent or toxin.

As required by the Act, the Department of Health and Human Services promulgated an interim final rule on December 13, 2002 (67 FR 76835) and published the final rule on March 18, 2005 (70 FR 13294) regarding the possession, use, and transfer of select agents and toxins. All provisions of the final rule supersede those contained in the interim final rule. The final rule became effective on April 12, 2005. As part of that rule, an individual or entity must immediately report any theft, loss, or release of a select agent or toxin and submit a completed Report of Theft, Loss, or Release of Select Agents and Toxins (Form 3) within seven days of the incident.

To comply with the requirement of the Act, the CDC Select Agent Program requests to submit the attached report in coordination with the Select Agent Program at the Department of Agriculture (USDA) to Congress to report the eighty-three (83) reports of Theft, Loss, or Release of a select agent or toxin received by CDC and USDA between February 7, 2003 (the effective date of the interim final rule) and December 31, 2006.

RECOMMENDATION

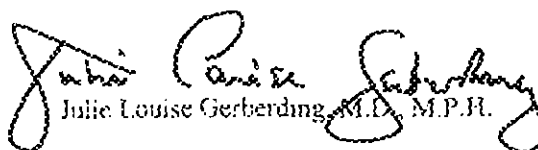
I recommend that you review and approve the attached report.


DECISION

Approved _____

Disapproved _____

Date **MAR - 6 2008**


Julie Louise Gerberding, M.D., M.P.H.

Attachments (2)

Tab A - Transmittal letters

Tab B - Report to Congress



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

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Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

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Secretary
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Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

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and
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Report to Congress
on
Thefts, Losses, or Releases of Select Agents or Toxins
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Thefts, Losses, or Releases of Select Agents or Toxins

February 7, 2003, to December 31, 2006

Page 2

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Thefts, Losses, or Releases of Select Agents or Toxins

February 7, 2003, to December 31, 2006

Page 3

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 5 2008

The Honorable Rosa DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

The enclosed report is in response to House Report 110-258, which directs the Department of Agriculture (USDA) to provide a report for the Food Animal Residue Avoidance Databank Program (FARAD) related to the USDA's "long-term plans to maintain the critical function that FARAD has provided the U.S. livestock industry from accidental or deliberate contamination."

Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned above the typed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure

U.S. Department of Agriculture
Report on Food Animal Residue Avoidance Databank Program through
Cooperative State Research, Education, and Extension Service

In response to:

Food Safety. "The Committee recognizes the contributions that the Food Animal Residue Avoidance Databank (FARAD) has made toward ensuring the security of the nation's food supply. The Committee is concerned that, although USDA is fully aware of the public reliance on the database and its importance in maintaining food safety, it has continued to rely on Congress to earmark funds for the initiative, neither requesting funding in its annual budget submission nor providing another source for this information, which relates directly to the department's core mission. The Committee directs USDA to report to the Committees on Appropriations in the House and Senate within 45 days of enactment on its long-term plans to maintain the critical function that FARAD has provided in protecting the U.S. livestock industry from accidental or deliberate contamination." H. Rpt. 110-258, p.23

The Cooperative State Research, Education, and Extension Service (CSREES), United States Department of Agriculture (USDA), collaborates with institutions of higher learning making up the Land-Grant University Systems. The mission of CSREES is to advance knowledge for agriculture, the environment, human health and well-being, and communities. CSREES accomplishes this by enabling universities and other partner organizations to deliver research, extension, and education programs. These three functions, research, education, and extension, are authorized by the Hatch Act of 1887, the Smith-Lever Act of 1914, and the National Agricultural Research, Extension, and Teaching Policy Act of 1977, among others. Each of these pieces of legislation reaffirms that the functions of CSREES are specifically research, extension, and education.

The role of FARAD is to identify, analyze, and distill information from diverse, highly-technical scientific literature, and then compile, summarize, and present the information as an effective and accessible decision-support tool for use by veterinarians and other food safety professionals in both the public and private sectors. Although this undertaking may be valued by those served, FARAD was a congressional earmark and was therefore allocated to specific institutions rather than through a competitive process. FARAD program managers have not sought funding through the competitively awarded Integrated Food Safety Program (Section 406) that supports research, education, and extension activities.

While no funds were appropriated for FARAD in 2007, the Food and Drug Administration (FDA), Center for Veterinary Medicine provided to CSREES, through a reimbursable agreement, \$958,485 in support of FARAD activities. CSREES provided an additional \$35,000 to this effort out of general administration funds available to the agency. These funds were awarded to North Carolina State University, University of Florida, and University of California, Davis to support FARAD activities. No funds were appropriated for FARAD in 2008 nor have funds yet been made available through FDA. The Administration's 2009 Budget continues efforts to focus

research on competitively awarded programs that are national in scope, while also reducing earmarks. This will improve accountability for Federal spending as well as the ability of Executive Branch agencies to properly manage funds.

The Administration seeks to increase funding for competitively awarded programs in the National Research Initiative and Section 406 programs in food safety. FARAD program managers are encouraged to apply for these funds to support FARAD activities.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 3 2008

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

Dear Congressman Kingston:

The enclosed report is in response to House Report 110-258, which directs the Department of Agriculture (USDA) to provide a report for the Food Animal Residue Avoidance Databank Program (FARAD) related to the USDA's "long-term plans to maintain the critical function that FARAD has provided the U.S. livestock industry from accidental or deliberate contamination."

Similar letters are being sent to Congresswoman DeLauro and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned above the printed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure

U.S. Department of Agriculture
Report on Food Animal Residue Avoidance Databank Program through
Cooperative State Research, Education, and Extension Service

In response to:

Food Safety. "The Committee recognizes the contributions that the Food Animal Residue Avoidance Databank (FARAD) has made toward ensuring the security of the nation's food supply. The Committee is concerned that, although USDA is fully aware of the public reliance on the database and its importance in maintaining food safety, it has continued to rely on Congress to earmark funds for the initiative, neither requesting funding in its annual budget submission nor providing another source for this information, which relates directly to the department's core mission. The Committee directs USDA to report to the Committees on Appropriations in the House and Senate within 45 days of enactment on its long-term plans to maintain the critical function that FARAD has provided in protecting the U.S. livestock industry from accidental or deliberate contamination." H. Rpt. 110-258, p.23

The Cooperative State Research, Education, and Extension Service (CSREES), United States Department of Agriculture (USDA), collaborates with institutions of higher learning making up the Land-Grant University Systems. The mission of CSREES is to advance knowledge for agriculture, the environment, human health and well-being, and communities. CSREES accomplishes this by enabling universities and other partner organizations to deliver research, extension, and education programs. These three functions, research, education, and extension, are authorized by the Hatch Act of 1887, the Smith-Lever Act of 1914, and the National Agricultural Research, Extension, and Teaching Policy Act of 1977, among others. Each of these pieces of legislation reaffirms that the functions of CSREES are specifically research, extension, and education.

The role of FARAD is to identify, analyze, and distill information from diverse, highly-technical scientific literature, and then compile, summarize, and present the information as an effective and accessible decision-support tool for use by veterinarians and other food safety professionals in both the public and private sectors. Although this undertaking may be valued by those served, FARAD was a congressional earmark and was therefore allocated to specific institutions rather than through a competitive process. FARAD program managers have not sought funding through the competitively awarded Integrated Food Safety Program (Section 406) that supports research, education, and extension activities.

While no funds were appropriated for FARAD in 2007, the Food and Drug Administration (FDA), Center for Veterinary Medicine provided to CSREES, through a reimbursable agreement, \$958,485 in support of FARAD activities. CSREES provided an additional \$35,000 to this effort out of general administration funds available to the agency. These funds were awarded to North Carolina State University, University of Florida, and University of California, Davis to support FARAD activities. No funds were appropriated for FARAD in 2008 nor have funds yet been made available through FDA. The Administration's 2009 Budget continues efforts to focus

research on competitively awarded programs that are national in scope, while also reducing earmarks. This will improve accountability for Federal spending as well as the ability of Executive Branch agencies to properly manage funds.

The Administration seeks to increase funding for competitively awarded programs in the National Research Initiative and Section 406 programs in food safety. FARAD program managers are encouraged to apply for these funds to support FARAD activities.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 5 2008

The Honorable Herbert Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The enclosed report is in response to House Report 110-258, which directs the Department of Agriculture (USDA) to provide a report for the Food Animal Residue Avoidance Databank Program (FARAD) related to the USDA's "long-term plans to maintain the critical function that FARAD has provided the U.S. livestock industry from accidental or deliberate contamination."

Similar letters are being sent to Senator Bennett, Congresswoman DeLauro, and Congressman Kingston.

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Edward T. Schafer
Secretary

Enclosure

**U.S. Department of Agriculture
Report on Food Animal Residue Avoidance Databank Program through
Cooperative State Research, Education, and Extension Service**

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The Administration seeks to increase funding for competitively awarded programs in the National Research Initiative and Section 406 programs in food safety. FARAD program managers are encouraged to apply for these funds to support FARAD activities.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 5 2008

The Honorable Robert Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Bennett:

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U.S. Department of Agriculture
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Cooperative State Research, Education, and Extension Service

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Tom Davis
Ranking Member
Committee on Oversight and Government Reform
U.S. House of Representatives
B-350A Rayburn House Office Building
Washington, D.C. 20515-4611

Dear Congressman Davis:

In accordance with Section 647(b) of Division F of the Consolidated Appropriations Act, fiscal year (FY) 2004, P.L. 108-199, the Department of Agriculture's (USDA) Report to Congress on FY 2007 Competitive Sourcing Efforts is enclosed.

In FY 2007, USDA announced two competitive sourcing studies for 129 full-time equivalent employees (FTE) that are still ongoing. No competitive sourcing studies were completed in FY 2007. Several feasibility studies are also ongoing that may lead to competitions in FY 2008. USDA estimates these competitions will include approximately 691 FTE. See Enclosure A for additional information regarding announced competitions without performance decisions.

USDA continues to use competitive sourcing as a management tool to improve the effectiveness of its workforce. An example is the Forest Service (FS) public-private competition of Information Technology services completed in FY 2005 which is projected to save \$146.7 million over five years. As a result of this competition, FS realized actual savings of \$21.6 million in FY 2007 and \$56.8 million in cumulative savings since FY 2005. See Enclosure B for additional information regarding completed competitions.

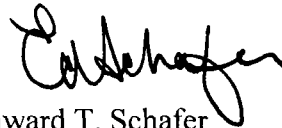
USDA continues to implement the Competitive Sourcing Initiative as part of the President's Management Agenda in a fair and equitable manner, focusing on broader, more strategic groupings of related functional areas.

The Honorable Tom Davis
Page 2

However, to sustain continued progress, we urge the elimination of the restrictive language in the Agriculture Appropriations acts, which prohibits competitive sourcing activity for rural development or farm loan support personnel. In addition, the prohibitor in the Interior Appropriations Act that restricts the amount of resources the FS may spend on competitive sourcing should also be eliminated.

If you have any questions or need additional information, please contact Charles R. Christopherson, Jr., Chief Financial Officer at (202) 720-5539.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Schafer", with a stylized, cursive script.

Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Henry A. Waxman
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

Dear Mr. Chairman:

In accordance with Section 647(b) of Division F of the Consolidated Appropriations Act, fiscal year (FY) 2004, P.L. 108-199, the Department of Agriculture's (USDA) Report to Congress on FY 2007 Competitive Sourcing Efforts is enclosed.

In FY 2007, USDA announced two competitive sourcing studies for 129 full-time equivalent employees (FTE) that are still ongoing. Several feasibility studies are also ongoing that may lead to competitions in FY 2008. USDA estimates these competitions will include approximately 691 FTE. See Enclosure A for additional information regarding announced competitions without performance decisions.

USDA continues to use competitive sourcing as a management tool to achieve positive results. An example is the Forest Service (FS) public-private competition of Information Technology services, which is projected to save \$146.7 million over five years. As a result of this competition, FS realized actual savings of \$21.5 million in FY 2007 and \$56.7 million cumulative savings since FY 2005. See Enclosure B for additional information regarding completed competitions.

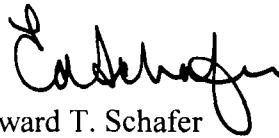
USDA continues to implement the President's Competitive Sourcing Initiative in a fair and equitable manner, reflecting a broader, more strategic grouping of related functional areas.

The Honorable Henry A. Waxman
Page 2

However, to sustain continued progress, we urge the elimination of the restrictive language in the Agriculture Appropriations acts, which currently prohibits competitive sourcing activity for rural development or farm loan support personnel, as well as the cap in the Interior Appropriations Act that restricts the amount of resources the FS may spend on competitive sourcing.

If you have any questions or need additional information, please contact Charles R. Christopherson, Jr., Chief Financial Officer at (202) 720-5539.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Thad Cochran
Ranking Member
Committee on Appropriations
United States Senate
S-146A Capitol Building
Washington, D.C. 20510

Dear Senator Cochran:

In accordance with Section 647(b) of Division F of the Consolidated Appropriations Act, fiscal year (FY) 2004, P.L. 108-199, the Department of Agriculture's (USDA) Report to Congress on FY 2007 Competitive Sourcing Efforts is enclosed.

In FY 2007, USDA announced two competitive sourcing studies for 129 full-time equivalent employees (FTE) that are still ongoing. Several feasibility studies are also ongoing that may lead to competitions in FY 2008. USDA estimates these competitions will include approximately 691 FTE. See Enclosure A for additional information regarding announced competitions without performance decisions.

USDA continues to use competitive sourcing as a management tool to achieve positive results. An example is the Forest Service (FS) public-private competition of Information Technology services, which is projected to save \$146.7 million over five years. As a result of this competition, FS realized actual savings of \$21.5 million in FY 2007 and \$56.7 million cumulative savings since FY 2005. See Enclosure B for additional information regarding completed competitions.

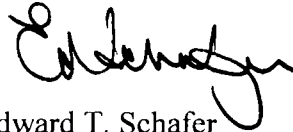
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The Honorable Thad Cochran
Page 2

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Sincerely,

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
S-131 Capitol Building
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with Section 647(b) of Division F of the Consolidated Appropriations Act, fiscal year (FY) 2004, P.L. 108-199, the Department of Agriculture's (USDA) Report to Congress on FY 2007 Competitive Sourcing Efforts is enclosed.

In FY 2007, USDA announced two competitive sourcing studies for 129 full-time equivalent employees (FTE) that are still ongoing. Several feasibility studies are also ongoing that may lead to competitions in FY 2008. USDA estimates these competitions will include approximately 691 FTE. See Enclosure A for additional information regarding announced competitions without performance decisions.

USDA continues to use competitive sourcing as a management tool to achieve positive results. An example is the Forest Service (FS) public-private competition of Information Technology services, which is projected to save \$146.7 million over five years. As a result of this competition, FS realized actual savings of \$21.5 million in FY 2007 and \$56.7 million cumulative savings since FY 2005. See Enclosure B for additional information regarding completed competitions.

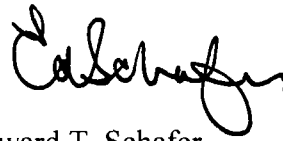
USDA continues to implement the President's Competitive Sourcing Initiative in a fair and equitable manner, reflecting a broader, more strategic grouping of related functional areas.

The Honorable Robert C. Byrd
Page 2

However, to sustain continued progress, we urge the elimination of the restrictive language in the Agriculture Appropriations acts, which currently prohibits competitive sourcing activity for rural development or farm loan support personnel, as well as the cap in the Interior Appropriations Act that restricts the amount of resources the FS may spend on competitive sourcing.

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Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lewis:

In accordance with Section 647(b) of Division F of the Consolidated Appropriations Act, fiscal year (FY) 2004, P.L. 108-199, the Department of Agriculture's (USDA) Report to Congress on FY 2007 Competitive Sourcing Efforts is enclosed.

In FY 2007, USDA announced two competitive sourcing studies for 129 full-time equivalent employees (FTE) that are still ongoing. Several feasibility studies are also ongoing that may lead to competitions in FY 2008. USDA estimates these competitions will include approximately 691 FTE. See Enclosure A for additional information regarding announced competitions without performance decisions.

USDA continues to use competitive sourcing as a management tool to achieve positive results. An example is the Forest Service (FS) public-private competition of Information Technology services, which is projected to save \$146.7 million over five years. As a result of this competition, FS realized actual savings of \$21.5 million in FY 2007 and \$56.7 million cumulative savings since FY 2005. See Enclosure B for additional information regarding completed competitions.

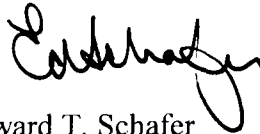
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The Honorable Jerry Lewis
Page 2

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Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable David R. Obey
Chairman
Committee on Appropriations
U.S. House of Representatives
H-218 Capitol Building
Washington, D.C. 20515

Dear Mr. Chairman:

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USDA continues to implement the President's Competitive Sourcing Initiative in a fair and equitable manner, reflecting a broader, more strategic grouping of related functional areas.

The Honorable David R. Obey
Page 2

However, to sustain continued progress, we urge the elimination of the restrictive language in the Agriculture Appropriations acts, which currently prohibits competitive sourcing activity for rural development or farm loan support personnel, as well as the cap in the Interior Appropriations Act that restricts the amount of resources the FS may spend on competitive sourcing.

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Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Robert F. Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Bennett:

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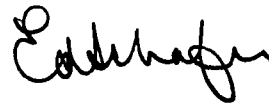
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APR 14 2008

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United States Senate
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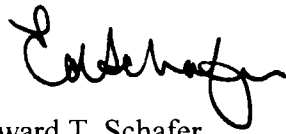
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The Honorable Herb Kohl
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Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

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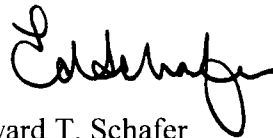
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The Honorable Jack Kingston
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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Rosa L. DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

In accordance with Section 647(b) of Division F of the Consolidated Appropriations Act, fiscal year (FY) 2004, P.L. 108-199, the Department of Agriculture's (USDA) Report to Congress on FY 2007 Competitive Sourcing Efforts is enclosed.

In FY 2007, USDA announced two competitive sourcing studies for 129 full-time equivalent employees (FTE) that are still ongoing. Several feasibility studies are also ongoing that may lead to competitions in FY 2008. USDA estimates these competitions will include approximately 691 FTE. See Enclosure A for additional information regarding announced competitions without performance decisions.

USDA continues to use competitive sourcing as a management tool to achieve positive results. An example is the Forest Service (FS) public-private competition of Information Technology services, which is projected to save \$146.7 million over five years. As a result of this competition, FS realized actual savings of \$21.5 million in FY 2007 and \$56.7 million cumulative savings since FY 2005. See Enclosure B for additional information regarding completed competitions.

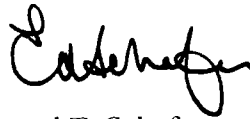
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The Honorable Rosa L. DeLauro
Page 2

However, to sustain continued progress, we urge the elimination of the restrictive language in the Agriculture Appropriations acts, which currently prohibits competitive sourcing activity for rural development or farm loan support personnel, as well as the cap in the Interior Appropriations Act that restricts the amount of resources the FS may spend on competitive sourcing.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Chambliss:

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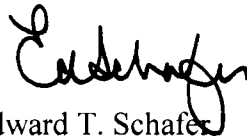
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510

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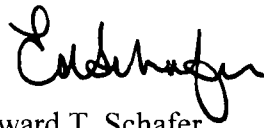
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The Honorable Tom Harkin
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Bob Goodlatte
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1305 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Goodlatte:

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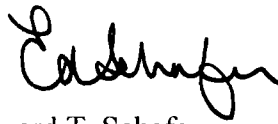
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

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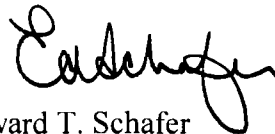
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Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 06 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

Dear Congressman Kingston:

The enclosed report is in response to House Report 110-258, accompanying the 2008 Appropriation Act, which directs the Department of Agriculture (USDA) to provide a report related to the development plan that addresses injuries and deaths of minors in agriculture. USDA and the U.S. Department of Labor have collaborated to address these issues which are outlined in the report.

A copy of this report will be sent to Senators Kohl and Bennett and Congresswoman DeLauro.

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Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 06 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture,
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NOV 06 2008

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Ranking Member, Subcommittee on Agriculture,
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Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

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The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture,
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Committee on Appropriations
United States Senate
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Enclosure

U.S. Department of Agriculture Report to Congress: Minors in Agriculture

October 2008

The fiscal year 2008 Agricultural Appropriations House Report 110 -258 included in the Office of the Secretary of Agriculture a Congressional Directive regarding injuries and fatalities to minors: *The committee directs the Secretary of USDA, in collaboration with the Secretary of Labor, to develop a plan to address injuries and deaths of minors in agriculture and to submit the plan to the Committee by March 1, 2008.*

The U.S. Department of Labor (USDOL) Report to Congress: *Youth Employment in the Agricultural Industry*, in response to House Report 108-10 for fiscal year 2003, describes Federal and State restrictions on the employment of youth in agriculture, and steps the USDOL has taken to promote positive and safe work experiences for young farmworkers. The overall picture of youth employment in agriculture presented by this report remains accurate and relevant. As stated in the USDOL report, over 40 percent of occupational fatalities among youth occur in agriculture. Ninety percent of these fatalities occur on farms with 10 or fewer employees not on large-scale corporate farms. More than half of the youth fatalities in agriculture occur to youth employed on family farms.

The Centers for Disease Control, National Institute of Occupational Safety and Health (NIOSH), reported 310 work-related deaths among youth less than 20 years of age from 1992 through 2002 in the agriculture production sector.¹ This compares to 1,958 total fatalities for all workers less than 20 years of age for the same time period. Although the number of agricultural production fatalities among youth has shown a general downward trend over this time period, the fatality rates for young workers in agriculture production were higher than for young workers in all industries by a factor of 3.6. Fifteen year olds had the highest fatality rates. In the crop production sector, 15 year old workers had a fatality rate 6 times that of all 15 year old workers. An analysis of 695 total farm-related youth fatalities from 1995-2000 revealed an average annual fatality rate of 9.3 fatalities per 100,000 youths. Males accounted for 80 percent of those fatalities. The most prevalent causes of death were machinery (25 percent) and motor vehicle (17 percent).¹

The National Agricultural Statistics Survey (NASS) reported that in 2001, there were 22,648 agricultural-related injuries that occurred to children and adolescents under the age of 20 who lived on, worked on, or visited a farm operation. Thirty-seven percent of these injuries, approximately 8,380, were classified as work-related. Most of these injuries, 74.4 percent, happened to youth who were part of the farm household.

¹ Goldcamp, M., et al, Farm fatalities to youth 1995-2000: A comparison by age groups. Safety Research 2004;35(2):151-7.

Approximately 32 percent happened to children under the age of 10, about 49 percent to children age 10-15, and 19 percent to adolescents age 16-19.² NIOSH reported that in 2006, a period five years later, an estimated 23,100 children and adolescents were injured on farms; 5,800 of these injuries due to farm work.³

Federal funds were appropriated to USDA beginning in fiscal year 2001 to develop new curriculum and instructor training for youth farm safety education and certification. A new training curriculum has been developed and implemented as a result of these efforts. Significant changes in agricultural production and in the agricultural workforce, as well as the high number of incidents of injuries and deaths associated with agriculture employment, have resulted in USDA and USDOL collaboration to revitalize the certification process, develop appropriate training, and review the restrictions concerning youth employment in hazardous agricultural jobs. The program is authorized under the Smith-Lever Act of May 8, 1914, as amended, (7 U.S.C. 341 et seq.) with funding under Section 3(d) of the Smith-Lever Act (7 U.S.C. 343(d)) line item for Youth Farm Safety Education and Certification.

The information summarized in USDOL's Report to Congress: *Youth Employment in the Agricultural Industry*, in response to House Report 108-10 for fiscal year 2003, demonstrates the challenges and complexities of youth employment in agriculture. That report notes that approximately 90 percent of occupational fatalities among youth in the agricultural industry occur on farms with 10 or fewer employees and more than half occur on family farms.

The following plan identifies specific joint activities and actions the USDA and the USDOL participate in to address injuries and fatalities to minors in agriculture.

Lead Agency USDA

GOAL: Support national efforts to deliver timely, pertinent, and appropriate training to youth actively working in agricultural production.

OBJECTIVE 1. Support existing Agricultural Hazardous Occupation Order (AgHO) by updating and assessing curricula, testing procedures, and certification means.

- Convene focus groups to determine competencies, skills, and certification requirements
- Develop minimum core content for certification curriculum
- Develop and test pilot a curriculum for training youth for certification

² National Agricultural Statistics Service, Agricultural Statistics Board, U.S. Department of Agricultural 2001 Childhood Agricultural-Related Injuries.

³ National Institute for Occupational Safety and Health, Agricultural Safety, March 17, 2008.

- Determine instructor qualifications required for training and certifying youth
- Conduct training of instructors in educating and certifying youth
- Develop and implement a tracking and database system for certified youth, instructors, training resources, and exams
- Establish and implement an administrative management system for approval of current and new curriculum, testing, and certification requirements
- Develop a national awareness campaign on training and certification requirements of youth employed in agriculture

OBJECTIVE 2. Encourage stakeholder involvement and conduct studies to support policy and program development of AgHO.

- Implement a steering committee of USDA/USDOL, other Federal agencies, academia, agricultural and youth organizations to identify priorities for youth farm safety education and the certification program
- Create a national profile of the characteristics of the employers of youth, work responsibilities, and employer's perceptions of most desirable skills in youth employees
- Identify youth employees' current skills and training

OBJECTIVE 3. Develop programs to mitigate agricultural hazards to young workers, regardless of knowledge, experience, ability, ethnicity, or culture.⁴

- Develop a graphics-based curriculum for youth with limited language or literacy skills
- Develop a youth livestock safety education project
- Develop an Anabaptist youth farm safety program
- Evaluate curriculum for use with African American youth seeking certification

⁴ Youth have a wide range of knowledge and experience with agricultural equipment. For example, Anabaptist youth may be exposed to different hazards and have restrictions on teaching curriculum based on culture. This goal will evaluate curriculum with various groups to ensure there is not ethnic bias.

- Develop a user-friendly database of agricultural tasks for children using the North American Guidelines for Childhood Agricultural Tasks

Lead Agency USDOL

GOAL: Review, revise, and enforce agricultural youth employment Federal regulations

The Federal youth employment provisions serve as a platform from which young people can explore the world of work. As noted in the USDOL 2003 Report to Congress, USDOL promotes compliance with youth employment standards in agriculture by balancing its resources among targeted and complaint-based enforcement, comprehensive compliance assistance activities, and constructive partnerships. All compliance-related activities listed in that Report continue to serve the Department well. In addition, the Wage and Hour Division's 2008 and 2009 Performance Plans continue to place enforcement emphasis in low-wage industries, including those that employ youth, immigrant populations, and farmworkers. Reducing agricultural injuries and deaths of young workers is a complex problem that will require time and many strategies to address. The combined efforts of many agencies appear to be making an important difference. NIOSH reports that the total number of youths injured on farms has decreased from 37,800 in 1998 to 27,600 in 2004. For that same time period, the number of farm work-related youth injuries decreased 51 percent from 16,695 to 8,130.

Also as mentioned in the Report, USDOL provided funds to the NIOSH to conduct a comprehensive review of scientific literature and available data in order to assess current workplace hazards and the adequacy of the current youth employment Hazardous Occupations Orders to address them. This study was commissioned to provide USDOL with another tool to use in its ongoing review of the youth employment provisions, and of the hazardous occupations orders in particular. The report, entitled *National Institute for Occupational Safety and Health (NIOSH) Recommendations to the U.S. Department of Labor for Changes to Hazardous Orders*, was issued in July of 2002. The NIOSH Report, which is available for review on the USDOL's **YouthRules!** Web site at <http://www.youthrules.dol.gov/resources.htm>, makes 11 recommendations concerning the existing AgHO. USDOL has held stakeholder meetings on the NIOSH AgHO recommendations and is continuing to review them for potential rulemaking. USDA continues to provide input in this review.

It is important to note that the Fair Labor Standards Act contains a complete exemption from the child labor provisions for the employment of a child in agriculture on a farm owned or operated by a parent of that child. Such children—who as a class experience more than half of the occupational deaths of young workers on farms—can perform any work, at any age, on such a farm. Accordingly, USDOL has traditionally looked to methods other than enforcement to help young farmworkers on family farms enjoy safe and positive work experiences. These methods include compliance assistance materials emphasizing occupational safety and health; partnering with parents, employers,

advocacy groups, other government agencies, and academia; and contributing to the development and dissemination of "age-appropriate" task standards that parents can use to measure the capabilities of their children.

Partnership efforts that have been particularly productive include USDOL's sponsorship of, and participation in, the Federal Network for Young Worker Safety and Health (FedNet). FedNet is an informal association of about 14 different Federal agencies who meet with the purpose of preventing occupational injuries and illness among workers from age 14 through 24. The Wage and Hour Division has also reached out to Anabaptist communities throughout the country to help them better understand the Federal youth employment provisions and keep their young workers safe. These communities have demonstrated a strong desire to both protect their young workers and comply with youth employment provisions. Compliance assistance materials prepared by FedNet, including a guide for landscape workers and information about working out of doors have been posted on the OSHA Web site designed for teen workers (<http://www.osha.gov/SLTC/teenworkers/index.html>). FedNet has also become an important vehicle for reminding participating federal agencies to keep young workers in mind, including those employed in agriculture, when developing strategic plans.

Collaborate with other Federal Agencies

Collaboration with other Federal agencies with dedicated resources and authorities targeted at addressing injuries to minors in agriculture is critical. NIOSH has approximately 60 full-time equivalents working on agriculture.⁵ USDA and USDOL both actively participate in the NIOSH led Federal Interagency Work Group on Preventing Childhood Agricultural Injuries. The major issues in relation to child labor identified by NIOSH and stakeholders were traumatic and cumulative injuries related to farming activities. These activities included living on, working on, and visiting a farm.³ NIOSH provides funding to the National Children's Center for Rural and Agricultural Health and Safety, in Marshfield, Wisconsin. USDA and USDOL have participated in stakeholder workshops led by this center to develop the following action plans:

Children and Agriculture National Action Plan 1996

Goal: maximize the safety and health of all children and adolescents who may be exposed to agricultural hazards. Established 13 objectives and 43 recommended action steps proposed by committee members.

2001 Summit on Childhood Agricultural Injury Prevention

Goal: to propose specific injury prevention strategies based on knowledge gained from research and interventions undertaken since the endorsement of the 1996 National Action Plan, *Children and Agriculture: Opportunities for Safety and Health*. The stakeholder group produced plans for a coordinated, comprehensive effort to prevent agricultural-related injuries among children and adolescents who live on, visit, and/or work on farms and ranches.

⁵ Agriculture, Forestry, and Fishing Research at NIOSH, 2008, National Academies Press, Washington, DC.

Migrant and Seasonal Hired Adolescent Farmworkers: A plan to improve working conditions.

Stakeholder group made recommendations for preventing or reducing agricultural work hazards that affect the health and safety of adolescent farmworkers, 12-17 years old.

USDA and USDOL will continue to work with NIOSH and the National Children's Center for Rural and Agricultural Health and Safety to identify research priorities, and promote intervention and outreach activities.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 27 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

As requested by the House Report 110-258 accompanying the Fiscal Year 2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the United States Department of Agriculture is submitting two documents regarding the Animal and Plant Health Inspection Service (APHIS): *A Comprehensive Report on International Activities* and *A Five Year International Strategic Plan*.

We appreciate your interest in APHIS' international activities. I am sending similar letters to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

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Edward T. Schafer
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 27 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
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**United States Department of Agriculture
Animal and Plant Health Inspection Service**

**A 5-Year
International Strategic Plan**

February 2008

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1. Introduction

The United States Department of Agriculture's (USDA) Animal and Plant Health Inspection Service's (APHIS) international activities are an increasingly important component of the Agency's overall strategy to protect U.S. agricultural and natural resources from foreign pest and disease threats. These threats include the spread of transboundary animal diseases, emerging zoonotic diseases that pose public health threats, and invasive terrestrial and aquatic plant and animal species.

Safeguarding U.S. resources in today's increasingly interconnected world of trade, travel, and communications requires integrated strategies and international cooperation. To manage agricultural threats at their points of origin, APHIS positions technical experts in key overseas locations to work with foreign governments to monitor and respond to pest and disease risks, prevent pests and diseases from spreading to the United States, and promote safe science-based trade.

This Strategic Plan describes APHIS' priorities and strategies for its international activities for 2008 through 2013. This strategic plan describes APHIS' priorities and strategies for its international activities for 2008 through 2013. It complements APHIS' Strategic Plan, which is available on line at http://www.aphis.usda.gov/about_aphis/strategic_plan.shtml (and discussed below in Section 2 regarding APHIS' mission). Both plans support USDA's Strategic Plan (for 2005 to 2010), which is available at <http://www.ocfo.usda.gov/usdasp/sp2005/sp2005.pdf>. The priorities outlined in the APHIS international plan support the following USDA strategic goals and objectives:

- **Strategic Goal 1:** Enhance International Competitiveness of American Agriculture: particularly Objective 1.3: Improved Sanitary And Phytosanitary (SPS) System To Facilitate Agricultural Trade
- **Strategic Goal 4:** Enhance Protection and Safety of the Nation's Agriculture and Food Supply: particularly Objective 4.2: Reduce The Number And Severity Of Agricultural Pest And Disease Outbreaks

To support USDA's Goal 1, APHIS helps resolve SPS trade barriers by working with foreign counterparts to eliminate unjustified SPS measures; negotiate science-based import requirements and standards; and intervene to release U.S. shipments held at foreign ports due to SPS related concerns. The Agency's efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually. To monitor our progress, APHIS tracks the value of facilitated trade and markets expanded, retained, and newly opened and facilitate trade.

To support USDA's Goal 4, APHIS carries out activities such as controlling and eradicating pests and diseases, monitoring and responding to highly pathogenic avian influenza, monitoring offshore pests and diseases, pre-clearing foreign commodities, and providing capacity building and technical assistance. To monitor our progress, APHIS tracks the number of foreign animal disease incidents in the United States.

2. Mission

APHIS' core mission is to protect the health and value of U.S. agricultural, natural, and other resources. APHIS' vision is to:

"Build and maintain a world-class system that safeguards the health of animals, plants, and ecosystems in the United States and fosters safe agricultural trade worldwide, resulting in abundant and affordable agricultural products for U.S. consumers and the rest of the world."

The Agency's overall Strategic Plan for 2007 to 2012 establishes four mission priorities:

1. Strengthening our safeguarding system domestically and in other countries;
2. Strengthening emergency response preparedness;
3. Facilitating safe agricultural trade through international standard-setting and effective management of sanitary (animal health) and phytosanitary (plant health) issues (SPS); and,
4. Enhancing the well-being of animals covered by the Animal Welfare Act and the Horse Protection Act.

Most of APHIS' international activities specifically support the first and third priorities. First, to strengthen the U.S. safeguarding system, the Agency will work with other countries on key pest and disease control projects, including activities to identify and reduce highly pathogenic avian influenza (HPAI) threats overseas. The Agency will also continue its preclearance activities, control and eradication programs for screwworms and fruit flies, and other international surveillance and control programs. Second, to facilitate safe agricultural trade, the Agency will work with other countries to establish practical, science-based global standards to ensure safe and fair trade conditions, assist other countries in implementing risk reduction activities; and, develop and implement strategies to remove unjustified SPS barriers to U.S. agricultural exports. In short, the Agency will continue to conduct safeguarding work in other countries, resolve SPS trade barriers, and work with standard-setting organizations.

3. Challenges

World Trade and Travel – Global trends, particularly international trade, continue to challenge and pressure animal and plant protection services around the world, including APHIS. Agricultural imports into the United States over the past 15 years have increased significantly. This growing trade volume and increased passenger travel puts significant demands on inspection of cargo and baggage at U.S. ports of entry. Border controls by themselves do not adequately protect U.S. agriculture against foreign plant pests and diseases. The APHIS Strategic Plan calls for an increased focus on managing pest and disease risks at their points of origin. This offshore strategy is fully consistent with the U.S. Government's efforts to improve import safety for consumer goods. Furthermore, recent expansion of commerce with developing countries in Africa, Asia, and Latin America poses significant new threats with regard to exotic diseases, plant pests, and invasive species because these countries' regulatory infrastructures are often minimal.

Emerging and Threatening Diseases and Pests – The outbreak of a virulent strain of HPAI is a recent example of a high-profile emergent zoonotic risk that has required considerable focus and international leadership by the United States. However, other transboundary animal diseases and plant pest risks also require vigilance and strategic preparedness. These include foot-and-mouth disease in Latin America, classical swine fever in the Caribbean, fruit flies in Central America, and screwworm in Central and South America. APHIS must be prepared to respond to new diseases and pests while protecting the United States from already identified threats.

Unjustified SPS Trade Barriers – Agricultural trade barriers continue to be significant constraints in accessing markets in Asia, Europe, Latin America, and the Middle East. While APHIS has made great progress in regaining markets lost because of bovine spongiform encephalopathy (BSE) and in improving trading partners' requirements related to avian influenza, problems are likely to continue to occur when new diseases or pests emerge. APHIS is committed to regaining lost markets for the full range of commodities affected by BSE as well as markets for other commodities facing unjustified agricultural trade restrictions. This requires substantial technical dialogue with a wide range of countries and taking an active role in developing and applying international animal and plant health standards in trade.

Free Trade Agreements – Historic numbers of bilateral free trade agreements and expanding outlets for U.S. grain, horticultural, and livestock products require effective responses by APHIS. USDA's Foreign Agricultural Service (FAS) plans to intensify enforcement of U.S. trade access requirements under the new trade treaties, including rights under SPS agreements. FAS relies extensively on APHIS expertise and regulatory authority to evaluate foreign SPS measures around the world, enforce U.S. SPS trade rights, and resolve SPS trade barrier issues.

New Issues Impacting Trade – Over the next 5 years, APHIS will see growth in issues such as biosecurity, plant health, animal welfare, biotechnology, and aquatic species regulation. These will create additional hurdles for U.S. agricultural exports. Because of APHIS' responsibilities for biotechnology regulation, animal care, and other on-farm regulatory issues, effectively overcoming these obstacles requires the Agency's technical engagement and strategic response. For example, many countries are following the lead of the European Union in requiring that livestock products meet on-farm production requirements. The U.S. meat safety system, by contrast, focuses on the slaughterhouse and has little or no on-farm regulation. These developments require close vigilance and involvement.

Biotechnology Exports – The United States is a primary exporter of agricultural biotechnology commodities. Barriers to such exports arise due to concerns about product safety, asynchronous approvals of specific products between the United States and importing countries, or public perception or consumer preferences unrelated to product safety. FAS is the primary USDA agency working to resolve these barriers, but APHIS plays a crucial role by providing FAS with technical and regulatory expertise.

Developing Countries – Developed countries are mature markets for U.S. exports, meaning that they have only limited potential for future growth. The markets with the greatest growth potential for U.S. agricultural exports are developing countries. At the same time, these countries want to increase their own exports to the United States, but their plant and animal health infrastructures are, in general, weak. Therefore, APHIS must develop working relationships with counterparts in these countries to demonstrate that U.S. agricultural products are safe and implement risk mitigations that allow safe imports from these countries. APHIS' strategy is to work with these developing countries to build sound regulatory infrastructures for detecting and responding to pest and disease risks and ensure safe trade.

4. Strategy

Over the next five years, APHIS will implement the following international SPS trade management and safeguarding strategies:

4.1. Safeguarding Animal and Plant Health

For APHIS to achieve its mission, a fundamental goal is to strengthen its safeguarding system domestically and in other countries. APHIS' strategy is to work with other countries to reduce risk at foreign points of origin and prevent pest and disease threats from approaching our borders. APHIS' international cooperative programs eradicate and/or control specific exotic pests and diseases that pose a clear, immediate risk of introduction into the United States. In the next five years APHIS will focus on strengthening its detection and management efforts abroad by conducting pest and disease surveillance and detection, collecting information to identify and assess risks, conducting threat assessments, mitigating risks, and accrediting other countries' systems. In addition, APHIS is working overseas to build capacity for detecting emerging diseases and pest threats and preventing their spread to the United States.

4.1.1. Cooperative Control and Eradication

APHIS has an active role in a number of animal and plant pest and disease control or eradication programs worldwide. These pests and diseases pose a significant threat to U.S. agriculture.

a. Mediterranean Fruit Fly

APHIS will continue working closely with Mexico and Guatemala to halt the northward spread of Mediterranean fruit fly (Medfly) from Central America into southern Mexico and to maintain a barrier zone along the Mexico-Guatemala border. This barrier is critical for preventing the natural spread of the Medfly through Mexico and into the United States. APHIS will maintain the barrier by conducting three significant activities: detection, regulation of movement, and—to eliminate known infestations—pest control. Together, these activities work to maintain the barrier and prevent the northward spread of Medfly populations.

b. Mexican Fruit Fly

APHIS will continue working closely with Mexico on the joint Mexican fruit fly (Mexfly) control program in northern Mexico to reduce the risk of Mexfly introductions in California and Texas. Like the Medfly program, the Mexfly program will utilize three significant activities to prevent the fly from spreading to the United States: detection, regulation of movement, and pest control.

c. Screwworm

APHIS will continue to maintain the screwworm barrier in Panama by utilizing the sterile insect technique and surveillance in Panama and South America to keep screwworms from becoming reestablished and spreading northward. The new sterile insect plant in Panama is close to the barrier zone and will be fully operational by January 2009, resulting in significant cost savings for the Agency. APHIS will also work with counterparts in the Caribbean and South America to further garner international support and funding to help keep its plant in Tuxtla Gutierrez, Mexico operable as a backup facility and provide sterile insects to other regions on a cost-recovery basis. For example, APHIS is meeting with Jamaica officials to negotiate a plan to continue screwworm eradication on the island.

d. Classical Swine Fever

APHIS will continue to work closely with the Dominican Republic and Haiti to control Classical Swine Fever (CSF) and other transboundary animal diseases to prevent their spread to the United States. The Agency will continue the pre-departure inspection program—aimed at intercepting prohibited risk materials—for passengers traveling from the Dominican Republic to the United States. APHIS will also provide technical assistance and advice to its counterparts in the Dominican Republic and Haiti to survey, test, and reduce the prevalence and risk of CSF in their territories.

e. Foot and Mouth Disease

APHIS will continue working closely with Panama and Colombia to maintain a Foot and Mouth Disease (FMD) quarantine barrier at the Isthmus of Panama to prevent this highly contagious animal disease risk from moving northward through Central America and Mexico into the United States. APHIS will also provide technical guidance to governments in South America and international organizations to revitalize efforts to eradicate FMD from the continent.

f. Tropical Bont Tick

APHIS will continue assisting governments in the Caribbean to develop their own technical capacity to monitor and respond to Tropical Bont Tick (TBT). The Agency will partner with regional and international health organizations and governments—such as the Inter-American Institute for Cooperation in Agriculture, the Government of France, and the United Nations Food and Agriculture Organization (FAO)—to build a local field force of veterinary epidemiologists

to: monitor animal diseases and disease syndromes; provide rapid laboratory capacity and diagnosis of diseases; assess and prioritize veterinary infrastructure; and develop animal disease emergency response and management infrastructure in the region.

4.1.2. HPAI and other Transboundary Diseases and Pests

APHIS will work with foreign governments and international organizations to prevent the introduction of HPAI to the United States and the emergence of a human pandemic influenza. APHIS will also work to broaden the veterinary infrastructures in Asia and other high-risk regions to monitor and detect other emerging zoonotic and transboundary animal diseases. The Agency will continue to focus on:

- Monitoring current sources of human HPAI infections—i.e., infected bird populations overseas—and supporting sustainable national veterinary infrastructures and capabilities in HPAI-affected countries through activities such as training and capacity building in disease monitoring and surveillance;
- Supporting HPAI efforts in South East Asia and the Crisis Management Center and other relevant units at the FAO in Rome, as well as field-based HPAI efforts;
- Enhancing APHIS' ability to detect and address new or emerging foreign animal diseases or pests by developing new methods and approaches to new or emerging risk pathways to the United States;
- Working collaboratively with Mexico to address cattle fever ticks and bovine tuberculosis; and
- Seeking mechanisms that will give APHIS the flexibility to shift resources to respond to emerging transboundary animal and plant health issues.

4.1.3. Offshore Pest and Disease Surveillance

APHIS will strengthen its capabilities to monitor, report, and respond to emerging pest and disease threats at their points of origin. These capabilities provide an early warning system. The Agency will collect information on emerging or changing pests and disease threats and conditions overseas in a central database at headquarters for analysis, planning, and possible safeguarding actions. The Agency will continue developing and refining the Offshore Pest Information Program by evaluating the offshore pest and disease information-gathering activities to be sure they are efficient and effective and by developing better practical guidance, procedures, goals, and reporting requirements.

4.1.4. Pre-clearance

APHIS will continue to pre-inspect and treat commodities shipped to the United States for pests and diseases to ensure pest-free commodities, reduce pressures of inspections at U.S. ports of entry, and prevent the introduction of invasive species into the United States. The Agency will continue to establish and administer agricultural commodity pre-clearance programs for high-risk commodities from certain countries and continue to make use of irradiation as a risk-mitigation tool for fruits and vegetables. The Agency will seek to increase efficiency, reduce costs, and

strengthen auditing and quality controls procedures. APHIS will also establish a Pre-clearance Task Force to evaluate the current program and identify improvement options such as training pre-clearance inspectors and developing an accreditation system to reduce Agency oversight costs.

4.1.5. Capacity Building and Technical Assistance

APHIS will coordinate technical assistance and training to developing countries to strengthen their regulatory capacity to detect and address pests and diseases in their own regions, thereby reducing risks of transboundary pests and diseases spreading to the United States via trade. In doing so, the Agency will strengthen relationships with counterparts in these countries and will coordinate closely with other U.S. Government agencies—such as FAS, the U.S. Agency for International Development, the Department of State, and the U.S. Trade Representative—to design and implement programs that achieve APHIS' safeguarding objectives while supporting broader U.S. interests and objectives overseas. These efforts include pest and disease surveillance and detection, collecting information to identify and assess risks, conducting threat assessments, mitigating risks, and accrediting other countries' systems (such as those for certifying and issuing permits for moving products, including those coming to the United States).

Within 5 years, APHIS will establish a specialized headquarters staff to coordinate international regulatory development projects that promote safe trade with developing countries and to manage the visits of foreign agricultural officials who come to learn about U.S. safeguarding system; undertake specific projects that strengthen overseas pest and disease detection and control in around the world; and establish procedures and norms for assessing requests and evaluating the impact of these efforts and projects.

4.2. SPS Trade Management

APHIS' goal is to promote the smooth and safe movement of agricultural commodities into and from the United States, based on science and international standards, and to resolve SPS barrier issues, including access problems at foreign ports of entry that hinder or block U.S. agricultural trade. Over the next five years, the Agency will undertake the following SPS trade management strategies:

Coordination of SPS Trade Issues – APHIS will resolve SPS trade issues through improved internal coordination, strategic focus, and integration of resources. APHIS will improve coordination within the Agency on the identification of and sustained focus on strategically important SPS issues; establish biannual strategy sessions to develop action plans for each of the export issues considered strategically significant for agriculture; and establish a regional bureau structure to direct and coordinate the Agency's overseas SPS trade activities and strategies.

Collaboration with other Federal Agencies – APHIS will support FAS' international trade agenda and goals in the SPS trade area without blurring APHIS' regulatory mission or compromising the Agency's safeguarding and regulatory responsibilities. APHIS will manage and operate a process for setting joint, consensus based priorities with respect to export and

import issues; promote APHIS and FAS staff coordination and strategy development; evaluate the current communication protocols between APHIS and FAS and make recommendations for improvement; institute regular APHIS-FAS meetings to monitor issues on the USDA's SPS Priority List; and work together with FAS to set priorities and procedures for capacity building and training projects in 2008.

International Standards – APHIS will work through the World Animal Health Organization and the International Plant Protection Convention to develop and promote science-based positions in those and other international and regional venues. APHIS will also promote the increased use of international standards in trade, including in the resolution of SPS trade conflicts and differences; position APHIS experts in international standard-setting organizations; and, increase interaction with regional health organizations that have policy-level influence on SPS regulatory measures and practices in their regions.

International Regulatory Harmonization – APHIS will actively monitor and respond to emerging international regulatory policy issues that impact trade, such as regulatory differences with regard to biotechnology, animal welfare, or disease traceability. The Agency will also establish an interagency team to evaluate the potential trade impact of the new policy; work with industry to identify specific responses; coordinate alliances with like-minded countries to present alternatives; and work closely with biotechnology experts to train and prepare APHIS attachés to represent the United States on regulatory biotechnology issues.

5. Management and Administrative Priorities

The recent weakening of the U.S. dollar and inflation in foreign countries has made operating overseas more expensive than it was 10 years ago. Because of the dollar's devaluation, APHIS' Medfly program in Guatemala, which received its first annual appropriation in FY 2003, has experienced a 6 percent reduction in spending power. Similarly, the APHIS office in Thailand, which opened in 2006, has experienced a 14 percent reduction in spending power. Without additional funds, APHIS' international programs will have to cut expenditures by reducing operations. Overall, this would reduce protection to U.S. agriculture and facilitation of safe agricultural trade.

In FY 2009, APHIS requests to merge resources currently under two line items—portions of the Foreign Animal Disease/FMD and the Trade Issues Resolution and Management programs—into a single line item called Overseas Technical and Trade Operations. Since the same staff is conducting operations for these two programs, formally merging resources will simplify administration of the programs and eliminate any misperception that we have two separate staffs working on separate programs.

APHIS is required to pay its share of the State Department's Capital Security Cost Sharing Program, part of a \$16 billion Federal effort to construct 150 new embassies over a 12-year period.

Given the increasing cost of operating overseas, APHIS will build a more cost-effective international operation by:

- Reexamining the distribution of overseas posts to focus on the highest-risk sources and pathways, increasing its use of limited-term appointments to conduct overseas mission and work, and working closely with domestic APHIS programs and other agencies to set internally consistent priorities and integrated strategies;
- Exploring and implementing streamlining strategies for the overseas administrative support structure and service;
- Developing and implementing other strategies for enhanced collaboration and maximum integration of its overseas operations with domestic programs;
- Enhancing communication and connectivity to ensure effective, rapid, and reliable transmission of urgent pest, disease, and SPS trade information between headquarters and overseas offices; and
- Enhancing additional program monitoring and reporting systems to ensure the availability of routine and reliable indicators of program progress, feedback, and impact.

6. Conclusion: The Next 5 Years

Globalization and changes in international trade have increased the risk of pest and disease spread. APHIS' safeguarding strategy includes both controlling pest and disease risks at U.S. borders and an increased emphasis on working overseas to detect and prevent the spread of pests and diseases at the point of origin. At the same time, the Agency must place experts overseas in an advantageous position to assist U.S. agricultural exporters in meeting foreign regulatory requirements and to resolve technical barriers that unfairly limit or block access for foreign markets.

Looking ahead, APHIS will focus on the following international strategic themes over the next 5 years:

- Enhanced safeguarding through development of foreign regulatory infrastructures that strengthen the capacity of developing countries to detect and respond to pest and disease risks, prevent their spread, and keep the commercial trade pathway safe;
- Enhanced SPS trade coordination and strategies between APHIS and other agencies for resolving SPS trade barriers and supporting, protecting, and expanding U.S. agricultural trade on a safe, scientific basis;
- Expansion of preclearance programs to ensure safe trade, especially in developing regions where new pest and disease threats need to be managed to protect the trade pathways and prevent the spread of transboundary pest and diseases to the United States;
- Enhanced international surveillance and monitoring systems to provide early warning of foreign pest and disease events that might develop into larger threats to the United States;
- Flexible monitoring and response systems overseas to manage a broad range of zoonotic and transboundary animal disease risks, building on the current focus on HPAI; and,
- Cost-effective administrative systems for deploying experts abroad and positioning talented personnel for Agency missions overseas.

**United States Department of Agriculture
Animal and Plant Health Inspection Service**

**A Comprehensive Report on International
Activities**

February 2008

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1. Introduction

This report provides background to the United States Department of Agriculture's (USDA) Animal and Plant Health Inspection Service's (APHIS) international strategic plan and describes the Agency's overseas activities, including locations, resources, and impact to U.S. agriculture.

APHIS' mission is to protect U.S. agriculture and natural resources by preventing harmful invasive pests and diseases from entering the United States and from spreading. Globalization and changes in international trade and the movement of people have increased the risk of pest and disease spread. The Agency's safeguarding strategy includes controlling pest and disease risks at U.S. borders as well as working overseas to detect and prevent the spread of pests and diseases at their points of origin.

APHIS' international activities help the Agency reduce the risk of threats to U.S. agriculture and facilitate safe agricultural trade. The Agency has technical personnel positioned in 53 locations in 44 countries, with a total of 261 employees—208 overseas and 53 at headquarters—dedicated to work on international activities. Of the overseas employees, 57 are U.S. direct hires (Foreign Service Officers and civil service employees) and 151 are foreign local hires (known as Foreign Service Nationals). APHIS' overseas employees conduct a combination of program activities involving safeguarding, trade, technical assistance, and representational functions.

Safeguarding activities include:

- control and eradication of priority animal diseases and plant pests
- pest and disease monitoring and reporting
- technical assistance programs to create sustainable local infrastructure to monitor and manage regional pest and disease issues; and,
- commodity preclearance (i.e., pre-inspecting/certifying U.S.-bound shipments at their points of origin).

APHIS also works to facilitate safe agricultural trade. Sanitary (animal health) and phytosanitary (plant health) (SPS) issues are sometimes used inappropriately to restrict or block trade. APHIS officials strive to resolve these trade barriers by working with their foreign counterparts to eliminate unjustified SPS measures; negotiate science-based import requirements and standards; and, intervene to release U.S. shipments held at foreign ports due to SPS-related concerns. APHIS' efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually.

In Fiscal Year (FY) 2007, APHIS' \$846.23 million appropriation included \$87.089 million to conduct international activities. The bulk of this funding—62 percent—supports two major cooperative programs targeting screwworm and fruit flies in Mexico and Central America. These and other safeguarding activities help the Agency reduce the risk of threats to U.S. agriculture and facilitate safe agricultural trade. APHIS also used \$5.391 million in user fees and

\$1.183 million in reimbursable agreements and trust funds to carry out other Agency activities overseas. In total, APHIS' international activities operated on a budget of \$93.663 million in FY 2007. This budget included personnel costs, security, equipment, and utilities.

APHIS' overseas activities strengthen the Agency's capacity to respond to international health threats in a timely and strategic manner. The impact and results of these programs are demonstrated by: the halt of the spread of high-risk pests from Mexico, Central America, and the Caribbean to the United States; the number and significance of seizures of illegal risk material; the number of trade barriers eliminated and the value of trade protected and expanded; the reduced prevalence of certain key pests and diseases in these areas; the safe importation of pre-cleared horticultural products; and, the successful provision of training and technical assistance to regulatory officials in developing countries. In sum, these international activities help the Agency accomplish its protection goals of keeping pests and diseases out, building a safe global trade system, and enhancing U.S. influence and leadership on international agricultural health issues.

2. Agency Mission

APHIS' overall mission is to "protect the health and value of U.S. agricultural, natural and other resources" from harmful pests and diseases. APHIS' 2007 Strategic Plan sets four mission priorities:

1. Strengthening our safeguarding system domestically and in other countries;
2. Strengthening emergency response preparedness;
3. Facilitating safe agricultural trade through international standard-setting and effective management of SPS issues; and,
4. Enhancing the well-being of animals covered by the Animal Welfare Act and the Horse Protection Act.

APHIS' international work relates primarily to the first and third priorities. The Agency works with foreign governments to prevent the spread of pests and diseases; monitor and respond to exotic pest and disease threats; and facilitate safe trade on the basis of science, international standards, and various safeguarding programs.

3. International Activities and their Impact

APHIS organizes its international activities into two areas: animal and plant health to safeguard U.S. agriculture and sanitary and phytosanitary management to facilitate safe agricultural trade.

3.1. Safeguarding Animal and Plant Health

With the continued growth of trade and travel, inspection of cargo and baggage at U.S. ports of entry needs to be combined with other safeguarding activities to fully protect U.S. agricultural resources. The Agency has expanded its off-shore strategy, as recommended by recent U.S. stakeholder reviews and calls for increased focus on managing pest and disease risks off-shore and at the point of origin. To safeguard animal and plant health, APHIS carries out activities such as controlling and eradicating pests and diseases, monitoring and responding to highly pathogenic avian influenza, monitoring offshore pests and diseases, pre-clearing foreign commodities, and providing capacity building and technical assistance.

3.1.1. Cooperative Control and Eradication

APHIS works with foreign countries to control or eradicate animal and plant diseases and pests that pose a risk of becoming established in the United States and causing severe damage to U.S. agriculture. This includes diseases and pests such as Mediterranean fruit flies, Mexican fruit flies, Screwworms, Classical Swine Fever, Foot and Mouth Disease, Tropical Bont Tick, Pink Hibiscus Mealybug, among others.

a. Mediterranean Fruit Fly

Mediterranean fruit fly (Medfly), one of the most destructive plant pest threats to U.S. agriculture, has a wide host range that includes commercially important crops such as citrus and stone fruits. In 2000, the value of these two fruit crops alone was nearly \$5 billion. The adult female Medflies damage fruit by piercing the skin and inserting a fertile egg that hatches into larvae and eats the pulp of the fruit as the larvae matures.

APHIS works closely with the Mexican and Guatemalan governments to prevent the northward spread of the Medfly from Central America into southern Mexico and maintain a barrier zone along the Mexico-Guatemala border. This barrier is critical for preventing the natural spread of the Medfly through Mexico and into the United States.

The program, also known as Moscamed, has three components: detection, movement regulation, and pest control. The detection component maintains over 30,000 fly traps throughout the strategic areas of Guatemala and Mexico. These traps locate and delimit infestations of Medflies. The regulatory component includes roadside inspection stations where personnel inspect cars, trucks and passengers for potentially infested Medfly host material, and seize prohibited fruits and vegetables. The control component eliminates known infestations by ground and aerial applications of organic pesticides, removal of infested fruits from the field, and use of the sterile insect technique. Pioneered in the 1950s, this technique involves sterilizing large numbers of male flies and dispersing them over infested areas to mate with native female flies, thus preventing reproduction. Moscamed produces nearly 2 billion sterile Medflies every week and releases them into areas identified by the survey activities. Moscamed also produces and ships sterile pupae to the United States to support fruit fly programs in California and Florida.

Although Moscamed has successfully maintained the barrier zone for more than 25 years, it is becoming much more expensive and complex to maintain. In FY 2007, the program experienced the largest number ever of Medfly outbreaks in southern Mexico in the Medfly-free section of the barrier zone. According to several expert panel reviews, it is becoming more expensive and difficult to maintain the barrier because of economic, social, and environmental changes within the program's barrier operations zones. Because of environmental concerns, the program had to switch to an organic pesticide that is much more expensive than the one previously used. Because many of the local indigenous groups living in the project area do not allow entry by local government or Moscamed personnel, the program must rely more on release of sterile

Medflies as a preventive strategy, which is more expensive. In the past ten years, areas in Mexico and Guatemala have been opened up to agriculture and to new towns. This development has eliminated a natural Medfly-free barrier to northward expansion of the pest, and Moscamed must spend many of its resources for control activities in this area.

If not eradicated or controlled, Medflies could heavily infest the United States and cause significant crop loss. APHIS estimates the cost of eradicating a future Medfly introduction from the cost of eradicating past outbreaks. The nine outbreaks that occurred in Florida and California between 1997 and 2007 (resulting from smuggling/passenger pathways, rather than from geographical spread) cost an average of \$7 million to eradicate, with the most expensive costing \$27 million. These estimates do not include additional outlays incurred by growers for the post-harvest treatments required to ship host fruit to domestic and international markets, the cost of additional use of chemicals, losses in crop value due to quarantine restrictions, or the financial impact of foreign trade restrictions. A 1989 study estimated the full annual cost of a Medfly establishment in the United States (taking into account field damages due to Medfly, costs of field control efforts, foreign market losses, and post harvest treatments) at over \$2.1 billion. Accordingly, APHIS and its cooperators will continue working to maintain the barrier against this devastating pest in Mexico and Central America.

b. Mexican Fruit Fly

The Mexican fruit fly (Mexfly) attacks a wide variety of fruits, including apples, apricots, avocados, grapefruit, mangos, oranges, peaches, pears, and plums. Similar to Medflies, the adult female Mexflies damage fruit by piercing the skin and inserting a fertile egg that hatches into larvae and eats the pulp of the fruit as the larvae matures.

APHIS works closely with Mexico on controlling Mexflies in northern Mexico adjacent to high-risk areas along the U.S. border. The primary goal of this cooperative program is to reduce the risk of Mexfly introductions into California and Texas, the two States most at risk. By keeping Mexfly out of California and Texas, the program also prevents the fly from spreading to other States; Arizona, Florida, Georgia, and Louisiana have climates favorable to the Medfly and abundances of its preferred host crops. For all 6 States, the total value of 14 Mexfly-susceptible commodities is estimated at \$3.3 billion.

Like Moscamed, the cooperative Mexfly program utilizes active surveillance and sterile insect techniques to manage and control this pest risk. APHIS hires local trappers to conduct surveillance activities and run about 2,000 traps over 400 square miles. The Agency releases approximately 140 million sterile Mexflies each week in the Texas Lower Rio Grande Valley and 20 million sterile Mexflies each week on Mexico's side of the border. The Agency produces the sterile pupae in Mission, Texas, and the Government of Mexico provides land and building space for an emergence center and staging area, where the sterile pupae mature into adult sterile Mexflies. In addition to conducting Mexfly operations in the Lower Rio Grande area, each week APHIS releases 16 million sterile Mexflies—produced at a facility in Tapachula, Mexico—over the Mexican border city of Tijuana to protect the fruit production areas of neighboring California. APHIS also provides technical assistance to its Mexican counterparts to establish and maintain Mexfly free areas in the Mexican States of Baja California, Chihuahua, Sinaloa, and Sonora, thereby further reducing the risk of Mexfly-infested products entering the United States as well as creating a protective buffer zone beyond the U.S.-Mexico border.

If not eradicated or controlled, Mexflies could heavily infest the United States and cause significant crop loss. Since 1983, APHIS has eradicated 16 outbreaks of Mexflies (likely related to products illegally brought into the United States from Mexico) in California with an average cost of \$2.7 million. These estimates do not include additional costs incurred by growers for post-harvest treatments that would be required for the shipment of fresh fruit hosts to domestic and international markets, additional chemical usage, loss in crop value due to quarantine restrictions, or the impact of foreign countries closing their markets to various U.S. fruit and vegetable exports considered Mexfly hosts. The full annual loss to producers and exporters from a widespread and uncontrolled Mexfly infestation ranges between \$888 million and \$928 million.

c. Screwworm

Screwworms are costly and destructive parasites that feed on healthy, living animal tissue or fluid of all warm-blooded animals, including human beings. APHIS' Screwworm program had its origin in the southern United States, where the livestock industry suffered great losses due to the damage caused in screwworm-infested cattle up until the mid-twentieth century. The United States successfully eradicated this costly and destructive parasite in the 1960s, but its reintroduction could have a major economic impact on the U.S. livestock industry. APHIS works with its counterparts in Mexico and Central America to prevent this pest from reentering the United States.

Through cooperative programs first with Mexico and then with other Central American countries, APHIS has eradicated screwworm up to the narrowest point in Panama, also known as the Darien Gap, and established a permanent barrier at the border of Colombia and Panama. To maintain this barrier, APHIS and its foreign government counterparts work together to produce and release sterile flies, conduct field inspections, and conduct monitoring and surveillance activities.

APHIS and its cooperative partners utilize the sterile insect technique where the Agency sterilizes large numbers of male flies and disperses them over infested areas to mate with native female flies, thus preventing reproduction. The cooperative program transports sterile flies from the production facility in Tuxtla Gutierrez, Mexico for release in Panama and Colombia. The program releases approximately 27 million flies per week to maintain the barrier at the Darien Gap. Officials declared Panama technically free of screwworm on July 12, 2006. However, Agency officials detected 7 cases of screwworm in Panama in FY 2007. The cases were located in the Panamanian Province of Darien in the program's control area, which is forested area and largely uninhabited. There was no northward spread from the control area, and there were no cases registered in other Central American countries.

Due to the distance between production and dispersal, the program built a sterile fly production facility in Panama in July 2006. This facility began limited operations in August 2007, and plans to be fully operational by January 2009. The Mexico facility will provide surge capacity in case of an extensive outbreak. The program maintains the screwworm barrier in Panama by the weekly release of sterile screwworms in the Darien gap and approximately 20 miles into Colombia. In addition, veterinarians and field inspectors conduct surveillance activities and respond to any screwworm cases found.

The cooperative screwworm program in Central America has successfully established and maintained a protective buffer zone, effectively preventing the northward spread of screwworms into the United States. During the 1960's, screwworm infestations in the United States were common and livestock losses exceeded an estimated \$250 million per year. APHIS estimates that if screwworms re-infested and spread in the United States today, livestock losses would exceed \$844 million per year.

d. Classical Swine Fever

Classical swine fever (CSF), also known as hog cholera, is a highly contagious viral disease of swine. APHIS eradicated CSF from the United States in 1978 after a 16-year partnership with industry and State governments. CSF broke out several years ago on the island of Hispaniola, which includes the Dominican Republic (DR) and Haiti.

APHIS efforts to control CSF and mitigate the risk to the United States include establishing a pre-departure inspection program for passengers leaving the DR by ferry or plane to Puerto Rico and other U.S. locations. The passenger pre-inspection program, staffed by DR government employees, intercepts agriculture products, which could contain CSF and other organisms and transboundary animal diseases such as Foot and Mouth Disease. APHIS measures the success of this program not only by the amount of prohibited material seized in the DR but by a reduction in the amount of quarantine material seized during inspections at U.S. ports of entry. In 2007, the passenger inspection program in the DR cleared 1,998,011 passengers at 5 international airports throughout the country and 104,988 passengers at the ferry terminal in Santo Domingo. The program intercepted approximately 233,000 pounds of high risk animal products and seized 158,862 plant lots. The pre-departure passenger inspection program continues to be effective in mitigating the amount of prohibited animal and plant material from entering the United States.

In addition to pre-departure activities, APHIS supports CSF eradication on Hispaniola. APHIS officials report significant progress in the DR. From 2005-2007, the DR reported 15, 16, and 4 outbreaks, respectively. Haiti is one of the least developed and least stable countries in the Western Hemisphere and remains problematic. A current emphasis is the creation of a buffer zone between the two countries so that the DR is less likely to be reinfected.

e. Foot and Mouth Disease

USDA eradicated foot-and-mouth disease (FMD), a highly contagious and devastating foreign animal disease, from the United States in 1929. However, its presence in South America continues to pose a significant threat to the U.S. livestock industry. The Agency monitors FMD around the world and supports control programs for the disease in South America to reduce the risk to the United States.

The 2001 FMD outbreak in the United Kingdom (UK) illustrates the economic significance of this particular foreign animal disease. This outbreak cost the British economy approximately \$35 billion in quarantine, eradication, disposal, lost markets, and other associated costs. According to a study by the University of California at Davis, an FMD introduction in the United States on the scale of the 2001 UK outbreak could cost \$6 to \$14 billion.

FMD has long been present in South America and there remains a risk of the disease making its way up through Central America and Mexico into the United States. Because of this threat, APHIS works cooperatively with Panama and Colombia to establish a quarantine barrier at the Isthmus of Panama. The eradication of FMD from South America has become a hemispheric and international priority. Therefore, APHIS also partners with the Pan-American Foot and Mouth Disease Center of the Pan-American Health Organization; Inter-American Institute for Cooperation on Agriculture; the Food and Agriculture Organization; World Organization for Animal Health; and, other South American countries (Bolivia, Ecuador, and Venezuela) to support FMD eradication. In March 2004, the Houston Declaration issued by the Hemispheric FMD Conference—a meeting that brought together agriculture ministers, chief veterinary officers, and similar high-level officials—renewed South America's efforts to eradicate FMD. In addition, the U.S. State Department recently encouraged South American countries in the effort to revitalize FMD eradication efforts for the final push to eliminate the disease from the Western Hemisphere.

APHIS' partnership with South American countries has made significant progress over the past 30 years toward FMD eradication. The World Animal Health Organization considers Chile and Uruguay free of the disease; Brazil, Argentina, and Colombia nearly free; Bolivia with free zones; and Peru under review for proposed free areas. Continued support from international organizations, industry-led organizations, countries involved, and APHIS will be necessary to make the concerted effort needed for hemispheric FMD eradication.

f. Tropical Bont Tick

Tropical Bont Tick (TBT) is a pest of cattle and other animals as well as a vector for Heartwater, an infectious disease of ruminants and important foreign animal disease threat. Climatic and ecological conditions in the southern United States are favorable for the establishment of TBT. APHIS works with international organizations in several Caribbean countries to monitor for and control this pest. APHIS efforts are intended to prevent the introduction of the pest into the United States.

APHIS does not believe that eradicating TBT from the Caribbean is a practical goal; therefore, the Agency and other cooperators in the region are shifting the focus of TBT efforts to monitoring and surveillance. The Agency provides technical assistance to Caribbean nations in building infrastructure to detect and address risks associated with TBT and other emerging animal diseases. In addition, APHIS is working with the same Caribbean nations to promote timely reporting of disease detections or their vectors to the international community, which is important to prevent their spread to the United States and other islands.

APHIS is initiating a new partnership with regional and international health organizations, the Government of France, and the Food and Agriculture Organization. The intent is to build a local field force of veterinary epidemiologists and paraepidemiologists to monitor animal diseases and disease syndromes; provide rapid laboratory access and diagnosis of diseases; assess and prioritize veterinary infrastructure; and, develop animal disease emergency response and management infrastructure in the region.

g. Pink Hibiscus Mealybug

Pink hibiscus mealybug is an example of a plant pest threat that APHIS successfully identified offshore and worked to mitigate before it reached the United States. This pest attacks more than 200 plant hosts, including hibiscus, citrus, sugar cane, plums, peanuts, grapes, maize, chrysanthemums, cotton, and several types of beans including soybeans. After the pink hibiscus mealybug appeared in the Caribbean in the 1990s, APHIS—anticipating the pest’s spread to the U.S. mainland—worked closely with Caribbean countries to provide technical assistance involving field tests and releases of different biological control agents. Through these field experiments, APHIS, USDA’s Agricultural Research Service, and various universities found a biological control solution. Since then, APHIS has detected this pest in California and Florida but the biological control efforts developed in the Caribbean have greatly reduced its impact on agricultural production.

3.1.2. Highly Pathogenic Avian Influenza

Highly Pathogenic Avian Influenza (HPAI) is a recognized threat to poultry and has the potential to cause disease in humans at a scale yet to be determined. APHIS advances USDA's goal to prevent the introduction of HPAI to the United States, facilitate trade, and mitigate the emergence of human pandemic influenza. Studies show the link between human cases to the victims' direct exposure to infected birds. Therefore, APHIS directs international efforts against HPAI at the current source of human infections, the infected bird populations overseas.

Effective control of HPAI involves sustainable and reliable disease control along with protecting human health through public information, disease surveillance, and emergency preparation. APHIS' major objectives are to:

- Establish sustainable veterinary infrastructures in at-risk countries and provide training and seminars in disease monitoring and surveillance, biosecurity, epidemiology, diagnostics, vaccination, depopulation, live bird market management, risk communication, and wildlife surveillance;
- Determine the role of wild birds in HPAI transmission and levels of infection by conducting cooperative wild bird surveillance and sampling in China, Mexico, and other countries and providing surveillance workshops in Laos and Cambodia;
- Respond to countries experiencing cases of HPAI through the Crisis Management Centre within the Food and Agricultural Organization of the United Nations in Rome, where the Agency has deployed 3 technical experts and provides other technical experts as part of rapid response teams; and,
- Reduce risk of animal to human transmission in endemic and at-risk South East Asia countries by opening offices and deploying personnel in Burma, Cambodia, Indonesia, Laos, and Thailand, to directly and substantially participate in HPAI eradication, control, and prevention activities.

Since 2005, at least 58 countries have confirmed incidences of HPAI. Most outbreaks have occurred among wild birds and backyard poultry in Asian and African countries with inadequate animal health infrastructure. APHIS has increased technical assistance efforts to contain the spread of HPAI. APHIS has trained over 1,000 veterinarians, poultry workers, and government officials from 138 countries in lab diagnostics, epidemiology, live bird markets, vaccination, and surveillance, and has sponsored or participated in numerous HPAI unilateral and multilateral symposia and workshops. The majority of participants and courses focused on the hardest hit areas of Asia and Africa. As this virus spread to North and West Africa in 2007, APHIS officials in our Dakar, Senegal and Cairo, Egypt offices dedicated themselves nearly full-time to HPAI issues and activities. As part of an integrated U.S. government response, APHIS assists countries impacted by the disease and trains veterinarians from HPAI affected and at-risk countries on testing protocols and advises on surveillance and vaccination programs and contingency planning.

It is unlikely that the international agricultural and human health community will eradicate HPAI from currently infected countries in the near future. A sustained international priority is necessary to improve the capabilities for timely detection, control, and eradication of the virus on a global basis. The virus may continue to explosively spread and infect new countries without this initiative.

3.1.3. Offshore Pest and Disease Surveillance

Animal and plant pest and disease situations are biological phenomena and so regularly and unexpectedly change. APHIS must be ready to respond to emerging animal and plant threats. The Agency must collect accurate and early information about pests and diseases in foreign countries for effective and timely response. APHIS established the Offshore Pest Information Program (OPIP) to collect, report, assess, and communicate information on significant animal and plant pests and diseases in other countries to enhance the Agency's preparedness and ability to reduce the risk of introducing these organisms into the United States.

OPIP utilizes a network of APHIS officials overseas to conduct searches of local or regional multi-media open sources and to work with foreign officials and researchers to collect and report relevant information. The Agency registers users for a web-based, secure interface known as the Offshore Pest Information System to exchange information. Since January 2006, OPIP has produced more than 600 reports resulting in actions, including but not limited to changes to regulations; notifications to the U.S. Customs and Border Patrol and Agency officials at U.S. ports of entry to modify existing entry procedures or to enhance inspection vigilance; changes to domestic survey programs to enhance focus on identified pests and diseases; and, updates to plant and animal health risk assessments used to support import decisions. Ultimately, OPIP provides APHIS officials and decision makers with relevant and timely information needed to assess risks; to make changes to procedures or regulations in order to protect U.S. agriculture; and to pre-empt undue disruptions to trade.

3.1.4. Pre-clearance

APHIS manages overseas agricultural commodity pre-clearance programs to mitigate the risk of introducing exotic plant pests and diseases into the United States. These pre-clearance activities are a requirement for entry of certain high-risk commodities. Generally, APHIS officials supervise local inspectors during pre-clearance inspections and post-harvest quarantine treatments (e.g., irradiation, hot-water, vapor, or other treatment) in foreign countries in accordance with phytosanitary procedures specified by the Agency. APHIS has designed these procedures to identify and mitigate pest risks through actions taken in the country of origin and prevent non-treated or infected commodities from reaching the United States. These activities are paid for by the exporters through trust fund accounts designed specifically for this purpose.

Currently, there are pre-clearance programs in 26 countries. One of the largest is in Chile, which pre-clears a total of 155 different commodities. In 2006, this allowed the safe shipment of horticultural goods with a value of over \$1.5 billion. APHIS also supervises the treatment of mangoes in 11 countries. Other major examples of pre-clearance activities include flower bulbs and perennials from the Netherlands, citrus from Spain, sand pears from Korea, and citrus and deciduous fruit from South Africa. Besides protecting the United States from animal and plant pest and disease risks, these pre-clearance programs provide American consumers with a variety of fresh fruits and vegetables, as well as create safe trade-economic growth opportunities for developing countries in Central and South America, Caribbean, Africa, and Asia. APHIS has reported no outbreaks of pests or diseases tracing back to pre-cleared commodities. See Table 1 in the Appendix for additional information on pre-clearance activities.

3.1.5. Capacity Building and Technical Assistance

APHIS' international and domestic staffs provide international assistance and capacity building in animal and plant health infrastructure to developing countries. APHIS has a strategic interest in providing this assistance to these countries to improve their regulatory infrastructure and technical expertise. Doing so increases the likelihood that any agricultural and food exports to the United States meet U.S. standards and do not introduce foreign pests or diseases.

APHIS most often provides technical assistance in cooperation with other U.S. Government agencies, including USDA's Foreign Agricultural Service, the U.S. Agency for International Development (USAID), the Department of State, and the U.S. Trade Representative, assuring that our capacity building efforts fit into larger foreign policy goals. In this context, international capacity building is one means of achieving our safeguarding objectives while also supporting the United States' interests abroad. During an 18-month period in FY 2005 and 2006, APHIS employees participated in at more than 289 activities related to international technical and regulatory capacity building. Those activities involved technical assistance and training programs worldwide.

The International Technical and Regulatory Capacity Building staff (ITRCB) tracks our capacity building efforts, measure results, and set priorities to achieve our overall strategic objectives. The ITRCB is responsible for assuring that capacity building activities consider wider U.S. interests, availability of support from other organizations, the needs of the recipient country, their ability to follow through, and the impact on other priorities and responsibilities. As part of these efforts, APHIS provides trainings such as foreign animal disease surveillance, epidemiology, emergency preparedness and response (e.g. foot-and-mouth disease and avian influenza); export and import regulations, health certification, and pest and disease risk and pathway analyses; biotechnology regulatory procedures and processes; national animal and plant health infrastructures and delivery of services; sanitary and phytosanitary regulations development; wildlife control techniques and diagnostics; regulation of veterinary vaccines, diagnostic test kits, and laboratory procedures; livestock identification techniques and procedures; and pest-free area assessments.

One of the most significant recent examples is our support of the Africa Growth and Opportunity Act (AGOA). The goal of AGOA is to strengthen Africa's safeguarding capacity and facilitate African exports to the United States and elsewhere. USDA and USAID have jointly developed a 5-year program to strengthen Africa's plant health infrastructure. Other activities that have occurred under the auspices of AGOA include recognition of disease-free regions in Namibia (especially for FMD) and beginning the certification process to allow beef imports from Namibia; rapidly developing alternative treatments to assure continued market access for South Africa following detections of quarantine pests in agricultural shipments; resolving critical food aid issues that inhibited grain from reaching hunger-stricken areas; providing training in risk analysis; and developing plant pest survey and detection protocols.

Another important facet of capacity building is hosting foreign officials interested in learning about APHIS activities. Activities include formal training courses and consultations or meetings where foreign officials gain a better understanding of the ways APHIS controls pests and diseases, regulates trade, and protects its borders from invasive species. These initiatives have long-term impacts on our ability to work with foreign counterparts in advancement of U.S. objectives with individual countries and international organizations. The APHIS International Visitors Center hosted nearly 600 individuals from 49 countries in 2007. This is nearly six times more than the previous year, reflecting the interest of foreign regulatory officials in understanding and working with our quarantine system.

3.2. Sanitary and Phytosanitary Trade Management

APHIS officials help resolve sanitary and phytosanitary (SPS) trade barriers by working with foreign counterparts to eliminate unjustified SPS measures; negotiate science-based import requirements and standards; and intervene to release U.S. shipments held at foreign ports due to SPS related concerns. APHIS' efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually.

Because of its technical expertise and regulatory authority, APHIS plays an important role in resolving these technical trade issues, on the basis of science and international standards, and facilitating safe and fair agricultural trade. APHIS' personnel play an active and ongoing role in intervening to negotiate the release of U.S. shipments held in foreign ports due to animal or plant health concerns or barriers.

In just a single quarter—the fourth quarter of FY 2007—APHIS accomplished the following in its trade facilitation efforts:

U.S. agricultural shipments released—APHIS overseas officials intervened to release individual shipments of U.S. commodities detained at foreign ports because of an SPS or health certification problem. APHIS successfully obtained the release of 69 individual shipments, worth more than \$16 million. See Table 2 in the Appendix for additional information on shipments released.

Markets retained—Foreign regulatory requirements or a change in the pest or disease status in the United States can jeopardize existing export markets. To retain access to export markets in these situations, APHIS negotiates new import conditions or protocols, provides information about U.S. pest or disease control programs, and presents scientific information. APHIS efforts resulted in the retention of 5 export markets, worth more than \$9 million in total. See Table 3 in the Appendix for additional information on markets retained.

Markets expanded—APHIS is continually seeking to improve the conditions for U.S. agricultural exports. This can involve eliminating certain testing requirements, expanding the area eligible to export a commodity, or modifying treatment requirements. APHIS negotiations resulted in expanded access for 10 commodities worth more than \$11 million annually. See Table 4 in the Appendix for additional information on markets expanded.

New market access—APHIS assists the Foreign Agricultural Service by engaging trade partners to obtain access to markets that were not previously open to U.S. exports. This involves negotiating new import conditions with the importing country. APHIS opened 8 new markets worth an estimated \$895,000 annually. See Table 5 in the Appendix for additional information on new market access.

4. Funding*

APHIS receives funds through appropriations, user fees, and agreements to support international activities. In FY 2007, these sources provided the Agency with \$93.663 million to conduct activities overseas. Of this total, APHIS spent \$88.869 million and plans to carryover the remaining portion into FY 2008.

4.1. Appropriated Funds

In FY 2007, the U.S. Congress appropriated APHIS \$846.23 million. Of that amount, the Agency had approximately \$87.089 million available to conduct international activities, about ten percent of the Agency's total appropriations. The table lists the line items supporting the Agency's international activities. They are annual appropriations, with the exception of no-year authority included in the entire Fruit Fly Exclusion and Detection and Highly Pathogenic Avian Influenza line items and 25 percent of the Screwworm line item.

APHIS uses the majority of these appropriated funds to support fruit fly and screwworm eradication and control programs in Mexico and Central America. The Agency uses the rest of the funds for key safeguarding and trade functions throughout the world. APHIS also receives funding from the governments of Mexico, Panama, and Guatemala to support the fruit fly and screwworm programs. For the screwworm program, Mexico and Panama contributed \$1.75 and \$1.1 million, respectively. For the fruit fly program, Guatemala and Mexico each contributed \$1 million. The Foot and Mouth Disease/ Foreign Animal Diseases and Trade Issues Resolution and Management line items support our safeguarding and trade activities. Additionally, APHIS spends small portions of other line items in Mexico and the Caribbean to support domestic

* The discussion of funds in this report does not include the use of emergency funds.

programs such as Boll Weevil and Pest Detection. APHIS uses the Physical and Operational Security line item to pay for its share of the State Department's Capital Security Cost-Sharing Program, which is our share of a \$16 billion Federal effort to construct 150 new embassies over a 12-year period. Federal agencies in U.S. overseas diplomatic facilities pay a share based on their number of overseas staff.

Appropriated Funds Available for International Activities FY 2007		
Line Item	Dollars	Purpose
Foot and Mouth Disease/ Foreign Animal Diseases	8,695,000	Detect and control outbreaks of foreign animal diseases throughout the world by participating in cooperative animal disease surveillance, control, and eradication programs.
Fruit Fly Exclusion and Detection*	26,544,000	Work with Guatemala and Mexico to eradicate Mediterranean fruit flies and prevent movement north of Chiapas, Mexico and to eradicate Mexican fruit flies near the U.S.-Mexico border.
Highly Pathogenic Avian Influenza*	9,176,000	Carry out international capacity building activities throughout the world to prevent, detect, and eradicate avian influenza.
Physical Security*	3,487,000	Contribute to the Capital Security Cost Sharing program to construct 150 new embassies. Department of State calculates our contribution based on the number of overseas staff.
Screwworm	27,753,000	Prevent infestation of screwworm flies in the United States by working with Mexico, Panama, and other Central American countries.
Trade Issues Resolution and Management*	11,010,000	Resolve and manage trade issues by negotiating trade regulations and free trade agreements, setting international standards, providing technical assistance, and facilitating capacity building activities.
Tropical Bont Tick	424,000	Support surveillance and control activities in the Caribbean.
Total	\$87,089,000	

* APHIS splits these line items between domestic and international programs. This table only shows the international program.

4.2. User Fees

Congress authorizes APHIS to collect and spend Agricultural Quarantine and Inspection (AQI) User Fees to conduct an agricultural inspection program for international passengers and cargo, now operated jointly with the Department of Homeland Security's Customs and Border Protection. APHIS uses a small portion of these funds to conduct pre-departure inspections of U.S.-bound passenger baggage from the Dominican Republic (as discussed in the section on classical swine fever) and in Mexico and to conduct risk analyses overseas. In FY 2007, the Agency spent \$5.391 million in user fees for overseas activities.

4.3. Agreements

APHIS receives funds to support its international activities from other Federal agencies (reimbursable funds) and foreign agricultural producers (trust funds). In FY 2007, APHIS received \$433,000 in reimbursable funds from other agencies that use our resources, facilities, or staff experts. APHIS also utilized trust funds of about \$750,000 from overseas producers for APHIS' work to pre-clear commodities for export to the United States.

5. Personnel and Locations

APHIS has 129 U.S. direct hire positions supporting international activities at headquarters (53) and overseas (57), which include civil service, Foreign Service and U.S. contractor appointments. In addition, APHIS has a total of 151 Foreign Service Nationals (local hires) working in offices overseas.

The bulk of APHIS' international staff has and continues to be devoted to the screwworm and Medfly eradication and control programs in Mexico and Central America. The Agency's remaining international staff works in programs such as foot-and-mouth disease (FMD) eradication in South America, pre-clearance activities around the world, trade facilitation, capacity building, and global pest and disease surveillance.

APHIS has offices in 53 overseas locations in 44 countries. Some countries, such as Mexico and Brazil, have multiple APHIS offices to manage various safeguarding programs. In addition, APHIS has experts positioned in key international organizations, such as the Food and Agriculture Organization (FAO) in Rome, Italy, and the International Organization for Animal Health (OIE) in Paris, France. The three APHIS employees at FAO focus on international activities related to highly pathogenic avian influenza. Our employee at the OIE focuses on the animal health international standard setting program.

Table 6 in the appendix shows the current number of personnel and the activities of APHIS offices, along with expenditures in each country as of October 2007.

6. Conclusion

APHIS' safeguarding strategy in a global context includes both inspection and exclusion activities at U.S. borders as well as overseas collaboration with foreign governments on programs to monitor and respond to potentially harmful invasive species and prevent their spread to the United States. This report lays out the foundation that is currently in place. APHIS has deployed resources around the world in strategic locations. However, these locations may play a different role as time goes on. For example, an office working on highly pathogenic avian influenza may have a new purpose when a new threatening disease emerges. APHIS has developed a 5-year international strategic plan that discusses possible challenges that may pose a threat to U.S. agriculture, strategy on how to deal with the challenges, and prioritization on action plans.

Appendix

Table 1: Pre-Clearing Exports

Value of U.S.-Bound Exports Cleared (2006-2007 Production and Shipping Season)		
Region	Country	Dollars
South America	Argentina	\$56,666,000
	Brazil	17,000,000
	Chile	1,500,000,000
	Ecuador	27,000,000
	Peru	43,700,000
North America	Mexico	718,000,000
Central America	Costa Rica	2,760,000
	Guatemala	27,000,000
	Nicaragua	4,440,000
	Jamaica	702,000
	Haiti	1,500,000
	Dominican Republic	11,000
Europe and Middle East	Netherlands/Turkey	166,500,000
	Belgium	684,000
	Israel	Undetermined
	Great Britain and Ireland	3,630,000
	Spain	70,000,000
Asia and Pacific	New Zealand	75,000,000
	Japan	507,000
	Korea	28,800,000
	Philippines	113,000
Africa	South Africa	76,350,000
Total		\$2,820,363,000

Table 2: Facilitating Trade

Value of U.S. Agricultural Exports Released (Fourth Quarter of FY 2007)		
Country	Commodity	Value
China	Hides and skins	\$160,000
	Seafood	3,000
Japan	Timothy hay	17,847
Korea	Bovine semen	45,000
	Corn	88,760
	Pet food	620,000
	Porcine serum	288
Mexico	Apricots	30,000
	Bovine semen	11,000
	Pears and peaches	50,000
Singapore	Pet food	9,000
Spain	Wheat	10,200,000
	Amaranth grain	26,000
Taiwan	Animal feed additives	27,152
	Apples	38,528
	Avian vaccines	9,145
	Blueberries	18,000
	Celery	5,120
	Cherries	47,880
	Corn	88,697
	Fetal bovine serum	269,928
	Fish feed	23,655
	Logs	1,760,776
	Melons	77,850
	Nectarines	67,615
	Oranges	21,373
	Peaches	94,247
	Peaches/nectarines	12,152
	Pet food	261,823
	Plums	50,064
	Potatoes	37,665
	Soybeans	1,071,211
	Vegetables	7,024
	White oak logs	6,923
Venezuela	Corn oil	1,728,900
Total		\$16.986,623

Table 3: Retaining Export Markets

Not all market values have been calculated and are listed as undetermined.

Value of Export Markets Retained (Fourth Quarter of FY 2007)		
Country	Commodity	Value
Mexico	Poultry meal and yellow grease	\$3,000
	Bovine semen	9,000,000
Panama	Bovine embryos	Undetermined
	Bovine semen	300,000
Uruguay	Live horses	90,000
Total		\$9,393,000

Table 4: Expanding Export Markets

Not all market values have been calculated and are listed as undetermined.

Value of Export Markets Expanded (Fourth Quarter FY 2007)		
Country	Commodity	Value
Costa Rica	Swine and swine semen	\$200,000
Hong Kong	Poultry meat	215,000
Japan	Poultry and poultry products	300,000
Mexico	Processed eggs for animal feed	240,000
	Stone-fruit for processing	4,500,000
	Poultry and poultry products	500,000
	Dairy cattle	700,000
Russia	Poultry and poultry meat	Undetermined
Turkey	Pet food	4,500,000
South Africa	Swine semen	Undetermined
Total		\$11,155,000

Table 5: Accessing New Markets

Not all market values have been calculated and are listed as undetermined.

Value of New Markets (Fourth Quarter FY 2007)		
Country	Commodity	Value
Albania	Bovine semen	\$75,000
Bolivia	Poultry genetics	Undetermined
Costa Rica	Live cattle	20,000
European Union	Captive bred parrots	Undetermined
Guatemala	Poultry and feather meal	Undetermined
Nicaragua	Equine semen	Undetermined
Panama	Live cattle	300,000
Turkey	Live cattle	500,000
Total		\$895,000

Table 6: Overseas Locations and Resources

This table shows how APHIS deployed resources for international activities and where activities took place in FY 2007. The data does not include emergency funds such as avian influenza supplemental.

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
Africa (6)						
EGYPT- Cairo	1	3	\$459,649	✓	✓	Covers nearby countries with developing agricultural infrastructures and those desiring to increase their international trade opportunities; provides technical assistance for U.S. agricultural interests abroad; and seeks additional access for U.S. exports.
GHANA- Accra	0	0	\$140,285	✓	✓	Assists USAID with capacity building projects in Africa.
SENEGAL- Dakar	1	1	\$618,017	✓	✓	Assists in releasing U.S. agricultural shipments; supports the African Growth and Opportunity Act initiative; coordinates pest risk assessments in Africa; and provides trade assistance to USDA's Foreign Agricultural Services.
SOUTH AFRICA- Cape Town and Pretoria	2	4	\$830,196	✓	✓	Assists governments and private exporters/importers with agricultural trade in sub-Saharan Africa and conducts safeguarding and pre-clearance activities.
UGANDA- Kampala	0	0	\$141,925	✓	✓	Assists USAID with capacity building projects in Africa.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
Asia (12)						
BURMA- Rangoon	0	1	\$36,291	✓		Set up in 2007 as part of USDA’s international response to avian influenza and works with community animal health workers and non-profit organizations.
CAMBODIA- Khan Daun Penh	0	1	\$26,052	✓		Set up in 2007 as part of USDA’s international response to avian influenza and works with local governments, community animal health workers, and non-profit organizations on avian influenza.
CHINA- Beijing	2	3	\$666,681	✓	✓	Works with U.S. embassies and host government officials in China, Hong Kong, Macau, and Mongolia to ensure the release of U.S.-origin agricultural commodities at Chinese ports of entry and coordinates with counterparts on animal and plant pests and diseases of concern.
INDIA- Delhi	0	0	\$50,000		✓	Set up in 2007 to conduct pre-clearance activities.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
INDONESIA- Jakarta	1	2	\$230,361	✓		Set up in 2006 as part of USDA's international response to HPAI to coordinate our HPAI activities; works with local governments, animal health workers, and non-profit organizations; and partners with U.S. universities and institutions on HPAI research and training.
JAPAN- Tokyo	2	3	\$1,066,720	✓	✓	Addresses plant and animal health issues in regard to trade; seeks additional access and market expansion for U.S. products; pre-clears Unshu oranges and Aomori apples; advises 16 Asian countries on agriculture health issues, and serves as liaison in Asia with Asia-Pacific Economic Cooperation, OIE, and FAO.
LAOS- Vientiane	0	1	\$18,355	✓		Set up in 2007 as part of USDA's international response to HPAI and works with local governments, community animal health workers, and non-profit organizations on HPAI.
PHILIPPINES- Manila	1	3	\$201,569		✓	Covers a total of 13 countries in the Pacific; administers pre-clearance activities in New Zealand, Australia, the Philippines, Singapore, and Thailand; addresses SPS trade problems to ensure U.S. agricultural exports are accessible to foreign countries.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
SOUTH KOREA- Seoul	1	2	\$489,619		✓	Works with counterparts in eight countries on inspection and treatment of plant commodities; addresses and resolves SPS trade-related issues; seeks new market access and expanding and retaining existing markets; and facilitates the release of U.S. shipments detained at ports.
TAIWAN- Taipei	1	1	\$430,379	✓	✓	Works within the American Institute of Taiwan to improve trade relations with Taiwan and works on HPAI in northeast Asia.
THAILAND- Bangkok	2	3	\$328,598	✓		Set up in 2006 as part of USDA's international response to HPAI and serves as the regional hub for APHIS' HPAI activities and works with FAO, OIE, and WTO offices to coordinate responses to HPAI .
Europe (5)						
AUSTRIA- Vienna	2	1	\$613,341		✓	Manages trade issues for Russia, non-EU Eastern European countries, and the Commonwealth of Independent States; negotiates access for U.S. commodities; explains SPS aspects of entry into U.S. markets and advances international standards.

Table 6: Overseas Locations and Resources – Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
BELGIUM- Brussels	2	2	\$1,173,456	✓	✓	Advocates international recognition of scientifically-based agricultural health standards with counterparts in the European Union and continues science-based interchange with the WTO-recognized technical reference authorities for animal health, plant health, and food safety, all of which are located in Europe.
FRANCE- Paris	1	0	\$260,785	✓	✓	Works with the OIE, the preeminent international standard-setting body for trade in animals and animal products to advance U.S. interests in animal health, animal welfare, food safety, and wildlife management.
ITALY- Rome	3	0	\$2,931,479	✓		Works with FAO's Crisis Management Center, the hub for animal health global, responses and provides expertise in global animal health crises such as HPAI.
NETHERLANDS- The Hague	1	2	\$134,720		✓	Works on preclearance programs for flower bulbs in the Netherlands, Belgium, England, Ireland, Israel, Scotland, and Turkey.
South America (11)						
ARGENTINA- Buenos Aires	1	3	\$230,258		✓	Works on preclearance programs and assists local governments, companies, and private exporters/importers with technical issues relating to agricultural trade with the United States.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
BOLIVIA- Santa Cruz	1	2	\$775,019	✓		Provides expertise on animal health issues—chiefly, foot and mouth disease eradication and works on plant health and technical and regulatory capacity-building.
BRAZIL- Brasilia and Sao Paulo	3	5	\$1,298,385	✓	✓	Conducts animal and plant health safeguarding activities; pre-clearance of agricultural products; and provides SPS assistance to FAS.
CHILE- Santiago	2	22	\$1,730,259		✓	Conducts pre-clearance of agricultural products and assists governments, companies, and private exporters/importers with technical issues relating to agricultural trade.
COLOMBIA- Bogota	1	12	\$1,208,085	✓	✓	Provides assistance and expertise regarding foot and mouth disease eradication, trade issues, pest risk analysis, and health crises.
ECUADOR- Quito	0	1	\$39,097		✓	Assists governments, companies, and private exporters/importers with agricultural trade issues.
PARAGUAY- Asunción	0	0	\$315,486	✓		Assists Inter-American Institute for Cooperation on Agriculture with safeguarding projects.
PERU- Lima	0	1	\$82,638	✓	✓	Works on U.S. animal and plant health issues and interests and conducts pre-clearance of mangoes and asparagus.
URUGUAY- Montevideo	0	2	\$181,064	✓		Provides expertise on plant and animal health issues in Uruguay and Paraguay.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
VENEZUELA- Caracas	0	1	\$103,513	✓		Supports local authorities on FMD and other foreign animal disease issues.
Central America (6)						
BELIZE- Belmopan	0	1	\$121,338	✓	✓	Supervises Medfly trapping; oversees pre-clearance activities; and works on plant health, HPAI surveillance, safeguarding, and trade.
COSTA RICA- San Jose	1	4	\$879,226	✓	✓	Works with the Inter-American Institute for Cooperation for Agriculture (IICA) regarding agricultural trade throughout the hemisphere to allow access of U.S. commodities throughout the Americas; works on prevention of FMD and other foreign animal diseases; and conducts mango pre-clearance activities.
GUATEMALA- Guatemala City	3	10	\$19,577,407	✓	✓	Serves as headquarters for Medfly eradication in Central America; conducts surveillance and monitoring activities and maintenance of sterile insect production facilities; conducts animal health surveillance and training to local officials; negotiates protocols for the import of U.S. products; and facilitates the release of detained U.S. agricultural shipments.
HONDURAS- Tegucigalpa	0	1	\$820,884	✓		Works on prevention of FMD and other foreign animal diseases and conducts plant health surveillance and capacity building for HPAI.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
NICARAGUA- Managua	1	1	\$664,398	✓	✓	Works on prevention of FMD and other foreign animal diseases; conducts plant health surveillance and capacity building for HPAI; and conducts mango pre-clearance.
PANAMA- Panama City	7	5	\$11,321,303	✓		Manages the screwworm facility in Panama and an animal health diagnostic laboratory. See detailed discussion of APHIS' screwworm program in section c.
Caribbean (5)						
DOMINICAN REPUBLIC- Santo Domingo	2	6	\$3,057,236	✓		Works on Tropical Bont Tick surveillance, conducts safeguarding activities such as plant health, classical swine fever, and HPAI.
HAITI- Port-au-Prince	1	11	\$720,466	✓	✓	Conducts year-round mango preclearance; facilitates capacity-building workshops on HPAI; and assists in coordination efforts of classical swine fever eradication.
JAMAICA- Kingston and Montego Bay	1	4	\$182,037	✓	✓	Conducts year-round preclearance of 31 commodities and facilitates capacity-building workshops on HPAI.
TRINIDAD- Port-of-Spain	0	1	\$6,293	✓		Set up in late 2007 to assist country officials with safeguarding activities.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
North America (8)						
CANADA- Ottawa	1	1	\$309,440	✓	✓	Works on trade resolutions and prevention efforts of FMD and other foreign animal diseases.
MEXICO- Mexico City (safeguarding), Tapachula (Medfly), Tuxtla Gutierrez (screwworm production), Guadalajara (mango pre-clearance), Uruapan (avocado pre-clearance), Reynosa (Mexfly), and Tijuana (Mexfly and safeguarding)	8	23	\$15,004,552	✓	✓	These offices manage a large and diverse animal and plant health portfolio including: SPS trade issues; cooperative pest/disease surveillance, diagnostics and eradication programs; and, large preclearance inspection programs (valued at \$750 million) for mangoes, citrus, and avocados. Because of Mexico’s proximity to the United States and the risk of pests or diseases crossing the border, APHIS works with its Mexican counterparts to mitigate the migration and establishment of plant pests such as exotic fruit flies, boll weevil, pink bollworm, hydrilla and animal diseases such as tuberculosis, brucellosis, cattle tick fever, avian influenza, exotic Newcastle disease, and wildlife-vectored rabies. APHIS also provides technical support at a diagnostic reference laboratory in Mexico City that identifies animal diseases and a sterile screwworm production facility.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
Headquarters						
UNITED STATES- DC Area	53	0	\$19,294,497	✓	✓	Supports overseas activities throughout 53 locations in 44 countries by providing management and administrative support, coordinating trade negotiations, and working with other Federal agencies on global coordinated efforts.
Grand Total	110	151	\$88,968,801			



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to submit to you and members of the Committee on Agriculture, Nutrition, and Forestry, the report titled, *U.S. Biobased Products: Market Potential and Projections Through 2025*. This report is submitted in accordance with title IX, section 948, subsection (a) of the Energy Policy Act of 2005 (Public Law 109-58). The enclosed report includes:

- A description of the economic potential for the United States of the widespread production and use of commercial and industrial biobased products through calendar year 2025; and
- To the extent possible, identifies the economic potential by product area.

USDA would like to draw your attention to the fact that development of the biobased products industry can be expected to spur increased investment in processing and manufacturing facilities in rural America. This investment will expand employment opportunities for rural residents and spur demand for farm products. The science and technology for producing biobased products have advanced to the point that a wide array of products such as fuels, chemicals, and materials currently produced from petroleum feedstocks can now be produced from biobased feedstocks. Moreover, these biobased products can compete on a performance basis with products made from petrochemical feedstocks. To achieve the forecast growth, a number of scientific and processing impediments must be cleared, including the development of improved fermentation processes, improved biocatalysts, and integration of biomass conversion into large-scale biorefineries.

If you have any questions regarding the report, please contact Dr. Roger Conway, Director, at 202-401-0461 or Dr. Harry Baumes, Associate Director, at 202-401-0497, with USDA's Office of Energy Policy and New Uses.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Schafer", written over a horizontal line.

Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515-6001

Dear Mr. Chairman:

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Senator Chambliss:

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 14 2008

The Honorable Bob Goodlatte
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1305 Longworth House Office Building
Washington, D.C. 20515-6001

Dear Congressman Goodlatte:

The Department of Agriculture (USDA) is pleased to submit to you and members of the Committee on Agriculture the report titled, *U.S. Biobased Products: Market Potential and Projections Through 2025*. This report is submitted in accordance with title IX, section 948, subsection (a) of the Energy Policy Act of 2005 (Public Law 109-58). The enclosed report includes:

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 5 2008

The Honorable Collin Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515-6001

Dear Mr. Chairman:

The enclosed report is being provided pursuant to Section 1546 of the Farmland Protection Policy Act (FPPA), 7 U.S.C. 4207. Section 1546 of FPPA requires that the Secretary of Agriculture report each year to the Committee on Agriculture, Nutrition, and Forestry of the United States Senate and the Committee on Agriculture of the U.S. House of Representatives on *the progress made in implementing the provisions of that subtitle.*

The FPPA annual report includes information on: (1) the effects of Federal programs with respect to the protection of United States farmland; (2) the review and revision of Federal policies and procedures affecting farmland conversion; and (3) Federal, State, and local efforts to protect farmland. The enclosed FPPA annual report for fiscal year 2007 fulfills the requirement of Section 1546. A similar letter has been sent to Congressman Peterson.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 5 2008

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510-6000

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Edward T. Schafer
Secretary

Enclosure

U.S. Department of Agriculture
Natural Resources Conservation Service

**FARMLAND PROTECTION
POLICY ACT
ANNUAL REPORT
FOR
FY 2007**

REPORT FROM THE SECRETARY OF AGRICULTURE

TO THE COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

AND

THE COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES

March 2008

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**FARMLAND PROTECTION
POLICY ACT
ANNUAL REPORT
FOR
FY 2007**

The fiscal year (FY) 2007 Farmland Protection Policy Act (FPPA) Annual Report consists of three components:

- I. Progress of Federal agencies in implementing farmland protection;
- II. Review and revision of Federal policies and procedures affecting farmland conversion; and
- III. Federal, State, and local efforts to protect farmland.

I. Progress of Federal Agencies in Implementing the Farmland Protection Policy Act (FPPA)

According to the FPPA final rule, Federal agencies are required to evaluate the impacts of federally funded projects that may involve converting farmlands to nonagricultural uses and to consider alternative actions that would lessen the adverse effects of the land's conversion (7 CFR Part 658 and 675). Federal agencies request assistance from the Natural Resources Conservation Service (NRCS) in complying with the FPPA by submitting a Farmland Conversion Impact Rating Sheet (Form AD-1006). The agency then conducts a Land Evaluation and Site Assessment (LESA) of the project area. NRCS provides land evaluation information, while the responsible Federal agency completes the site assessment portion of the analysis. In order to implement the FPPA, Federal agencies address the potential conversion of agricultural land when reviewing internal projects or providing assistance to local communities.

Prime farmland is land that has the best combination of physical and chemical characteristics for producing food, feed, forage, fiber, and oilseed crops and is available for these uses (the land could be cropland, pastureland, rangeland, forestland, or other land, but not urban built-up land or water). Land used for a specific high-value food or fiber crop is classified as unique farmland. Generally, additional farmlands of statewide importance include those that are nearly prime farmland and that economically produce high yields of crops when treated and managed according to acceptable farming methods. In some local areas, there is concern for certain additional farmlands, even though these lands are not identified as having national or statewide importance. These farmlands are identified as "local importance" by local ordinance or adoption by local government. When jurisdictions adopt local LESA Systems, Federal agencies use these systems to review activities that may impact farmland. Less than 10 percent of the reviews offered alternative sites or were able to use a local LESA system for the conversion evaluation and site assessment.

According to the 2001 Department of Agriculture (USDA) National Resources Inventory (NRI) data, in the period between 1992 and 2001 about 6 million acres (28 percent) of the new land developed was prime farmland. Between 1981 and 1991, about 4 million acres (29 percent) was prime farmland.

Correspondingly, the rate of prime farmland development increased from an average of 400,000 acres per year between 1981 and 1991 compared to 600,000 acres per year between 1992 and 2001. For more information about the NRI, visit <http://www.nrcs.usda.gov/technical/NRI/>.

The following table summarizes the land evaluated as a result of Federal projects from 1997-2007.

Table 1 – FPPA and Important Farmland Numbers: 1997-2007

	PERCENT OF IMPORTANT FARMLAND (of total land evaluated)	IMPORTANT FARMLAND (within land evaluated)	AGENCIES SUBMITTING REQUESTS
Year	Percent Total Acres	Acres	No. of Agencies
1997	41	61,172	16
1998	45	114,382	13
1999	45	83,452	13
2000	54	134,975	22
2001	34	102,604	26
2002	30	75,151	26
2003	30	76,892	28
2004	52	60,040	38
2005	67	73,007	25
2006	62	65,989	26
2007	39	74,220	25

In FY 2007, NRCS received 2,552 AD-1006 forms from 25 Federal agencies requesting assistance to evaluate the impact of proposed conversions of lands that would result from their projects. A total of 190,004 acres of land from 43 States were proposed for conversion to nonagricultural uses. Thirty-nine percent of the acres reviewed were identified as important farmland (as defined in 7 CFR Part 657). Of the 74,220 important farmland acres reviewed, 62,784 were prime or unique farmland and 11,436 were State or locally important soils. Of the farmland acres proposed for conversion, Florida and Texas reported the greatest number of acres with over 13,800 and 8,900 acres, respectively; ten States reported no acres; and six States reported less than 100 acres with Federal impact actions that proposed farmland conversion (Tables 2 and 3).

In FY 2007, the Federal Highway Administration reported the greatest amount of important farmland proposed for conversion with 21,432 acres. The Army Corps of Engineers reported the second greatest amount of proposed conversion, 18,508. These two agencies account for 54 percent of all proposed important farmland conversion (Table 4).

Table 2 - Top Ten States Acres of Farmland Converted

STATES	ACRES
Florida	13,801
Texas	8,979
Indiana	5,196
Louisiana	4,899
Illinois	4,351
Arkansas	3,981
South Dakota	3,146
California	2,810
North Carolina	2,474
Missouri	2,321

Table 3 - Acres of Farmland Proposed for Conversion by State

State	Total Land Acres Proposed	Percent of Land Acres Proposed	Total Important Farmland Acres proposed	Percent of Important Farmland Acres Proposed	State	Total Land Acres Proposed	Percent of Land Acres Proposed	Total Important Farmland Acres proposed	Percent of Important Farmland Acres Proposed
AK	2	0.00	2	0.00	MT	222	0.12	39	0.05
AL	2,817	1.48	1,954	2.63	NC	4,717	2.48	2,474	3.33
AR	10,911	5.74	3,981	5.36	ND	514	0.27	320	0.43
AZ	2,823	1.49	2,029	2.73	NE	585	0.31	473	0.64
CA	5,205	2.74	2,810	3.79	NH	109	0.06	40	0.05
CO	1,147	0.60	987	1.33	NJ	0	0.00	0	0.00
CT	10	0.01	10	0.01	NM	35	0.02	0	0.00
DE	1,140	0.60	522	0.70	NV	37,333	19.65	0	0.00
FL	47,525	25.01	13,801	18.59	NY	1,137	0.60	241	0.32
GA	680	0.36	370	0.50	OH	1,372	0.72	1,201	1.62
HI	0	0.00	0	0.00	OK	888	0.47	442	0.60
IA	1,258	0.66	930	1.25	OR	943	0.50	900	1.21
ID	1,360	0.72	650	0.88	PA	3,256	1.71	1,338	1.80
IL	4,555	2.40	4,351	5.86	RI	0	0.00	0	0.00
IN	9,300	4.89	5,196	7.00	SC	2,976	1.57	2,055	2.77
KS	3,017	1.59	1,345	1.81	SD	3,477	1.83	3,146	4.24
KY	449	0.24	258	0.35	TN	3,207	1.69	2,076	2.80
LA	5,358	2.82	4,899	6.60	TX	15,331	8.07	8,979	12.10
MA	0	0.00	0	0.00	UT	1,321	0.70	18	0.02
MD	0	0.00	0	0.00	VA	518	0.27	321	0.43
ME	474	0.25	375	0.51	VT	0	0.00	0	0.00
MI	511	0.27	14	0.02	WA	351	0.18	211	0.28
MN	4,473	2.35	1,944	2.62	WI	518	0.27	275	0.37
MO	3,430	1.81	2,321	3.13	WV	0	0.00	0	0.00
MS	1,756	0.92	270	0.36	WY	0	0.00	0	0.00
Totals						190,004	100.00	74,220	100.00

Table 4 - Breakdown of Acres and AD-1006 Forms Received by Federal Agencies in FY 2007

Department	Federal Agency	AD1006 requests received	Total land acres proposed	Total important farmland acres proposed	Prime or Unique (Acres)	State and local farmland acres proposed
DHS	Federal Emergency Management Agency	17	1,296	593	575	18
DOA	Army Corps of Engineers	50	52,131	18,508	18,474	34
DOC	Econ Development Administration	2	57	43	18	25
DOD	Department of Defense	8	62	27	27	0
DOE	Fed Energy Regulatory Commission	25	2,973	632	632	0
DOE	Department of Energy	9	37,381	25	25	0
DOI	Bureau of Indian Affairs	21	2,289	837	365	472
DOI	Bureau of Land Management	2	365	0	0	0
DOI	Department of the Interior	3	146	123	123	0
DOI	U.S. Fish & Wildlife Service	4	108	13	13	0
DOI	Indian Housing Authority	91	526	211	211	0
DOI	National Park Service	1	26	26	26	0
DOI	Office of Service Mining	0	0	0	0	0
DOJ	Bureau of Prisons	4	259	59	59	0
DOJ	Department of Justice	0	0	0	0	0
DHHS	Department of Health & Human Services	2	20	20	12	8
DOT	Department of Transportation	211	4,410	2,597	2,257	340
DOT	Federal Aviation Administration	49	7,740	5,835	4,305	1,530
DOT	Federal Highway Administration	336	33,473	21,432	16,348	5,084
DOT	Federal Railroad Administration	1	0	0	0	0
EPA	Environmental Protection Agency	111	3,555	1,691	1,067	624
HUD	Department of Housing and Urban Development	214	1,588	667	560	107
HUD	Federal Housing Administration	482	14,647	5,693	5,467	226
USDA	Farm Service Agency	1	17	11	4	7
USDA	Forest Service	0	0	0	0	0
USDA	Natural Resources Conservation Service	124	8,976	5,213	3,438	1,775
USDA	Rural Development	645	14,554	9,154	8,397	757
USDA	Rural Utilities Service	109	3,405	810	381	429
	TOTALS	2,522	190,004	74,220	62,784	11,436

II. Review and Revision of Federal Policies and Procedures Affecting Farmland Conversion

In order to implement FPPA more efficiently and to implement e-Government initiatives, NRCS has deployed a web-based version of the Farmland Conversion Impact Rating Form (AD-1006). The web-based form is located at <http://fppa.nrcs.usda.gov/lesa/>. The site allows Federal agencies and agency representatives to register with NRCS and receive site evaluations in a timely manner via the web. This is the first step to fully automating the FPPA process.

III Federal, State, and Local Efforts to Protect Farmland

The Farm and Ranch Lands Protection Program (FRPP), first authorized by Congress in 1996, provides financial assistance to farmers and ranchers enabling them to keep their land in agriculture. More specifically, the FRPP provides matching funds to State, Tribal, and local governments and non-governmental organizations with existing farmland protection programs to purchase conservation easements from farmers and ranchers. These entities purchase easements from landowners in exchange for a lump sum payment, not to exceed the appraised fair market value of the land's development rights. Participating landowners agree not to convert their land to non-agricultural uses and to develop and implement a conservation plan for any highly erodible land. Landowners retain all rights to use the property for agriculture.

From 1996-2007, a total of \$526.7 million was available to FRPP. During that time, 49 States have received over \$511.8 million in financial assistance from FRPP funds. Easements on 1,914 farms and ranches have been purchased using FRPP funds. It is estimated that 389,394 acres of prime, unique, and important farmland soil on the urban fringe have been or will be permanently protected from conversion to nonagricultural uses with these easements. Approximately 536,936 acres on 2,764 farms, with an estimated cumulative easement value of nearly \$1.63 billion, have or will have easement contracts in the near future. To date, all acquired easements and other interests proposed for acquisition are for perpetuity.

The following two figures display information on programmatic accomplishments through FRPP cooperative agreements that obligated over \$70 million in FY 2007 FRPP funds to protect 54,488 acres on 299 farms.

Figure 1 – FY 2007 FRPP Financial Assistance Dollars Obligated

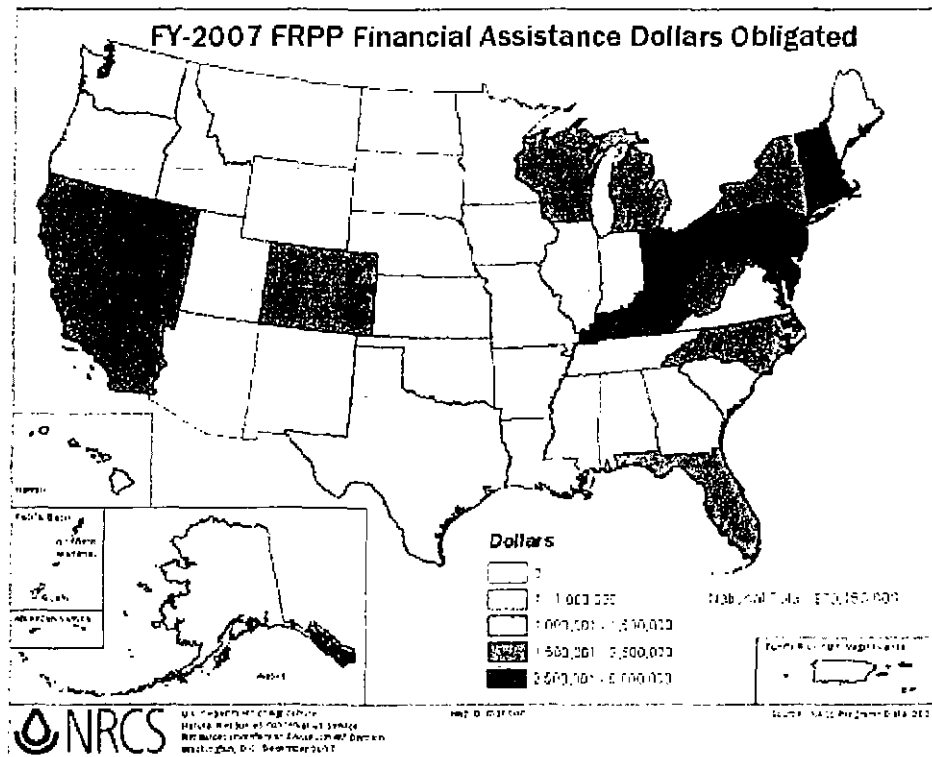
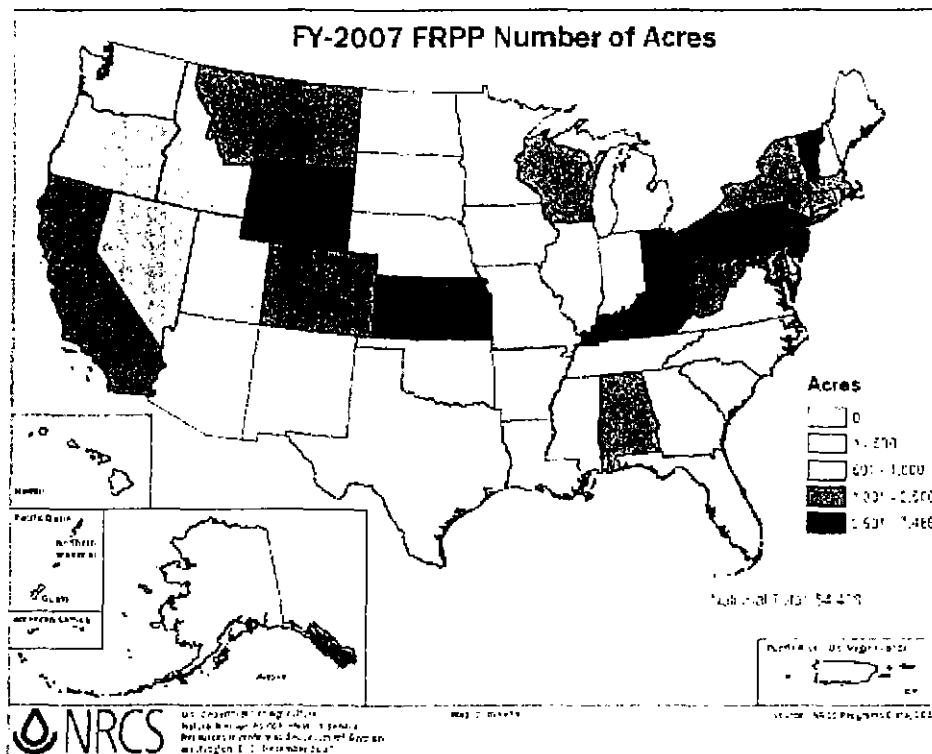


Figure 2 – FY 2007 FRPP Acres Protected



More information on FRPP can be found at
<http://www.nrcs.usda.gov/programs/frpp/>.

For States and local efforts under the provisions of the Farmland Protection Policy Act, [Section 1544(b), Public Law 97-88], the Farmland Information Center (FIC) provides general information, technical assistance, and targeted research based on inquiries from stakeholders to provide answers for communities trying to protect agricultural land resources from unnecessary conversion to nonagricultural uses. The Farmland Information Library is an electronic library located on the web at: <http://www.farmlandinfo.org/>.

In FY 2007, NRCS contributed \$175,000 to match American Farmland Trust's investment in FIC. The FIC answer service staff provided direct technical assistance to 756 individuals from 49 States, the District of Columbia, Canada, Puerto Rico, Spain, Germany, and Uganda. More than 88,465 Web visitors generated 3,051,248 hits on the FIC Web site. During the year, FIC staff continued to expand Web site content adding legislative updates, local laws, and more sample documents. Staff also updated materials including the Purchase of Agricultural Conservation Easement (PACE) tables and fact sheets, Agricultural Districts and Cost of Community Services fact sheets, and summary of FRPP allocations.

In August 2007, American Farmland Trust completed a feasibility study surveying 242 entities including Non-Government Organizations, local governments and State agencies that have received funds from the USDA's FRPP. Findings included: FRPP funded easements were being monitored on an annual basis and were subject to very few legal challenges. The study provided a comprehensive foundation and snapshot for conducting further analysis of survey findings and program recipient policies.

In September 2007, the Norm Berg Collection became available through FIC [http://www.farmlandinfo.org/norm_berg_collection/]. The collection includes nearly 200 speeches and articles written by Berg from the mid-1960s to the late 1970s, when he was in leadership positions at the Soil Conservation Service, testimony delivered by Berg, Federal laws, biographical sketches, and tributes prepared by esteemed colleagues and friends.

In addition to maintaining and expanding FIC, the American Farmland Trust (AFT) continues to work with Land Grant Universities to test tools that help compare the costs of purchasing an easement to the benefits the farm could provide in the future. AFT has been documenting the impacts of PACE programs in a multiyear USDA NRI study involving 15 agricultural counties on the urban edge. This study builds upon previous findings from the NRCS funded (2002-2004) National Assessment of Agricultural Conservation Easement Programs.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE EXECUTIVE SECRETARIAT
WASHINGTON, D.C. 20250

TO: Dale W. Moore, Chief of Staff

SUBJECT: APHIS AQI User-Fees Alaska-U.S. Trucks

DATE: April 16, 2008

These letters report to the Committees on Appropriations on the Agricultural Quarantine Inspection (AQI) user-fee requirements for commercial trucks transiting non-stop from Alaska to the continental United States through Canada. The report was required by the Senate Report accompanying the FY 2008 Agriculture Appropriations Bill.

The letters were prepared in APHIS, and they have been cleared by APHIS, OGC, OBPA, Congressional Relations, and MRP.

I forward the proposed letters for your consideration, and as appropriate, the Secretary's review and signature.

Thank you.

Bruce G. Bundick
Director

Item reviewed

signed 4/21



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

As requested by Senate Report 110-134 accompanying the FY2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the Animal and Plant Health Inspection Service (APHIS) is providing an update on the Agricultural Quarantine Inspection (AQI) user-fee requirements for commercial trucks transiting non-stop through Canada between Alaska and the continental United States.

APHIS published an interim rule in the *Federal Register* on August 25, 2006, amending its regulations to remove the exemption from AQI user fees for commercial conveyances—including trucks transiting Canada while traveling between Alaska and the continental United States—and international air passengers entering the United States from Canada. This rule took effect for commercial trucks on June 1, 2007. Historically, APHIS performed limited inspections along the Canadian border. However, starting in the 1990s, APHIS' inspection data showed an increasing number of interceptions at the U.S.-Canada border of prohibited materials that originated outside of Canada and that presented risks to U.S. agricultural production. APHIS determined that it was necessary to expand agricultural inspection operations at the border, and because the AQI program is a full-cost recovery program, it was necessary to collect user fees at the border to do so. The Department of Homeland Security's Customs and Border Protection (CBP) now conducts agricultural inspection activities at U.S. ports of entry, and APHIS transfers AQI funding to CBP to cover these inspections.

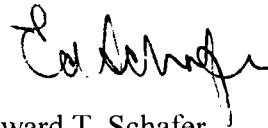
We recognize your concern about the effects of this rule on commercial trucking companies that transit non-stop through Canada from Alaska. However, after careful consideration and review of the issue, we do not believe that we should implement an exemption for these entities. We believe that developing an exemption system for these entities would be unfair to the many other individuals and entities that would continue paying the fee even though they may present only slightly greater pest and disease risks.

The Honorable Rosa DeLauro
Page 2

Setting fee rates based on relative risks posed by any given conveyance would be difficult and prove extraordinarily complex and confusing for the CBP inspectors and those paying the fees. In addition, CBP's current user-fee collection mechanisms do not allow for exemptions. Procedures to identify the trucks in question and verify that they have not stopped to load or unload cargo would have to be implemented, resulting in additional administrative costs to the AQI program and potentially causing delays for commercial and personal travelers. Additionally, the owner of a truck can purchase an electronic pass for \$105.00 that covers unlimited trips between Canada and the United States during a year-long period; we do not believe that constitutes an onerous burden.

We recognize your concerns about this matter and appreciate the Committee's interest. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Schafer', with a stylized flourish at the end.

Edward T. Schafer
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Bennett:

As requested by Senate Report 110-134 accompanying the FY2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the Animal and Plant Health Inspection Service (APHIS) is providing an update on the Agricultural Quarantine Inspection (AQI) user-fee requirements for commercial trucks transiting non-stop through Canada between Alaska and the continental United States.

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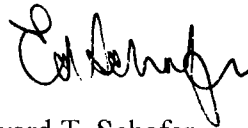
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Edward T. Schafer
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

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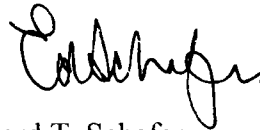
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The Honorable Herb Kohl
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Edward T. Schafer
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-1001

Dear Congressman Kingston:

As requested by Senate Report 110-134 accompanying the FY2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the Animal and Plant Health Inspection Service (APHIS) is providing an update on the Agricultural Quarantine Inspection (AQI) user-fee requirements for commercial trucks transiting non-stop through Canada between Alaska and the continental United States.

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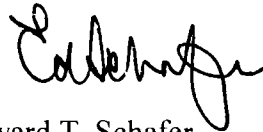
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The Honorable Jack Kingston
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Edward T. Schafer
Secretary

DEPARTMENT OF AGRICULTURE
OFFICE OF THE EXECUTIVE SECRETARIAT
WASHINGTON, D.C. 20250

TO: Dale W. Moore, Chief of Staff

SUBJECT: Expenditure of Funds in HPAI Effort

DATE: May 23, 2008

Here are proposed letters to the Chairmen and Ranking Members of the Agriculture Subcommittees of the Committees on Appropriations transmitting a report on efforts of the Animal and Plant Health Inspection Service (APHIS) to protect against the introduction of Highly Pathogenic Avian Influenza (HPAI). The report includes a table displaying the funds that have been spent.

The letters and report were prepared by APHIS, and they have been cleared by APHIS, OGC, OBPA, and Deputy Under Secretary Eller for MRP.

I forward the letters and report for your consideration, and as appropriate, the Secretary's review and signature.

Thank you.



Bruce G. Bundick
Director

*Item reviewed
signed 5/23*

5353742



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

House Report 110-258 requests a report on how funds have been spent on the highly pathogenic avian influenza (HPAI) effort. We are pleased to submit the enclosed report on activities taken by the Animal and Plant Health Inspection Service (APHIS) to protect against introduction of HPAI into the United States.

As the lead technical agency for animal health within the integrated U.S. Government response to HPAI worldwide, APHIS implemented a comprehensive program of activities that is directly aligned to the three pillars of the international efforts included in the National Strategy for Pandemic Influenza: Preparedness and Communication; Surveillance and Detection; and Response and Containment.

In addition, APHIS developed a domestic surveillance plan for the H5N1 strain of avian influenza. The plan addresses surveillance requirements in poultry, wildlife, and live bird marketing. The APHIS plan addresses these needs in three operational areas: Domestic Bird Surveillance and Diagnostics; Wildlife Surveillance and Diagnostics; and Emergency Preparedness and Communication.

APHIS has been working closely with States and other Federal agencies in a coordinated effort to ensure that ample surveillance for the H5N1 strain is in place. This would allow for early detection should the virus enter the United States. Our coordinated effort is part of a larger National Strategy for Pandemic Influenza, which includes low pathogenic avian influenza efforts.

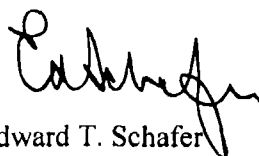
A specific National domestic program goal is to prevent and control low pathogenic H5 and H7 avian influenza in the U.S. commercial broiler, layer, and turkey industries, in the live bird marketing system, and to monitor for its presence in the wild. Control of the H5 and H7 strains helps to preserve international trade in poultry and poultry products, since both can exist

The Honorable Rosa DeLauro
Page 2

as low pathogenic strains with potential to mutate into a highly pathogenic form. In addition, controlling the virus reduces the likelihood of it becoming a zoonotic agent, thereby protecting human health.

We hope you find the enclosed report useful. We appreciate your interest in the program and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Herb Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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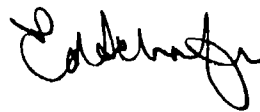
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The Honorable Herb Kohl
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

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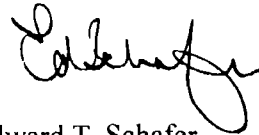
A specific National domestic program goal is to prevent and control low pathogenic H5 and H7 avian influenza in the U.S. commercial broiler, layer, and turkey industries, in the live bird marketing system, and to monitor for its presence in the wild. Control of the H5 and H7 strains helps to preserve international trade in poultry and poultry products, since both can exist

The Honorable Jack Kingston
Page 2

as low pathogenic strains with potential to mutate into a highly pathogenic form. In addition, controlling the virus reduces the likelihood of it becoming a zoonotic agent, thereby protecting human health.

We hope you find the enclosed report useful. We appreciate your interest in the program and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congresswoman DeLauro and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Schafer', with a stylized flourish at the end.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Bennett:

House Report 110-258 requests a report on how funds have been spent on the highly pathogenic avian influenza (HPAI) effort. We are pleased to submit the enclosed report on activities taken by the Animal and Plant Health Inspection Service (APHIS) to protect against introduction of HPAI into the United States.

As the lead technical agency for animal health within the integrated U.S. Government response to HPAI worldwide, APHIS implemented a comprehensive program of activities that is directly aligned to the three pillars of the international efforts included in the National Strategy for Pandemic Influenza: Preparedness and Communication; Surveillance and Detection; and Response and Containment.

In addition, APHIS developed a domestic surveillance plan for the H5N1 strain of avian influenza. The plan addresses surveillance requirements in poultry, wildlife, and live bird marketing. The APHIS plan addresses these needs in three operational areas: Domestic Bird Surveillance and Diagnostics; Wildlife Surveillance and Diagnostics; and Emergency Preparedness and Communication.

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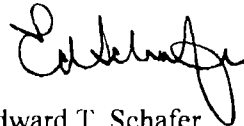
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The Honorable Robert F. Bennett
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Secretary

Enclosure

U.S. Department of Agriculture Highly Pathogenic Avian Influenza Spending Report

The National Strategy for Pandemic Influenza (National Strategy) designates the Department of Agriculture (USDA) as the lead technical agency for animal health elements of the U.S. effort to combat highly pathogenic avian influenza (HPAI) worldwide. Accordingly, USDA assumes primary responsibility to implement U.S. international technical assistance and emergency rapid response missions to prevent, detect, and contain HPAI among animal populations in countries with high risk or cases of the virus. USDA is also responsible for enhancing our domestic capacity to rapidly detect and effectively respond to a disease outbreak. USDA efforts focus on controlling the spread of HPAI and reducing its effects on both the economy and animal health.

The Department is pleased to report on the Animal and Plant Health Inspection Service's (APHIS) efforts to protect against an introduction of HPAI.

DOMESTIC EFFORTS

To prevent the accidental or intentional introduction of HPAI into the United States and ensure preparedness in the event of an outbreak, APHIS has taken actions in three areas: domestic bird surveillance and diagnostics; wildlife surveillance and diagnostics; and emergency preparedness and communication.

Domestic Bird Surveillance and Diagnostics:

There are four areas of concentration in domestic bird surveillance: live bird marketing system (LBMS); upland game; commercial through the National Poultry Improvement Plan (NPIP); and commercial outside of the LBMS and NPIP. APHIS entered into cooperative agreements with States previously enrolled in the NPIP and LBMS throughout FY 2006 and 2007. The agreements allow for increased surveillance, sampling, laboratory testing, and outreach. In 2006 and 2007, APHIS increased the overall number of States with agreements for LBMS by 10, NPIP by 19, and upland bird by 37. This raised the total number of States with HPAI agreements for LBMS to 39, NPIP to 44, and upland game bird to 37.

With respect to diagnostics, APHIS' National Veterinary Services Laboratories (NVSL) continues to provide support to approved laboratories that process samples submitted from the HPAI surveillance program. To meet the demand for reagent production with increased sample submission, NVSL has developed and contracted out the production of the avian influenza (AI) agar gel immunodiffusion (AGID) test reagents that are used to test for the presence of AI in a bird sample. NVSL established a contract to supply APHIS with 10,000 sets of AI AGID reagents. The contract provides 50 percent of the increased reagent demand related to increased sample submissions. Production of this reagent will provide for the remaining reagent demand. APHIS has also purchased supplies and equipment necessary for the increased on-site reagent production. This included purchase of four laboratory trailers that will allow surge capacity reagent production in the event of an AI outbreak. NVSL will use two trailers to grow additional

birds to the size/age required for inoculation, one trailer to provide laboratory space for reagent production, and one trailer for chicken inoculation and serum harvest for antisera production.

Anti-Smuggling and Regulatory Enforcement. The APHIS Smuggling Interdiction and Trade Compliance (SITC) unit conducts risk-management and anti-smuggling activities to prevent the unlawful entry and distribution of prohibited agricultural commodities and products harboring harmful diseases. The program has enhanced activities to further safeguard against HPAI, including hiring personnel to increase surveillance at ports of entry. For example, the unit produced an inspection of domestic markets that are likely to have avian-related products imported illegally. The inspections allow the program to form a baseline of how much poultry product is entering through ports of entry. SITC now targets likely shippers and importers of prohibited products and conducted large scale inspection operations at ports of entry.

SITC continues to work closely with the Department of Homeland Security's Customs and Border Protection (CBP) at the ports to identify shipments for closer examination. In FY 2006, SITC provided CBP officers with specific information that resulted in the seizure of 360,000 pounds of prohibited poultry products smuggled from Asia. During this same time period, SITC directly seized an additional 112,000 pounds of poultry products that had entered into the U.S. commerce. Through collaborative multi-agency and inter-departmental efforts, APHIS has gained a better understanding of the roles of other agencies tasked with preventing an AI introduction into the United States. This understanding has led to a significant increase in communication and coordination between APHIS and partner agencies.

The APHIS Investigative and Enforcement Services (IES) unit continues to provide support to APHIS programs, CBP, and State Departments of Agriculture to prevent the introduction and spread of HPAI through illegal transportation. As a result of the enhanced governmentwide efforts related to HPAI, IES hired investigators to address the increased number of case referrals. Since 2006, IES has conducted over 2,000 port-related investigations that could have potential HPAI implications. IES also initiated "Operation Egg Bay" to intercept and mitigate the disease threat posed from illegally imported poultry hatchling eggs. This operation has produced investigations involving 84 individuals, 31 States, and 125 shipments. IES has also conducted a number of surveillance operations of varying length and intensity to detect the illegal interstate movement of poultry and poultry products. As a result of working with partner organizations, APHIS discovered important information on smuggling pathways for poultry and poultry products, and gained valuable insight to various trends and practices relating to live bird markets.

Wildlife Surveillance and Diagnostics:

APHIS' Wildlife Services (WS) division continues to lead interagency efforts to detect HPAI in wild birds. The initial efforts were divided into two phases. The first phase addressed early detection activities in Alaska, and in particular, coastal areas that had the most potential for contact among Asian and North American birds. The second phase addressed subsequent HPAI detection activities in four major North American flyways. The plan for wild bird surveillance contains several interrelated components including: investigation of deaths or sickness;

sampling of live-captured birds; deployment of sentinel species; environmental sampling; and sampling hunter-harvested birds.

APHIS is collaborating with other Federal agencies and State officials to conduct surveillance for HPAI in migratory birds and cross-train personnel to improve surveillance strategies. As of September 2007, APHIS has tested over 109,000 wild birds and 60,000 environmental samples. The Department of the Interior and others have tested approximately 30,000 wild birds in the same period of time.

The current year's plan is to collect and analyze 50,000 wild birds and test 25,000 environmental samples through a targeted surveillance approach, sampling high-risk species. The targeted approach leads to cost efficiency by collecting smaller sample sizes while maintaining integrity of the science-based approach. Detailed information can be found in Wildlife Services' *Implementation Plan for HPAI Surveillance in Wild Migratory Birds in the United States* available at www.usda.gov/documents/wildbirdstrategicplanpdf.pdf.

Surveillance is conducted in all four major North American flyways (Pacific, Central, Mississippi, and Atlantic), all 50 States, Guam, Puerto Rico, and foreign countries (Cuba, Mexico, Canada, Russia, China, and Greenland). Diagnostic testing of all wild bird samples collected in the United States is conducted through 45 National Animal Health Laboratory Network (NAHLN) laboratories, and environmental samples are tested at Wildlife Services National Wildlife Research Center in Fort Collins, Colorado. Confirmatory testing of all samples is conducted at the NVSL in Ames, Iowa. In June 2007, APHIS hosted six training workshops to review current activities and better plan for fall sampling of migratory birds. Over 180 participants from State wildlife agencies, NAHLN laboratories, and APHIS attended the workshops, which improved communication among partners and increased efficiency regarding HPAI surveillance.

APHIS has implemented a reporting system to answer calls and questions from the public regarding dead or sick wild birds. The toll-free number is 866-4 USDAWS and has been published on the APHIS website to support public inquiries and help expedite calls. Calls are tracked through an online system to monitor any potential increases in dead or sick bird reports.

To support wild bird surveillance, a protocol and decision tree has been developed to triage reports of dead or sick birds. This protocol is a step-by-step guide to determine the best option (sampling or disposal). APHIS WS has partnered with many State wildlife agencies to help direct calls to the most appropriate agency participant. The primary knowledge gained through wildlife surveillance was that HPAI does not currently exist in the wild bird population in the United States. Additional knowledge regarding the circulation of pathogenic avian influenza viruses was gained through the analysis of all H5 and H7 subtypes. This knowledge has increased effectiveness in addressing domestic risk of the low pathogenic virus strain.

Emergency Preparedness and Communication:

National Veterinary Stockpile (NVS), Other Preparedness Activities, and Data Modeling and Analysis. Immediate deployment of the supplies necessary to contain, control, and eradicate an outbreak is the most effective way to halt the spread of the disease. APHIS is working to ensure that systematic measures are in place to quickly contain HPAI and deploy critical veterinary supplies from the NVS within 24 hours.

NVS currently has 140 million doses of AI vaccine to protect older birds (75 million doses protect against the H5 strain and 65 million protect against the H7 strain); guaranteed access for the purchase of 500 million doses of AI vaccine to protect birds up to 7 days old; and personal protective equipment (PPE) to protect 310 responders for 10 days in a high-risk environment. The agency is working to expand the NVS to include PPE to protect 3,000 responders for 40 days.

An example of APHIS coordination and industry support for depopulation, decontamination, and disposal services include an April 2007 West Virginia outbreak of low pathogenic AI in turkeys. APHIS was able to successfully deliver necessary supplies and services to the incident within 24 hours. This incident presented a unique opportunity for APHIS and two of its partners, the State of North Carolina and University of Delaware, to utilize fire foam as a mass depopulation tool. The incident enabled the partners to collect valuable information and live field experience with fire foam. The information and experience will be used to further refine the use of fire foam as a rapid mass depopulation method in poultry houses.

APHIS is expanding its tabletop exercise program with States, and in October 2007 the agency conducted an operational deployment exercise to test Iowa's ability to request, receive, store, stage, manage, process, deliver, and return to APHIS a training package of products within the specified 24-hour time frame. Three previous tabletop exercises have been run in Georgia, Iowa, and North Carolina. Lessons learned are documented in after-action reports. The NVS uses lessons learned to improve operations and processes, and is making changes identified in the after-action reports. An additional exercise for California was scheduled for March 17 - 20, 2008 with the possibility of additional states participating.

APHIS conducts ongoing stakeholder outreach to inform State, local, and other Federal officials of their role in requesting, receiving, storing, staging, managing, and distributing NVS resources. NVS officials frequently brief stakeholders at conferences and meetings and have established guidelines outlining best practice actions for State officials. An NVS page will be added to APHIS' Animal Health Emergency Management Internet site located at www.aphis.usda.gov/animal_health/emergency_management/. This page will allow the NVS to make these guidelines and other detailed information available to stakeholders online.

APHIS is enhancing its incident command teams by providing National Incident Management System training for the 300 and 400 levels, the highest levels of command training. The outcome of this training will be more effective incident management leading to more efficient operations during emergency events. APHIS had two cooperative agreements for training

sessions; one was with the Oklahoma Department of Agriculture and the other with the Foreign Agricultural Service.

The National Animal Health Emergency Response Corps (NAHERC) enables APHIS to have a focused outreach and recruitment strategy to create a highly proficient and skilled population to draw from during a possible AI outbreak. APHIS hired a contractor to perform recruitment of veterinarians, animal health technicians, and veterinary students who are available for deployment in an animal disease outbreak. Brochures for the recruitment effort have been completed and printed and are used in recruitment activities at animal health conferences and events. Additionally, the contractor has strengthened the application process, which is now formalized on the USAJobs website. A tutorial for applicants is posted on the website and provides step-by-step instructions to help users complete online applications. Thus far, 457 applications for NAHERC have been received through www.usajobs.gov.

The North American Animal Disease Spread Model has been modeled so that HPAI scenarios can be generated. APHIS has entered into an agreement with Lawrence Livermore National Laboratory to develop the disease spread scenarios through this model. These scenarios allow APHIS to determine more definitive economic impacts to decisions which will yield a more efficient and effective use of resources. APHIS will upgrade its Emergency Management Response System (EMRS), which is a component of the model that will provide HPAI threat information directly into the system. EMRS is a web-based Lotus Notes application designed to automate many of the tasks routinely associated with animal disease investigations and animal disease and disaster-related emergencies. This system has a wide range of capabilities, including routine reporting of foreign animal disease investigations; state-specific disease outbreaks; surveillance and control programs; classic national animal health emergency responses; and natural disasters involving animals.

Education and Outreach. APHIS planned an outreach and education campaign as part of an overall HPAI preparedness and response program. This program builds upon and expands the current "Biosecurity for Birds" campaign. Specifically, the campaign expanded to target backyard poultry and pet bird owners, wildlife-related groups, veterinarians, zoos, and the general public throughout the United States. The campaign also promoted best practices in both the LBMS and backyard flock owners in addition to its educational efforts of the U.S. commercial poultry industry.

APHIS has coordinated with other agencies to ensure effective and non-duplicative outreach efforts. As a result of a partnership, National Future Farmers of America (FFA) Organization members distributed "Biosecurity for Birds" materials at county and State fairs throughout the year. APHIS also partnered with the Emergency and Community Health Outreach of Minneapolis, Minnesota, to produce a television program in English and six other languages on AI and biosecurity practices. APHIS will continue to provide this 10 minute program to public television channels and other educational outlets. APHIS also produced various materials in multiple languages. One of the materials, a biosecurity calendar, won an award from the National Association of Government Communicators in the category of "superior government

communication products and their producers.” This effort has led to consistent information regarding AI, thereby reducing the risk of a large scale outbreak of HPAI in the United States.

APHIS has taken action to prevent the accidental or intentional introduction of HPAI into the United States and ensure preparedness in the event of an outbreak. By assisting in efforts abroad to combat and contain the virus, APHIS reduces opportunities for the virus to further spread among susceptible animals and to mutate. Although thorough in its approach to date, APHIS will continue to refine efforts to reduce the chances of AI introduction through its international effort and work in conjunction with other Federal partners under the National Strategy.

INTERNATIONAL EFFORTS

APHIS’ prominence in the National Strategy reflects that the most efficient approach to safeguarding animal and public health is aggressive control of the H5N1 strain of HPAI at its current source: infected poultry in affected countries. By combating and containing the virus among these infected birds, APHIS is reducing opportunities for the virus to further spread among susceptible animals and/or mutate into a virus with pandemic potential. Additionally, controlling the spread of the virus in affected countries reduces the threat of a domestic introduction of H5N1.

As the lead technical agency for animal health, APHIS implemented a comprehensive program of activities directly aligned to the three pillars of the international efforts included in the National Strategy: preparedness and communication; surveillance and detection; and response and containment. APHIS’ major activities under the three pillars include: assisting partner countries manage and communicate AI risk; cooperating with international animal health officials to strengthen their surveillance; and preparing for global pandemic with our global partners.

Preparedness and Communication. APHIS continues to assist partner countries to effectively manage and communicate AI risk within the context of internationally accepted guidelines and recommendations for risk analysis. APHIS assists public and private stakeholders to communicate accurate information to consumers about AI risks.

APHIS collaborated with the international animal health standard setting body to implement the Performance, Vision, and Strategy (PVS) tool in high focus countries. The PVS tool identifies gaps between international standards and the quality level of the veterinary service in countries. This assists in the ability to determine their capability to deal with a pandemic. To improve this ability, APHIS delivered short-term technical advisers to countries to assist with establishing an incident command structure, and with animal health aspects of their national HPAI response plans. APHIS also conducted educational workshops and provided short-term technical advisers on biosecurity standards at live bird markets abroad. APHIS has undertaken collaborative research on animal vaccines and has disseminated information on vaccines and their potential applications to reduce HPAI with other countries.

APHIS has established offices and personnel in China, Laos, Cambodia, Thailand, and Indonesia. These offices are dedicated exclusively to HPAI activities and, wherever possible, the offices are co-located with the U.S. Department of Health and Human Services Centers for Disease Control and Prevention offices. APHIS facilitated a series of regional courses on HPAI epidemiology and conducted an Asia Pacific Economic Cooperation seminar on options to design and implement farmer compensation programs and risk communication campaigns to support animal disease prevention, detection, and eradication efforts. APHIS sent materials such as PPE and special packing boxes to its overseas offices to safely collect and transport suspect HPAI samples to laboratories for diagnosis. In addition, APHIS provided HPAI literature to various U.S. embassies. APHIS will continue to perform its role of providing knowledge and support to assist other countries in their handling of AI activities.

Surveillance and Detection. APHIS cooperates with partner countries' animal health officials to strengthen their capacities for surveillance techniques, specimen collection and handling practices, and performance of internationally accepted diagnostic techniques to accurately confirm or refute suspected cases of AI in a timely manner.

Constant vigilance is the key to combating HPAI and preventing a pandemic. APHIS is supporting efforts to improve laboratory diagnosis and early warning networks in more than 40 countries. APHIS is working with its partners to expand on-the-ground surveillance capacity and improve knowledge about the movement and changes in H5N1 on a global scale. This includes support for improving national and regional laboratories to ensure that countries are able to quickly and correctly confirm the presence of the H5N1 strain. APHIS provided funding to the World Health Organization to strengthen its Global Outbreak Alert and Response Network to support international surveillance and response. The Global Avian Influenza Network for Surveillance project objective is to share information, increase the availability of scientific information for detection and containment, and track changes in virus isolates.

Response and Containment. APHIS and its partners are prepared to augment international response in an attempt to slow and contain global spread. APHIS seeks to improve priority countries' capacity to take coordinated effective action to prevent HPAI incursions and, where outbreaks occur, contain HPAI at its site of origin or limit its spread.

APHIS' international effort to contain and mitigate the effects of an outbreak of pandemic influenza beyond our borders is a central component of its strategy. APHIS has developed protocols and trained personnel to support an international effort to contain the pandemic in its earliest stage, including the deployment of medical countermeasures such as antiviral medications. APHIS procured and pre-positioned overseas stockpiles of PPE, decontamination kits, and antiviral medications to complement global efforts to contain pandemic outbreaks. APHIS has pre-positioned a stockpile of antiviral medications in Asia that is available to the international community for pandemic response. At this time our Federal and State stockpiles contain enough antiviral medications to treat 50 million people.

In addition, APHIS has achieved significant accomplishments and results regarding a variety of HPAI issues in wild, migratory birds. These issues include developing wild bird surveillance

plans; conducting workshops on bird capture, identification and sampling; epidemiology; data management and diagnostics activities; and conducting in-country surveillance. For example, APHIS collaborated with the Wildlife Trust Alliance to implement the entire Mexican surveillance system for early detection. Wild, migratory birds were sampled at 26 different wetland sites. The collection of the subsequent 4,500 samples from 50 species improved the North American surveillance system and added protection to the United States should the virus become established or detected in South and Central America. APHIS is bolstering surveillance in the Central Flyway in response to a request from the Central Flyway Council. Additional surveillance agreements in Russia and Greenland have also helped trace virus movements and provide a more robust early detection system. The Russian, Danish, and Canadian projects protect against the virus being moved around the North Pole. These surveillance efforts coupled with surveillance in China have moved APHIS to the forefront of international wildlife disease management.

APHIS will continue to strengthen its efforts to protect against the introduction of HPAI in both the domestic and international arenas.

Highly Pathogenic Avian Influenza		
(Millions of Dollars)		
Activity	FY 2006 Supplemental	FY 2007 Obligations
Domestic bird surveillance and diagnostics	24.21	9.11
Wildlife surveillance and diagnostics	16.98	12.18
Emergency preparedness and communication	21.91	9.18
International capacity building	17.18	7.43
Total	80.28	37.90



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 27 2008

The Honorable Herbert H. Kohl
Chairman, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The enclosed report is in response to Senate Report 110-134, which directs the Department of Agriculture to provide a report regarding the status of grant awards for fiscal year 2008 and the specific objectives sought in each case.

A copy of this report will be sent to Senator Bennett, Congresswoman DeLauro and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned below the word "Sincerely,".

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 27 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 27 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

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Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 27 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture
Office of Inspector General



Office of Inspector General

Semiannual Report to Congress

FY 2008 - 1st Half

No. 59 May 2008



KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	30
Number of Recommendations	180

Management Decisions Made

Number of Reports	22
Number of Recommendations	180

Total Dollar Impact (Millions) of Management-Decided Reports	\$363.8
---	----------------

<i>Questioned/Unsupported Costs</i>	<i>\$30.6</i>
<i>Funds To Be Put to Better Use</i>	<i>\$333.2</i>

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued	146
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Impact of Investigations

Indictments	125
Convictions	374
Arrests	182

Total Dollar Impact (Millions)	\$34.7
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Administrative Sanctions	54
---------------------------------	-----------

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2007)

1) Interagency Communications, Coordination, and Program Integration Need Improvement

Related material can be found on pages 3-4.

2) Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed

Related material can be found on pages 5, 8-11, 14-15, 19, and 23.

3) Continuing Improvements Needed in Information Technology Security

Related material can be found on pages 17-18.

4) Implementation of Improper Payment Act Requirements Needs Improvement

Related material can be found on pages 17-19.

5) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Related material can be found on pages 3-5 and 11.

6) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

No work was begun during this reporting period.

7) USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge

No work was begun during this reporting period.

8) Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires

Related material can be found on page 4.

9) Improved Controls Needed for Food Safety Inspection Systems

Related material can be found on pages 1-2.

Message From the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), for the 6-month period that ended March 31, 2008. This report summarizes the most significant OIG activities during the period, organized according to the program goals set forth in our current strategic plan, as shown below.

- **Safety, Security, and Public Health** – Prompted by a Congressional request, OIG reviewed the Food Safety and Inspection Service (FSIS) plan to implement a risk-based inspection system for processing facilities. OIG recommended that FSIS complete its plan for improving the use of food safety assessments, ensure its risk analyses are thoroughly documented, and implement oversight over critical information technology systems. We also responded to then Acting Secretary Conner's request to review *E. coli* sampling and testing. Our investigative work resulted in sentencings in cases of dogfighting involving a professional athlete and the sale of adulterated foods.
- **Integrity of Benefits** – Our investigative cases involving food stamps, infant formula, tobacco marketing, and farm loans yielded significant prison sentences and court-ordered restitutions in the millions of dollars. Our audit work disclosed that, following the 2005 hurricanes, producers could not always document Tree Indemnity Program payments and that the Farm Service Agency needs to improve controls over the approval and distribution of Aquaculture Grant Program funds. An inspection found that a large dairy firm misreported nonfat dry milk pricing data; the National Agricultural Statistics Service agreed to strengthen controls over future data reporting.
- **Management Improvement Initiatives** – Our audits found that the Risk Management Agency needs to further strengthen financial management controls over reinsurance companies and that the Food and Nutrition Service needs to improve information technology security in its Store Tracking and Redemption System II. The USDA FY 2007 Consolidated Financial Statements received a qualified audit opinion because of deficiencies we identified after Rural Development made significant revisions to certain of its credit reform processes. Our investigations yielded a number of sentencings for embezzlement, fraud, and possession of child pornography.
- **Stewardship Over Natural Resources** – Our audit work after the 2005 hurricanes found that the Natural Resources Conservation Service should evaluate funding decisions for multi-State disaster areas to ensure that available funding can be put to the highest priority or best use.

During this reporting period, we conducted successful investigations and audits that led to 182 arrests, 374 convictions, \$34.7 million in recoveries and restitutions, 143 program improvement recommendations, and \$363.8 million in financial recommendations. In response to some of our program improvement recommendations, the Forest Service agreed to develop an overall plan to complete airworthiness assessments for its firefighting aircraft, and the Rural Utilities Service agreed to develop a formal strategy to maximize the effectiveness of renewable energy projects.

These monetary results and program improvements would not have been possible without the continuing interest and support of Secretary Schafer, Deputy Secretary Conner, and the Congress. Their strong commitment is vital to our mutual success in improving USDA programs and operations.



Phyllis K. Fong
Inspector General

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Safety, Security, and Public Health

OIG Strategic Goal 1:

Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent and professional audits, inspections, and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, safety of the food supply, and homeland security.

In the first half of fiscal year (FY) 2008, we devoted 20 percent of our total direct resources to Goal 1, with 98.8 percent of these resources assigned to critical/high-impact work. A total of 59.5 percent of our audit or inspection recommendations under Goal 1 resulted in management decision within 1 year, and 80 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued six audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 22 indictments, 277 convictions, and about \$1.8 million in monetary results during this reporting period.

Management Challenges Addressed Under Goal 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2, 3, and 4)
- Continuing Improvements Needed in Information Technology (IT) Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 3)
- Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 3 and 4)
- Improved Controls Needed for Food Safety Inspection Systems

EXAMPLES OF AUDIT, INSPECTION, AND INVESTIGATIVE WORK FOR GOAL 1

Risk-Based Inspection (RBI) at Meat and Poultry Processing Establishments

In February 2007, the Food Safety and Inspection Service (FSIS) announced its plan to implement a pilot RBI program for meat and poultry processing establishments. Congress and other stakeholders became concerned that FSIS was beginning to implement RBI before it had addressed weaknesses reported in prior OIG audit reports on FSIS' meat and inspection program and that issues regarding the agency's methodology for determining risk had not been addressed. Congress directed FSIS to refrain from implementing RBI until OIG had studied

the program and FSIS had resolved the issues identified. OIG consequently initiated an audit of the proposed RBI program and found weaknesses in (1) assessments of establishments' food safety systems, (2) security over IT resources and application controls, (3) data management infrastructure and analyses, and (4) management control structure.

FSIS had planned to begin implementation of RBI before determining the data needed for a comprehensive risk determination at processing establishments. FSIS planned to implement an initial phase of RBI using available data and to continue collecting and refining data and data needs in subsequent phases. In addition, FSIS does not have adequate management control processes or an integrated IT system in place. OIG made 35 recommendations to improve

FSIS' management controls, data collection and analyses processes, and IT infrastructure. FSIS agreed with all of these recommendations and has already begun to take responsive action. For example, FSIS is refining and expanding the data used in its RBI calculation. FSIS also accelerated improvements to its *E. coli* sampling methodology, as well as its plans to review the control of this pathogen by beef suppliers and processors. In addition, FSIS awarded a contract to build its new Public Health Information System to better integrate and consolidate its numerous applications that collect information on activities to ensure the safety of meat, poultry, and egg products. (Audit Report No. 24601-07-Hy, Issues Impacting the Development of RBI at Meat and Poultry Processing Establishments)

***E. coli* Sampling and Testing**

After a large meat recall in the fall of 2007, the Deputy Secretary (then Acting Secretary) requested that OIG determine whether improvements could be made to FSIS sampling and testing procedures for *E. coli*, and identify any relative costs and benefits associated with these improvements. Our memorandum to the Deputy Secretary provided our observations and suggestions based on our interviews with representatives from other agencies, academia, and the quick-service restaurant industry. We noted that, in the past, OIG has consistently reported concerns with the adequacy of establishments' Hazard Analysis and Critical Control Point (HACCP) plans and commented that clearer criteria might be needed to adequately evaluate the assumptions on which HACCP plans were based. Although the meat industry now performs significant testing of its own and publishes best practices for members to follow, FSIS does not have a formal campaign for educating the meat industry and encouraging the implementation of best practices. In addition, FSIS could minimize the number of discarded samples and reduce the turnaround time for *E. coli* screening tests.

FSIS is completing questionnaires regarding the number of establishments using specific types of validated interventions (e.g., hot water and acid washes, steam vacuuming, steam pasteurization) in use at each establishment. This should provide FSIS with the data necessary to better target *E. coli* sampling and testing and to adjust programs or policies as needed. (Audit Report No. 24601-04-KC, FSIS Sampling and Testing for *E. coli*)

President of Food Processing Company Sentenced for Sale of Adulterated Foods

In November 2007, the president of a food processing company was sentenced in the Southern District of Florida to 15 months in prison and 36 months of supervised release, fined \$5,000, and ordered to pay \$200,000 in restitution to the University of Florida to support its food safety programs. The company president had been charged with a scheme to defraud through the sale of adulterated foods and a scheme to introduce misbranded food into interstate commerce. Poultry and seafood products contaminated with *Listeria monocytogenes*, a potentially fatal pathogenic bacterium that can be found in ready-to-eat food products, were misbranded and shipped to several locations throughout the United States and Canada. This case was worked jointly with the Food and Drug Administration's (FDA) Office of Criminal Investigation.

FSIS' Evaluation of Carbon Monoxide (CO)-Based Modified Atmospheric Packaging (MAP) Under the Generally Recognized as Safe (GRAS) Regulatory Process

Overall, our review found that the suitability determinations made by FSIS regarding CO-based MAP systems were consistent with the agency's understanding of its memorandum of understanding (MOU) with FDA, the Federal Meat Inspection Act, and FSIS regulations. FDA evaluated the safety, and FSIS the suitability, of CO-based MAP for use in meat in accordance with each agency's respective authorities, under a category of food ingredients known as GRAS.

However, the standard (called the "permanent change standard") and some of the related terminology (including the terms "better or of greater value" and "processing aids") used by FSIS in its oversight of these matters have not been formally adopted in agency guidance or policy. We also found that some of the information FSIS uses is gathered by FDA under a 1997 proposed rule, rather than under a final rule, as required by law. FSIS needs to consult with USDA's Office of the General Counsel (OGC) regarding potential issues for the agency when completing GRAS reviews conducted under processes established by a proposed rule that has not been finalized.

FSIS agreed to issue written guidance on the definitions of the

terms “better or of greater value” and “processing aids” and will consult with OGC. (Inspection Report No. 24901-01-IR, FSIS’ Evaluation of CO-Based MAP Under the GRAS Regulatory Process)

Joint Investigation of Dogfighting Activities Results in Professional Athlete Being Sentenced and Ordered To Pay \$928,073 in Restitution

As reported last period, OIG conducted a joint investigation into dogfighting activities that has resulted in a professional athlete being sentenced in Federal court in Virginia in December 2007 to 23 months of imprisonment and 36 months of supervised release and ordered to pay \$928,073 in restitution to fund the cost of caring for pit bulls seized by the U.S. Government. From November 2007 through January 2008, four other individuals were sentenced as co-conspirators, respectively, to 3 years of supervised probation and 2, 18, and 21 months in prison, as well as 36 months of supervised release for the three sentenced to prison terms. The investigation disclosed that the five were actively involved in dogfighting activities, and structures designed to breed, house, and fight dogs were found on the professional athlete’s property. This investigation was conducted jointly with the Virginia State Police and the Surry County Sheriff’s Office.

Continued Monitoring of Avian Influenza Preparations

Our audit found that USDA took action on each lead task we reviewed that was assigned to it as part of the Implementation Plan of the National Strategy for Pandemic Influenza, released in May 2006. According to the President’s Homeland Security Council (HSC), USDA met the measures of performance for all the tasks completed through May 2007.

However, we found that USDA did not test the newly developed procedures, nor did it assess and evaluate the revised procedures to ensure they worked as designed. USDA also did not correctly report the status of two major Animal and Plant Health Inspection Service (APHIS) functions to HSC. In addition, APHIS did not fully implement two of the eight recommendations from our prior report on the oversight of avian influenza (Audit Report No. 33099-11-Hy, APHIS Oversight of Avian Influenza, issued June 2006), as of September 2007.

The recommendations were intended to strengthen APHIS’ ability to respond to an avian influenza outbreak.

APHIS agreed with our recommendations to establish a control mechanism to accurately report information on assigned tasks, provide HSC with corrected information for the inaccurately reported tasks, monitor support tasks and coordinate with HSC, and develop plans for testing the success of tasks that have not been tested. (Audit Report No. 33701-01-Hy, USDA’s Implementation of the National Strategy for Pandemic Influenza)

Import Controls Over Live Animals Need To Be Strengthened

Our audit concluded that APHIS’ import controls need to be strengthened and automated to prevent, detect, and address the entry of live animals that do not meet import requirements. The United States imported approximately 20 million animals, mostly from Canada and Mexico, during FY 2006. APHIS establishes import policies and works in conjunction with the U.S. Department of Homeland Security’s (DHS) U.S. Customs and Border Protection (CBP) at the borders and FSIS officials at slaughter establishments.

APHIS did not have adequate processes in place to follow up and determine whether individual problems detected represent a larger systemic noncompliance that needs to be addressed by agency inspection personnel or the country of origin. APHIS also does not have effective systems or controls for approving and/or tracking live animals in the United States. We found that APHIS officials were not aware that animal shipments entered the country without inspection, and they could not always demonstrate that all restricted animals were slaughtered. In addition, we found that APHIS could not account for all official USDA seals used to secure the animal conveyance after inspection at the port of entry. Because these issues represented potential homeland security weaknesses, we issued a Management Alert in May 2007 and made recommendations for immediate corrective action.

APHIS generally agreed with our recommendations to enhance the controls over the importation of live animals and responded with plans or actions to strengthen or implement additional animal import controls. (Audit Report No. 50601-12-Ch,

USDA Controls Over the Importation and Movement of Live Animals)

APHIS Programs for Agricultural Import Permits

In a followup to our March 2003 audit, we found that APHIS had made some improvements to the security of its processes for issuing import permits for agricultural products and in its procedures to screen packages entering the country under these permits. Our earlier audit had identified several weaknesses that could allow unauthorized persons to gain access to APHIS' permit program and use it to bring prohibited materials into the country. In our current audit, we found that APHIS' new permit system (ePermits), which would provide much greater control and accountability than was previously possible, had not been fully implemented even though this had been projected for completion by December 2005, leaving safeguards inadequate. In addition, procedures for screening incoming permit materials at the ports still needed to be clarified and strengthened, particularly at those ports where permit screening is performed by DHS' CBP rather than APHIS. APHIS also needed to implement a system to perform compliance inspections of active permit holders, as previously agreed; APHIS relied on field personnel to perform these, but had no mechanism to ensure they were being done.

APHIS agreed to develop timeframes to implement its ePermits system, incorporating the ability to identify permit applicants who require inspections and to track permit activity at the ports of entry. APHIS also agreed to issue instructions to inspection personnel on screening procedures, making all accompanying permit documents accountable documents, and ensuring that compliance inspections are performed as required. (Audit Report No. 33601-9-Ch, Controls Over Permits To Import Agricultural Products)

FS Needs Overall Plan To Ensure Airworthiness of Its Firefighting Aircraft

We found that the Forest Service (FS) needs to develop and implement a plan to ensure the airworthiness of its firefighting aircraft. FS uses aircraft for firefighting, which often stresses the aircraft well beyond the limits for which they were designed, so it is imperative to ensure that they can withstand the fire environment. The Federal Aviation Administration (FAA) does not do this because FS firefighting aircraft generally are exempt from FAA requirements and oversight. FS has assumed this responsibility, but without the technical knowledge and financial backing to do so adequately.

FS does not ensure that qualified personnel inspect and maintain all of the firefighting planes and helicopters it leases from contractors. In addition, FS has lacked an independent, full-time aviation safety manager in its Southern Region since 2004. Instead, it has assigned aviation safety responsibilities to its aviation officer, creating a conflict of interest between safety concerns and flight operations.

FS agreed to develop an overall plan to complete airworthiness assessments for its firefighting aircraft and to require States to assess the airworthiness of aircraft borrowed from FS and used on Federal fires. FS also agreed to require (1) aircraft maintenance inspectors to possess a current airframe and powerplant certificate issued by FAA and to meet the agency's requirements for inspection authorization, and (2) contractors to certify as to their mechanics' qualifications. In addition, FS agreed to require that all its regions have qualified aviation safety managers on staff and, when a vacancy develops, make filling such positions a high priority. (Audit Report No. 08601-48-SF, FS Air Safety Program)

GOVERNMENTWIDE ACTIVITIES – GOAL 1

Participation on Committees, Working Groups, and Task Forces

- An OIG investigator is assigned full time to the Federal Bureau of Investigation's (FBI) National Joint Terrorism Task Force (NJTTF). The agent attends the NJTTF threat briefings and provides a variety of products related to terrorist intelligence to OIG and other agencies and offices within the Department. OIG investigators nationwide are assigned to the FBI's local Joint Terrorism Task Forces (JTTFs). OIG's participation on the JTTFs has provided an excellent conduit for sharing critical law enforcement intelligence and has served to help broaden the knowledge of the FBI and other law enforcement agencies about conducting criminal investigations with a nexus to the food and agriculture sector.
- The USDA Inspector General (IG) is a member of the President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable. The mission of the roundtable is to support the IG community by sharing information, identifying best practices, and participating in multi-agency projects related to homeland security issues on an ad hoc basis with various external organizations and governmental entities.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

Topics that will be covered in ongoing or planned reviews under Goal 1 include:

- oversight of the National Organic Program (Agricultural Marketing Service (AMS)),
- followup on prior firefighter safety audits (FS),
- FS contracted labor crews,
- firefighting succession plans (FS),
- replacement plan for firefighting aerial resources (FS),
- national fire plan reporting system (FS),
- fire program analysis system (FS),
- implementation of flood control dams rehabilitation (Natural Resources Conservation Service (NRCS)),
- USDA's role in the export of genetically engineered agricultural commodities (APHIS, Agricultural Research Service (ARS), Cooperative State Research, Education, and Extension Service (CSREES), Foreign Agricultural Service (FAS), and Grain Inspection, Packers and Stockyard Administration (GIPSA)),
- controls over genetically engineered animals and insects research (ARS, CSREES, and APHIS),
- controls over genetically engineered food and agriculture imports (APHIS),
- FSIS oversight of meat and poultry imports,
- FSIS processes for handling meat and poultry recalls,
- controls over APHIS pilot certifications,
- followup of APHIS licensing of animal exhibitors,
- controls over animal import centers (APHIS),
- Food Emergency Response Network (FSIS),
- implementation of enhancements for specified-risk materials (SRM) violations and improved inspection controls over SRMs (FSIS),
- APHIS inspection of breeders,
- APHIS monitoring of adverse event reporting,
- FSIS food defense verification procedures,
- impact of investigation and enforcement services on APHIS programs,
- bovine spongiform encephalopathy maintenance sampling – phase IV (APHIS),
- national residue program in cull cow plants (FSIS), and
- evaluation of FSIS' management controls over pre-slaughter activities.

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits, inspections, and investigations are completed

Integrity of Benefits

OIG Strategic Goal 2:

Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.

OIG conducts audits, inspections, and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. The size of these programs is enormous: the Food Stamp Program (FSP) alone accounts for approximately \$40 billion in benefits annually, while well over \$20 billion annually is spent on USDA farm programs. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and producers. These programs support nutrition, farm production, and rural development.

In the first half of FY 2008, we devoted 40.3 percent of our total direct resources to Goal 2, with 90.7 percent of these resources assigned to critical/high-impact work. A total of 78.3 percent of our audit or inspection recommendations under Goal 2 resulted in management decision within 1 year, and 83.7 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 10 audit reports under Goal 2 during this reporting period. OIG investigations under Goal 2 yielded 98 indictments, 92 convictions, and about \$31.1 million in monetary results during the reporting period.

Management Challenges Addressed Under Goal 2

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 3, and 4)
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed (also under Goal 3)

EXAMPLES OF AUDIT, INSPECTION, AND INVESTIGATIVE WORK FOR GOAL 2

Food Stamp Fraud Cases Nationwide Result in Significant Prison Sentences and Court-Ordered Restitutions of \$6.6 Million

- In November 2007, a California grocery store employee was sentenced to 57 months in prison and ordered to pay \$2.7 million in restitution by a Federal court in the Central District of California. The owner of the store and the employee had trafficked in Electronic Benefit Transfer (EBT) benefits from February 2004 to November 2006. Search warrants resulted in the seizure of more than \$100,000 in cash, multiple bank accounts, and a 2006 luxury vehicle. Both the store owner and the employee were charged with multiple violations, including food stamp trafficking and wire fraud. The store owner fled while on bond and is currently a fugitive.
- In February 2008, the owner of a Louisiana grocery store was sentenced in Federal court in the Middle District of Louisiana to serve 36 months in prison and 36 months of supervised release, and ordered to pay \$1,854,921 in restitution for her role in discounting EBT benefits for cash. From December 2004 to June 2006, the grocery store owner was involved in a food stamp benefit trafficking scheme that resulted in losses to USDA of more than \$1.8 million.
- In February 2008, a New York grocery store manager was sentenced in the Southern District of New York to serve 30 months in prison and 36 months of supervised release, and was ordered to pay restitution of \$865,000. The OIG investigation disclosed that, from January 2000 to May 2004, the grocery store owner and manager engaged in food stamp trafficking that resulted in fraud of at least \$1.47 million. In June 2007, the grocery store owner pled guilty in Federal court to conspiracy, food stamp trafficking, and wire fraud. The store owner is now a fugitive. This investigation was conducted jointly with the FBI.
- In January and February 2008, the owner, manager, and two clerks of a small-sized convenience store in Minnesota were sentenced in Federal court in the District of Minnesota for their roles in exchanging EBT benefits for cash. The manager, whose brother is serving time in Federal prison in Ohio for similar activities, was sentenced to serve 36 months in prison and 36 months of probation; the store owner was sentenced to 24 months in prison and 36 months of probation; one

clerk was sentenced to 18 months in prison and 36 months of probation; and another clerk received probation. The owner and manager were ordered to pay \$757,321 in joint restitution, and one of their employees was ordered to pay \$402,303 in restitution. The investigation disclosed that, between September 2006 and June 2007, the convenience store redeemed approximately \$840,371 in food stamp benefits. This investigation was worked jointly with the St. Paul Police Department, the FBI, the Internal Revenue Service (IRS), and the Metro Gang Strike Force.

- In December 2007, the owner and chief executive officer of a corporation was sentenced in the Eastern District of North Carolina to 27 months in prison and ordered to pay a \$50,000 fine and \$26,988 in restitution for food stamp fraud and failure to appear at sentencing. The corporation had contracted with the Food and Nutrition Service (FNS) and various counties in numerous States to distribute food stamps to individual county governments. The investigation discovered that several thousand false documents were presented to FNS to cover up the theft of approximately \$1.7 million in food stamps over 2 years. The corporation routinely destroyed documentation for monthly distributions, making an accurate audit trail impossible. The president, vice president, accountant, and corporation pled guilty to multiple felony counts. In November 2002, the owner/CEO was convicted but fled before sentencing. In December 2005, he was arrested by the U.S. Marshals Service in Savannah, Georgia, under an assumed identity, indicted for failing to appear at sentencing, and convicted at trial in March 2007. This investigation was conducted jointly with the U.S. Postal Inspection Service.

Sentences Are Obtained for Two Infant Formula Cases

OIG investigates cases involving stolen infant formula, which is the main product purchased with Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) vouchers. Intelligence from a variety of law enforcement sources has revealed that such crimes may be widespread throughout the Nation. The formula is stolen from large retail stores, often by members of organized shoplifting rings, who resell it to smaller grocery stores or warehouses dealing in stolen goods. Stolen infant formula is no longer part of the retail process, and there is no guarantee that it is safe and healthy for America's infants.

- In December 2007, five members of two organized crime organizations in Georgia received sentences in Federal prison ranging from 27 to 60 months for conspiracy, 42 to 65 months for interstate transportation of stolen property, and 36 months of supervised release. The OIG investigation disclosed that a total of approximately \$6.48 million worth of infant formula and razors was shoplifted in the Atlanta metro area and then transported in rental trucks to New York. This investigation was conducted jointly with FDA and the Atlanta Police Department.

- In October 2007, a Federal court in the Southern District of Ohio sentenced a store owner to 97 months of imprisonment, 36 months of probation, forfeiture of \$1.5 million, and forfeiture of \$791,025 in seized currency after a guilty plea for money laundering and conspiracy. The investigation disclosed that the store owner utilized his wholesale business to store and distribute pseudoephedrine (a decongestant) and other stolen/fraudulently obtained items, including infant formula, baby products, personal hygiene products, and cigarettes. This was a joint investigation with the Drug Enforcement Administration, the Secret Service, the FBI, and State and local law enforcement.

Two Summer Food Service Program (SFSP) Sponsors Received Excess Reimbursements

Our audit found that two private nonprofit sponsors operating FNS' SFSP in Georgia received excess reimbursement of more than \$215,000 of the \$1.28 million in program funds they received in 2005 and 2006. The sponsors increased their reimbursement by block-claiming (claiming the same number of meals for three or more consecutive days), serving meals at unapproved sites, claiming more meals than allowed at approved sites, operating more than the allowed number of sites, and claiming meals that were not kept refrigerated at the temperature required for food safety. In addition, for 2005 and 2006, the State agency that oversees the program had declared 24 private nonprofit sponsors as problematic and 16 sponsors as seriously deficient in program administration. However, the State was not enforcing its own policy to remove sponsors from the program if their operations were found to be seriously deficient. FNS also had not ensured that corrective actions were taken on problems noted during its reviews of the program.

We recommended that FNS (1) establish controls to follow up on all reviews of sponsors to ensure corrective actions have

been implemented, (2) instruct the State agency to evaluate the conditions disclosed during this audit and determine whether the two sponsors warrant removal from the program, and (3) require the State agency to initiate steps to recover \$215,000 in questionable reimbursements received by the sponsors. FNS generally concurred with the findings and is working with OIG to resolve technical matters related to OIG's recommendations. (Audit Report No. 27099-63-At, SFSP in Georgia)

FNS Food Stamp Employment and Training (E&T) Program

We found that because FNS has not established performance measures to determine the success of the Food Stamp E&T program as required by the Government Performance and Results Act, it cannot know whether its program, with \$110 million in annual expenditures, is meeting its goals or achieving results. In North Carolina, our audit also found that a county manager in an employment services office modified the hours employees actually worked to match the hours budgeted without the employees' knowledge. These changes to timesheets caused different Federal programs to be either overcharged or undercharged expenses for operating their programs. In addition, the North Carolina State agency had not reconciled FY 2005 funds for the E&T program, and therefore could not determine whether Federal funds totaling more than \$212,000 needed to be deobligated.

FNS agreed to direct the North Carolina State agency to prohibit altering employees' timesheets and to reconcile its accounts. FNS did not agree to establish performance measures for the E&T program or to require States to submit performance data. OIG maintains that FNS must measure the performance of the program because the Food Stamp Act currently requires that FNS monitor the State agencies "to measure the effectiveness of the program to increase the numbers of household members who obtain employment and the numbers of such members who retain employment as a result of their participation in E&T programs." (Audit Report No. 27601-16-At, Food Stamp E&T Program)

Commodity Credit Corporation's (CCC) Bioenergy Program

Our review, prompted by concerns about possible misrepresentations of bioenergy production by producers, determined that the Farm Service Agency's (FSA) internal controls were sufficient to ensure the integrity of CCC's Bioenergy Program. Under the program, FSA made cash payments to bioenergy companies that increased their purchases of corn and other commodities to expand production of ethanol and biodiesel. The \$544.4 million program began in FY 2001 and was discontinued in FY 2006, when the last available funds were expended.

We found that for program payment purposes, FSA used standard conversion rates (in gallons per bushel), rather than each plant's actual conversion rate, to convert ethanol and biodiesel gallons produced to commodity quantities used in production. Our review of four producers found the producers' actual conversion rates were greater than the standard and, because the program did not account for these efficiencies, these producers effectively received premiums on their Bioenergy Program payments. In addition, we noted that CCC requested ethanol production data using terminology unfamiliar to producers, leading to confusion on the part of some ethanol producers regarding correct reporting of their production. If a similar Bioenergy Program is offered or continued in the future, FSA may want to (1) reflect actual production efficiencies in the rates used to convert increased biofuel production (in gallons) to increased commodity purchases for payment, and (2) request ethanol production data using ethanol industry terminology to ensure that producers properly report their ethanol production data. We made no formal recommendations because the program has been discontinued. (Audit Report No. 03601-25-KC, CCC Bioenergy Program)

Producers Could Not Always Document Tree Indemnity Program (TIP) Payments

Of the 40 producers we interviewed in an audit of FSA's TIP, 28 could not provide replanting, rehabilitation, cleanup, and/or debris removal cost documentation adequate to support \$545,230 in TIP payments. TIP provided funds to eligible owners of commercially grown fruit trees, nut trees,

bushes, and vines that produce an annual crop and were lost or damaged due to 2005 Hurricanes Dennis, Katrina, Ophelia, Rita, or Wilma. Producers must have incurred damages to their trees, bushes, and/or vines that would cost at least \$90 per acre for replanting, rehabilitation, cleanup, and/or debris removal.

Although FSA informed the producers that they were required to document and maintain support for their costs, and that they would be required to provide such documentation to FSA in the event the producers were selected for spot check, FSA did not provide producers with guidance detailing what constituted adequate documentation. Also, at the time of our audit, FSA had not issued procedures to spot-check producers' documentation of TIP-related costs.

We recommended that FSA provide producers with detailed guidance on maintaining acceptable documentation of costs for future programs and finalize and implement spot-check procedures to verify documentation supporting TIP payments. We also recommended that FSA recover the \$545,230 in unsupported TIP payments. The agency is implementing corrective actions based on the report. (Audit Report No. 03601-13-At, Hurricane Relief Initiative – TIP)

Controls Over the Approval and Distribution of Aquaculture Grant Program (AGP) Funds

We found that FSA needs to improve controls over the approval and distribution of future grant funds such as those distributed under AGP. AGP provided \$25 million in block grants to Alabama, Florida, Louisiana, Mississippi, North Carolina, and Texas to mitigate producers' aquaculture losses due to the 2005 Hurricanes Dennis, Katrina, Ophelia, Rita, and Wilma. We found that FSA did not allocate the \$25 million in AGP funds based on estimated losses; instead, it made allocations based on the number of farms and value of production in the States. In addition, two States, on their own accord and counter to their agreements with FSA, compensated producers based on criteria other than the producers' losses: Mississippi paid producers based on feed purchased, and Alabama paid producers based on surface acres of water. Moreover, because of different methodologies, Louisiana paid certain counties at a higher rate, but could not provide evidence of how it determined which counties would receive this higher rate; Mississippi

compensated catfish producers based on the amount of feed purchased, and compensated producers of all other species on the amount of actual loss. These inconsistent approaches are ultimately attributable to FSA's lack of adequate control over the States' implementation of the program.

FSA agreed to develop a methodology for future grant programs to better direct grant funds to the areas most directly affected. FSA also agreed to develop and implement controls for future grant programs to ensure that such programs achieve their intended results and treat program participants equitably. (Audit Report No. 03601-48-Te, 2005 Hurricane Initiatives: Aquaculture Grants to States)

Joint Investigation Results in Two North Carolina Men Being Convicted and Ordered To Forfeit \$4.5 Million for Conspiracy Regarding FSA's Tobacco Program

In October 2007, a Federal court held two North Carolina men jointly and severally liable for a \$4.5 million forfeiture judgment. The two North Carolina men were found guilty of conspiracy to structure financial transactions to avoid filing Currency Transaction Reports (CTRs) and to commit fraud regarding the FSA Burley Tobacco Marketing Program. The men used an extensive network of accomplices, family, and friends to conduct more than \$4.5 million of transactions in increments under \$10,000 to avoid filing the required CTR reports. It was determined that both men intentionally engaged in fraudulent actions regarding the proper identification of tobacco grown under this FSA program. This investigation was conducted jointly with the IRS, the FBI, and the Tennessee Bureau of Investigation.

Illinois Producer Sentenced to Prison in Conversion Investigation

In November 2007, a producer from Illinois was sentenced in Federal court to serve 21 months in prison, followed by 36 months of supervised release, and ordered to pay \$192,698 in restitution to USDA. The producer obtained two CCC farm-stored loans, totaling \$167,190, and pledged corn and soybeans as collateral for the loans. The OIG investigation disclosed that the producer converted the loan collateral to his

own use without authorization from FSA to sell the collateral and did not apply any of the proceeds derived from the grain sales to his outstanding FSA loans.

Dairy Firm Misreported Nonfat Dry Milk Pricing Data

Our review found that a large dairy firm misreported nonfat dry milk volume and price information when submitting its weekly reports to the National Agricultural Statistics Service (NASS), beginning in 2002. The incorrect data were aggregated with data from other firms, published by NASS in the *Dairy Products Prices* report, and factored into AMS' Federal milk marketing order formula. According to AMS, this caused the total value of milk to be understated by \$50 million between April 29, 2006, and April 14, 2007.

OIG recommended that NASS request all reporting firms to review their previously submitted data and provide any revisions for the period from January 4, 2002, through April 22, 2006. AMS will then be able to utilize accurate information in its milk pricing formulas to determine the real impact of the understatement or overstatement of the value of milk. NASS also should review and modify the questions on the Annual Validation Worksheet to solicit an accurate response for each question and verify that all field offices have implemented NASS' plan to complete the Annual Validation Worksheet for all reporting firms during a site visit. In addition, NASS needs to modify the weekly data collection instruments by requiring data providers to confirm that they fully understand the requirements they must meet to accurately report their firm's data and verify that changes to strengthen the internal controls for the data included in the *Dairy Products Prices* report have been implemented.

NASS has implemented changes in its internal controls to improve the data collection and review process for the *Dairy Products Prices* report. We concurred with the agency's response and have reached management decision for all five recommendations. (Inspection Report No. 26901-01-IR, Survey and Estimation Internal Controls for Nonfat Dry Milk and the *Dairy Products Prices* Report)

GOVERNMENTWIDE ACTIVITIES – GOAL 2

Participation on Committees, Working Groups, and Task Forces

- In response to the devastation in the Gulf Coast caused by Hurricanes Katrina, Rita, and Wilma, the PCIE Homeland Security Roundtable created a Disaster Recovery Working Group, now in its third year. USDA OIG and 17 other Inspectors General have been meeting on a quarterly basis to discuss their experiences in auditing and investigating hurricane recovery efforts. Topics covered, in addition to the ongoing work, include coordination between Departments, data-sharing to prevent duplicate assistance, contracting issues, preparation for future disasters, and overall lessons learned.
- OIG special agents have been participating in a Hurricane Katrina/Rita Fraud Task Force since January 2006. From November 1, 2005, to date, OIG has conducted 48 cases in which FNS, FSA, and Rural Development (RD) have been defrauded by individuals who have submitted false claims or provided false statements to obtain Federal benefits. From June 2006 to date, 88 individuals have been indicted, 30 have been convicted and sentenced, and fines and restitution thus far have totaled \$26,725 and \$451,975, respectively. The task force is expected to continue through FY 2009.
- OIG investigators are participating on a task force to investigate criminal violations of the Food Stamp Program and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Members include the Michigan State Police and IRS' Criminal Investigation organization. The FBI, Social Security Administration OIG, and Immigration and Customs Enforcement have provided assistance during search and arrest warrant operations. The initiative has resulted in 43 arrests and 28 search warrants served in the

Detroit metropolitan area. Criminal prosecutions are being pursued through the United States Attorney's Office for the Eastern District of Michigan and the Michigan Attorney General's Office. Forfeiture actions have been started by the United States Attorney's Office.

- An OIG investigator has been working with the FBI's Safe Streets Task Force in Indianapolis, Indiana, since 2000. The mission of the task force is to deter street gang and drug-related violence, as well as seek the most significant fugitives wanted for crimes of violence through long-term, proactive, and coordinated teams of Federal, State, and local law enforcement officers and prosecutors.
- An OIG investigator is participating on the Ohio Organized Crime Investigations Commission (OOCIC) Task Force in Dayton, Ohio. OOCIC provides assistance to local law enforcement agencies in the investigation of organized criminal activity. OIG investigators have participated in the OOCIC Task Force since 1996 and have conducted investigations involving welfare recipients, food stamp trafficking, mortgaged farm equipment stolen from farmers, stolen property trafficking, and dogfighting. OIG involvement with the taskforce has resulted in the successful prosecution of more than 145 individuals, with a number of additional cases pending. This has resulted in hundreds of charges for crimes such as Racketeer Influenced and Corrupt Organization Act (RICO) violations, auto theft, breaking and entering, narcotics trafficking, felonious assault, weapons violations, illegal gambling, food stamp trafficking, money laundering, conspiracy, dogfighting, and other criminal violations.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

Topics that will be covered in ongoing or planned reviews under Goal 2 include:

- continued monitoring of EBT implementation (FNS),
- the Child and Adult Care Food Program (FNS),
- WIC vendor monitoring (FNS),
- FSP administrative costs in New Jersey (FNS),
- Rural Business-Cooperative Service's (RBS) Intermediary Relending Program,
- effectiveness and enforcement of debarment and suspension regulations throughout USDA,
- Oklahoma Rural Housing Service (RHS) Rural Rental Housing (RRH) company,
- RHS Texas community connect grants closeout audit,
- controls over issuance of appropriated funds by Delta Regional Authority (RD),
- RD rural area designations,
- RHS controls over management companies in Puerto Rico,
- RHS RRH project insurance maintenance and reserve account funding – Florida,
- RHS RRH maintenance costs and inspection procedures,
- controls over lender activities in RHS' Single Family Housing (SFH) Loan Program,
- RD's rural critical access hospitals,
- RHS Community Facilities Guaranteed Loan Program,
- Rural Utilities Service (RUS) controls over Water and Waste Disposal Loan and Grant Program,
- RUS Water and Wastewater System Grants – Alaska,
- RUS Broadband Loan Programs,

- Farm and Ranch Lands Protection Program, review of non-Governmental organizations (NRCS),
- implementation of the Tobacco Transition Payment (Tobacco Buyout) Program (FSA),
- interest assistance on guaranteed farm loans (FSA),
- review of adjusted gross income limitation (NRCS and FSA),
- effectiveness of status reviews in assessing producer compliance with conservation provisions (NRCS and FSA),
- crop loss and quality adjustments for aflatoxin-infected corn (Risk Management Agency (RMA)),
- price support provisions for pulse crops (FSA),
- commodity programs for peanuts (FSA),
- price discovery efforts for various crops reported nationwide (NASS),
- group risk crop insurance (RMA),
- RMA's implementation of the approved insurance providers' appendix IV/quality control reviews,
- evaluation of RMA's national program operations reviews,
- management controls over new producer status (RMA),
- controls over catastrophic crop underwriting (RMA), and
- penalties assessed for inaccurate reporting of crop acreage (RMA).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits, inspections, and investigations are completed.

Management Improvement Initiatives

OIG Strategic Goal 3:

Support USDA in implementing its management improvement initiatives.

OIG conducts audits, inspections, and investigations that focus on such areas as improved financial management and accountability, IT security and management, research, real property management, employee corruption, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with \$128 billion in public resources annually. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial

reporting. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains.

In the first half of FY 2008, we devoted 34.2 percent of our total direct resources to Goal 3, with 98.8 percent of these resources assigned to critical/high-impact work. A total of 91.5 percent of our audit or inspection recommendations under Goal 3 resulted in management decision within 1 year, and 63 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 14 audit reports under Goal 3 during this reporting period. OIG investigations under Goal 3 yielded two indictments, no convictions, and \$450,588 in monetary results during the reporting period.

Management Challenges Addressed Under Goal 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 4)
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Implementation of Improper Payment Act Requirements Needs Improvement
- Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 1)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 4)

EXAMPLES OF AUDIT, INSPECTION, AND INVESTIGATIVE WORK FOR GOAL 3

Formal Strategy for Renewable Energy Projects Is Needed

Our review determined that RUS' internal controls over its electric loan and grant program, which includes renewable energy projects, were generally adequate. However, we found that RUS did not have a formal strategy to maximize the use of funds set aside for renewable energy projects and to ensure

the effectiveness of these projects. RUS officials believed that they do not need a strategic plan specific to RUS because it is one of the mission areas within RD, and RD has a strategic plan. As a result, RUS has not maximized the use of available methods of funding, such as loan and grant combinations, to satisfy requests for renewable energy grant project funds. By using loan and grant combinations, RUS should be able to use fewer grant funds and more loan funds while maintaining both the applicant's ability to repay the loan and providing sufficient working capital and cashflow to sustain the project. RUS agreed to develop a formal strategy to maximize the effectiveness of

renewable energy projects, including the development of goals and performance measures as well as the use of grant and loan combinations to maximize available loan and grant funds. (Audit Report No. 09601-07-Te, Implementation of Loan and Grant Programs That Promote Renewable Energy)

Emergency Conservation Program (ECP) Helps Producers Rehabilitate Farmland Damaged by 2005 Hurricanes

Overall, we concluded that the flexibility provided to the States by FSA's ECP allowed them to better facilitate producers' timely recovery from damage caused by the successive hurricanes that devastated farmland throughout the Gulf Coast in 2005. FSA State offices were authorized to increase ECP approval limits and waive pre-approval onsite inspections of the extent of damage. However, we did find that FSA county personnel approved applications from both their fellow employees and their superiors, which was not allowed by procedure. Also, although FSA replaced its pre-approval onsite inspections with post-approval spot checks of 25 percent of approved applications, the spot checks did not always provide reasonable assurance that claimed costs were commensurate with the work or services performed; e.g., once debris had been removed, it was difficult to gauge the extent or location of the original damage and, therefore, the actual expenditures required to rehabilitate the land.



Debris at sites OIG visited had been burned or piled at various locations, which made it impractical to verify the extent of the damage. OIG photo.

FSA agreed to review all employee and county committee applications not approved at the appropriate level, remind its State and county office employees of relevant approval authority rules, and develop guidance to limit pre-approval onsite inspection waivers for those types of ECP projects that FSA determines are least capable of being evaluated after rehabilitation work has been performed. The audit was conducted in conjunction with the PCIE as part of its examination of the Federal Government's relief efforts in the aftermath of Hurricanes Katrina and Rita. (Audit Report No. 03601-27-KC, Hurricane Relief Initiatives: ECP)

Financial Management Controls Over Reinsurance Companies

After RMA had incurred more than \$41.7 million in funding closeout operations since 2003 for a failed reinsured company that had been the largest participant in the Federal crop insurance program, OIG and the Government Accountability Office (GAO) made recommendations to RMA to strengthen its management control over reinsured companies. This reporting period, we revisited issues raised in those reports and found that RMA has improved its financial management controls over reinsurance companies, has expanded its financial and operational analyses of those companies, and has conducted compliance reviews of adherence to regulations and policies.

RMA has initiated agreements that enable information sharing with State insurance departments. However, its Reinsurance Services Division still needs to develop written procedures for its operational analyses of reinsured companies now that it has expanded them. Further, it needs to coordinate with State insurance departments to determine what information should be shared and the optimal frequency for sharing it, and then implement a policy to routinely do so. RMA disagreed with our analysis of its coordination with State insurance departments. RMA stated that it provided substantial documentation during the audit to demonstrate that the frequency and quantity of information shared with the States is substantially greater now than it was prior to the cited insurance company's failure. To reach management decision, we need RMA's plan and timetable for coordinating with State insurance regulators on their supplemental information needs, and RMA's plan and corrective action for how it expects to communicate those

needs with the State insurance departments. (Audit Report No. 05099-111-KC, RMA Financial Management Controls Over Reinsurance Companies)

Operation Talon Still Going Strong

OIG began Operation Talon in 1997 to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. As of March 31, 2008, Operation Talon had resulted in 11,995 arrests of fugitive felons during joint OIG-State and local law enforcement operations. During this reporting period, OIG agents conducted Talon operations in 4 States, making a total of 215 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest 11 fugitives in Alabama, 8 in California, 154 in Massachusetts, and 42 in New Jersey for offenses including assault, burglary, assorted drug charges, robbery, fraud, forgery, driving under the influence, rape, sex offenses, offenses against family and children, larceny, stolen property, weapons violations, and other offenses.

Former FS Employee Sentenced for Embezzlement

In November 2007, a former FS employee was sentenced in the District of Oregon to serve 21 months in prison and 36 months of supervised release and was ordered to pay restitution of \$642,319. The OIG investigation disclosed that the employee embezzled at least \$642,319 from FS and used the funds for personal use, including gambling. The individual's employment with FS was terminated in August 2007. This case was conducted jointly with IRS Criminal Investigation.

Wife of Montana Sheriff Sentenced for Embezzlement

In January 2008, a former employee of the Montana Department of Public Health and Human Services, who is also the wife of a Montana county sheriff, was sentenced in the District of Montana to serve 54 months in prison, followed by 36 months of probation, and was ordered to pay \$206,233 in restitution to the Montana Department of Public Health and Human Services. The investigation disclosed that, over a 10-year period, the former employee embezzled \$22,377 in

food stamp and \$183,856 in Temporary Assistance for Needy Family (TANF) benefits. The former employee opened and maintained numerous fictitious case files, and had the food stamp and TANF benefits mailed to post office boxes she held in the fictitious names.

Former State Employee Sentenced for Fraudulently Receiving Government Benefits

In October 2007, a former State of Maine employee was sentenced in Federal court in the District of Maine to 12 months in prison, and ordered to pay restitution of \$120,917 and a \$400 court fee for providing false statements to Government agencies to fraudulently receive benefits, including food stamps. The judge also ordered that the individual be deported to Canada upon her release from prison. The individual previously had pled guilty in June 2007 to two counts of submitting false documentation and making false statements to obtain food stamps and other benefits. This investigation was conducted jointly with the U.S. Department of Health and Human Services OIG.

Former Indiana County Employee Working at a USDA Service Center Sentenced for Possession of Child Pornography

In December 2007, a former employee with Allen County's Indiana Soil and Water Conservation District (SWCD) was sentenced in Allen County Superior Court to 24 months of probation for possession of child pornography. As part of the sentencing, the judge ordered the former employee to undergo counseling, to have no unsupervised visits with children under the age of 18, and to register as a sex offender in the State of Indiana. The former employee confessed to using SWCD-owned computers to upload and download child pornography images to and from the Internet while he was working in the USDA Service Center. The former employee also confessed to posting child pornography images to a photo album on a popular Internet site, using a computer at his new place of employment to access the images, and downloading child pornography images to one of his personally owned computers.

FSA's Process for Identifying Improper Payments Results in Reliable Estimates

We concluded that the process FSA was using in 2007 to arrive at a statistically valid estimate of improper payments made in its high-risk programs was adequate and would result in reliable estimates of improper payments. The Department's Chief Financial Officer had requested our evaluation of the process because of questionable reporting in previous years.

We did identify two conditions that could have impacted the estimates but were corrected by FSA before the reporting of final estimates in USDA's Performance and Accountability Report. To determine whether an improper payment had occurred, FSA used a more stringent timeframe for lien searches before disbursement of Marketing Assistance Loans (MAL) than was required by regulation. Lien searches had been performed outside the timeframe FSA specified but before disbursement and obtaining of the required security on loan collateral. FSA agreed that this was improper and revised the determination of an improper payment. We also identified an error in the statistical projection that understated improper payments for the MAL Program by \$176 million. The statistician had failed to use revised payment codes provided by FSA to develop the improper payment estimate. FSA rectified this error.

FSA agreed to ensure that the guidance for conducting improper payment reviews was revised to reflect the revision to the improper payment determination for MAL lien searches, and that controls are implemented to confirm that improper payment estimates are accurately based on the results of payment reviews. (Audit Report No. 03601-0014-Ch, Identification and Reporting of Improper Payments in FSA High-Risk Programs)

IT Security in the Store Tracking and Redemption System II (STARS II) Needs Improvement

FNS properly documented and accredited STARS II and established adequate application controls to ensure that the system contained valid, complete, and accurately processed data. However, we noted some weaknesses that FNS has agreed to address to further strengthen the security of STARS II. This includes the need to (1) improve security over computer resources, (2) implement actions agreed to in

a prior recommendation regarding processing access requests, and (3) finalize the contingency plan for the STARS II primary computer facility, the Benefit Redemption System Branch (BRSB). Also, the Dallas Field Office did not adhere to established procedures for obtaining supervisory approval before authorizing stores in STARS II.

In response to our audit, FNS (1) agreed to implement controls to ensure that only authorized individuals have physical access to restricted areas, (2) has developed and implemented controls to ensure sensitive data are removed from damaged hard drives, (3) is developing an automated process for processing system access requests and approval and agreed to continually update the BRSB contingency plan, and (4) instructed the Dallas Field Office to follow established procedures for authorizing stores in STARS II and reviewing system data for significant changes. (Audit Report No. 27501-02-Hy, Application Control Review of FNS' STARS II)

USDA FY 2007/2006 Consolidated Financial Statements – Qualified Opinion in FY 2007

The USDA FY 2007 Consolidated Financial Statements received a qualified opinion. The qualified opinion on the Consolidated Financial Statements was due to significant revisions made to Rural Development's (RD) credit reform processes related to the Single-Family Housing Program cashflow model and subsidy reestimates. As such, OIG was unable to obtain sufficient, appropriate evidence to support RD's and USDA's Financial Statement amounts as of September 30, 2007. These revisions materially impacted RD's and USDA's Consolidated Financial Statements as a whole and resulted in qualified opinions. We also identified three significant deficiencies in internal controls. Improvements were needed in overall financial management, IT security and controls, and certain financial management practices and processes. The first two deficiencies were considered to be material weaknesses. In addition, three instances of noncompliance were identified relating to the Federal Financial Management Improvement Act of 1996 (FFMIA), the Anti-Deficiency Act (ADA), and Managerial Cost Accounting Practices. The Office of the Chief Financial Officer (OCFO) agreed with the findings reported and has immediate and long-term plans to address the weaknesses discussed in the report.

In addition to auditing the Department's Consolidated Financial Statements, audits of the financial statements of five USDA agencies were also performed. Details of these financial audits are as follows:

- **RD – Qualified Opinion in FY 2007.** The RD consolidated financial statements for FY 2007 received a qualified opinion because of deficiencies we identified after RD made significant revisions to its credit reform processes related to the Single-Family Housing Program cashflow model and subsidy reestimates. Our report on internal controls identified two material weaknesses related to improvements needed in financial management of the credit reform processes and IT security. In addition, we reported a significant deficiency related to improvements needed over the Rural Telecommunication Program's unliquidated obligation certification process. We also identified an instance of noncompliance related to FFMIA. We recommended that RD improve its financial reporting controls over credit reform. RD generally agreed with the findings and recommendations in the report.
- **CCC – Unqualified Opinion.** The audit of CCC identified four significant deficiencies (the first three are material weaknesses) in CCC's information security controls, financial system functionality and funds control, management's review procedures over the cashflow models for direct and credit guarantee programs, and producer monitoring procedures. Three instances of non-compliance were identified related to the Federal Information Security Management Act of 2002 (FISMA), FFMIA, and ADA. CCC generally concurred with the significant deficiencies discussed in the report and is implementing corrective actions.
- **FS – Unqualified Opinion.** We identified one material internal control weakness in FS' IT general controls environment. One instance of noncompliance was identified related to FFMIA. FS agreed with the recommendations and is in the process of developing specific corrective action plans.
- **FNS – Unqualified Opinion.** The audit of FNS did not identify any significant deficiencies; however, one instance of noncompliance was reported related to the Improper Payments Information Act of 2002.

- **Federal Crop Insurance Corporation (FCIC)/RMA – Unqualified Opinion.** No weaknesses were identified related to internal controls.

(Audit Reports Nos. 50401-62-FM, 85401-14-FM, 05401-0016-FM, 08401-0008-FM, 06401-0022-FM, and 27401-32-Hy, respectively, for the USDA, RD, FCIC, FS, CCC, and FNS Financial Statements for FY 2007/2006)

GOVERNMENTWIDE ACTIVITIES – GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *Federal Agency Data Protection Act.* OIG reviewed H.R. 4791, entitled the "Federal Agency Data Protection Act," which would amend the E-Government Act in a number of ways and protect personally identifiable information (PII) of individuals that is maintained in or transmitted by Federal agency information systems. OIG expressed concern that there would be inconsistent determinations of what is and is not PII under the current proposed PII definition and recommended that concrete examples be provided. OIG also recommended that the legislation clarify whether PII includes publicly available information that is lawfully made available to the public from Federal records.
- *Improper Payments Elimination and Recovery Act of 2008.* OIG reviewed S. 2583, entitled the "Improper Payments Elimination and Recovery Act of 2008," which would require the Office of Management and Budget (OMB) to determine when an agency should be required to obtain an opinion on internal controls over financial reporting. OIG expressed concern that this requirement would double the amount of time and resources needed for OIG and independent audit contractors to conduct USDA's financial statement audits. Also, the legislation would require OIG to perform annual audits to ascertain

whether USDA is in compliance with the Improper Payments Act. OIG expressed concern that these new requirements would leave few if any resources available for OIG to conduct other audit work. Additionally, OIG opined that the requirement for such annual audits would not be an efficient use of resources, as it would not provide agencies with sufficient time to make corrections and address any recommendations before the following year's audit. OIG recommended, at a minimum, that (1) the IG be able to exercise some judgment as to which relevant agency programs to review and also be able to exercise some discretion as to the scope of that review, and 2) the schedule for any such audits be revised to allow more time between audits (e.g., "once every 3 years" or "periodically" at the IG's discretion).

- As part of its continuing efforts to strengthen the Federal nursery crop insurance program, RMA requested OIG Audit staff comments and feedback on its draft 2008 Nursery Loss Adjustment Standards Handbook (LASH). During the past year, RMA has worked with and provided ongoing assistance to auditors reviewing nursery crop indemnity payments for losses caused by Hurricanes Katrina, Rita, and Wilma. OIG provided comments to strengthen this essential document based on the mismanagement and abuse by loss adjusters we observed during our fieldwork. We suggested that loss adjusters, at the beginning of the loss adjustment process, ensure that (1) documentation exists, is reconciled to, and supports producers' insured inventory values; and (2) required pre-acceptance inspections to confirm the eligibility of the property being insured were performed. OIG also suggested that adjusters support their determinations of plant recovery time needed.

OIG also reviewed and commented on a draft of a manager's bulletin that RMA was issuing to all Approved Insurance Providers (AIP) to discuss OIG's preliminary audit findings and remind AIPs that insured nursery inventory values must be supported by adequate inventory records. During

our fieldwork, OIG auditors observed an AIP's sales agent who had misused the nursery crop insurance peak inventory provisions to provide ineligible coverage and subsequent indemnity payments for some of its insured producers. At our suggestion, RMA included a section in the bulletin on nursery crop provisions from the peak inventory endorsement and reminded AIPs that peak endorsements must be properly supported by a physical inventory. The bulletin was issued February 28, 2008.

Participation on Committees, Working Groups, and Task Forces

- *PCIE Legislation Committee.* The USDA IG continues to serve the IG community as the Chair of the Legislation Committee of the PCIE. During the reporting period, the Legislation Committee reviewed pending bills that would amend the IG Act and provided comments as requested to staff of the House Oversight and Government Reform Committee and the Senate Homeland Security and Governmental Affairs Committee (HSGAC). On October 3, 2007, the House considered and passed H.R. 928, the "Improving Government Accountability Act." On November 14, 2007, the Senate HSGAC favorably voted S. 2324, the "Inspector General Reform Act of 2007" (the Senate counterpart to H.R. 928) out of committee.

On an ongoing basis, the Legislation Committee monitored and tracked all IG-related legislation that was introduced in Congress and kept the affected IGs notified of these bills' progress. The committee considered specifically the Web site requirements imposed upon OIGs and their host establishments by the 2008 Consolidated Appropriations Act, as well as S. 2583, the "Improper Payments Elimination and Recovery Act of 2008," which would amend the Improper Payment Information Act of 2002 and impose additional requirements on OMB, Federal agencies, and the executive branch IGs.

- The USDA IG is a member of the National Procurement Fraud Task Force, formed by the Department of Justice (DOJ) in October 2006 as a partnership among Federal agencies charged with the investigation and prosecution of illegal acts in connection with Government contracting and grant activities. The task force has worked to better allocate

resources and improve coordination in procurement and grant fraud cases and otherwise to accelerate investigations and prosecutions. During this period, the task force has developed training programs on procurement and forensic auditing. At the regional level, OIG Investigations field offices in the Northeast Region and Western Region participate on Procurement Fraud Task Forces initiated by the local United States Attorneys' Offices. OIG investigators in the Northeast Region are participating in a multi-agency investigation involving surety bond fraud. Surety bonds are one of the requirements necessary to obtain a Government contract. OIG also participates in one of the working groups formed by the task force, the Legislation Committee, which has produced a white paper discussing proposals for reform of the procurement process.

- The USDA IG, as a member of the PCIE Audit Committee, works to provide guidance to the Federal audit community by sponsoring reviews of Governmentwide issues and developing professional standards for audit activities. During this period, the committee addressed issues involving auditor training, proposed legislation requiring audits of improper payments, peer reviews, and reviews of IT.

- *National Single Audit Sampling Project.* Conducted under the auspices of the Audit Committee, the PCIE issued a study, *Report on National Single Audit Sampling Project*, to OMB in June 2007 on the quality of audits performed under Circular A-133 and how to improve them. Prompted by the PCIE study, but not under the purview of PCIE, OMB has designated a number of Federal agencies to examine whether the Single Audit process should be changed and, if so, how. Of the eight Single Audit Improvement Workgroups formed, OIG is participating in the one entitled "The New and Improved Single Audit Process." In considering how the total Single Audit Environment should be improved, this workgroup is trying to ensure that the issues raised are applied to the collective efforts of all eight workgroups. This workgroup is also seeking input from the audit community—Federal (including GAO), State, and local governmental auditors, and certified public accountants—as well as the report user community. In addition, the workgroup is coordinating with OMB to implement changes.

- *Financial Statement Audit Network (FSAN).* OIG auditors are members of the FSAN workgroup. FSAN consists of inspector general auditors from numerous Federal agencies, and its main purpose is to share ideas, knowledge, and experiences in the audit community. On March 14, 2008, USDA OIG, in conjunction with FSAN, hosted the GAO/PCIE Financial Statement Audit Update Conference. The conference was attended by more than 350 financial and IT auditors from the Federal, State, and private sector communities.

- *A-136 Subcommittee.* USDA OIG and the Department's Office of Chief Financial Officer are members of the Subcommittee on OMB Circular No. A-136, *Financial Reporting Requirements*. The subcommittee's purpose was to analyze various topics and submit recommendations to OMB by April 2008 for possible inclusion in the anticipated OMB Circular No. A-136 revision scheduled for May 2008. Topics being discussed include:

- Accounting and budgetary difference reporting requirements
- Performance and Accountability Report (PAR) pilot evaluation
- Compilation and presentation of PAR
- Statement of Financing
- Fiduciary Activity Footnote
- Program performance evaluations included in PAR
- Asbestos reporting requirements
- Statement of Net Cost
- Parent-child reporting

- The USDA OIG National Computer Forensic Division (NCFD) is an active participant in the newly formed PCIE IT Committee's Investigations Subcommittee and the Working Group on Computer Forensics. NCFD will participate in a training session co-sponsored by the PCIE IT Committee and DOJ's Computer Crimes and Intellectual Property Section. The subcommittee is currently reviewing Encryption Key Escrow policies within each participating agency to help establish a best-practices document related to key escrow. The subcommittee is also reviewing the possibility of developing a computer forensic lab certification for all OIG forensic labs.

- A forensic analyst from OIG's NCFD participates full time at the FBI's Heart of America Regional Computer Forensic Lab (HARCFL) in Kansas City, Missouri. Participation in HARCFL has been beneficial in obtaining direct access to a Regional Computer Forensics Laboratory, training, sample policies and procedures, and, as needed, FBI assistance in OIG's forensic examinations.

Testimony Delivered

- *IG Testifies Before the House Committee on Appropriations' Subcommittee on Agriculture, Rural Development, FDA, and Related Agencies, on OIG's FY 2009 Budget Request.* On February 28, 2008, the IG and her senior management team presented testimony in support of the President's FY 2009 Budget Request for OIG. Her testimony provided an overview of significant audit and investigative work OIG conducted in the preceding 12 months and the most noteworthy work OIG has ongoing or planned for 2008. The IG's testimony featured descriptions of OIG's food safety work in 2007 and 2008, covering issues such as risk-based inspection, *E. coli* testing, allegations of improper practices in meat processing facilities, and USDA recall procedures. OIG's testimony also addressed audit and investigation work pertaining to NRCS conservation programs, RD activities, and USDA's nutrition programs. During the hearing, the IG and her senior managers further discussed OIG's work related to hurricane relief operations, dogfighting investigations, and food stamp fraud with Members of the Subcommittee. IG Fong also testified about the current budget reductions we face and the impact on our ability to provide full and effective oversight of Departmental operations.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

Topics that will be covered in ongoing or planned reviews under Goal 3 include:

- GIPSA's management and oversight of the Packers and Stockyards Program,
- FS acquisition of IT software/hardware,
- oversight and control of FS activities,
- implementation of Renewable Energy Programs in USDA, ARS, RBS, and FS,
- Hurricane Relief Initiatives:
 - Section 32 disaster programs including the Feed, Hurricane (crop), and Livestock Indemnity Programs (FSA and CCC),
 - RMA's 2005 emergency hurricane relief efforts in Florida,
- RMA compliance activities,
- national research initiative competitive grants (CSREES),
- ARS research monitoring,
- Export Guarantee Programs (FAS),
- price discovery efforts for various crops reported nationwide (NASS),
- establishment of average yields (NASS),
- annual audits of the Department and standalone agencies' Financial Statements for FYs 2007 and 2008 (OCFO),
- retirement, health, and life insurance withholdings/contribution and supplemental headcount report submitted to OPM for FYs 2007 and 2008 (OCFO),
- FY 2008 USDA closing package,
- Rural Telephone Bank (RTB) closeout audit,
- accounting for farm loan programs (FSA),
- improper payments – continued reviews of risk assessment process and monitoring the progress of corrective actions (FSA and RHS),
- adequacy of internal controls over USDA travel card expenditures followup,
- management and security over USDA wireless communications (Office of the Chief Information Officer (OCIO)),
- lost and stolen computer equipment containing sensitive information (OCIO),
- FY 2008 National Finance general controls (OCFO),
- FY 2008 FISMA (OCIO),
- FY 2008 National Information Technology Center general controls (OCIO),
- FY 2008 Information Technology Services general controls (OCIO),
- FSIS IT followup,
- minimum security requirements in USDA information systems (OCIO), and
- management over time and attendance data processed at the National Finance Center (OCFO).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits, inspections, and investigations are completed.

Stewardship Over Natural Resources

OIG Strategic Goal 4:

Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

OIG's audits, inspections, and investigations focus on USDA's management and stewardship of natural resources, including soil, water, and recreational settings. Our work in this area is vital because USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as the 193 million acres of national forests and grasslands. USDA also provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the first half of FY 2008, we devoted 5.5 percent of our total direct resources to Goal 4, with 99.5 percent of these resources assigned to critical/high-impact work. There were no audit or inspection recommendations under the new Goal 4 that resulted in management decision within 1 year, nor were there any investigative cases that had criminal, civil, or administrative action taken. OIG issued no audit reports under Goal 4 during this reporting period. (For statistical purposes, the audit reported below (Audit Report No. 50601-12-KC) is tabulated under Goal 3 because it was largely completed before the implementation of Goal 4 in our strategic plan. The following investigative results are indicative of cases initiated before the implementation of Goal 4.) OIG investigations under Goal 4 yielded three indictments, five convictions, and about \$1.3 million in monetary results during the reporting period.

Management Challenges Addressed Under Goal 4

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 3)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 3)

EXAMPLES OF AUDIT, INSPECTION, AND INVESTIGATIVE WORK FOR GOAL 4

NRCS Should Evaluate Funding Decisions for Multi-State Disaster Areas

Overall, we found that NRCS' management controls in Mississippi and Louisiana were in place and functioning, as intended, to identify eligible sponsor entities and watershed project areas, to solicit bids and award contracts, and to inspect and verify the completion of designed channel restorations and levee repairs after Hurricanes Katrina and Rita. NRCS had provided funding for the affected States to restore channels and levees and to remove and dispose of dead poultry.

NRCS initially allocated \$23.9 million in Emergency Watershed Protection Program (EWP) funds to the affected areas. Initial EWP funding for Louisiana and Mississippi totaled approximately \$10.5 million and \$7.5 million, respectively, for exigent projects in Louisiana and serious, but nonexigent, projects in Mississippi. Each State obligated funding to its highest priority projects, but the initial EWP funding was not obligated to the highest priority projects across the entire disaster-impacted area. We recommended that NRCS evaluate the use of program funding for future disasters across any multi-State disaster areas to ensure that available funding can be put to the highest priority or best use. NRCS indicated that it will assess the funding, but that funding had been sufficient to fully fund all exigent requests.

The audit was conducted in conjunction with PCIE as part of its examination of the Federal Government's relief efforts in the aftermath of Hurricanes Katrina and Rita. (Audit Report No. 50601-12-KC, Hurricane Relief Initiatives: EWP and Disposal of Dead Animals)

GOVERNMENTWIDE ACTIVITIES – GOAL 4

Testimony Delivered

- *Deputy Inspector General (DIG) Kathleen S. Tighe Testifies Before the House Committee on Appropriations' Subcommittee on Interior, Environment, and Related Agencies, Regarding Wildfire.* On February 12, 2008, DIG Tighe presented testimony on FS wildfire management activities. She described the scope of OIG's work related to FS and OIG's three most recent FS audits. The DIG testified that during the last 4 fiscal years, OIG's audit and investigative work related to FS achieved monetary benefits or results totaling more than \$63 million. In addition to discussing OIG's Large-Fire Suppression Costs and Healthy Forests Initiative audits, the DIG highlighted OIG's newly issued report on FS' Air Safety Program. Deputy IG Tighe advised the Subcommittee that OIG's overall conclusion was that FS has made strides toward improving its air safety program, but that OIG believes FS still needs to develop and implement an airworthiness assessment, inspection, and maintenance program that is targeted toward the demands that a firefighting environment imposes on aircraft. Regarding the cost of large-fire suppression, the DIG's testimony reiterated OIG's finding that the financial burdens on FS are likely to continue to rise because of current public expectations and uncertainties about Federal, State, and local responsibilities. The DIG also noted some of OIG's ongoing and planned work for FY 2008 regarding FS activities.

ONGOING AND PLANNED REVIEWS FOR GOAL 4

Topics that will be covered in ongoing or planned reviews under Goal 4 include:

- Invasive Species Program (FS),
- watershed management (FS),
- Legacy Program – appraisal process (FS),
- administration of special use permits (FS),
- controls over technical service providers (NRCS),
- Conservation Security Program (NRCS),
- effectiveness of status reviews process in assessing producer compliance with conservation provisions (multi-agency), and
- Wetlands Reserve Program – restoration compliance (NRCS).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits, inspections, and investigations are completed.

Gauging the Impact of OIG

MEASURING PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our newly revised goals that became effective in FY 2008:

1. Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
2. Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
3. Support USDA in implementing its management improvement initiatives.
4. Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

A second way we gauge our impact is by tracking the outcomes of our audits and investigations. Many of these measures are codified in the Inspector General Act of 1978, as amended. The following pages present a statistical overview of the OIG's accomplishments this period.

FOR AUDITS WE SHOW

- reports issued
- management decisions made (number of reports and recommendations)
- total dollar impact of management-decided reports (questioned costs and funds to be put to better use)
- program improvement recommendations
- audits without management decision

FOR INVESTIGATIONS WE SHOW

- indictments
- convictions
- arrests
- total dollar impact (recoveries, restitutions, fines)
- administrative sanctions
- OIG Hotline complaints

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 07 Baseline	FY 08 Target	FY 08 1 st half Actual
(1) OIG direct resources dedicated to critical-risk and high-impact work.	92.8%	90.0%	95.6%
(2) Audit or inspection recommendations resulting in management decision within 1 year of report issuance.	84.0%	85.0%	74.2%
(3) Closed investigations previously referred for action that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result	73.7%	65.0%	76.6%

SUMMARY OF AUDIT ACTIVITIES

OCTOBER 2007 – MARCH 2008

Reports Issued			30
Audits Performed by OIG			22
Evaluations Performed by OIG			0
Audits Performed Under the Single Audit Act			0
Audits Performed by Others			8
Management Decisions Made			
Number of Reports			22
Number of Recommendations			180
Total Dollar Impact (Millions) of Management-Decided Reports			\$363.8
Questioned/Unsupported Costs			\$30.6 ^{ab}
Recommended for Recovery			\$30.6
Not Recommended for Recovery			\$0
Funds To Be Put to Better Use			\$333.2

^aThese were the amounts the auditees agreed to at the time of management decision.^bThe recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.**SUMMARY OF INVESTIGATIVE ACTIVITIES**

OCTOBER 2007 – MARCH 2008

Reports Issued			146
Cases Opened			161
Cases Closed			137
Cases Referred for Prosecution			150
Impact of Investigations			
Indictments			125
Convictions			374 ^a
Searches			28
Arrests			182
Total Dollar Impact (Millions)			\$34.7
Recoveries/Collections			\$6.8 ^b
Restitutions			\$18.9 ^c
Fines			\$ 0.9 ^d
Claims Established			\$ 7.6 ^e
Cost Avoidance			\$ 0.4 ^f
Administrative Penalties			\$ 0.1 ^g
Administrative Sanctions			54
Employees			15
Businesses/Persons			39

^aIncludes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 374 convictions do not necessarily relate to the 125 indictments.^bIncludes money received by USDA or other Government agencies as a result of OIG investigations.^cRestitutions are court-ordered repayments of money lost through a crime or program abuse.^dFines are court-ordered penalties.^eClaims established are agency demands for repayment of USDA benefits.^fConsists of loans or benefits not granted as the result of an OIG investigation.^gIncludes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE FROM OCTOBER 1, 2007, THROUGH MARCH 31, 2008				
			NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2007		6	\$311,319,480
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD		1	\$25,000,000
	TOTALS		7	\$336,319,480
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD		3	
	(1) DOLLAR VALUE OF DISALLOWED COSTS			\$333,203,479
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED			\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD		4	\$3,116,001
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE		4	\$3,116,001

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS FROM OCTOBER 1, 2007, THROUGH MARCH 31, 2008				
		DOLLAR VALUE		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2007	13	\$43,249,467	\$58,659
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	2	\$795,655	\$545,230
	TOTALS	15	\$44,045,122	\$603,889
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	8		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$30,572,705	\$34,770
	NOT RECOMMENDED FOR RECOVERY		\$39,422	\$0
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$12,157,743	\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	7	\$2,987,251	\$569,119
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	5	\$2,191,596	\$23,889

^aUnsupported values are included in questioned values.

Program Improvement Recommendations

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 159 program improvement recommendations, and management agreed to implement a total of 143 program improvement recommendations that were issued this period or earlier. Examples of the program improvement recommendations issued this period (see the main text of this report for a summary of the audits that prompted these program improvement recommendations) include the following:

- OIG made 35 recommendations to improve FSIS' management controls, data collection and analyses processes, and IT infrastructure. FSIS agreed with all of these recommendations and has already begun to take responsive action.
- APHIS generally agreed with our recommendations to enhance the controls over the importation of live animals and responded with plans or actions to strengthen or implement additional animal import controls.
- APHIS agreed to develop timeframes to implement its ePermits system for importation of animal products, incorporating the ability to identify permit applicants who require inspections and to track permit activity at the ports of entry.
- FS agreed to develop an overall plan to complete airworthiness assessments for its firefighting aircraft and to require States to assess the airworthiness of aircraft borrowed from FS and used on Federal fires.
- NASS has implemented changes in its internal controls to improve the data collection and review process for the *Dairy Products Prices* report.
- RUS agreed to develop a formal strategy to maximize the effectiveness of renewable energy projects, including the development of goals and performance measures as well as the use of grant and loan combinations to maximize available loan and grant funds.

- FSA agreed to ensure that the guidance for conducting improper payment reviews was revised to reflect the revision to the improper payment determination for Marketing Assistance Loans lien searches, and that controls are implemented to confirm that improper payment estimates are accurately based on the results of payment reviews.

SUMMARY OF AUDIT REPORTS RELEASED FROM OCTOBER 1, 2007, THROUGH MARCH 31, 2008

DURING THE 6-MONTH PERIOD FROM OCTOBER 1, 2007, THROUGH MARCH 31, 2008,
THE OFFICE OF INSPECTOR GENERAL ISSUED 30 AUDIT REPORTS, INCLUDING 8 PERFORMED BY OTHERS.
THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE	1			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	2			
COMMODITY CREDIT CORPORATION	1			
FARM SERVICE AGENCY	5	\$545,230	\$545,230	\$25,000,000
FOOD AND NUTRITION SERVICE	6	\$250,425		
FOOD SAFETY AND INSPECTION SERVICE	2			
FOREST SERVICE	4			
MULTIAGENCY	4			
RISK MANAGEMENT AGENCY	2			
RURAL DEVELOPMENT	1			
RURAL HOUSING SERVICE	1			
RURAL UTILITIES SERVICE	1			
TOTALS	30	\$795,655	\$545,230	\$25,000,000
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	26			
MULTIAGENCY AUDIT	4			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	30			
TOTAL COMPLETED UNDER CONTRACT ^b	8			
TOTAL SINGLE AUDIT ISSUED ^c	0			
^a Unsupported values are included in questioned values ^b Indicates audits performed by others ^c Indicates audits completed as Single Audit				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES						
FROM OCTOBER 1, 2007, THROUGH MARCH 31, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
Agricultural Research Service						
020170007HQ	2007/11/15	DCAA Audit of International Science and Technology Center and Science and Technology Center of Ukraine's Internal Controls Funded by ARS				
Total: Agricultural Research Service			1			
Animal and Plant Health Inspection Service						
336010009CH	2007/10/26	Controls Over Permits To Import Agricultural Products				
337010001HY	2008/01/15	Continued Monitoring of Avian Flu Preparations				
Total: Animal and Plant Health Inspection Service			2			
Commodity Credit Corporation						
064010022FM	2007/11/13	FY 2007 CCC Financial Statements				
Total: Commodity Credit Corporation			1			
Farm Service Agency						
036010013AT	2008/03/10	Hurricane Relief Initiative - Tree Indemnity Program		\$545,230	\$545,230	
036010016CH	2008/03/27	Identification and Reporting of Improper Payments in FSA High-Risk Programs				
036010025KC	2008/01/18	Bioenergy Program				
036010027KC	2008/02/26	FSA's Hurricane Relief Initiatives: Emergency Conservation Program				
036010048TE	2007/10/18	2005 Hurricane Initiatives: Aquaculture Grants to States				\$25,000,000
Total: Farm Service Agency			5	\$545,230	\$545,230	\$25,000,000

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES						
FROM OCTOBER 1, 2007, THROUGH MARCH 31, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
Food and Nutrition Service						
270170004HQ	2007/11/06	DCAA Audit of Mathematica Policy Research, Inc., FY 2005 Incurred Cost				
270170005HQ	2008/01/31	DCAA Audit of ABT Associates, Inc., FY 2003 Incurred Cost				
270990063AT	2008/03/31	Georgia Summer Food Service Program		\$250,425		
274010032HY	2007/11/09	FY 2007 FNS Financial Statements				
275010002HY	2008/03/31	Application Control Review of the Store Tracking and Redemption System II				
276010016AT	2008/03/31	Food Stamp Employment and Training Program				
Total: Food and Nutrition Service			6	\$250,425		
Food Safety and Inspection Service						
246010004KC	2008/01/29	FSIS Sampling and Testing Procedures for <i>E. coli</i> O157:H7				
246010007HY	2007/12/04	Issues Impacting Development of Risk-Based Inspection at Processing Establishments				
Total: Food Safety and Inspection Service			2			
Forest Service						
080170013HQ	2007/10/31	DCAA Audit of Air Resource Specialist Inc., Accounting System				
080170014HQ	2007/11/27	DCAA Audit of Kellogg Brown and Root Services, Inc., Brown and Root Services Operations' FY 2002 Incurred Costs				
084010008FM	2007/11/15	FY 2007 Forest Service Financial Statements				
086010048SF	2008/02/05	FS Air Safety Program				
Total: Forest Service			4			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES						
FROM OCTOBER 1, 2007, THROUGH MARCH 31, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
Multi-Agency						
504010062FM	2007/11/15	FY 2007 USDA Financial Statements				
504010063FM	2007/11/16	FY 2007 Audit of USDA's Closing Package				
506010012CH	2008/03/31	USDA's Controls Over the Importation and Movement of Live Animals				
506010012KC	2007/10/18	Hurricane Relief Initiatives: NRCS Emergency Watershed Protection Program and Dead Animal Debris Disposal Project				
Total: Multi-Agency			4			
Risk Management Agency						
050990111KC	2007/10/23	Monitoring the Financial Condition of RMA's Reinsured Companies				
054010016FM	2007/11/09	FY 2007 FCIC Financial Statements				
Total: Risk Management Agency			2			
Rural Development						
854010014FM	2007/11/09	FY 2007 Rural Development Financial Statements				
Total: Rural Development			1			
Rural Housing Service						
040990106SF	2008/03/18	Review of Bond Financing – RHS Guaranteed Loan Program				
Total: Rural Housing Service			1			
Rural Utilities Service						
096010007TE	2008/03/21	Implementation of Renewable Energy Programs in the Rural Utilities Service				
Total: Rural Utilities Service			1			
GRAND TOTAL			30	\$795,655	\$545,230	\$25,000,000

AUDITS WITHOUT MANAGEMENT DECISION

The Inspector General Act has a number of reporting requirements, among them tracking audits without management decision. The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives for new entries follow this table. An asterisk (*) indicates that an audit is pending judicial, legal, or investigative proceedings that must be completed before the agency can act to complete management decisions.

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
NEW SINCE LAST REPORTING PERIOD				
OAC	2007/05/14	1. Review of USDA Employee Civil Rights Complaints (60601-4-Hy)	0	0
CSREES	2007/08/17	2. CSREES – Tribal 1994 Land Grant Institutions (13011-3-At)	951,345	951,345
FSA	2007/09/26	3. Tobacco Transition Payment Program – Quota Holder Payments and Flue-Cured Tobacco Quotas (03601-12-At)	465,703	29,820
Multiagency	2007/08/27	4. Crop Bases on Lands With Conservation Easements (50099-11-SF)	1,385,937	1,385,937

PREVIOUSLY REPORTED BUT NOT YET RESOLVED

These audits are still pending agency action or are under judicial, legal, or investigative proceedings. Details on the recommendations where management decisions had not been reached have been reported in previous Semiannual Reports to Congress. Agencies have been informed of actions that must be taken to reach management decision, but for various reasons the actions have not been completed. The appropriate Under and Assistant Secretaries have been notified of those audits without management decisions.

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FAS	2007/02/22	5. Trade Promotion Operations (07601-1-Hy)	0	0
FSIS	2000/06/21	6. Implementation of the Hazard Analysis and Critical Control Point (HACCP) System (24001-3-At)	0	0
	2003/09/30	7. Oversight of Production Process and Recall at ConAgra Plant (Establishment 969) (24601-2-KC)	0	0
	2005/06/24	8. HACCP – Compliance by Very Small Plants (24601-5-At)	0	0
Multiagency	2003/09/30	9. Implementation of Agricultural Risk Protection Act (50099-12-KC)	0	0
	2004/02/23	10. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
	2007/02/27	11. IT – Lost or Stolen Items Containing Sensitive Information (50501-8-FM)	0	0
	2007/03/28	12. Implementation of Trade Title of 2002 Farm Bill and President's Management Agenda (50601-12-At)	0	0
RBS	2002/01/28	13. Lender Servicing of Business and Industry (B&I) Guaranteed Loans, Florida (34601-3-At)	1,536,060	1,536,060
	2004/09/30	14. Rural Rental Housing Project Costs, Cairo, IL (04099-143-Ch)*	164,000	164,000
	2007/03/30	15. Controls Over Single-Family Hurricane Relief Efforts (04601-15-Ch)	388,842	320,152
RMA	2002/03/15	16. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	2007/03/26	17. Evaluation of RMA Indemnity Payments for 2004 Florida Hurricanes (05099-27-At)	415,710	415,710

AUDITS WITHOUT MANAGEMENT DECISION – NARRATIVE FOR NEW ENTRIES

1. Review of USDA Employee Civil Rights Complaints (60601-4-Hy), Issued May 14, 2007

OIG recommended that the Office of Adjudication and Compliance (OAC) implement controls to monitor the processing of employee complaints and to intervene when timeframes are not met. For management decision, OAC needed to establish timeframes by which cases are considered to significantly exceed regulatory timeframes. OAC proposed that 180 days elapse before a Final Agency Decision (FAD) based on the merits will be considered as having significantly exceeded regulatory timeframes. However, regulations state that an FAD based on merits should be issued within 60 days of the beginning of the adjudication period. To accept management decision, OAC needs to provide justification for its proposal.

2. CSREES – 1994 Tribal Land Grant Institutions (13011-3-At), Issued August 17, 2007

OIG found that CSREES had not closed out 33 grants with unliquidated balances totaling \$874,986. We recommended that CSREES close out the expired grants and return excess funds to the U.S. Treasury. CSREES generally agreed and has started the process to return the excess funds to the U.S. Treasury, except in several cases where it is seeking clarification on an administrative requirement. To reach management decision, CSREES needs to provide documentation on its corrective actions on all of these expired grants.

3. Tobacco Transition Payment Program – Quota Holder Payments and Flue-Cured Tobacco Quotas (03601-12-At), Issued September 26, 2007

OIG found that, in 2003, FSA identified a computer software error that incorrectly altered flue-cured tobacco quotas in cases where an owner transferred quota from one tract to another (common ownership transfers). Although FSA corrected the software problem, it did not review and correct all common ownership transfers made before the software was revised. FSA agreed to review and correct quotas and Tobacco Transition Payment Program (TTPP) contracts and payments for identified common ownership transfers that resulted in incorrectly altered flue-cured tobacco quotas. To reach management decision, FSA needs to provide the results of its reviews, including copies of the bills for collection of any amounts owed to the Government, and

support that such amounts have been entered as receivables on the agency's accounting records.

4. Crop Bases on Lands With Conservation Easements (50099-11-SF), Issued August 27, 2007

Our followup audit found a continuing problem with NRCS not communicating with FSA on easements, causing FSA to make improper farm subsidy payments for 36 easements, resulting in overpayments of \$1.3 million. We issued a management alert in September 2005. We have accepted management decision for our one recommendation to NRCS that it train staff members in California on their responsibilities to notify FSA of recorded easements. We recommended that FSA (1) direct its California office to remove the crop bases from the 36 easements and recover the consequent improper payments, (2) search for similar problems nationwide, and (3) take action to prevent these problems from recurring. To reach management decision on the seven of nine open recommendations, FSA needs to (1) provide support that any overpayments have been entered as receivables on its accounting records or justification for not pursuing any of the monetary amounts, (2) demonstrate its efforts to search for similar problems nationwide, and (3) document that it has removed from its handbook the reference that cropland enrolled in an EWP easement is eligible for farm subsidy payments in the fiscal year the easement is filed.

INDICTMENTS AND CONVICTIONS

From October 1, 2007, through March 31, 2008, OIG completed 146 investigations. We referred 150 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 125 indictments and 374 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 374 convictions do not necessarily relate to the 125 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$34.7 million.

The following is a breakdown, by agency, of indictments and convictions for the reporting period.

Indictments and Convictions October 1, 2007 – March 31, 2008		
Agency	Indictments	Convictions*
AMS	1	0
APHIS	10	271
ARS	1	0
FNS	77	67
FS	2	3
FSA	11	21
FSIS	12	6
NRCS	1	2
RHS	4	3
RMA	6	1
TOTAL	125	374
*This category includes pretrial diversions.		

OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 718 complaints, which included allegations of

participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

Figure 1. Volume and Type

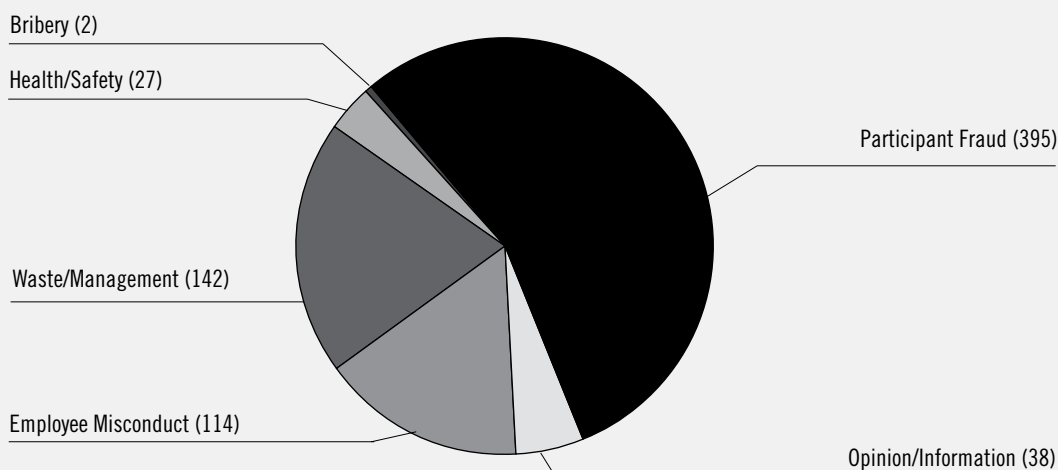
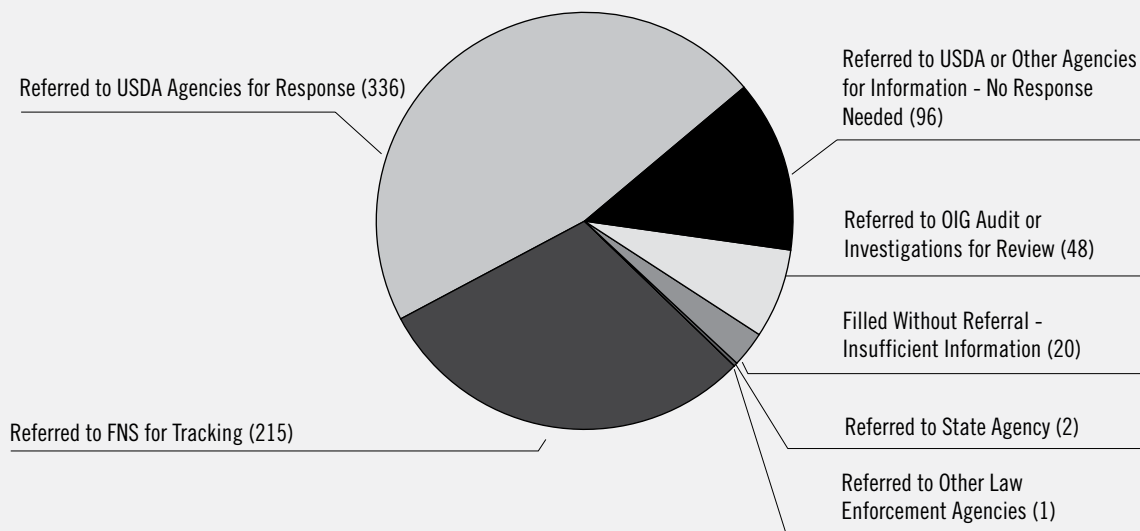


Figure 2. Disposition of Complaints Received



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS October 1, 2007 – March 31, 2008	
Number of FOIA/PA Requests Received	74
Number of FOIA/PA Requests Processed	70
Number Granted	6
Number Partially Granted	39
Number Not Granted	25
Reasons for Denial	
No Records Available	13
Referred to Other Agencies	1
Requests Denied in Full Exemption 5	1
Requests Denied in Full Exemption 7(A)	5
Requests Denied in Full Exemption 7(C)	2
Request Withdrawn	1
Fee-Related	1
Not a Proper FOIA Request	0
Not an Agency Record	0
Duplicate Request	0
Other	1
Requests for OIG Reports From Congress and Other Government Agencies	
Received	20
Processed	20
Appeals Received	2
Appeals Processed	3
Appeals Completely Upheld	2
Appeals Partially Upheld	1
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0
Other	0
Number of OIG Reports/Documents Released in Response to Requests	33
NOTE 1: A request may involve more than one report. NOTE 2: During this 6-month period, 28 audit reports and 3 inspections and research reports were posted to the Internet at the OIG Web site: http://www.usda.gov/oig	

Abbreviations of Organizations	
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BRSB	Benefit Redemption Systems Branch
CBP	U.S. Customs and Border Protection
CCC	Commodity Credit Corporation
CSREES	Cooperative State Research, Education, and Extension Service
DCAA	Defense Contract Audit Agency
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
FAA	Federal Aviation Administration
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
GAO	Government Accountability Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
HARCFL	Heart of America Regional Computer Forensic Lab
HSC	Homeland Security Council
HSGAC	Homeland Security and Governmental Affairs Committee
IRS	Internal Revenue Service
JTTF	Joint Terrorism Task Force
NASS	National Agricultural Statistics Service
NJTTF	National Joint Terrorism Task Force
NCFD	National Computer Forensic Division
NFC	National Finance Center
NRCS	Natural Resources Conservation Service
OAC	Office of Adjudication and Compliance
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OOCIC	Ohio Organized Crime Investigations Commission
PCIE	President's Council on Integrity and Efficiency
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RTB	Rural Telephone Bank
RUS	Rural Utilities Service
SWCD	Soil and Water Conservation District (Allen County, Indiana)
USDA	U.S. Department of Agriculture

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (143 TOTAL)

- OIG made 35 recommendations to improve FSIS' management controls, data collection and analyses processes, and IT infrastructure. FSIS agreed with all of these recommendations and has already begun to take responsive action.
- APHIS generally agreed with our recommendations to enhance the controls over the importation of live animals and responded with plans or actions to strengthen or implement additional animal import controls.
- APHIS agreed to develop timeframes to implement its ePermits system for importation of animal products, incorporating the ability to identify permit applicants who require inspections and to track permit activity at the ports of entry.
- FS agreed to develop an overall plan to complete airworthiness assessments for its firefighting aircraft and to require States to assess the airworthiness of aircraft borrowed from FS and used on Federal fires.
- NASS has implemented changes in its internal controls to improve the data collection and review process for the *Dairy Products Prices* report.
- RUS agreed to develop a formal strategy to maximize the effectiveness of renewable energy projects, including the development of goals and performance measures as well as the use of grant and loan combinations to maximize available loan and grant funds.
- FSA agreed to ensure that the guidance for conducting improper payment reviews was revised to reflect the revision to the improper payment determination for Marketing Assistance Loans lien searches, and that controls are implemented to confirm that improper payment estimates are accurately based on the results of payment reviews.

MISSION OF OIG

OIG assists USDA by promoting effectiveness and integrity in the hundreds of programs of the Department. These programs encompass a broad spectrum, involving such areas as consumer protection, nutrition, animal and plant health, agricultural production, agricultural product inspection and marketing, rural development, research, conservation, and forestry. They affect our citizens, our communities, and our economy.

OIG STRATEGIC GOALS

We have focused nearly all of our audit, inspection, and investigative direct resources on our four goals:

- Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
- Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
- Support USDA in implementing its management improvement initiatives.
- Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.



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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 28 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Madam Speaker:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended March 31, 2008.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

A handwritten signature in black ink, which appears to read "Ed Schafer", is positioned above the typed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 28 2008

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20502

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Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

The Joint Explanatory Statement accompanying the Fiscal Year 2008 Consolidated Appropriations Act directed the Animal and Plant Health Inspection Service (APHIS) to provide \$333,900 for a cooperative agreement with the Lake Gaston Weed Control Council (LGWCC) and \$37,100 for the cooperative agreement with the Tri-Country (Smith Mountain) Lake Administrative Commission for hydrilla control efforts. In addition, a report on the status of these activities was requested. The report is enclosed.

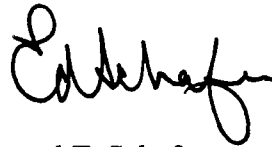
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This year's hydrilla program in Lake Gaston and Smith Mountain Lake will not yield results until late summer. Therefore, we would like to update you on the situation as of today, and then, following completion of our collaborative efforts this summer, with a report discussing the results of this year's activities.

The Honorable Rosa DeLauro
Page 2

We appreciate your interest in the program, and would be pleased to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, DC 20510-6026

Dear Senator Bennett:

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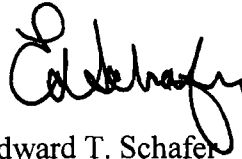
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Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20515-6016

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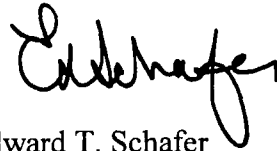
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The Honorable Herbert Kohl
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-1001

Dear Congressman Kingston:

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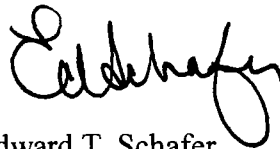
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The Honorable Jack Kingston
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Edward T. Schafer
Secretary

Enclosure

**Department of Agriculture
Animal and Plant Health Inspection Service
Report on Hydrilla in Lake Gaston
May 2008**

Background

For many years, the Animal and Plant Health Inspection Service (APHIS) has been working with Lake Gaston stakeholders and the Lake Gaston Weed Control Council (LGWCC) to develop and implement an integrated vegetation management plan to address the factors that allowed the formation and spread of the lake's invasive plant infestations. The Lake Gaston Stakeholders Board includes the North Carolina Wildlife Resources Commission, North Carolina Division of Environmental Health, North Carolina Division of Water Resources, North Carolina State University, Virginia Department of Game and Inland Fisheries, U.S. Army Corps of Engineers, Dominion Power (which owns the lake), and the Lake Gaston Homeowners Association. APHIS' work with these groups has included extensive discussions, presentations, and reports on various weed control strategies. APHIS, the Stakeholders Board, and the Weed Council maintain regular contact to share information. The goal of this effort is to reduce hydrilla populations at Lake Gaston and Smith Mountain Lake to manageable levels through an effective and environmentally responsible combination of biocontrol agents, herbicides, and revegetation strategies. Eradication is not likely due to the size of Lake Gaston and the extent of the infestation. Program activities consist primarily of lake surveys, and applied research to test biocontrol agents and alternate herbicide options.

Program Status

Most of this program's efforts in recent years have been aimed at providing accurate and timely vegetation surveys, and developing strategies to enhance the hydrilla management technologies now in use. One such strategy involves studying monoecious hydrilla, the biotype of hydrilla found at Lake Gaston, to learn how to predict the plant's response to our current management efforts. For the most part, herbicide trials have been successful at controlling hydrilla. However, we remain concerned about the effect of these herbicides on non-target species, the cost of these herbicides, and the possibility that hydrilla may develop a resistance. Therefore, the program continues to pursue alternate herbicides, as well as biocontrol options, and revegetation efforts. In biocontrol trials, we plan to continue releasing hydrilla flies on Lake Gaston in hopes that they will become established in the lake and consume the hydrilla leaves. Although the fly releases in 2007 did not result in much leaf damage or adult flies observed, this effort may yet succeed since a similar project in the 1990's continued for five years before the flies became established. Since 1995, grass carp have been stocked periodically in Lake Gaston. These fish can provide excellent control in certain situations, but are not specific to hydrilla and are inappropriate for most rivers and natural lakes where submerged native vegetation is a valuable component of the

ecosystem. As a result, the program is re-evaluating its use of grass carp, given the absence of strong evidence that this control method would be effective in this situation.

Part of this program's approach to ecosystem management in Lake Gaston includes the introduction of native aquatic plants to replace nuisance species that have been removed. Therefore, the program is evaluating several native aquatic plant species as candidates for establishment in the lake, as well as techniques to enhance our establishment efforts. Most of these species appear to be suitable for large-scale restoration efforts, with the strongest candidates being Illinois pondweed, American pondweed, coontail, northern and southern wild celery, and fragrant water lily. Once we determine which species would be most effective at managing hydrilla, we can mass produce them at a modified greenhouse at the Caledonia Prison Farm in Halifax County, North Carolina, to have them available for our restoration efforts.

Implementing the Lake Gaston Aquatic Vegetation Management Plan beginning in 2006 has clearly improved hydrilla management at Lake Gaston. Although complete eradication is not likely, this comprehensive, integrated plan will enable us to maintain hydrilla populations at low levels and prevent it from becoming a nuisance to local residents. Our survey work thus far has enabled us to document a decrease in hydrilla populations at Lake Gaston as of fall 2007.

In January 2008, shortly after the passage of the FY 2008 Omnibus Appropriations Act, APHIS contacted the Lake Gaston Weed Board and the Smith Mountain Lake (SML) Administrative Commission to determine how best to use the funds provided for FY 2008. Although these entities have not yet determined how to use all of these funds, one activity that they will pursue is a "whole-lake" survey in Lake Gaston and a survey at SML. These surveys are necessary based on hydrilla detections in each lake in 2007, as they provide data to both target and determine the successes of our efforts.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2008

The Honorable Rosa DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

This letter is in response to the request contained in Senate Report 110-134, p. 109, accompanying the Agriculture Appropriations bill for fiscal year 2008. The Department of Agriculture (USDA) is enclosing a report on the Water and Waste Program (WWD), specifically on resources provided and needs of Native Americans, including Alaskan Natives and the Colonias populations.

Through the WWD Program, rural communities obtain the technical assistance and financing necessary to develop drinking water and waste disposal systems. Safe drinking water and sanitary waste disposal systems are vital not only to public health, but also to the economic vitality of rural America.

The Utilities programs are a key part of USDA Rural Development's mission to support increasing economic opportunity and improve the quality of life of rural residents. Rural Development provides investment and technical assistance to finance and foster growth in homeownership, business development, and critical community and technology infrastructure. Further information on rural programs is available at any local USDA Rural Development office or by visiting USDA's Web site.

An identical letter is being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2008

The Honorable Robert Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2008

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
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United States Department of Agriculture

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Washington, D.C. 20250

NOV 13 2008

The Honorable Herbert Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

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Report on Water and Waste Programs – Resources Provided and Needs of the Native Americans, Including Alaskan Natives and the Colonias Populations

The Water and Waste Disposal (WWD) Program is administered through a National office staff in Washington, DC, and a network of field staff. The network of 47 Rural Development State offices, supported by area and local offices, delivers the WWD Program in the states and U.S. territories. The WWD Program staff works closely with program participants, their project engineers, and State regulatory agencies to ensure that projects are reasonable, affordable, and based on commonly accepted engineering practices. They also help communities explore project funding options and technical assistance through the WWD Program.

Eligible applicants are public entities, such as municipalities, counties, special-purpose districts, Indian tribes, and corporations operated on a not-for-profit basis. Eligible projects are to develop drinking water and waste disposal systems, including solid waste disposal, and storm drainage. The most common uses are to restore deteriorating water supplies or to improve, enlarge, or modify inadequate water or waste facilities. Funds are directed to rural areas and cities and towns with a population of 10,000 or less. Applicants must be unable to obtain sufficient credit from commercial sources at reasonable rates and terms.

Grants are made in combination with direct loans or with funding from other sources. Grants may be up to 75 percent of eligible project costs but are limited to the amount necessary to enable the residents to be charged reasonable user rates. In addition, the median household income (MHI) of the service area must be below the State non-metropolitan median household income (SNMHI) level to receive any grant, and generally below the National poverty level or 80 percent of the SNMHI figure to be eligible for the maximum grant level. The project must also alleviate a health, sanitary or security issue to qualify for 75 percent grant; otherwise it is limited to 45 percent of the eligible project cost.

In recent years, Congressional set-asides have been provided to assist three groups of rural Americans who have great needs in improving their access to clean water. They are Native Americans, Colonias, and Alaskan Natives. These set-asides total about \$65 million per year as indicated in Table 1, "Resources Provided."

The Native American and Colonias set-asides are administered under 7 CFR 1777. The Native American program is designed to provide grant funding for water and waste disposal facilities and services to low income tribal communities. An eligible applicant must provide service to a Native American population with a per capita income below \$15,110 and an unemployment rate exceeding 5.5 percent. There are 335 federally-recognized tribes in 33 of the lower 48 States. The Native American funding is commonly combined with regular WWD funding which allows our investment in Native American projects to exceed the earmark funds. Tables 2, 3, and 4, "Native American Investments," provide a list by State of obligations of regular WWD funding for fiscal years 2006, 2007, and 2008, respectively. Table 5, "Native American Application and Pre-Application Backlog," provides a list by State of the current backlog in funding requests. Priority for funding Native American and Colonia set-asides is given to

applications that serve populations below 5,500, have a MHI that is below 60 percent of the SNMHI, and has other financing for at least 5 percent of the project cost.

The Colonias program is designed to provide grant funding to areas designated in writing by the State or county where they are located, to be a Colonia. Colonias generally have issues such as lack of a potable water supply; lack of adequate sewage systems; lack of decent, safe and sanitary housing; inadequate roads and drainage and were recognized as Colonias before October 1, 1989. Colonias are found in Arizona, California, New Mexico, and Texas and are generally within 150 miles of the United States and Mexico border. The Colonia funding is commonly combined with regular WWD funding which allows our investment in Colonia projects to exceed the earmark funds. Tables 6, 7, and 8, "Colonia Investments," provide a list of obligations for fiscal years 2006, 2007, and 2008 in the four States. Table 9, "Colonia Application and Pre-Application Backlog," provides a list by State of current backlog in funding requests.

The Alaskan Native funding is administered under 7 CFR 1780, 1780.49. The program is designed to provide 75 percent grant funding to rural Alaskan villages that are trying to remove a dire sanitation condition. Applicants must be a rural or Alaskan Native village, have an MHI not exceeding 110 percent of the SNMHI and must obtain 25 percent of the project costs from State or local contributions. The program is coordinated with the State of Alaska and Federal partners including Village Safe Water, Indian Health Services, Alaska Native Tribal Health Consortium, the U.S. Environmental Protection Agency and Rural Utilities Business Advisors (the Group). The State of Alaska provides the 25 percent matching funds.

A major change in delivery of the program has occurred in the past 3 years. Prior to 2006, funds for planning and construction were awarded in a lump sum to the State of Alaska. Since 2006, funding has been segregated into Pre-Planning and Development grants (PPG) and Construction grants. The PPG result in a more accurate estimate of potential construction costs and better indications of whether or not the system will be sustainable. Construction grants are not awarded until the PPG have been completed and it is determined we have sufficient funding to complete the construction portion of the project. Obligations in Alaskan Native villages in 2006, 2007, and 2008 are \$747,380, \$7,643,669, and \$6,179,658, respectively. The Group working together in Alaska has identified needs for water and wastewater funding that exceed \$639 million for 362 projects.

The relative costs of program delivery vary greatly from Alaska to the Colonias and the Native American areas. The Alaskan Native, Colonia, and Native American areas are generally very different in geography, climate, availability of contractors, and construction season, all which play a role in costs. The Colonias are somewhat consistent throughout the four States in that they are border areas in the southwestern United States. A sampling of projects obligated in fiscal year 2008 shows that a new water system is expected to cost approximately \$3,500 per household, whereas a new wastewater system is expected to cost approximately \$6,300 per household. These estimates are based on systems serving an average of 550 homes. Native American projects are more diverse in

geography and climate. A sample of projects shows a new water system is estimated to cost approximately \$6,500 per household whereas a new wastewater system is estimated to cost approximately \$23,000 per household. These estimates are based upon systems serving an average of 660 households. The Alaskan Native villages are the most difficult to serve. They are generally very remote, have a limited construction season, a difficult climate and geography. New water and wastewater systems can cost as much as \$28,000 to \$38,000 per household for each. Providing systems to the most difficult areas can cost more than double the normal estimated costs.

In summary, costs of providing water and wastewater services to Native American, Colonias, and Alaskan Native villages can vary greatly from project to project due to site conditions and type of project. We can generally say that the Alaskan Native villages' systems cost significantly more to construct than any other type project we fund.

Table 1, Resources Provided (Appropriation setasides)

PROGRAM	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
Native Americans	\$16,335,000	\$16,335,000	\$16,007,160
Colonias	\$24,750,000	\$24,750,000	\$24,268,920
Alaskan Natives	\$24,750,000	\$24,750,000	\$24,268,920
TOTAL	\$65,835,000	\$65,835,000	\$64,545,000

Table 2, Native American Investments 2006 (Obligations)

STATE	LOANS	GRANTS	NATIVE AMERICAN GRANTS	TOTAL
Arizona	0	0	\$1,000,000	\$1,000,000
California	0	\$80,000	\$900,000	\$980,000
Idaho	\$2,000,000	\$72,000	\$1,000,000	\$3,072,000
Minnesota	0	0	\$903,000	\$903,000
Mississippi	0	0	\$1,000,000	\$1,000,000
Montana	0	0	\$1,000,000	\$1,000,000
Nebraska	0	0	\$84,000	\$84,000
New Mexico	0	0	\$2,722,198	\$2,722,198
Nevada	\$2,025,000	\$100,000	0	\$2,125,000
North Dakota	0	0	\$1,491,000	\$1,491,000
South Dakota	0	0	\$155,600	\$155,600
Utah	0	0	\$516,800	\$516,800
Washington	\$1,953,000	0	\$1,940,000	\$3,893,000
Wisconsin	0	0	\$1,086,000	\$1,086,000
TOTAL	\$5,978,000	\$252,000	\$13,798,598	\$20,028,598

Table 3, Native American Investments 2007 (Obligations)

STATE	LOANS	GRANTS	NATIVE AMERICAN GRANTS	TOTAL
Arizona	\$310,000	\$115,000	0	\$425,000
California	0	0	\$1,000,000	\$1,000,000
Idaho	\$819,000	0	\$1,703,700	\$2,522,700
Maine	0	0	\$80,000	\$80,000
Michigan	0	0	\$1,000,000	\$1,000,000
Minnesota	\$320,000	0	\$325,000	\$645,000
Mississippi	0	0	\$1,000,000	\$1,000,000
Nebraska	0	0	\$30,000	\$30,000
Nevada	\$2,918,000	\$1,681,000	\$224,000	\$4,823,000
New Mexico	0	0	\$354,000	\$354,000
New York	0	0	\$321,000	\$321,000
North Dakota	\$1,056,500	0	\$1,945,268	\$3,001,768
Oregon	0	\$15,000	0	\$15,000
South Dakota	\$831,000	0	\$10,700	\$841,700
Utah	0	0	\$328,700	\$328,700
Washington	\$405,000	\$155,200	\$1,000,000	\$1,560,200
Wisconsin	0	\$1,630,000	\$2,000,000	\$3,630,000
TOTAL	\$6,659,500	\$3,596,200	\$11,322,368	\$21,578,068

Table 4, Native American Investments 2008 (Obligations)

STATE	LOANS	GRANTS	NATIVE AMERICAN GRANTS	TOTAL
Arizona	\$0	\$60,000	\$0	\$60,000
California	\$0	\$0	\$70,000	\$70,000
Idaho	\$5,000,000	\$1,345,000	\$1,000,000	\$7,345,000
Maine	\$0	\$0	\$615,000	\$615,000
Minnesota	\$4,600,000	\$0	\$0	\$4,600,000
Montana	\$1,273,000	\$2,500,000	\$3,000,000	\$6,773,000
Nevada	\$0	\$370,200	\$0	\$370,200
New Mexico	\$0	\$0	\$8,000,000	\$8,000,000
North Dakota	\$2,341,000	\$25,000	\$821,000	\$3,187,000
Oregon	\$0	\$0	\$1,000,000	\$1,000,000
South Dakota	\$4,287,000	\$331,000	\$2,050,228	\$6,668,228
Washington	\$0	\$0	\$144,500	\$144,500
Wisconsin	\$2,090,000	\$1,721,000	\$1,000,000	\$4,811,000
TOTAL	\$19,591,000	\$6,352,200	\$17,700,728	\$43,643,928

Table 5, Native American Application and Pre-Application Backlog

STATE	Pre-Applications	Applications	TOTAL
Idaho	\$1,000,000	\$0.00	\$1,000,000
Maine	\$493,000	\$1,915,000	\$2,408,000
Minnesota	\$1,000,000	\$1,910,000	\$2,910,000
Nebraska	\$0.00	\$1,137,000	\$1,137,000
North Dakota	\$2,072,900	\$0.00	\$2,072,900
Oregon	\$0.00	\$1,000,000	\$1,000,000
South Dakota	\$513,000	\$895,000	\$1,408,000
Texas	\$0.00	\$903,738	\$903,738
Washington	\$0.00	\$1,000,000	\$1,000,000
TOTAL	\$5,078,900	\$8,760,738	\$13,839,638

Table 6, Colonia Investments 2006 (Obligations)

STATE	LOANS	GRANTS	COLONIA GRANTS	TOTAL
Arizona	\$2,783,750	\$0	\$2,455,870	\$5,239,620
California	\$1,000,000	\$0	\$2,878,000	\$3,878,000
New Mexico	\$457,000	\$514,459	\$7,963,000	\$8,934,459
Texas	\$8,949,500	\$1,845,000	\$10,455,160	\$21,249,660
TOTAL	\$13,190,250	\$2,359,459	\$23,752,030	\$39,301,739

Table 7, Colonia Investments 2007 (Obligations)

STATE	LOANS	GRANTS	COLONIA GRANTS	TOTAL
Arizona	0	0	\$1,263,505	\$1,263,505
California	0	0	\$2,729,000	\$2,729,000
New Mexico	\$889,000	0	\$8,308,246	\$9,197,246
Texas	\$10,522,000	0	\$11,570,100	\$22,092,100
TOTAL	\$11,411,000	\$ 0	\$23,870,851	\$35,281,851

Table 8, Colonia Investments 2008 (Obligations)

STATE	LOANS	GRANTS	COLONIA GRANTS	TOTAL
Arizona	\$929,000	\$0	\$3,000,571	\$3,929,571
California	\$0	\$0	\$2,000,000	\$2,000,000
New Mexico	\$2,316,000	\$0	\$8,580,464	\$10,896,464
Texas	\$7,092,000	\$0	\$8,155,325	\$15,247,325
TOTAL	\$10,337,000	\$0	\$21,736,360	\$32,073,360

Table 9, Colonia Application and Pre-Application Backlog

STATE	Pre-Applications	Applications	TOTAL
Arizona	\$28,047,560	\$0	\$28,047,560
California	\$1,478,615	\$0	\$1,478,615
New Mexico	\$47,899,762	\$0	\$47,899,762
Texas	\$30,106,643	\$8,993,900	\$39,100,543
TOTAL	\$107,532,580	\$8,993,900	\$116,526,480



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Bennett:

The enclosed report is in response to the Report accompanying the 2008 Consolidated Appropriations Act, which directs the Department of Agriculture (USDA) to provide a report relating specific areas of Food Safety Research to be pursued under the agreement of USDA and the Food and Drug Administration.

A copy of this report will be sent to Chairman Kohl, Chairwoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned above the typed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2008

The Honorable Rosa L. DeLauro
Chairwoman, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

The enclosed report is in response to the Report accompanying the 2008 Consolidated Appropriations Act, which directs the Department of Agriculture (USDA) to provide a report relating specific areas of Food Safety Research to be pursued under the agreement of USDA and the Food and Drug Administration.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2008

The Honorable Herbert H. Kohl
Chairman, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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Edward T. Schafer
Secretary

Enclosure

Report on Food Safety Research of Direct Benefit to the FDA through the Cooperative State Research, Education, and Extension Service

In Response to:

Food Safety Research. *Within the amount appropriated to the National Research Initiative (NRI), \$3M is for research that will be of direct benefit to the FDA in pursuit of its food safety regulatory responsibilities. USDA and FDA are directed to consult on setting the priorities for this research and report to the Committees on the specific areas of research to be pursued under the agreement of USDA and FDA.*

The Food and Drug Administration (FDA) involvement with the United States Department of Agriculture (USDA) Cooperative State Research, Education, and Extension Service (CSREES) National Research Initiative (NRI) includes input provided for priority development and participation in the review of the competitive proposals submitted. The NRI Request for Applications is developed with input from many stakeholders concerned with Food Safety. Stakeholders include scientific societies, universities, industry, and relevant Federal agencies including FDA. FDA annually provides USDA-CSREES with a letter summarizing FDA research needs, which were considered on developing the following priorities included in the NRI Fiscal Year 2008 Request for Applications for Food Safety:

1. Human enteric viruses, *Vibrio* spp., *Salmonella* spp., Listeria, or microbial toxins associated with seafood: Proposed studies need to address imposition of mitigation measures aimed at reducing the incidence of human enteric viruses *Vibrio* spp., *Salmonella* spp., and microbial toxins in shellfish, finfish, and derived products. Focus on harvesting methods, post-harvest storage, or processing technologies should include practical methods to reduce pathogen load.
2. Human enteric viruses, *E. coli*, *Salmonella* spp., Listeria, or microbial toxins on fresh fruits, nuts, and vegetables: Proposed studies need to address mitigation measures aimed at reducing colonization by these pathogens or cross contamination during packaging and processing of fresh produce, including fruits, nuts, vegetables, and sprouts, which undergo minimal processing post-harvest; multiplication on or within produce; or sensor/detection methodologies linked to practical mitigation measures. Studies elucidating the source and persistence of pathogens in the environment, as they relate to fresh produce and production of toxins, are included.
3. *Salmonella* spp. or *Campylobacter* spp. in poultry and swine: Proposed studies need to address the pathogen load of *Salmonella* spp. or *Campylobacter* spp. on farm and the methods of transmission to poultry and swine; effective mitigation measures during processing and distribution; or genetics of strain development for antibiotic resistance as it relates to enhanced colonization or pathogen load and other virulence determinants.

The Fiscal Year 2008 NRI, Request for Applications was released on September 10, 2007, proposals were due on December 19, 2007, and 99 proposals are eligible for review. The peer review panel, consisting of 18 members from 12 universities, three Federal agencies (FDA, Environmental Protection Agency (EPA), and Agricultural Research Service (ARS)) and a food industry association met the week of April 21, 2008. It is anticipated that award recommendations will be made by July 15, 2008, and awards finalized by October 1, 2008.

As part of an ongoing interagency collaboration, USDA-CSREES and FDA met on March 27, 2008, to discuss food safety research priorities as identified by FDA below:

Center for Food Safety and Applied Nutrition Research needs associated with NRI Program Areas (as sent to CSREES on March 14, 2008)

31.5 Human Nutrition and Obesity and 31.0 Bioactive Food Components for Optimal Health:

Conduct research on the role of technology and innovations on the Dietary Guidelines [for details see the National Academy of Sciences report on Dietary Reference Intake (DRI) which provides guidance to nutrition and health research professionals on application and uses of the DRIs in assessing nutrient adequacy of groups and individuals.]:

http://www.nap.edu/catalog.php?record_id=9956

http://books.nap.edu/html/dietary_ref/reportbrief.pdf

Conduct research on the effects of packaging and storage on the level of Vitamin D in milk.

Conduct research on identifying the factors that play a role in satiety.

Develop animal models to assess the safety of biologically active ingredients added to foods (e.g., research to evaluate the potential utility of the neonatal guinea pig model in assessing the safety of ingredients added to infant formula).

32.0 Food Safety and Epidemiology; 51.8 Microbial Biology; and 26.0 Water and Watersheds:

There is a need to focus food safety research not only on microbial hazards in seafood but also on chemical toxin hazards (e.g., ciguatera, diarrhetic, amnesic, neurotoxic shellfish/fish poisons and new ones for the azaspiracids and pectenotoxins) and the use of antibiotic drugs.

Conduct research to provide the scientific basis proposed detection metrics and current interventions metrics to determine if they are effective (e.g., Are indicator organism measurements a good metric for improved public health outcomes? If not, what would be a better metric?).

Conduct research on mechanism of contamination of produce (lettuce, tomatoes).

Conduct research on the development of rational sampling strategies to determine the effectiveness of mitigation measures.

Leafy Greens Food Safety Research as detailed at the following web site:
http://www.unitedfresh.org/newsviews/leafy_greens_food_safety_research

Tomato Safety Research Needs Workshop as documented at the following web site:
http://www.jifsan.umd.edu/tomato_wkp2007.htm
http://www.jifsan.umd.edu/Tomato/High_Priority_Research_Needs.pdf

71.1 Improving Food Quality and Value:

Allergenicity issues when improving agricultural product – what makes a protein allergenic so that it is not transferred to other products. For example, some processing modifies proteins to produce desired characteristics like the conversion of soy to tofu and other products. However, in some cases these conversions can produce an allergic reaction in some consumers. Improved understanding of what makes a protein allergenic is needed to improve processing and avoid this problem.

Processing effects on allergenicity.

Food irradiation – consumer research on acceptability of irradiated foods as the industry moves to the use of electron beam sources as opposed to traditional irradiation sources.

75.0 Nanoscale Science and Engineering for Agriculture and Food Systems:

Safety issues associated with use of nanotechnology in dietary supplements and agricultural products (food and consumer products).

Safety issues associated with the use of nanotechnology in food packaging materials.

USDA-CSREES will work with FDA to prioritize these needs for inclusion into NRI program priorities for the Fiscal Year 2009 Request for Applications and ensure coordination with related work at ARS, National Institutes of Health and other agencies.

As part of grant post award management activities, each NRI award Project Director is required to attend an annual meeting to provide the latest information on their research progress. FDA staff will attend this meeting to discuss the implications of NRI supported Food Safety findings. Although the final date has not been established for this it is tentatively planned for November, 2008.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Chambliss:

Section 202 of the Specialty Crops Competitiveness Act of 2004 (Public Law 108-465) directed the Department of Agriculture (USDA) to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops. Specifically, USDA is required to report on *"(1) the total number of applications processed to completion; (2) the number of backlog applications processed to completion; (3) the percentage of backlog applications processed to completion; and (4) the number of backlog applications remaining."* The report is enclosed.

USDA's Animal and Plant Health Inspection Service (APHIS) works to facilitate safe agricultural trade. Sanitary (animal health) and phytosanitary (plant health) (SPS) issues are sometimes used inappropriately to restrict or block trade. There are several challenging factors that determine how long it takes to complete work on an export petition, including the number, gravity, and intricacy of issues raised by an export petition, and the willingness of the foreign government to negotiate over a particular request. However, APHIS officials strive to resolve SPS trade barriers by working with their foreign counterparts to eliminate unjustified SPS measures, negotiate science-based import requirements and standards, and intervene to release U.S. shipments held at foreign ports due to SPS-related concerns. APHIS' efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually.

I am sending a similar letter to the Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, and the Chairman and Ranking Member of the House Committee on Agriculture.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is written over the typed name.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Bob Goodlatte
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Goodlatte:

Section 202 of the Specialty Crops Competitiveness Act of 2004 (Public Law 108-465) directed the Department of Agriculture (USDA) to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops. Specifically, USDA is required to report on *“(1) the total number of applications processed to completion; (2) the number of backlog applications processed to completion; (3) the percentage of backlog applications processed to completion; and (4) the number of backlog applications remaining.”* The report is enclosed.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Tom Harkin
Chairman, Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Section 202 of the Specialty Crops Competitiveness Act of 2004 (Public Law 108-465) directed the Department of Agriculture (USDA) to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops. Specifically, USDA is required to report on *"(1) the total number of applications processed to completion; (2) the number of backlog applications processed to completion; (3) the percentage of backlog applications processed to completion; and (4) the number of backlog applications remaining."* The report is enclosed.

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Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Collin Peterson
Chairman, Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Section 202 of the Specialty Crops Competitiveness Act of 2004 (Public Law 108-465) directed the Department of Agriculture (USDA) to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops. Specifically, USDA is required to report on *"(1) the total number of applications processed to completion; (2) the number of backlog applications processed to completion; (3) the percentage of backlog applications processed to completion; and (4) the number of backlog applications remaining."* The report is enclosed.

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Edward T. Schafer
Secretary

Enclosure

Specialty Crops Competitiveness Act of 2004, Report to Congress
June 2008

In response to the requirements of Section 202 of the Specialty Crops Competitiveness Act of 2004, the Department of Agriculture (USDA) is transmitting the following information:

1. The total number of applications processed to completion—234 total export issues were resolved in 2007*. This number includes progress on gaining or expanding market access, as well as retaining access to markets that were threatened.
2. The number of backlog applications processed to completion—6 of the export issues resolved in 2007 were backlog issues USDA has been working on for more than a year.
3. The percentage of backlog applications processed to completion—24 percent of backlog export issues were resolved in 2007. This number was obtained by dividing the number of backlog issues resolved in 2007 (6), by the number of backlog export issues that were pending (25).
4. The number of backlog applications remaining—There are 19 export issues remaining that were initiated prior to 2006.

* This number includes the retention of the Canadian and Mexican markets for all the hosts of the Light Brown Apple Moth (these markets are worth an estimated \$750 million annually), in addition to 19 specific commodities affected by regulatory changes in Thailand (market value over \$60 million). Total market retention exceeded \$886 million in 2007.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 7 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

Enclosed is a report responding to the Congressional Directive that appears on page 107 of Senate Report 110-34. This directive asks the Department of Agriculture (USDA) to provide suggestions on how to revise competitive grant making criteria to take into consideration outmigration when making awards to rural empowerment zones.

USDA is open to discussing any specific grant request where this issue may be significant. If the existing rules are flexible, every consideration will be given to addressing the circumstances.

An additional item of note is that USDA is in the process of standardizing the regulations for its grant programs. We expect to have a proposed regulation published later this year.

An identical letter is being sent to Congressman Kingston and Senators Kohl and Bennett.

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Edward T. Schafer
Secretary

Enclosure

Potential Approaches to Providing Additional Assistance to Empowerment Zones/Enterprise Communities (EZ/ECs) with Outmigration

Problem: EZ/ECs identified as having outmigration of population as a problem often do not have low average income. Consequently, they do not score as well in competitions for limited grant dollars where low average income is a factor in making determinations about who will be selected. The ramifications of outmigration present unique and complex problems that make special accommodations worthy of additional consideration.

Each grant program is administered based on statutory and regulatory requirements that are not consistent across the various programs. Therefore, a one-size-fits-all approach will not work. What is proposed below are two possible solutions that would focus on the substance of allowing those Zones or Communities with outmigration to not be penalized because they do not have low average incomes.

Implementation would have to be tailored to each program. It should be noted that the length of time require to make regulatory or legislative changes may not be able to be made prior to the scheduled end of the EZ/EC program in 2009.

Possible Solutions:

1. In grant programs with scoring schematics where low average income is awarded points, an EZ/EC with outmigration would be awarded an equivalent number of points. This would need to be adapted as reasonable for each of the various grant programs affected and would need the full participation of those responsible for administering the program. In the event the existing point system was statutory, this will not work, unless the statute is changed.
2. Adding outmigration as a criterion for Administrator discretionary points (or equivalent). Once again, this only would work if there is already a provision for Administrator points and would need to be tailored to each program impacted. This would be in addition to the set-asides.

Some examples of existing approaches include:

- In Community Facilities, the EZ/EC grant set-asides are funded on a first come, first serve basis, but staff also try to balance geographic disbursement. Once the set-aside is gone, and it is always used, the staff works to fit them under one program or another and makes funding them a priority – but still keeping in mind geographic dispersion and fairness to others. When funds are limited the priority points are especially important. CF also prefers to fund projects of smaller dollar awards so more projects can be funded.

- In Water and Waste, where outreach is conducted, they try to be equitable to all communities and take into consideration if there is backlog for that community or if this last bit of funding will finish the project for the community.
- In the Rural Business Enterprise Grant, Rural Business Opportunity Grant, and Intermediary Relending Programs, scoring sheets contain population decline points for any community so affected. Scoring includes more points for lower application amounts.

In summary, because all programs are not administered the same manner or by the managers, it would be necessary to work with each program to ensure that there is a basic fairness to the selection of grantees.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 7 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

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Secretary

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Each grant program is administered based on statutory and regulatory requirements that are not consistent across the various programs. Therefore, a one-size-fits-all approach will not work. What is proposed below are two possible solutions that would focus on the substance of allowing those Zones or Communities with outmigration to not be penalized because they do not have low average incomes.

Implementation would have to be tailored to each program. It should be noted that the length of time require to make regulatory or legislative changes may not be able to be made prior to the scheduled end of the EZ/EC program in 2009.

Possible Solutions:

1. In grant programs with scoring schematics where low average income is awarded points, an EZ/EC with outmigration would be awarded an equivalent number of points. This would need to be adapted as reasonable for each of the various grant programs affected and would need the full participation of those responsible for administering the program. In the event the existing point system was statutory, this will not work, unless the statute is changed.
2. Adding outmigration as a criterion for Administrator discretionary points (or equivalent). Once again, this only would work if there is already a provision for Administrator points and would need to be tailored to each program impacted. This would be in addition to the set-asides.

Some examples of existing approaches include:

- In Community Facilities, the EZ/EC grant set-asides are funded on a first come, first serve basis, but staff also try to balance geographic disbursement. Once the set-aside is gone, and it is always used, the staff works to fit them under one program or another and makes funding them a priority – but still keeping in mind geographic dispersion and fairness to others. When funds are limited the priority points are especially important. CF also prefers to fund projects of smaller dollar awards so more projects can be funded.

- In Water and Waste, where outreach is conducted, they try to be equitable to all communities and take into consideration if there is backlog for that community or if this last bit of funding will finish the project for the community.
- In the Rural Business Enterprise Grant, Rural Business Opportunity Grant, and Intermediary Relending Programs, scoring sheets contain population decline points for any community so affected. Scoring includes more points for lower application amounts.

In summary, because all programs are not administered the same manner or by the managers, it would be necessary to work with each program to ensure that there is a basic fairness to the selection of grantees.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 7 2008

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed is a report responding to the Congressional Directive that appears on page 107 of Senate Report 110-34. This directive asks the Department of Agriculture (USDA) to provide suggestions on how to revise competitive grant making criteria to take into consideration outmigration when making awards to rural empowerment zones.

USDA is open to discussing any specific grant request where this issue may be significant. If the existing rules are flexible, every consideration will be given to addressing the circumstances.

An additional item of note is that USDA is in the process of standardizing the regulations for its grant programs. We expect to have a proposed regulation published later this year.

An identical letter is being sent to Senator Bennett, Congresswoman DeLauro and Congressman Kingston.

Sincerely,

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Edward T. Schafer
Secretary

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**United States Department of Agriculture
Rural Development**

INFORMATION MEMORANDUM FOR THE SECRETARY

THROUGH: Thomas C. Dorr
Under Secretary

A handwritten signature in black ink, appearing to read "Thomas C. Dorr".

FROM: James M. Andrew
Administrator
Rural Development Utilities Programs

A handwritten signature in black ink, appearing to read "James M. Andrew".

AUG 14 2008

ISSUE:

Section 6113 of Title VI of the 2008 Farm Bill requires the Secretary to submit a Report on power generation needs in rural areas. The report is due within 60 days following enactment.

DISCUSSION:

The report is to include and examination of: (1) generation in various areas in rural areas of the United States, particularly by rural electric cooperatives; (2) financing available for capacity, including financing available through the programs authorized under the Rural Electrification Act of 1936; (3) the impact of electricity costs on consumers and local economic development; (4) the ability of the fuel stock technology to meet regulatory requirements; such as carbon capture and sequestration; and (5) any other factors that the Secretary considers appropriate.

SUMMARY:

A draft of the report is attached for your review. It should be noted that the Conservation, Credit, Rural Development, and Research Subcommittee of the house Agriculture Committee held a hearing on July 30, 2008 on this subject.

1400 Independence Ave. S.W. Washington DC 20250-0700
Web: <http://www.rurdev.usda.gov>

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U.S. Department of Agriculture
Rural Development Utilities Programs

Rural Electric Power Generation
And Capacity Expansion

July 25, 2008

Office of the Secretary
United States Department of Agriculture
Ed Schafer, Secretary



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Abbreviations/ Acronyms

AEO – Annual Energy Outlook
CCS – Carbon Capture and Sequestration
CERA – The Cambridge Energy Associates
CHP – Combined Heat and Power
DER – Distributed Energy Resources
EPRI – Electric Power Research Institute
ERCOT – Electric Reliability Council of Texas
FRCC – Florida Reliability Coordinating Council
G&T – Generation and Transmission
GW – Gigawatt
Hydro – Hydroelectric power
IOU – Investor Owned Utility
kWh – Kilowatt hour
MRO – Midwest Reliability Organization
MW – Megawatt
MWh – Megawatt hour
NERC – North American Electric Reliability Corporation
NPCC – Northeast Power Coordinating Council
NRECA – National Rural Electric Cooperative Association
OPEC – Organization of the Petroleum Exporting Countries
PCCI – Power Capital Costs Index
PHEV – Plug-In Hybrid Electric Vehicles
REA – Rural Electrification Administration
RFC – Reliability*First* Corporation
SERC – Southeastern Electric Reliability Council
SPP – Southwest Power Pool
TRE – Texas Regional Entity
WECC – Western Electricity Coordinating Council

1. SUMMARY

The Food and Energy Security Act of 2007 provided that the Secretary shall conduct a study on the electric power generation needs in rural areas of the United States and provided further the study should include an examination of:

1. generation in various areas in rural areas of the United States, particularly by rural electric cooperatives;
2. financing available for capacity, including financing through programs authorized un the Rural Electrification Act of 1936;
3. the impact of electricity costs on consumers and local economic development;
4. the ability of the fuel feedstock technology to meet regulatory requirements, such as carbon capture and sequestration; and
5. any other factors that the Secretary considers appropriate.

The demand for new generation capacity in rural areas is increasing just as it is in the urban centers. The last significant industry wide build-out of base load electric generation plants occurred during the 1970-1985 timeframe. Since that time the industry has moved from a situation of over capacity to the current period in which most utilities are forecasting the need to build new base load capacity to meet the requirements of their customers and in the case of rural electric cooperatives that means member/owners of the system.

In fact, due to the significant lead time necessary for the addition of new base load capacity, many utilities, including cooperatives, are behind the curve.

Due to current and projected growth, cooperatives will need to double generation capacity by 2020.

An additional reliability concern is the lack of transmission capacity to deliver energy from generation points to demand centers. The existing transmission grid is operating at capacity and many parts of the grid are operating beyond expected life cycles.

The lack of transmission capacity is also impeding the development of renewable energy resources in remote rural areas. The lack of transmission capacity in general and the capacity needed to move renewable energy was a consistent theme of a recent Senate Energy and Commerce hearing and it was a prominent theme of the Washington International Renewable Energy Conference (WIREC) held in Washington in March of this year.

2. BACKGROUND

Virtually no additional base load generation capacity was added during the 1990s and early in this century due to surplus capacity available from the previous construction cycle and the efforts to deregulate the electric power industry during the mid to late 1990s. Efforts to deregulate the industry created an atmosphere of significant uncertainty with regard to the expectation that the existing customer base would be there to ensure repayment of the investments.

Base load generation means those plants that are designed to be operated twenty four hours per day, seven days per week. They are shut down only for required maintenance. Base load plants are generally fueled by coal, nuclear, and sometimes natural gas. When base load plants cannot meet demand, intermediate facilities are started. These are typically fueled by natural gas and can be started as quickly as needed. The last in line are peaking plants that are also fueled by natural gas and also can be started quickly.

During this period the cooperative side of the industry attempted to keep pace with demand with investments in smaller natural gas peaking and intermediate facilities which are less costly to build, but very expensive to operate due to the price volatility of natural gas. Cooperatives also met demand by entering into power purchase contracts with other suppliers. Many of these contracts will expire in the near future, some as soon as 2011.

Since 2000 the uncertainty associated with deregulation of the industry has waned. This combined with favorable interest rates appeared to be an opportune time to invest in new capacity and the rural electric generation and transmission borrowers began developing plans for that investment. However, new uncertainties and challenges have since been introduced:

- It appears likely that some form of carbon dioxide emission limits will be imposed.
- Legal challenges to environmental permits can be expected on any new emitting base load plant.

- Costs of new plant construction are increasing substantially each year due to a variety of factors.

3. CURRENT GENERATION CAPACITY AND PEAK DEMAND

Rural Electric G&T cooperatives own 160 generating units totaling 38,604 Megawatts of generation capacity of which roughly 59% is from coal fired steam plants and about 6% represent partial ownership in nuclear plants and about 32% is primarily gas fired peaking or intermediate units.

Owned capacity represents 57% of the energy supplied to member distribution cooperatives. Purchases from other sources represent the other 43%. G&T cooperatives attempt to maintain this balance between self-generation and purchased power to minimize risk and maximize opportunities. At any given point in time if purchases can be secured at less marginal cost than that of operating a peaking or intermediate unit, then the cooperative will opt for purchases to meet the requirements of its members.

One reason that 59% of the capacity owned by these cooperatives is coal fired is that following the OPEC oil embargo of 1973 Congress enacted the Power Plant and Industrial Fuel Use Act which prohibited the use of oil or natural gas to generate electricity. This pushed investment to coal and nuclear energy during the last base load construction cycle in the late 1970s and early 1980s. This Act was repealed in 1987.

Another reason coal is the preferred fuel is cost. Currently, energy generated from coal is available at an average total cost of \$34.02 per MWh. Gas fired combined cycle plants on the average produce energy at \$96.60 per MWh while nuclear energy costs a little over \$40.00 per MWh.

4. U.S. CAPACITY MARGINS

The mission of the North American Electric Reliability Corporation (NERC) is to ensure that the bulk power system in North America is reliable. NERC develops and enforces reliability standards; monitors the system; assesses and reports on future adequacy; and evaluates owners, operators, and users for reliability and preparedness.

In October of 2007, NERC released its report on Long Term Reliability Assessment which contained the following key findings:

- Long Term Capacity Margins are Still Inadequate
- Integration of Wind, Solar, and Nuclear Resources Require Special Consideration in Planning, Design, and Operation.
- High Reliance on Natural Gas in Some Areas of the Country Must be Properly Managed to Reduce Supply Risk and Delivery Interruption.
- Transmission Situation Improves, But More Still Required.
- Aging Workforce Still a Growing Challenge.

According to the report, peak demand for electricity in the U.S. is forecast to increase by over 135,000 MW or 17.7% in the next ten years while capacity is projected to increase by only 77,000 MW. Capacity margins, i.e., reliability margins, begin dropping below the recommended 15% above peak demand in 2009 and continue to decline to under 10% by 2016. The decline below 15% occurs first in the western third of the U.S. and Canada and the New England Area. A reserve of 15% is desirable to prevent brownouts or blackouts in case of unplanned outages of generation facilities, unusual weather events, or other unpredictable events occur.

The map below identifies the years when a region/subregion drops below target capacity margin levels required to meet summer peak (unless noted as winter) including both committed and uncommitted¹ resources. Those region/subregions not identified are not projected in the next ten years to drop below their target margin levels.

¹ **Uncommitted Capacity Resources:** Capacity resources that include one or more of the following: • Generating resources that have not been contracted nor have legal or regulatory obligation to deliver at time of peak. • Generating resources that do not have or do not plan to have firm transmission service reserved (or its equivalent) or capacity injection rights to deliver the expected output to load within the region. • Generating resources that have not had a transmission study conducted to determine the level of deliverability. • Generating resources that are designated as energy-only resources or have elected to be classified as energy-only resources. • Transmission-constrained generating resources that have known physical deliverability limitations to load within the region.

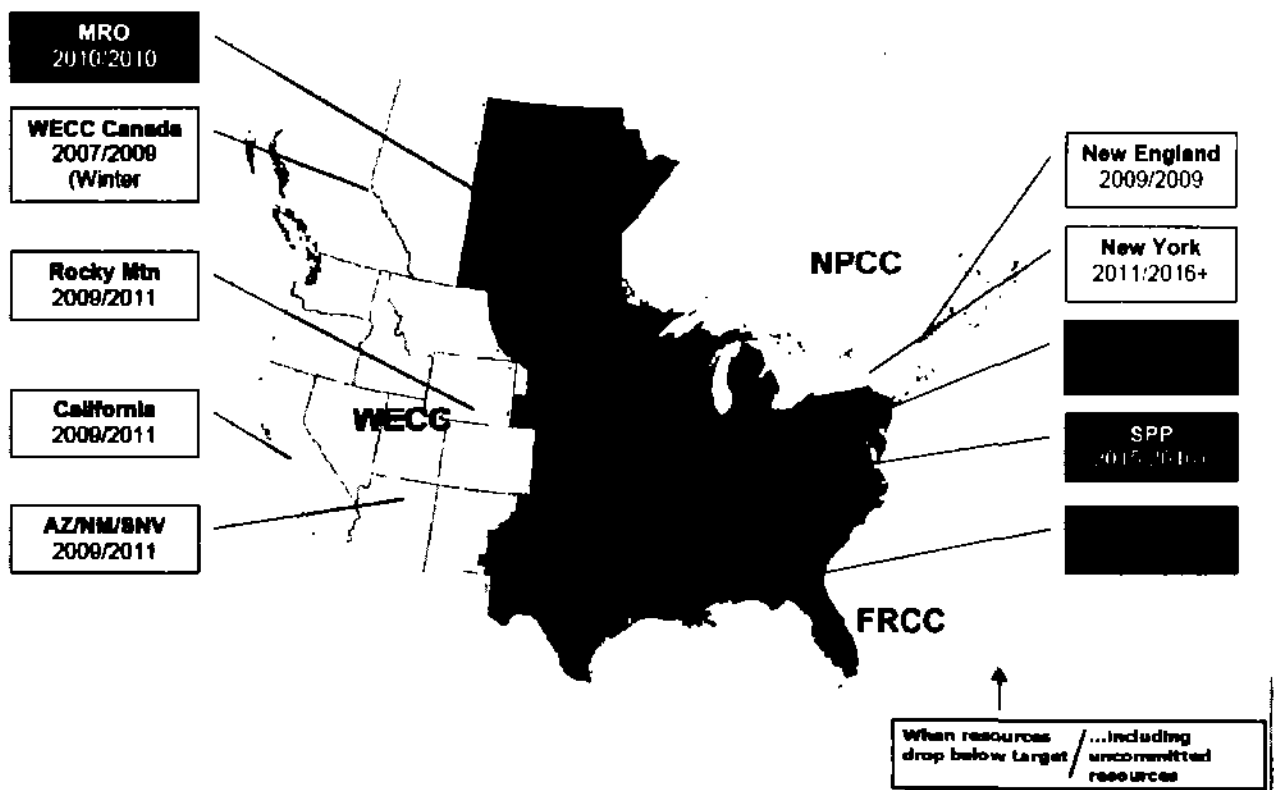


Figure 1 Regional Resources Drop Below 15% Target (Source: NERC)

5. U.S. AND RURAL ELECTRIC GENERATION AND TRANSMISSION FORECASTED GENERATION CAPACITY ADDITIONS

The U.S. Department of Energy's Annual Energy Outlook for 2008 forecasts electricity consumption to grow from 3.8 billion kilowatthours in 2006 to almost 5 billion kilowatthours in 2030, an annual rate of increase of 1.1 percent. The 2008 forecast is lower than the 2007 forecast of 1.5% annual increase due to slower economic growth, higher electricity prices and the enactment of new efficiency standards in the Energy Independence and Security Act of 2007.

The Cambridge Energy Associates, a private research firm, estimates the U.S. electric power industry will invest \$900 billion in new utility plant over the next 15 years. This level of investment surpasses the total net plant in service today. This total includes \$350 billion for new generation, \$300 billion for distribution, \$150 billion for transmission, \$50 billion for conservation and efficiency and \$50 billion for environmental retrofits (not including CO2 abatement).

Rural Areas

Presently, rural electric G&T cooperatives generate about 5% of the energy produced in the U.S. Every year the National Rural Electric Cooperative Association (NRECA) surveys its G&T members regarding their planned capacity additions. The most current survey indicates a 10 year capital requirement of \$65.5 billion, \$49.9 billion of which is specifically for new generation projects. Ten billion dollars are needed for new transmission and almost \$3 billion is needed for environmental retrofits.

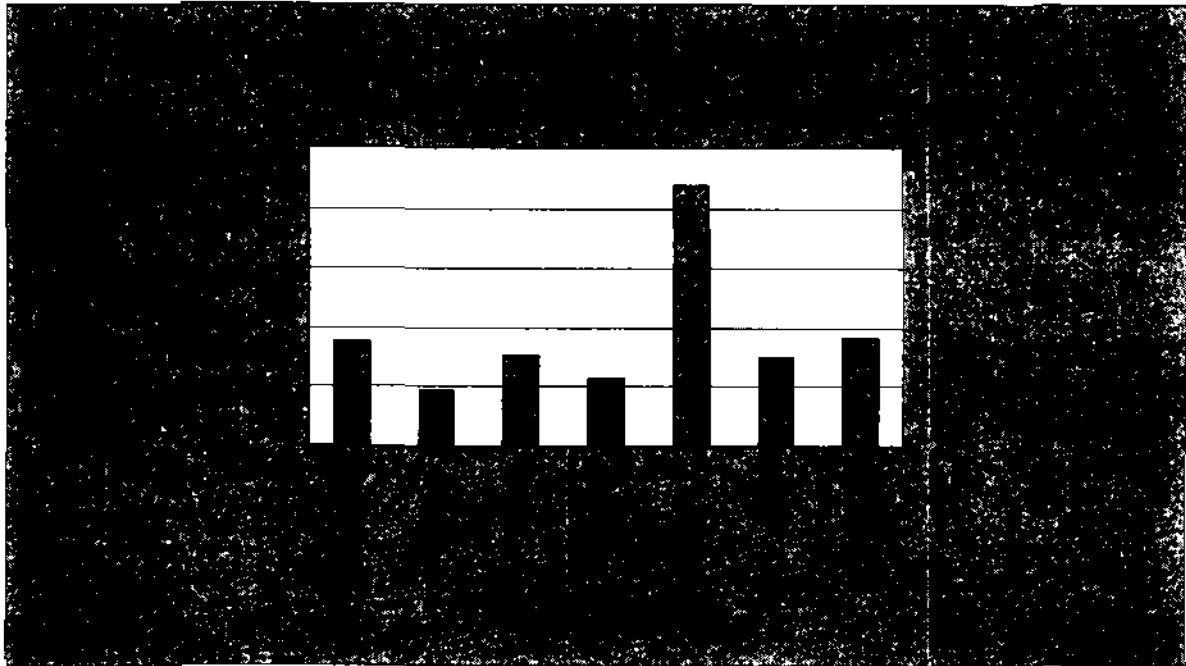


Figure 2 G&T Projected Investment by NERC Region (Source: NRECA)

The 2008 survey projects significantly higher capacity needs than the 2007 survey of 22,000 MW versus 14,000 MW primarily because the timing of larger investments in base load have been shifted to later years. The survey results suggest that the needs in the shorter term will be filled with natural gas fired peaking and intermediate units.

The delay in the construction of base load facilities is a reaction to the uncertainties of increasing construction costs, legal challenges, and regulation of carbon dioxide emissions.

While adding additional natural gas fired units in the shorter time frame is not seen as an optimal solution, this capacity will aid in meeting the energy requirements of cooperative consumers. The price of natural gas has been

volatile and steadily increasing since 2000 and additional demand will add to the price volatility.

6. CONSTRUCTION COST

According to the Cambridge Energy Research Associates Power Capital Cost Index, the cost of new power plant construction has increased 130% during the past eight years with almost 70% of the increase occurring since 2005. The demand for material in China and India is a huge factor, but other supply constraints and increasing labor cost are also key factors. Earlier this year one of the Generation and Transmission Cooperative borrowers shelved a project that had been in the planning stage for three years because the projected cost had risen from \$1.4 billion to over \$1.8 billion. Given a four year construction period the cost would have been over \$2 billion.

The time horizon for large base load facilities can easily be ten years from *the beginning of planning to commercial operation*. Construction time alone can be four years. Making huge investment decisions with these time horizons is very difficult given the uncertainties discussed above. Adding to these uncertainties is the current disruption in the commercial financial markets.

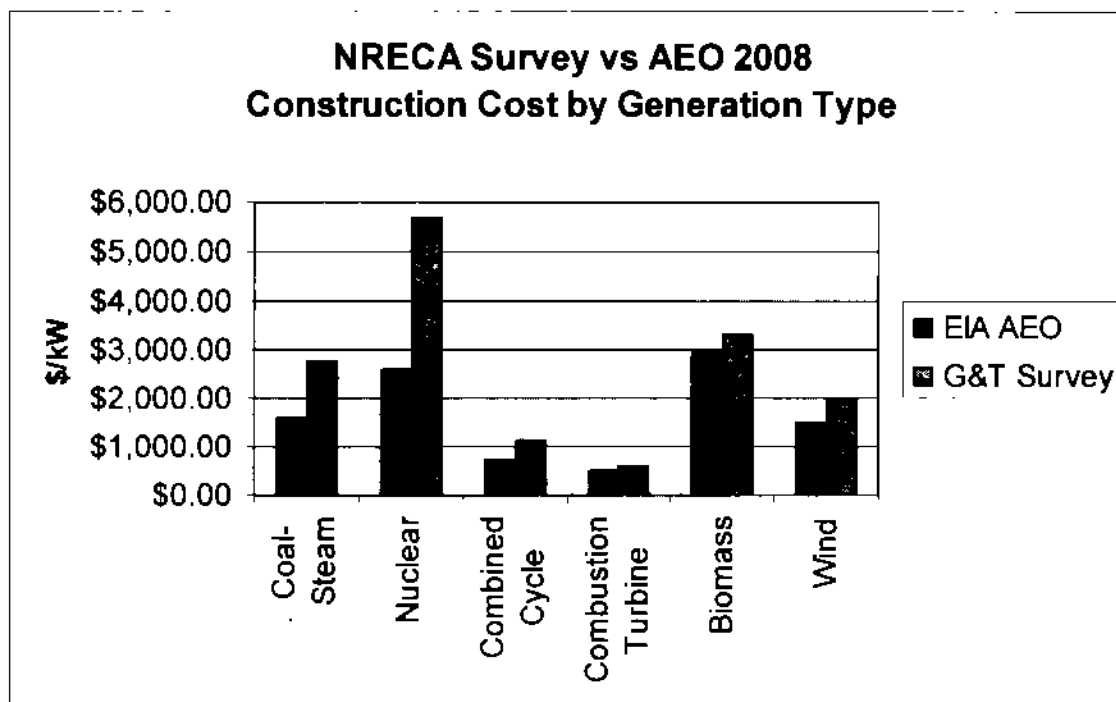


Figure 3 Comparison of AEO vs. Reported Construction Cost

7. NEW GENERATION OPTIONS AND COSTS

G&T cooperative planning is currently in a state of fluctuation. Rising construction costs, legal challenges to permits, and uncertainty related to CO₂ mitigation and financing options have once again created difficult circumstances for decision making by utility executives. The central mission of cooperative utilities is to provide affordable and reliable power to their membership. More than anything, utility executives would like to have reduced uncertainty in order to make the best possible decisions to accomplish their missions.

G&T cooperatives maintain ongoing planning activities and constantly re-evaluate options for supply and demand side resources as new information

emerges and market conditions change. G&T borrowers and the industry as a whole are faced with difficult decisions as they attempt to reconcile increasing energy demand requirements with the current realities in power generation planning. In particular, the problem G&T cooperatives face in attempting to price CO2 emissions into least cost planning models has created a situation in which it is difficult to know with any certainty what the final delivered cost of energy will be. Adding to this is the very steep upward curve with respect to construction costs. Even if a cost escalation factor is applied, legal challenges to air permits and other regulatory approvals can make it difficult to determine how long it will take to resolve these issues, and therefore how far along the costs escalation curve a project will be at the time of construction. Finally, the Electric Program's current inability to fund base load projects provides more uncertainty related to the cost of capital, a major component in the costs structure behind electricity pricing in a cost based regulatory environment.

Meaningful options for new base load generation are limited. Most proposed nuclear development is at existing plants, with existing owners as participants. Traditional coal fired generation is problematic due to the factors addressed above. A significant point that must be addressed by policy makers is the technology gap between what is desired to address climate change and what is economically and commercially proven. Advanced coal and carbon capture technologies are in their infancy and require significant demonstration and research at utility scale before they can be widely adopted.

Planned Additions

The latest information available from G&T cooperatives is indicative of the current level of uncertainty utilities face. The NRECA 2008 Survey estimates new generation projects totaling 22,067 MW are needed. The following figure breaks these generation investments into 5 categories: coal, combined cycle, combustion turbine, nuclear, and renewable. Combined cycle and combustion turbine projects are generally considered to be fueled by natural gas.

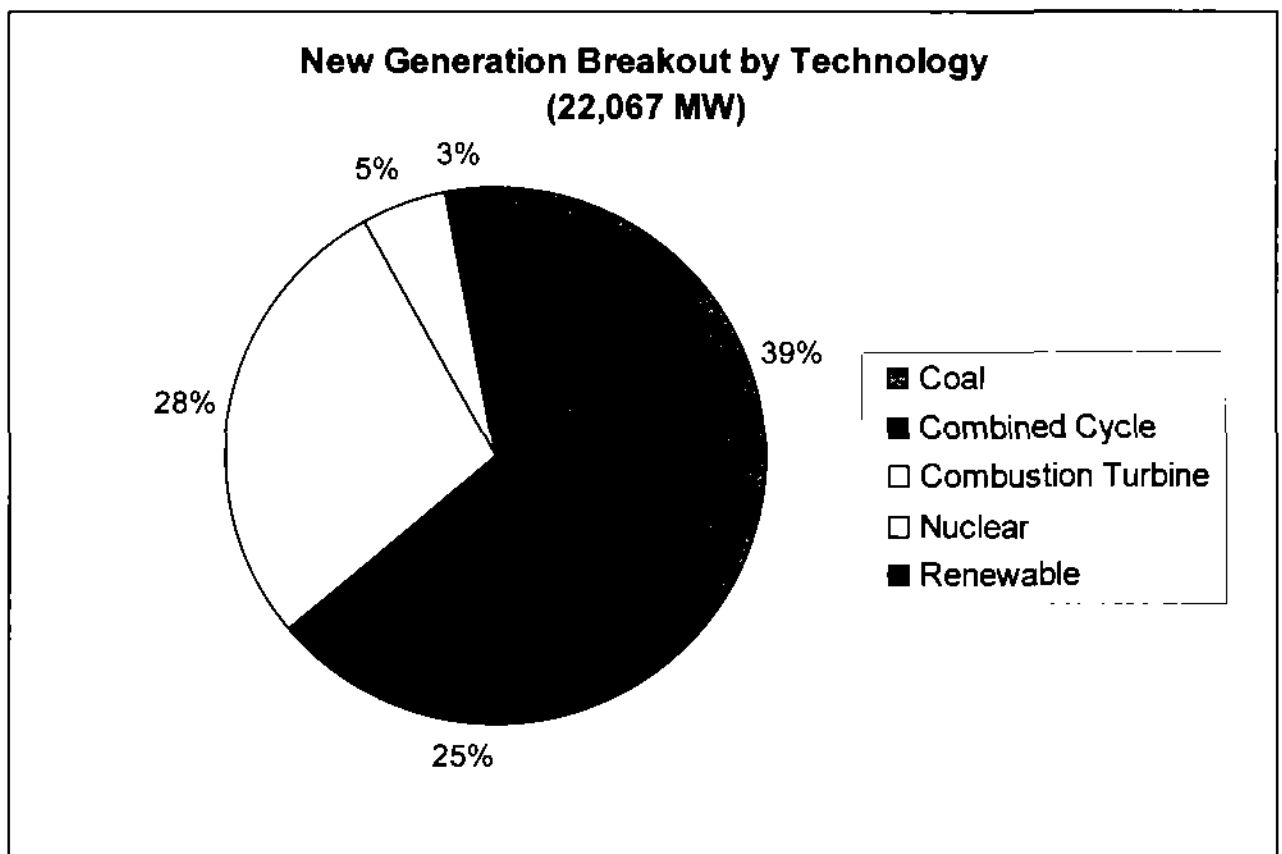


Figure 4 NRECA Survey - G&T New Generation by Fuel Type

The 2008 prediction for MW needed is significantly higher than the 2007 survey, which estimated 14,000 MW. The primary reason for this dramatic increase has to do with a change in the timing of large investments in fossil (coal) steam plants. Large base load coal plants have been shifted to the later years of the survey. The gap created by this shift in planned capacity additions has been filled with natural gas fired combined cycle and combustion turbine technology. The 2007 NRECA survey predicted a mix of 70% coal vs. 39% for the 2008 survey. Natural gas fired generation, including combined cycle and combustion turbine, now represents 53% of the total projected capacity needs or 11,695 MW.

The Upside and Downside of Natural Gas

The shift in the planned construction of base load facilities is a reaction to conditions in the market for plant construction, the policy uncertainties surrounding CO₂ emitting resources, and uncertain long term financing for base load plants. The following table shows the differences in CO₂ output from various electric power fuel sources².

Fuel	Output Rate (pounds CO₂ per kWh)
Coal	2.11
Petroleum	1.92
Natural Gas	1.31
Other Fuels	1.38

Table 1 CO₂ Output Rates for Power Generation Fuels

² Carbon Dioxide Emissions from the Generation of Electric Power in the United States, July 2000. Department of Energy, Washington, DC 20585, Environmental Protection Agency, Washington DC 20460

Natural gas fired plants emit less than two thirds the amount of CO₂ than do traditional coal fired plants. They are relatively inexpensive (compared to traditional base load options) to construct and can come on line in less than two years. These plants are also not drawing the same level of negative attention that proposed coal fired units are getting. While legal challenges, and uncertainties exist with respect to CO₂ regulation, adding additional gas fired generation at this time, is not seen by all as optimal. The following figure shows the dramatic increases in natural gas prices seen over the past 10 years. Increases in gas fired capacity to date have contributed to significant volatility and upward pressure on rates to cooperative customers.

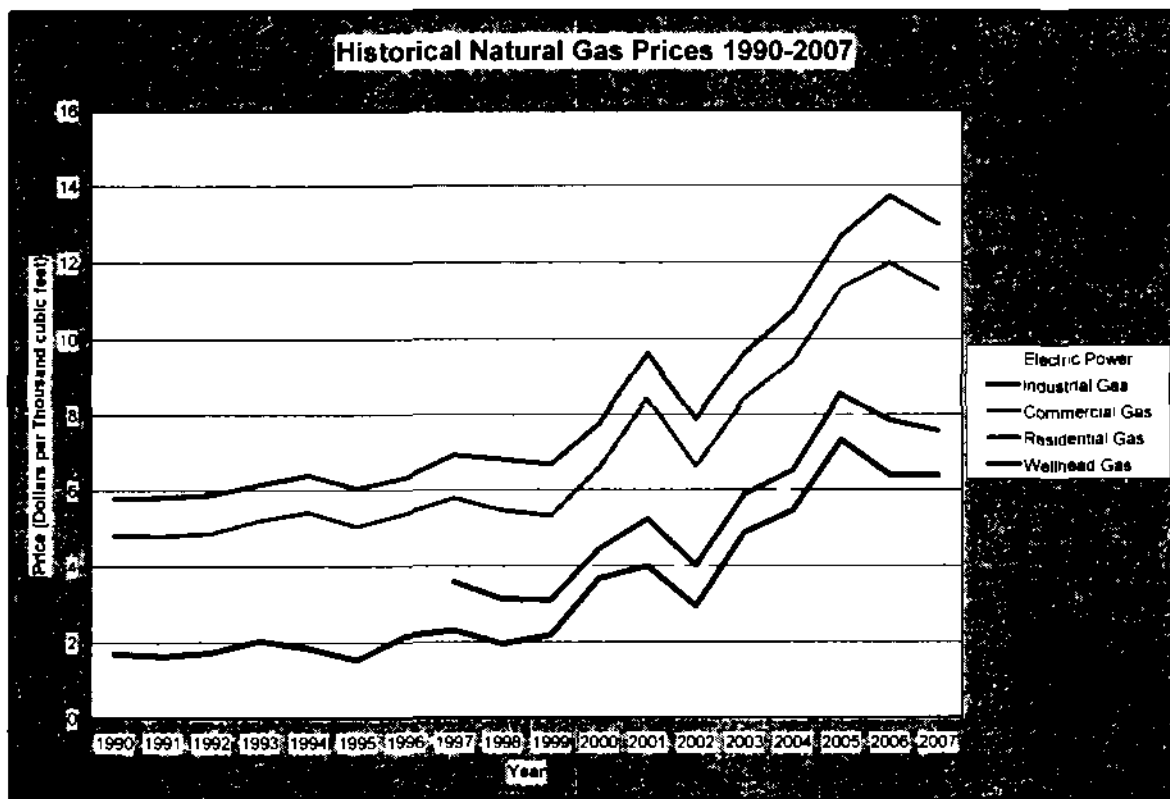


Figure 5 Historical Natural Gas Prices 1990 - 2007

Nuclear Power

Seven G&T cooperatives are currently minority participants in the ownership of nuclear assets. Like their investor owned utility and municipal counterparts, G&T cooperatives that are participants in existing nuclear projects are considering further participation as new units are proposed. The Nuclear Regulatory Commission currently has 23 applications in house for 34 new nuclear power plants. G&T cooperatives are currently planning participation totaling 1,103 MW of new nuclear power generation.

Renewable Energy

Renewable energy is projected to be 662 MW of expected G&T capacity additions at this time. G&T cooperatives are also in the process of creating a new national renewable energy cooperative for the purpose of investing in renewable projects nationwide. G&T cooperatives have long been partners in wind projects as power purchasers. Nationwide, co-ops own 450 MW in renewable energy generation and have power purchase contracts for 700 MW of renewable energy generation for a combined total of 1150 MW.

8. FINANCING OPTIONS AND COSTS FOR GENERATION AND TRANSMISSION COOPERATIVES

The majority (68%) of long term debt held by G&T cooperatives has been provided by the Rural Utilities Service electric program. For most of these entities, this source of financing is the preferred option due to the interest rate differential and term length differences between government financing

and commercial capital. Given the magnitude of these investments, the choice of lending sources can mean billions of dollars in interest costs as shown below. Higher interest costs will, of course, be absorbed by the rural electric members in the form of higher rates.

Why Is This Source of Financing Critical To Rural Consumers?

On average the cost of generation and transmission represents 65% of the electric bills at the rural retail level. Primarily residential, rural electric distribution cooperatives serve 7.0 consumers per mile of distribution line compared to 35.1 for investor owned utilities and 46.6 for municipally owned systems. Translated into revenue per mile of line distribution cooperatives average \$10,565 compared to \$62,665 for investor owned utilities and \$86,302 for municipally owned systems. Due to the low density of the customer base, the cost of energy, and the fact that most of the energy consumed is for residential usage, the rates paid by distribution cooperative consumers average about 10% higher than neighboring investor owned and municipally owned systems.

The following figure highlights the relationship between wholesale power cost and a typical distribution cooperative's total costs. Distribution costs are typically 35% of total cost, while 65% is the cost of power purchased by the distribution cooperative for resale to its retail customers.

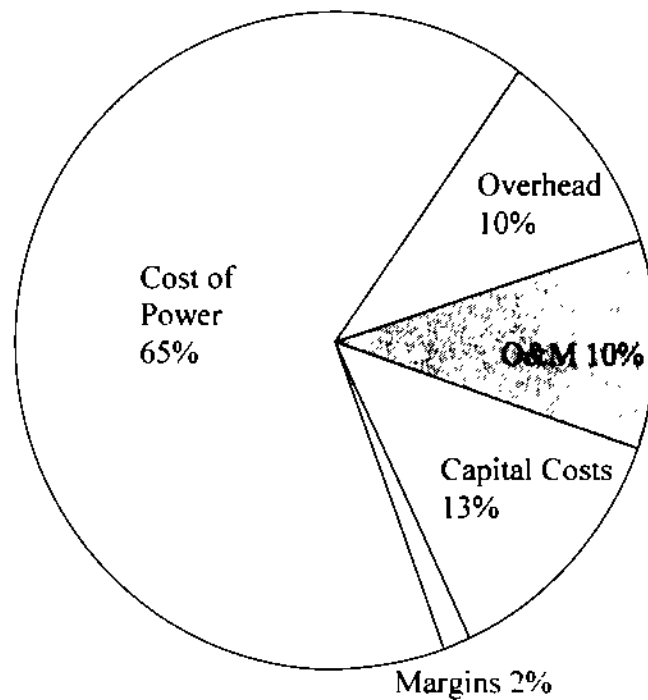


Figure 6 Distribution Cooperative Total Cost

Cooperative sales are heavily weighted towards the residential customer class. The following table shows that 57.49% of total cooperative sales are to residential customers. This compares with 35.90% and 37.44% for municipal and investor owned utility types.

Sales (MWh)	Investor Owned	Municipal Owned	Cooperatives
Residential	848,430,553	149,977,282	212,951,324
Commercial	825,907,980	157,732,964	75,038,401
Industrial	589,490,958	109,788,625	82,419,789
Transportation	2,335,674	279,849	0
Total	2,266,165,165	417,778,720	370,409,514

Table 2 MWh Sales by Utility Type

Due to the lower revenue per mile of distribution line, it is imperative that the G&T cooperatives seek the least costly source of capital.

The Electric Program finances intermediate and peaking generators, improvements and environmental retrofits to existing generation plants, transmission, and renewable energy projects as well as distribution system improvements. These improvements involve no risk, so there is no subsidy costs currently associated with these investments. Another factor contributing to negative subsidy rates is the fact that there is less than one-tenth of one percent delinquency rate on a portfolio exceeding \$36 billion.

The following table demonstrates the magnitude of the costs of borrowing for new electric power generation (\$49.9 billion) under various interest rate and term length scenarios. The following calculations are meant to illustrate only the magnitude of potential interest expense related to capital intensive infrastructure projects such as power plant construction. Any number of factors will affect the actual costs of these investments. This example makes several simplifying assumptions in order to illustrate interest expense only:

- The full amount of the construction program (\$49.9B in principal) is advanced on day one
- Payments are all quarterly
- No interest only or balloon options
- 100% debt financing
- The current 30 year estimated Electric Program annual interest rate is 4.36%

- The current 15 year Electric Program annual interest rate is estimated using the simple average of the posted 10 and 20 year Treasury rates or 4.11%

Interest costs are undiscounted; therefore caution should be exercised in comparing loan costs across term lengths.

Potential Interest Costs of G&T Generation Plant Investments			
	Electric Program Financing	Private Financing w/ 250 Basis Point Difference	Private Financing w/ 350 Basis Point Difference
Estimated Capital Needs w/ 30 year Amortization	\$ 39,790,042,639.01	\$ 68,133,472,884.59	\$ 80,374,473,244.68
Estimated Capital Needs w/ 15 year Amortization	\$ 17,200,230,555.21	\$ 29,139,749,493.62	\$ 34,210,098,613.80

Table 3 Interest Rate and Term Affects on Capital Costs

9. RENEWABLE ENERGY

Renewable energy, including hydropower, totals around 8% of the nation's electricity production while coal and nuclear combined total 68% and natural gas 22%. For electric cooperatives renewable energy, primarily large hydro facilities, accounts for 11%, coal accounts for 62%, nuclear 15%, natural gas 10% and diesel fuel 2%. Renewable energy is becoming a larger portion of the cooperative portfolio.

Presently 80% of the 900 rural electric cooperatives supply some of their electricity needs from renewable sources, owning or purchasing 1,415 MW, primarily wind. A little over 1,000 additional MW (wind and woody biomass) is being planned. Close to 150 cooperatives either own wind turbines or purchase output from wind farms. Great River Energy based in Minnesota is the cooperative leader with 218 MW of purchased wind energy and is planning to add additional wind resources.

Basin Electric based in North Dakota purchases 136 MW from three commercial wind farms and is planning to build and own another 200 MW of wind energy.

Renewable Portfolio Standards (RPS) adopted by several states have had a significant impact on the deployment of renewable generation. Twenty six states and the District of Columbia have passed RPS requiring utilities to add increasing amounts of renewable energy ranging from 10 to 25 percent to their energy mix. Other states have adopted renewable goals rather than mandates.

Renewable energy resources are to a large extent found in remote rural areas and to develop those resources more fully and to deliver the energy to market centers will require substantial investments in transmission capacity both in terms of delivering renewable energy to the transmission grid and increasing the capacity of the grid to handle increasing loads. As pointed out earlier, the existing transmission grid is essentially operating at or above capacity today. In order to meet the increased demand that is projected has been well stated by the Chief Executive Officer of NERC, "meeting virtually

a 20 % increase in load growth over the next decade means building one new substation for every five we have now, one new transmission line for every five and one new power plant for every five.”

The Rural Development Utilities Program is currently working with both G&T cooperatives and private developers on wind and biomass projects that will total well over \$1 billion in financing. The success of these projects will drive additional investments in the future.

One key to adding additional renewable energy nationwide is the production tax credit. Presently, the availability of the production tax credit and favorable depreciation rates are key to making renewable energy price competitive. Another key has been the enactment of the Clean Renewable Energy Bonds which provide non-profit organizations such as cooperatives the same pricing advantages as the production tax credits available to for-profit developers.

Additionally, the rural electric generation and transmission CEOs announced the formation of a national cooperative dedicated to the development of renewable energy sources. A national effort was deemed necessary because some areas of the country do not have renewable resources and through the national effort, generation cooperatives in the south and southeast that have no wind resources can participate in projects developed in the Great Plains through equity contributions.

While wind and solar renewable energy sources will continue to increase as important components of the energy mix, they should not be considered

capacity resources due to intermittency of availability. This has been best stated by the American Wind Energy Association, "It is an energy resource. You take the wind when nature delivers it and rely on other system resources when it is not available." Other renewable sources such as waste wood can be operated as capacity resources.

10. ENERGY EFFICIENCY

Members of the cooperative part of the electric industry has been recognized nationally as leaders in energy efficiency and demand side management practices. These practices reduce demand and help mitigate the need for new generation capacity. Most distribution cooperatives offer incentives, rebates and other assistance such as free energy audits for residential, commercial and industrial consumers. Many distribution cooperatives also participate in the Electric Programs Energy Conservation Program (ERC) which offers deferral of principal payments on debt. This enables the cooperative to use those funds to assist consumers install energy efficient appliances or other energy saving measures. A very popular and successful effort is the installation of geo-thermal ground loop systems replacing inefficient heating and air conditioning systems. The upfront cost of these systems can be prohibitively expensive for many homeowners, but with the assistance of the deferral program, along with other incentives such as rebates, the cost to the home owner can often be reduced to affordable levels.

Recently, two cooperatives in Alabama and Kentucky and the Hawaii Habitat for Humanity Office were awarded High Energy Cost Grants,

administered by the Electric Program, to assist low income homeowners install energy efficiency measures to reduce their energy bills.

A previous grant to the Alabama cooperative proposes to assist 100 very low income home owners repair or replace duct work, install energy efficient appliances, replace inefficient furnaces and central air conditioners with highly efficient heat pumps, install insulation, install energy efficient doors and windows. These efforts not only reduce the energy bills of the home owner, but also reduce the amount of energy the cooperative has to purchase to serve those homes. One example shows the home owner monthly electric bill decreasing from 3979 kWh per month to 2080 kWh per month, a 48% percent reduction.

A recent report filed by the Iowa Association of Electric Cooperatives with the state regulatory body says the Iowa cooperatives estimate \$11 million invested in energy efficiency programs last year will return a savings of over \$30 million over the life of the various installations. Participants in the program added energy efficient heat pumps, water heaters, air conditioners, compact fluorescent lights and improved weather proofing. According to the report the 37 distribution cooperatives serving 650,000 Iowans increased their investment in energy efficiency by 25%. It is estimated that the energy saved over the life of the installations would be enough to power a city of 85,000 for one year. There is also the benefit of reduced emissions.

11. CLIMATE CHANGE

The intermittency of wind and solar energy means that it cannot be depended on for capacity during peak usage periods. There has to be other energy sources available for those times that wind and solar sources are not available.

This was demonstrated rather dramatically earlier this year in Texas when wind production in west Texas unexpectedly dropped from 1,700 MW to less than one-fourth of that and at the same time late afternoon peak demand rose by over 2,000 MW as people returned home from work. In order to avoid brownouts, the Electric Reliability Council of Texas (ERCOT), the entity that manages the transmission grid in Texas, called interruptible customers (typically large commercial or industrial customers) and asked them to reduce their demand and simultaneously started up natural gas fired peaking facilities to generate additional power to balance supply and demand. Compounding the problem was that some base load units were not generating power due to planned outages for maintenance or other reasons. All of this occurred in a matter of minutes.

Occurrences such as this one lend support to the argument that a balanced approach to limiting carbon emissions, such as that prescribed by the Electric Power Research Institute (EPRI), as well as other studies, is necessary in order to maintain system reliability, sustain economic growth and provide time for the appropriate technologies to be developed. This includes a balanced mix of strategies beginning with energy efficiency and renewable resources, additional nuclear capacity, advanced clean coal generation, carbon capture and storage, plug-in-hybrid vehicles, and distributed energy resources. The EPRI study points out that carbon capture

and storage technology will not be widely available and deployed until after the year 2020.

The EPRI CO₂ Reduction Model assumes CO₂ emissions are capped at 2010 levels until 2020 and then reduced at 3% annually. The results of the model show that the deployment of the strategies noted above could reduce CO₂ emissions to the 1990 levels by 2030.

The Rural Development Electric Program is committed to assisting Basin Electric Cooperative in North Dakota install carbon capture technology at an existing coal fired generation plant. This technology will remove a portion of the carbon dioxide and feed it into an existing CO₂ compression and pipeline system owned by Basin from which it will be sold for enhanced oil recovery in North Dakotas and Canada. Smaller portions of CO₂ will be taken out of the pipeline and injected into a non-recoverable coal seam and a saline formation to test sequestration capability of those geologic formations. Our goal is to help further the advancement of these technologies.

12. CONCLUSIONS

The system reliability concerns identified in the NERC report, as well as other reports, point out that brownouts are probable unless investment in transmission is increased and simultaneously, energy efficiency efforts and demand side management must be intensified. But it is evident that additional generation sources beginning with renewable resources, but

including other base load must be developed. The lead time associated with planning and constructing new base load plants can easily consume 8 to 10 years and the country is already behind the demand curve.

Ensuring reliability of the system while sustaining economic growth and protecting the environment is going to be costly and consumer rates will increase, but the cost of brownouts could be higher due to interruptions of commercial activity. The economy of this country is highly dependent on reliable electricity and that dependence is growing as more of the economy shifts to the service sector and as we move to energy independence. The development of alternative transportation fuels, regardless of the feedstock, will also require significant sources of new generation. Continued development and improvement of new renewable generation technologies, as well as the manufacture of these technologies and the development of technologies to reduce emissions will add more economic and employment opportunities and much of that investment will be in rural America.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 22 2008

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Food, Conservation, and Energy Security Act of 2008, specifically Section 6113 of Title VI of the Act, required an analysis of the power generation needs in rural areas of the United States. The Act also required the report be submitted to the Agriculture Committee within 60 days of enactment.

I am pleased to submit the enclosed report which covers the required components:

1. Generation in various areas in rural areas of the United States, particularly by rural electric cooperatives;
2. Financing available for capacity, including financing available through programs authorized by the Rural Electrification Act of 1936;
3. The impact of electricity costs on consumers and local economic development;
4. The ability of the fuel stock technology to meet regulatory requirements, such as carbon capture and sequestration; and
5. Any other factors the Secretary considers appropriate.

Should you have any questions or desire additional information regarding the contents of the report, please contact Mr. James M. Andrew, Administrator of the Rural Development Utilities Programs at 202-720-9540.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is placed below the word "Sincerely,".

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 22 2008

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition and Forestry
United States Senate
328-A Senate Russell Office Building
Washington, D.C. 20510

Dear Senator Chambliss:

The Food, Conservation, and Energy Security Act of 2008, specifically Section 6113 of Title VI of the Act, required an analysis of the power generation needs in rural areas of the United States. The Act also required the report be submitted to the Agriculture Committee within 60 days of enactment.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 22 2008

The Honorable Collin Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The Food, Conservation, and Energy Security Act of 2008, specifically Section 6113 of Title VI of the Act, required an analysis of the power generation needs in rural areas of the United States. The Act also required the report be submitted to the Agriculture Committee within 60 days of enactment.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 22 2008

The Honorable Bob Goodlatte
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1305 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Goodlatte:

The Food, Conservation, and Energy Security Act of 2008, specifically Section 6113 of Title VI of the Act, required an analysis of the power generation needs in rural areas of the United States. The Act also required the report be submitted to the Agriculture Committee within 60 days of enactment.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

USDA conducts competitive sourcing competitions in accordance with the Office of Management and Budget Circular A-76, "Performance of Commercial Activities." USDA has not developed any additional guidance to implement competitive sourcing activities since the fiscal year (FY) 2008 report. However, we have provided current policy in Enclosures 1 through 4. Enclosure 5 provides the FY 2009 budget for competitive sourcing for USDA.

Please feel free to contact the Chief Financial and Information Officer, Charles R. Christopherson, Jr., for further assistance in this matter. Mr. Christopherson can be reached at (202) 720-5539.

Sincerely,

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Frank Lucas
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1305 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lucas:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

USDA conducts competitive sourcing competitions in accordance with the Office of Management and Budget Circular A-76, "Performance of Commercial Activities." USDA has not developed any additional guidance to implement competitive sourcing activities since the fiscal year (FY) 2008 report. However, we have provided current policy in Enclosures 1 through 4. Enclosure 5 provides the FY 2009 budget for competitive sourcing for USDA.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Chambliss:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Rosa DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

USDA conducts competitive sourcing competitions in accordance with the Office of Management and Budget Circular A-76, "Performance of Commercial Activities." USDA has not developed any additional guidance to implement competitive sourcing activities since the fiscal year (FY) 2008 report. However, we have provided current policy in Enclosures 1 through 4. Enclosure 5 provides the FY 2009 budget for competitive sourcing for USDA.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Herb Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Robert F. Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bennett:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable David R. Obey
Chairman
Committee on Appropriations
U.S. House of Representatives
H-218 Capitol Building
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lewis:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

The Honorable Daniel K. Inouye
Chairman
Committee on Appropriations
United States Senate
S-131 Capitol Building
Washington, D.C. 20510

JAN 15 2009

Dear Mr. Chairman:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Thad Cochran
Ranking Member
Committee on Appropriations
United States Senate
S-146A Capitol Building
Washington, D.C. 20510

Dear Senator Cochran:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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Edward T. Schafer
Secretary

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Edolphus Towns
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Darrell Issa
Ranking Member
Committee on Oversight and Government Reform
U.S. House of Representatives
B350A Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Issa:

The Department of Agriculture (USDA) is required by our annual appropriations acts to provide a report on USDA's competitive sourcing policy and budget for contracting out.

USDA conducts competitive sourcing competitions in accordance with the Office of Management and Budget Circular A-76, "Performance of Commercial Activities." USDA has not developed any additional guidance to implement competitive sourcing activities since the fiscal year (FY) 2008 report. However, we have provided current policy in Enclosures 1 through 4. Enclosure 5 provides the FY 2009 budget for competitive sourcing for USDA.

Please feel free to contact the Chief Financial and Information Officer, Charles R. Christopherson, Jr., for further assistance in this matter. Mr. Christopherson can be reached at (202) 720-5539.

Sincerely,

A handwritten signature in blue ink, which appears to read "E. Schafer", is positioned above the typed name of the Secretary.

Edward T. Schafer
Secretary

Enclosures

Canned Fruit and Vegetable Consumption in the United States

A Report to the United States Congress

August 2008

**The Economic Research Service
United States Department of Agriculture**



Canned Fruit and Vegetable Consumption in the United States: A Report to the United States Congress

Abstract

The Senate Report 110-134 accompanying S. 1859, the 2008 the Agriculture Appropriations Bill, requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables. Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. If current trends prevail, total fruit and vegetable availability will continue to increase but canned fruits and vegetables will account for a declining share of that total. However, there are several divergent and offsetting forces that make it difficult to predict the future demand for canned produce.

Keywords: Canned, consumption, fruit, food availability, food intake, food loss, vegetable

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Summary

Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. If current trends prevail, total fruit and vegetable availability will continue to increase but canned fruits and vegetables will account for a declining share of that total. However, there are several divergent and offsetting forces that make it difficult to predict the future demand for canned produce.

What Is the Issue?

The Senate Report 110-134 accompanying S. 1859, the 2008 the Agriculture Appropriations Bill, requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables.

What Did the Study Find?

American consumers are consuming more produce, and they prefer it non-canned. Using food availability data as a proxy for consumption, the amount of fruit available for consumption rose 13 percent between 1970 and 2005 and the amount of vegetables available for consumption increased 23 percent. Most of these increases were for fresh fruits and vegetables. Although the per capita quantity of canned vegetables increased slightly, canned vegetables' share of total vegetables fell from 30 percent to 25 percent. Per capita availability of canned fruit decreased by 37 percent, and canned fruits' share of total fruit decreased from 11 percent to 6 percent.

Consumer spending for canned produce varies across economic and demographic groups.

Analysis of household spending on both fresh and canned fruits and vegetables shows considerable variation in spending on canned produce and that spending was affected by social and demographic factors. Higher income households tend to spend more per capita on canned fruits and vegetables than do lower income households. The same holds true for households headed by older persons, compared with their younger counterparts. Households with children tend to spend relatively less on canned fruits and vegetables. Hispanic households have lower

expenditures on canned fruits than other ethnic groups. Asians spend the least on canned vegetables, while African Americans spend the most.

Looking ahead, market trends suggest that the share of canned produce in total consumption will continue to decline. However, several divergent forces may affect that outcome. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. Many economic, social, and demographic changes will occur simultaneously and some will have offsetting effects on the demand for canned fruits and vegetables. For example, a wealthier and older population is likely to spend more on canned fruits and vegetables. However, growth in the Hispanic population, who tend to spend less on canned produce than the rest of the population, may head demand for canned produce in the opposite direction. Consequently, it is difficult to predict the future demand for canned fruits and vegetables. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables will continue to increase and the canned share of fruits and vegetables will continue to decline.

How Was the Study Conducted?

The report is based on data from:

1. ERS Food Availability Data System (see www.ers.usda.gov/Data/FoodConsumption/), the only source of time-series data on the food available for human consumption in the United States. The data system provides proxies for actual consumption. The data for fruits and vegetables are presented in various product forms, including fresh and canned. In this report, ERS analyzes the amounts and shares of fruits and vegetables available for consumption, by product form, as well as the type of canned fruits and vegetables for 1970-2005. (See Appendix A1 for further information on the Food Availability Data System.)
2. U.S. Department of Labor Bureau of Labor Statistics' Consumer Expenditure Survey (CEX) conducted in 2004 (www.bls.gov/cex). The CEX's Diary Survey contains data on

food expenditure for two consecutive weeks. In addition to reporting expenditure, respondents also report data on income, social, and demographic characteristics. The CEX data were used to estimate per-capita spending on various food and non-food items by income, social, and demographic characteristics of the U.S. population. (See Appendix A2 for more information.)

3. USDA Continuing Survey of Food Intakes by Individuals (CSFII) (see www.ars.usda.gov/Services/docs.htm?docid=15044) conducted in 1994-96 and 1998. ERS used these data to describe who eats selected fruits and vegetables, the amount eaten, and where fruits and vegetables are eaten. These studies were reviewed and relevant findings on the consumption of canned fruits and vegetables are summarized here. The CSFII data are dated. But more recent data cannot, at this time, be used to estimate the amount of produce consumed because the programming and data are not available to translate food consumption information back into commodity ingredients. A food and commodity translation database is under development to fill this research need. (See Appendix A3 for a further discussion.)

General Background

The Senate Report 110-134 accompanying S. 1859, the 2008 the Agriculture Appropriations Bill, requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables. Here, “canned” refers to traditional airtight shelf-stable metal cans and containers as well as other newer and increasingly popular types of airtight containers, such as single-serving plastic cups. Although ERS has not directly studied consumer perceptions of canned fruits and vegetables, consumer perceptions are reflected by market behavior as indicated by consumption trends over time and across demographic groups. In this report, ERS presents results on canned fruit and vegetable consumption from three data sources.

The United States is among the world’s top producers of fruits and vegetables. In 2006, the United States produced 57 billion pounds of fruit and 126.7 billion pounds of vegetables. Most domestically produced fruits and vegetables are consumed in the United States but the share that is exported is growing. Increased promotion of U.S. fruits and vegetables directed at overseas markets, through efforts such as the USDA’s Market Access Program (<http://www.fas.usda.gov/mos/programs/map.asp>), has likely helped boost foreign sales, particularly to Canada, the largest foreign buyer of U.S. fruits and vegetables. While growth in U.S. fruit exports has been strong, the United States remains a net fruit importer. In 2006, 92 billion pounds of fruit and 129.9 billion pounds of vegetables were available for consumption in the United States when accounting for domestic production, exports, imports, feed and seed use, shrinkage in storage, and beginning and ending stocks (fig. 1).



U.S. fruit and vegetable imports grew during the last two decades and through the 2000s, due in part to the growing population in the United States and the increased demand for new products, such as fruit in single-serving plastic cups. Not only have imports expanded for commodities already produced domestically, creating competition for U.S. producers, but imports have also increased for new items, such as the less traditional types of tropical fruit. In 2006, the United States was the world's largest importer of canned fruit mixtures, accounting for 38 percent of such imports (USITC, 2007). In some cases, U.S. produce is exported in institutional-size metal cans, repackaged into plastic cups or jars in another country, and then imported back to the United States in the form of ready-to-eat products. An example is U.S. canned peach exports to Thailand (USITC, 2007).

Fresh and processed fruits and vegetables are distributed through both retail (e.g., mainly grocery chains) and institutional channels (e.g., hospitals, hotels, prisons, schools, and other foodservice outlets). A large portion of canned peaches, pears, and fruit mixtures is sold to institutional buyers, typically in large containers that are lower priced per pound (USITC, 2007). At retail,

canned fruits and vegetables are typically sold in smaller containers, such as 4-ounce plastic cups or 8-ounce metal cans. Fruits and vegetables, both fresh and processed, are also purchased by the government, such as for USDA's school nutrition programs.

Data on sales of fruits and vegetables to restaurants and other foodservice outlets are not available but data does exist for retail sales. The 2006 Consumer Expenditures Study estimated total retail sales in supermarkets and mass supercenters for food categories with annual sales over \$10 million (Progressive Grocer, 2007).¹ Sales at these outlets were estimated at \$60.3 billion for fresh produce, \$15.8 billion for refrigerated and shelf-stable juice/drinks, \$6.4 billion for canned fruits and vegetables, \$4.9 billion for frozen fruit juice and vegetables, and \$1.8 billion for dried fruit (fig. 2).² Data are unavailable on the value of fruits and vegetables used in mixed, prepared foods like frozen entrées.



¹“The Consumer Expenditures Study is based on data collected by The Nielsen Company for UPC-coded products, as well as sales estimates made by Progressive Grocer's research department for non-tracked categories in perishables and general merchandise” (Progressive Grocer, 2008).

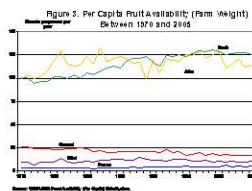
² Juice/drinks were mostly fruit products but included a relatively small amount of vegetable juice, nonalcoholic wine, and clam juice. The data were aggregated so that ERS could not exclude these products.

Consumption Trends for Fruits and Vegetables

The authors used the estimated amounts of canned fruits and vegetables available for consumption in the United States as proxies for actual consumption (see Appendix A1 for further explanation of the data used from the ERS Food Availability Data System).

Canned Fruit Make Up a Declining Share of Total Fruit

Although the total amount of fruit available for consumption rose 13 percent between 1970 and 2005, the share of canned fruit out of total fruit fell from 11 percent to 6 percent.³ Fresh fruit and juice consistently tallied higher shares than canned fruit though canned fruit maintained a higher share than dried and frozen fruit.



³ Meanwhile, the shares for fruit in fresh, frozen, and juice forms increased between 1970 and 2005. The share of fresh fruit increased the most from 42 to 46 percent. The juice and frozen fruit shares increased by less than 1 percent over this time period and the dried fruit share fell by less than 1 percent. When only looking at total processed fruit, the canned share of total fruit fell from 19 percent in 1970 to 11 percent in 2005 (not shown).

Estimated Consumption of Most Types of Canned Fruits Declined

We use a different data series in the system, the Loss-Adjusted Food Availability Data, when analyzing among the different varieties of canned fruit and vegetables. This series accounts for the amount of food lost at the market and consumer levels (e.g., plate waste and spoilage) in order to obtain a closer approximation of what Americans, on average, consume over time on an annual and daily basis. The estimated amount of canned fruit consumed, per capita, decreased 35 percent between 1970 and 2005. All canned fruit covered in the data decreased during this time period, except for canned olives, which increased by almost fifty percent. Most of the growth in olives is from the increased demand for olives in foodservice channels, such as pizza and fast food chains, restaurants, and hotels, particularly since the 1990s.⁴ One reason for declines in the other canned fruit is that some consumers switched to fresh fruit or other types of processed fruit (e.g., juice).⁵

Canned apples and applesauce were the most popular canned fruit in 2005, followed by peaches and pineapples. Although these three fruits decreased since 1970, they each maintained over a 20 percent share of total canned fruit.

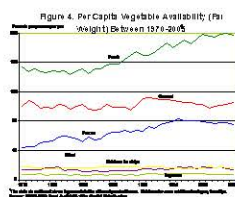
⁴ The sharp growth in per capita canned olive consumption in the U.S. between 1970 and 2005 may be attributed to the large increase in both domestic production and imports. Domestic production averaged 71.5 million pounds (1970/71-1972/73) and imports averaged 95.8 million pounds. For the period 2003/04-2005/06 domestic production averaged 224.9 million pounds and imports averaged 194.3. Spain is our largest supplier of imported canned olives.

⁵ For example, between 1970 and 2005, fresh pear availability rose from 1.1 pounds per capita to 1.8 pounds and fresh pineapples rose from .2 pounds to 1.3 pounds while the amounts of canned pears and pineapples fell.

Canned Vegetables Make Up a Declining Share of Total Vegetables

Between 1970 and 2005, the total availability of vegetables increased by 23 percent and the availability of canned vegetables rose 5 percent. Canned vegetables appear to have been both partially replaced by and supplemented with an increasing amount of fresh and frozen vegetables. As a result, the share of canned vegetables out of total vegetables fell from 30 percent to 25 percent.⁶

During this time period, there was little change in the relative ranking of fresh and processed forms of vegetables. Fresh vegetables consistently made up the highest share of total vegetables. For fruit, juicemaking is the most important type of processing in terms of pounds per year. For vegetables, canning is the most important type of processing, followed by freezing.



⁶Between 1970 and 2005, the share of frozen vegetables rose from 13 percent to 18 percent while the shares of the other three categories remained relatively constant. Fresh vegetables rose 2 percentage points from 46 percent to 48 percent. The canned share of vegetables out of total processed vegetables fell from 55 percent in 1970 to 49 percent in 2005 (not shown).

The Lion's Share of Canned Vegetables are Canned Tomatoes

Once again we used the Loss-Adjusted Food Availability data when estimating consumption among the different varieties of canned vegetables. Estimated consumption of canned vegetables increased by 3 percent between 1970 and 2005, unlike canned fruit, which declined in that time period. Most types of canned vegetables covered in the database decreased between 1970 and 2005 except for canned tomatoes, canned mushrooms, and “other canned” vegetables.

The rise in canned tomatoes added to that vegetable's already dominant share of total canned vegetables. In 2005, the amount of canned tomatoes available for consumption was almost five times higher than the second-ranked canned vegetable, sweet corn. Canned tomatoes include a wide range of products, such as tomato paste, diced tomatoes, and pasta sauce.



Economic Factors Determining Consumer Demand

Americans can now choose among a wider selection of fruits and vegetables year-round than in the past. In 1998, the typical U.S. grocery store carried 345 produce items, compared with 173 in 1987 (Calvin et al., 2001). International trade has helped overcome supply gaps due to seasonality.⁷ Imports also provide U.S. consumers with a larger variety of horticultural products, particularly tropical fruits that cannot be profitably grown in the States. Some of the newer items available to consumers include imported tomato varieties and exotic imports like passion fruit. Demand for convenience, such as for single-serving containers of fruit, has also resulted in a wider array of products available for sale, many of which are from foreign suppliers. In general, increased fruit and vegetable availability could potentially increase the demand for canned produce (see Box 1, “Major Trends and Factors Potentially Affecting the Demand for Canned Fruits and Vegetables”). Processed fruits and vegetables spoil less and tend to have lower handling and transportation costs than fresh versions, thus expanding the reach of geographical markets (Huang, 2004).

Box 1. Major Trends and Factors Potentially Affecting the Demand for Canned Fruits and Vegetables

<u>Trend/factor</u>	<u>Potential direction for demand</u>
↑ Availability of fruits and vegetables (variety, quality)	↑
↓ Price of fruits and vegetables	↑
↑ Increased awareness of nutritional benefits of fruits and vegetables	↑
↑ Eating away from home	↓ (except for some types like canned refried beans)
↑↓ Demographic determinants	↑↓

⁷The United States harvests many kinds of fruits and vegetables for domestic consumption and export during the late summer and early fall. The United States then imports these products from other countries during the remaining months when they are not domestically produced. However, imports can compete with storable U.S. commodities, such as fresh apples and pears, and canned fruit and vegetables.

Source: ERS, March 24, 2008.

International trade has generally lowered prices for many fruits and vegetables and this may increase the demand for these products, including canned versions. International trade has also helped smooth price fluctuations, such as through year-round marketing agreements between wholesalers and retailers. New produce varieties that handle different climates, locations, and pest conditions as well as advances in production, transportation, and handling methods have also played a role in increasing produce availability, maintaining quality, and lowering prices.

Undoubtedly, relative prices of processed fruits and vegetables play a role in which foods consumers purchase. The increase in imported canned fruits and vegetables, new forms of these products, and private-label supplies of traditional canned products has changed the price relationships between products and brands, often diminishing the competitiveness of U.S. canners in the domestic market (USITC, 2007). However, the recent changes in exchange rates have increased the cost of imported produce and made U.S. produce exports more competitive, particularly for more heavily traded types of produce. Exports of canned fruits and vegetables may also increase due to the weakened U.S. dollar.

Encouraging Americans to eat more fruits and vegetables has been a central theme of Federal dietary guidance for the past two decades, in part due to the growing evidence of the health benefits associated with fruit and vegetable consumption. A higher level of education together with an increase in dietary-information campaigns has equipped U.S. consumers with better dietary knowledge and, hence, promoted increased consumption of fruits and vegetables (Lin et al., 2003). One might expect that consumption of all forms of fruits and vegetables, including canned, would increase with greater awareness of the importance of those products in healthy diets.⁸

One of the major dietary trends in the United States is the growing appetite for eating out. In 1970, 26 percent of all food expenditures was spent on food away from home; by 2005, that share rose to 41 percent. A number of factors have contributed to the trend of increased dining

⁸ There appears to be no published study on the effect of dietary knowledge on the consumption of canned fruits and vegetables. However, substantiated health claims appear to have helped increase consumption of some fruit and vegetable products, as well as other foods.

out, including a larger share of women employed outside the home, more two-earner households, higher incomes, more affordable and convenient fast-food outlets, increased advertising and promotion by large foodservice chains, and the smaller size of American households.

Continuation of these economic and demographic trends is expected to keep boosting Americans' preference for eating out. It is not expected that this trend will result in any notable increases in demand for all canned fruits and vegetables, though there may be a few exceptions, such as for canned refried beans, which are already mostly consumed away from home.

Changing economic, social, and demographic characteristics also play a role in shaping consumer preferences for fruits and vegetables, including canned versions. The next section looks at a sample of these characteristics (income, race and ethnicity, region, and age) and consumption of canned fruits and vegetables.

Spending on Fruits and Vegetables

In this report, per-capita spending on canned fruits and vegetables was estimated by using data from the Bureau of Labor Statistics' (BLS) 2004 Consumer Expenditure Survey (see Appendix A2 for a discussion about the survey). This section summarizes the differences in per capita spending by selected social and demographic factors.

High-income households spend more on canned fruits and vegetables

Households are classified into three income groups using the Federal poverty guidelines.⁰⁹ High-income households tend to spend more on canned fruits and vegetables. Spending on canned fruits and vegetables is similar between low- and middle-income groups—the differences are not statistically significant.



⁰⁹The low-income group has income not exceeding 185 percent of the poverty level, the high-income group has income exceeding 300 percent of the poverty level, and the middle-income group has income falling between 185 and 300 percent of the poverty level.

Hispanics spend the least on canned fruits; Blacks spend the most on canned vegetables

Per capita spending on canned fruits and canned vegetables varies greatly by race and ethnicity.

In 2004, Hispanics spent the least on canned fruits, and individuals of “other races” spent the most. Asians spent the least on canned vegetables and Blacks spent the most.

Figure 1. Per Capita Spending on Canned Fruits and Vegetables by Race and Ethnicity, 2004

Source: USDA, ERS, Food Expenditure Data

Individuals living in the South tend to spend more on canned vegetables

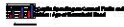
There were regional differences in per capita spending on canned fruits and canned vegetables in 2004. Individuals living in the Northeast spent the least on canned fruits while individuals in the Midwest spent the most. Individuals living in the West spent the least on canned vegetables while individuals in the South spent the most.

Figure 1. Per capita spending on canned fruits and vegetables, by region, 2004

Source: USDA, Economic Research Service, based on data from the USDA, Food and Nutrition Assistance Administration, Food and Nutrition Assistance Survey, 2004.


Spending on canned fruits and vegetables rises with the age of household head

Total fruit and vegetable consumption has risen with age in the United States. Young households (head is younger than 40) spent the least on canned fruits, compared with households headed by those aged 40-64 and the oldest households (head is 65 or older). Young households also spent the least on canned vegetables.




Presence of children lowers spending on canned produce

Consistent with the results on age of household head, households with children (age 18 or younger) tend to spend less on canned produce. In 2004, households with children spent less on canned fruits and vegetables than households without children. These findings could also reflect the fact that per capita food spending for children is less than for adults.

 **Per Capita Spending on Canned**
Fruits and Vegetables by Gender

Presence of senior increases spending on canned produce

In 2004, households with one or more adults aged 65 or over (i.e., “a senior”) spent more on canned fruits and vegetables than households without a senior.

The Quality of Spending on Canned

Demographic Characteristics: Who Eats What, When, and Where

The Bureau of Labor Statistics (BLS) data tell us the spending patterns on canned produce by economic, social, and demographic characteristics. Prices of canned produce vary greatly by the type of produce as well as by product attributes, such as packaging. Therefore, spending more on canned produce may not necessarily mean that a greater quantity of canned produce was purchased.

Data from USDA's food consumption surveys can be used to estimate the amount of canned produce consumed by Americans in different social and demographic groups. Since 2000, ERS researchers have conducted a series of studies combining survey data with availability data to describe who eats produce, how much is eaten, and where it is eaten. These studies were based on 1994-96 and 1998 data. Even though more recent food consumption data have been collected, the recent data cannot be used to estimate the amount of produce consumed (see Appendix A-3 for an explanation and description of the data).

This section highlights findings from 20 ERS published studies pertaining to specific canned fruits and vegetables. Although these findings don't give us a comprehensive story about all types of produce, they provide anecdotal evidence about individual types of fruits and vegetables. These findings show the choices made in the market place and this information reveals consumer preferences, which vary by the type of produce and by product form. That is, purchase decisions for individual commodities are based on income, age, and other demographic factors. However, purchase decisions can also be based on relative prices, availability, and convenience of the different forms (e.g., baby carrots versus canned carrots). Detailed tables and publications are available upon request from Biing-Hwan Lin (blin@ers.usda.gov).

Apples

- Children under the age of 5 eat more applesauce than older children and adults.
- By a substantial margin, Whites consume more applesauce than other individuals.
- Applesauce consumption rose with income.

Tomatoes

- Most processed tomatoes are consumed at home, except ketchup.
- Fast food restaurants account for 34 percent of ketchup use and restaurants with waiter service account for 15 percent.
- Individuals living in the western region eat more tomato sauce and less tomato paste than individuals living in other parts of the United States. The western region accounts for 22 percent of the U.S. population and consumes 25.6 percent of tomato sauce and 20.9 percent of tomato paste.
- Relative to other Americans, Blacks have a preference for ketchup but do not favor tomato juice. Blacks account for 12.6 percent of the U.S. population and consume 14.6 percent of ketchup and 5.8 percent of tomato juice.⁰⁰

Sweet corn

- Sweet corn consumption, on a fresh-equivalent basis, was evenly divided among fresh, frozen, and canned.
- Foodservice uses a larger percentage of frozen and canned sweet corn than fresh sweet corn. The use of prepared frozen and canned corn products is heavily favored in the food service industry to reduce labor costs.

Snap beans

- Consumption of canned snap beans (i.e., green or long beans) is greatest among older Americans (age 60 and above) and weakest among teenagers.

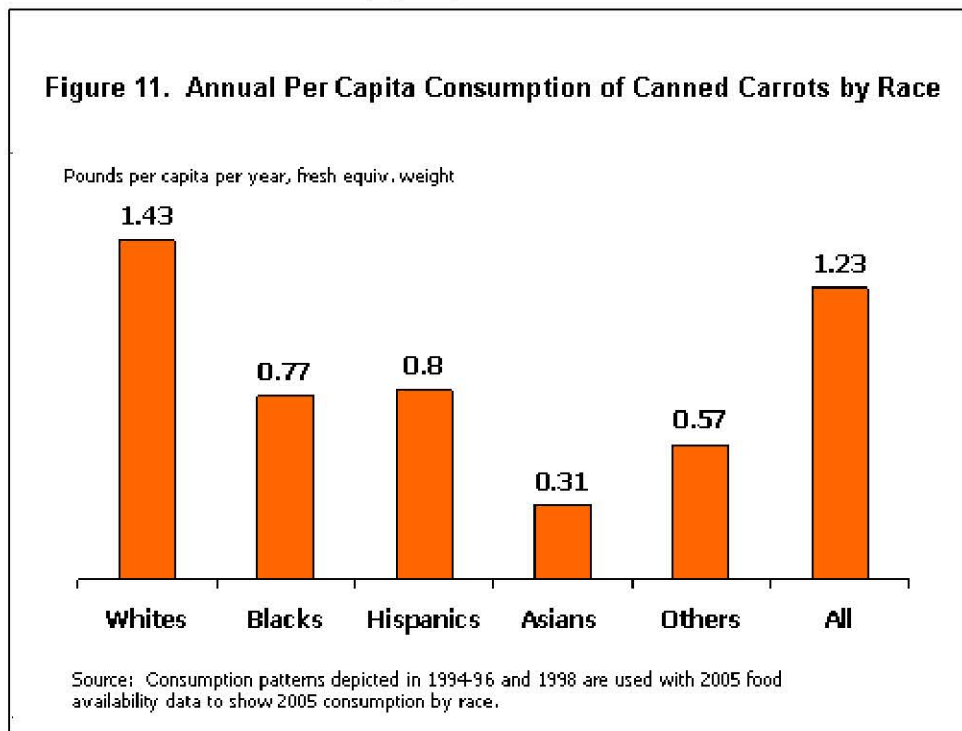
Cucumbers

- The preference for fresh and pickled cucumbers varies by age.
- Men aged 20 to 59 are the largest consumers of pickles, accounting for 27 percent of the U.S. population but consuming 39 percent of pickled cucumbers.
- Seniors consume below the average amount of pickles, likely reflecting their desire to reduce sodium intake.

⁰⁰ The population estimate for Blacks in the 1994-96 survey is from the 1990 Census.

Carrots

- Most processed carrots are consumed at home rather than away from home.
- An estimated 1.55 pounds of fresh-equivalent canned carrots are consumed per capita in 2006, and 86 percent of this amount is consumed at home.
- Restaurants with waiter service account for 7 percent of canned carrot use, followed by 3 percent at school cafeterias.
- At home, individuals living in the southern region consume more canned carrots per capita than individuals in other regions.
- Per capita consumption of canned carrots declines with income and education.
- In 2005, Whites ate more canned carrots at home by a substantial margin than Hispanics, Blacks, and Asians (fig. 11).



- At-home consumption accounts for 90 percent of canned spinach use.
- Canned spinach is favored by older people, those living in the South and West, and those living in rural areas.

Dry beans

- Canned refried pinto beans are distinctly different from other dry beans in terms of where

they are consumed. About 77 percent of all dry beans are consumed at home, whereas 71 percent of canned refried pinto beans are consumed away from home, mostly at fast food outlets (fig. 12).

- Refried pinto bean consumption rises with age and then drops sharply among seniors, reflecting that fact that older Americans are less likely to eat out.
- Canned refried pinto beans are favored by Hispanics, especially Mexican Americans.



Future Trends

How Demographic Shifts May Influence Future Food Choices

The U.S. population is expected to continue to increase, with changes occurring in the number of people in different economic, social, and demographic groups. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. In particular, the racial and ethnic landscape of the U.S. population is undergoing dramatic changes.⁰¹ Two growing groups, Hispanics and Asians, spent the least on canned produce in 2004, whereas

⁰¹ According to the population projections by the U.S. Census Bureau, the White population will decline to 72 percent by 2050, Blacks will increase to 14.6 percent, Asians will more than double to 8 percent, and “all other races” will be 5.3 percent. Hispanics (of any race) will almost double to 24.4 percent.

Whites spent relatively more on canned produce. If these spending patterns continue into the future, the changing demographic landscape suggests a declining spending on canned produce, on a per capita basis. However, with a larger population, the total spending on canned produce in the United States can still increase despite decreased per capita spending. An in-depth analysis is needed to gauge the effects of changing race and ethnic makeup on the future consumption of canned produce.

Americans are getting older, and that aging trend is expected to boost spending on canned produce. Americans are also getting wealthier in the long run, and it has been well-documented that as household income rises, food spending will rise as well.⁰² BLS data indicate that spending on both canned fruits and canned vegetables rises with income. Therefore we would expect per capita consumption of canned fruits and vegetables to increase with rising income and the graying of the U.S. population in the long run.

The American appetite for eating out is also expected to continue growing. Consequently, we expect these changes to affect per capita consumption of fruits and vegetables, by type and processed form. For example, the current demand for canned refried pinto beans, ketchup, and canned sweet corn in the foodservice industry may increase if this trend prevails.

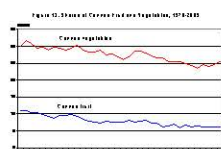
ERS studies of canned produce consumption have not used the more recent survey data because a technical database and programming to convert the amount of foods to their equivalent commodity components have not yet been developed. ERS is currently working with USDA's Agricultural Research Service (ARS) to fill this data void in order to continue estimating the type and amount of food commodities Americans eat and where they are eaten.

Where Will Markets Head in the Future?

Many economic, social, and demographic changes will occur simultaneously. Some will have offsetting effects on the demand for canned fruits and vegetables, making it difficult to predict

⁰² Given current events, such as declining housing prices and rising energy costs, households may not be considered as becoming wealthier in the short term. Our analysis takes the long run approach whereby households have become wealthier in general over time.

the future demand for these products. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables would continue to increase and the canned share of fruits and vegetables would continue to decline (fig. 13). Most of this expected increase in total fruits and vegetables will likely be due to increases in non-canned fruits and vegetables.



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Appendix A: Sources of Data

A1. The Food Availability Data System

The Food Availability data represent the food supply, or the disappearance of food into the food marketing system. In the Food Availability Data System, food available for domestic consumption is calculated as a residual. That is, for a given year, the total supply is the sum of production, imports, and beginning inventories; from this amount, exports, farm and industrial uses, and ending stocks are subtracted, leaving domestic consumption as a residual. USDA collects these data directly from producers, distributors, and government (e.g., for international trade data) using techniques that vary by commodity. These data are not collected from individual consumers, and thus provide an alternative to using consumer surveys to examine food consumption trends.⁰³ Per capita estimates are calculated by dividing the total annual availability for a commodity by the U.S. population for that year. The data measure the food supply of over two-hundred food commodities, such as beef, fresh apples, and eggs.

ERS manages and disseminates the Food Availability data within the Food Availability Data System posted on the ERS website. ERS is the only official source of time series data on the food available for human consumption in the country. Accordingly, the data play a key role in monitoring the potential of the food supply to meet the nutritional needs of Americans and to examine historical consumption trends. Although the Food Availability data series does not directly measure actual quantities ingested, it provides an indication of whether Americans, on average, are consuming more or less of various foods over time. In this report, we use this data series to compare the amount and share of fruits and vegetables that are available fresh or in the different forms of processing (e.g., canned, frozen, juice, and dried) and how these estimates have changed between 1970 and 2005.⁰⁴

In terms of pounds, the total availability of fruit (farm weight) rose 13 percent from 240.7

pounds per capita in 1970 to 272.4 pounds in 2005 (table A1).⁰⁵ Of this amount, the total availability of fruit for canning fell from 26.3 pounds per capita in 1970 to 16.7 pounds in 2005 (a 37 percent decrease).

⁰⁵These estimates are in terms of *farm weight*, which is the weight of a commodity as measured on the farm before further conditioning and processing. The farm weight is essentially the same as the *fresh-weight equivalent*, which is the weight of processed fruits and vegetables converted to an equivalent weight of the fresh produce.

Table A1. Fruit by Type of Processing (Farm Weight): Per Capita Availability, 1970-2005

Year	Fresh ¹	Processing					Total fruit ⁶
		Canning ²	Freezing ³	Dried ⁴	Juice ⁵	Total processed fruit ⁶	
Pounds							
1970	100.8	26.3	3.9	9.8	99.3	139.9	240.7
1971	100.7	26.7	4.0	9.8	103.9	145.0	245.7
1972	94.4	24.2	4.0	7.2	99.6	135.6	229.9
1973	96.7	24.6	4.1	10.1	101.7	141.1	237.8
1974	96.1	24.1	3.3	9.6	108.1	146.0	242.1
1975	101.3	23.6	3.6	10.2	119.4	157.2	258.4
1976	102.0	23.5	3.4	13.4	129.0	169.7	271.6
1977	99.6	24.5	3.3	9.8	115.4	153.6	253.2
1978	103.5	24.1	3.7	8.5	113.1	150.3	253.8
1979	99.7	25.0	3.1	10.0	114.5	153.1	252.8
1980	106.2	24.6	3.3	11.2	123.7	163.5	269.7
1981	103.2	21.0	3.0	9.6	115.4	149.4	252.6
1982	107.8	22.1	3.3	12.0	132.7	170.5	278.3
1983	110.5	20.1	3.3	11.7	117.5	153.0	263.4
1984	112.4	19.7	3.4	12.7	120.7	156.9	269.4
1985	110.5	20.9	3.5	12.8	123.3	160.8	271.3
1986	118.4	21.1	4.1	11.5	121.3	158.3	276.6
1987	121.0	21.0	4.1	12.0	115.8	153.3	274.3
1988	121.2	20.8	4.0	14.9	117.2	157.2	278.5
1989	122.7	21.5	4.6	13.2	98.6	138.2	260.9
1990	116.6	21.0	4.3	12.1	119.0	156.5	273.1
1991	112.6	19.7	4.2	12.2	105.7	142.2	254.7
1992	123.8	22.8	4.6	10.7	119.8	158.5	282.3
1993	122.8	20.5	4.4	12.5	119.4	157.1	280.0
1994	124.9	20.7	4.4	12.7	118.2	156.5	281.4
1995	123.1	17.3	5.2	12.6	125.1	160.6	283.7
1996	126.2	18.5	4.7	11.1	124.5	159.0	285.3
1997	129.8	20.1	4.3	10.6	128.2	163.8	293.6
1998	128.9	17.0	4.5	12.1	121.4	155.4	284.2
1999	130.0	19.2	5.0	10.1	125.0	159.9	289.9
2000	128.4	17.5	4.2	10.4	127.4	159.9	288.3
2001	125.7	17.6	7.1	9.8	110.9	145.7	271.3
2002	126.6	16.7	4.1	10.4	114.9	146.3	272.9
2003	127.9	17.2	5.5	9.9	120.1	153.0	280.9
2004	127.6	16.9	4.9	9.3	112.1	143.6	271.2
2005	125.7	16.7	5.4	10.3	113.8	146.7	272.4

¹Includes apples, apricots, avocados, bananas, cherries, cantaloup, cranberries, grapes, grapefruit, honeydew, kiwifruit, lemons, limes, mangoes, nectarines, oranges, papayas, peaches, pears, pineapples, plums, prunes, strawberries, tangelos, tangerines, temples, and watermelon. ²Includes apples, applesauce, apricots, cherries, olives, peaches, pears, pineapples, plums, and prunes. ³Includes apples, apricots, blackberries, blueberries, boysenberries, cherries, loganberries, peaches, plums, loganberries, peaches, plums, prunes, raspberries, strawberries, and other miscellaneous fruit and berries. ⁴Includes apples, apricots, dates, figs, peaches, pears, prunes, and raisins. ⁵Includes apple, cranberry, grape, grapefruit, lemon, lime, orange, pineapple, and prune juice. ⁶Computed from unrounded data.

Source: USDA/ERS Food Availability Data, last updated Feb. 15, 2007.

In terms of pounds, the annual per capita availability of vegetables increased 23 percent from 336.8 pounds per capita in 1970 to 414.6 pounds in 2005 (table A2). A small part of this increase was due to the 5 percent increase in the availability of vegetables for canning (farm weight), which rose from 100.6 pounds per capita in 1970 to 105.5 pounds in 2005. Increases in fresh and frozen vegetables accounted for more than 90 percent of the increase in total vegetables.

**Table A2. Vegetables by Type of Processing (Farm Weight): Per Capita Availability,
1970-2005**

Year	Fresh ¹	Processing						Total vege- tables ⁶
		Canning ²	Freezing ³	Dried ⁴	Potatoes for chips	Legumes ⁵	Total processed vegetables ⁶	
<i>Pounds</i>								
1970	154.3	100.6	43.8	13.2	17.4	7.5	182.5	336.8
1971	148.0	107.8	45.4	13.8	17.2	7.5	191.6	339.6
1972	151.3	104.5	45.4	13.3	16.7	6.7	186.7	337.9
1973	148.0	98.2	50.6	14.3	16.3	7.9	187.3	335.3
1974	145.9	99.3	51.3	16.1	15.7	6.2	188.5	334.4
1975	148.8	98.0	52.8	16.7	15.5	7.2	190.1	338.9
1976	148.1	103.4	57.8	17.1	15.8	6.9	201.0	349.1
1977	148.6	101.6	59.4	12.7	16.2	6.8	196.8	345.3
1978	143.4	96.6	58.9	13.4	16.5	5.7	191.1	334.5
1979	148.5	100.6	55.5	13.1	16.7	6.9	192.8	341.2
1980	151.4	102.5	51.5	10.5	16.5	5.9	187.0	338.4
1981	145.1	96.9	58.2	11.7	16.6	5.9	189.4	334.4
1982	150.9	95.1	54.4	12.4	17.0	6.8	185.7	336.6
1983	151.3	96.4	55.8	11.6	17.8	6.9	188.6	339.9
1984	156.6	102.6	62.7	11.8	18.0	5.5	200.6	357.1
1985	158.6	99.2	64.5	12.8	17.6	7.6	201.7	360.2
1986	158.6	99.5	64.4	12.8	18.1	7.3	202.2	360.8
1987	165.2	98.9	67.0	12.3	17.6	5.7	201.5	366.7
1988	170.3	94.6	64.2	12.1	17.1	7.5	195.5	365.9
1989	175.6	101.8	67.4	12.4	17.4	6.3	205.3	380.9
1990	170.2	110.6	66.8	14.6	16.4	7.2	215.5	385.7
1991	170.3	112.6	72.4	15.4	17.3	7.9	225.6	395.9
1992	173.9	110.6	70.5	14.3	17.1	8.4	220.8	394.8
1993	180.7	110.1	75.3	15.7	17.7	7.6	226.4	407.1
1994	186.5	109.8	77.5	14.2	16.5	8.2	226.2	412.7
1995	180.9	108.0	78.8	14.5	16.4	8.4	226.2	407.2
1996	185.9	106.3	83.3	17.5	16.4	8.1	231.6	417.5
1997	190.4	105.4	80.0	16.4	15.5	8.3	225.5	416.0
1998	185.7	105.3	80.3	17.6	14.7	8.1	226.0	411.8
1999	192.3	102.8	80.8	14.7	15.9	8.4	222.6	414.9
2000	198.7	103.2	79.3	17.3	15.9	8.5	224.1	422.8
2001	195.6	97.3	78.6	15.8	17.6	7.7	217.0	412.6
2002	194.7	100.7	76.7	15.8	16.5	7.5	217.1	411.8
2003	199.2	101.5	78.3	17.3	17.3	7.3	221.6	420.8
2004	200.3	103.4	78.2	15.3	16.5	6.7	220.0	420.3
2005	197.1	105.5	75.0	14.1	16.0	6.9	217.4	414.6

¹Includes artichokes, asparagus, snap beans, broccoli, cabbage, carrots, cauliflower, celery, sweet corn, cucumbers, eggplant, endive, escarole, garlic, head, romaine, and leaf lettuce, mushrooms, onions, bell peppers, potatoes, radishes, spinach, sweetpotatoes, and tomatoes. ²Includes asparagus, lima beans, snap beans, beets, cabbage, carrots, sweet corn, cucumbers, mushrooms, green peas, chile peppers, potatoes, spinach, tomatoes, and other miscellaneous vegetables. ³Includes asparagus, lima beans, snap beans, broccoli, carrots, cauliflower, sweet corn, green peas, potatoes, spinach and other miscellaneous vegetables. ⁴Includes potatoes and onions. ⁵At this time dry field peas and lentils are not available and therefore not included in the total legumes. ⁶Computed from unrounded data.

Source: USDA/Economic Research Service. Data last updated Feb. 15, 2007.

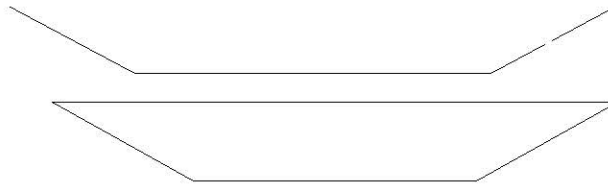
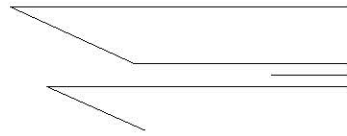
The Food Availability data overstates the amount of food actually ingested by capturing substantial quantities of food lost to human use through waste and spoilage beyond the farm gate in the marketing system and the home. In order to obtain a closer approximation of what Americans, on average, consume over time on an annual and daily basis, a second data series, the Loss-Adjusted Food Availability Data, adjusts the Food Availability data for:

1. Loss from primary (i.e., farm) to retail weight
2. Loss from retail/institutional level to the consumer level (e.g., in supermarkets, megastores like Walmart, and other retail outlets)
3. Loss at the consumer level. This includes losses for food consumed at home and away from home (e.g., restaurants, fastfood outlets etc.) and has two components:
 - (a) “Nonedible share” of a food (e.g., asparagus stalk, apple core). Data on the nonedible share is from the National Nutrient Database for Standard Reference compiled by USDA’s Agricultural Research Service.
 - (b) “Cooking loss and uneaten food such as plate waste” from the edible share.

The goal of accounting for these three general types of losses is that the Loss-Adjusted Food Availability data will more closely approximate actual food intake. In addition to estimates of per capita consumption, the data are presented in two forms:

1. the number of calories available per capita per day, and
2. the number of MyPyramid equivalents available per capita per day which can be used to compare with dietary recommendations for the U.S. population (e.g., Buzby et al., 2007).

Figure A1 illustrates the multistage process that takes the per capita annual estimates for canned sweet corn from the farm to the table.



Each commodity in the Loss-Adjusted Food Availability data has a spreadsheet posted on the ERS website that provides the loss assumptions currently used by ERS (see <http://www.ers.usda.gov/Data/FoodConsumption/FoodGuideIndex.htm>). Additionally, each fruit and vegetable has a separate spreadsheet for each product form. For example, apples have spreadsheets for fresh, frozen, dehydrated/dried, and canned apples as well as a spreadsheet for apples processed into juice. Vegetables do not have tables for juice but have tables for legumes and potatoes processed into chips. The Loss-Adjusted Food Availability data for canned fruits and vegetables are provided in tables 1 and 2 of this report.

It is important to note that like the core Food Availability data, this data series is based on the food that is available for consumption and does not represent data from consumer surveys.⁰⁶ Traditionally, ERS uses the Loss-Adjusted Food Availability Data series to track the dietary status of Americans as compared with Federal dietary recommendations. In this report, however, ERS uses the data to estimate how much of the different kinds of canned fruits and vegetables Americans are consuming over time.

⁰⁶Most consumer surveys of dietary intake cover one or a few years of consumption and most are not nationally representative of the U.S. population. Moreover, time series data on actual consumption by Americans are lacking.

A2. Consumer Expenditure Survey

The Bureau of Labor Statistics conducts the Consumer Expenditure Survey (CEX) and a major objective of the survey is to collect information necessary to construct the Consumer Price Indices. The CEX features two components, each with its own questionnaire and sample:

1. a quarterly interview panel survey in which each of approximately 11,000 households is surveyed every 3 months over a 1-year period
2. a weekly diary survey of approximately 7,800 households that keep an expenditure record for two consecutive 1-week periods. The diary data from 2004 are analyzed in this report.

The diary survey obtains data on small, frequently purchased items that are normally difficult to recall, including food and beverages, tobacco, housekeeping supplies, nonprescription drugs, personal care products and services, fuels, and utilities. The survey excludes expenditures incurred while respondents are away from home for one night or longer. In addition to reporting expenditure, respondents also report data on income, social, and demographic characteristics. Therefore, CEX data are useful to estimate per capita spending on various food and nonfood items by income, social, and demographic characteristics of the U.S. population.

A3. The Food Intake Data

Since 2000, ERS researchers have developed a methodology to analyze food intake survey data to examine the influences of income and demographic factors on the consumption of produce and animal products. Over 20 analyses have been conducted to study the consumption of specific fruits and vegetables (e.g., apples, carrots, and potatoes).⁰⁷ These studies were mostly based on food intake data collected by USDA. USDA has conducted periodic surveys of household and individual food consumption in the United States since the 1930s. During 1994-96 and 1998, the Continuing Survey of Food Intakes by Individuals (CSFII, 1994-96 and 1998) was the last food consumption survey conducted by ARS to collect data on the type and the amount of foods eaten by Americans. In addition to food intake data, ARS also developed the Food Commodity Intake Database (FCID), which provides data on the edible amount of agricultural food commodities contained in each food reported eaten in CSFII.

Besides food intake, CSFII also collects demographic information, such as household size, income, race, age, and gender, and information on where a food was purchased, how it was prepared, and where it was eaten. The data are particularly valuable for measuring the effect of social, economic, and demographic characteristics on food consumption.

The 1994-96 and 1998 CSFII was the last food consumption survey conducted exclusively by USDA. The data have become dated. Currently, USDA is working with the Centers for Disease Control and Prevention to collect food consumption data as part of the National Health and Nutrition Examination Survey (NHANES) conducted by U.S. Department of Health and Human Services (CDC is part of DHHS). Work is underway to develop a Food Commodity Economic Database (a modified FCID database) to continue studying food and commodity consumption using survey data being collected since 1999.

⁰⁷ Whether or not canned products were included in these studies depended on the type of produce. The depth of each analysis depended on the type of publication ERS researchers used to disseminate findings. For example, Commodity Spotlight articles in *Agricultural Outlook* (this publication was later replaced by *Amber Waves*) were short and hence only highlighted selected findings. There were also a number of studies published as ERS Outlook Report articles, which provided more detailed description of produce consumption. These ERS publications are listed in the references of this report and are available on the ERS website—under “Who eats what and where” in <http://www.ers.usda.gov/Briefing/DietQuality/whoeats.htm>. In addition, some of the research findings were published in journals. Interested readers should contact Biing-Hwan Lin (blin@ers.usda.gov) for more information.

Canned Fruit and Vegetable Consumption in the United States

A Report to the United States Congress

September 2008

**The Economic Research Service
United States Department of Agriculture**



Canned Fruit and Vegetable Consumption in the United States: A Report to the United States Congress

Abstract

Senate Report 110-134 requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables.

Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. If current trends prevail, total fruit and vegetable availability will continue to increase but canned fruits and vegetables will account for a declining share of that total. However, there are several divergent and offsetting forces that make it difficult to predict the future demand for canned produce.

Keywords: Canned, consumption, fruit, food availability, food intake, food loss, vegetable

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Summary

Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. If current trends prevail, total fruit and vegetable availability will continue to increase, but canned fruits and vegetables will account for a declining share of that total. However, there are several divergent and offsetting forces that make it difficult to predict the future demand for canned produce.

What Is the Issue?

The Senate Report 110-134 accompanying S. 1859, the 2008 Agriculture Appropriations Bill, requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables.

What Did the Study Find?

American consumers are consuming more produce, and they prefer it non-canned. Using food availability data as a proxy for consumption, the amount of fruit available for consumption rose 13 percent between 1970 and 2005, and the amount of vegetables available for consumption increased 23 percent. Most of these increases were for fresh fruits and vegetables. Although the per capita quantity of canned vegetables increased slightly, canned vegetables' share of total vegetables fell from 30 percent to 25 percent. Per capita availability of canned fruit decreased by 37 percent, and canned fruits' share of total fruit decreased from 11 percent to 6 percent.

Consumer spending for canned produce varies across economic and demographic groups.

Analysis of household spending on both fresh and canned fruits and vegetables shows considerable variation in spending on canned produce and that spending was affected by social and demographic factors. Higher income households tend to spend more per capita on canned fruits and vegetables than do lower income households. The same holds true for households headed by older persons, compared with their younger counterparts. Households with children tend to spend relatively less on canned fruits and vegetables. Hispanic households have lower

expenditures on canned fruits than other ethnic groups. Asians spend the least on canned vegetables, while African Americans spend the most.

Looking ahead, market trends suggest that the share of canned produce in total consumption will continue to decline. However, several divergent forces may affect that outcome. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. Many economic, social, and demographic changes will occur simultaneously, and some will have offsetting effects on the demand for canned fruits and vegetables. For example, a wealthier and older population is likely to spend more on canned fruits and vegetables. However, growth in the Hispanic population, who tend to spend less on canned produce than the rest of the population, may head demand for canned produce in the opposite direction. Consequently, it is difficult to predict the future demand for canned fruits and vegetables. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables will continue to increase and the canned share of fruits and vegetables will continue to decline.

How Was the Study Conducted?

The report is based on data from:

1. ERS Food Availability Data System (see www.ers.usda.gov/Data/FoodConsumption/), the only source of time-series data on the food available for human consumption in the United States. The data system provides proxies for actual consumption. The data for fruits and vegetables are presented in various product forms, including fresh and canned. In this report, ERS analyzes the amounts and shares of fruits and vegetables available for consumption, by product form, as well as the type of canned fruits and vegetables for 1970-2005. (See Appendix A1 for further information on the Food Availability Data System.)
2. U.S. Department of Labor Bureau of Labor Statistics' Consumer Expenditure Survey (CEX) conducted in 2004 (www.bls.gov/cex). The CEX's Diary Survey contains data on

food expenditure for two consecutive weeks. In addition to reporting expenditure, respondents also report data on income, social, and demographic characteristics. The CEX data were used to estimate per-capita spending on various food and non-food items by income, social, and demographic characteristics of the U.S. population. (See Appendix A2 for more information.)

3. USDA Continuing Survey of Food Intakes by Individuals (CSFII) (see www.ars.usda.gov/Services/docs.htm?docid=15044) conducted in 1994-96 and 1998. ERS used these data to describe who eats selected fruits and vegetables, the amount eaten, and where fruits and vegetables are eaten. These studies were reviewed and relevant findings on the consumption of canned fruits and vegetables are summarized here. The CSFII data are dated. But more recent data cannot, at this time, be used to estimate the amount of produce consumed because the programming and data are not available to translate food consumption information back into commodity ingredients. A food and commodity translation database is under development to fill this research need. (See Appendix A3 for a further discussion.)

General Background

The Senate Report 110-134 accompanying S. 1859, the 2008 Agriculture Appropriations Bill, requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables. Here, “canned” refers to traditional airtight shelf-stable metal cans and containers as well as other newer and increasingly popular types of airtight containers, such as single-serving plastic cups. Although ERS has not directly studied consumer perceptions of canned fruits and vegetables, consumer perceptions are reflected by market behavior as indicated by consumption trends over time and across demographic groups. In this report, ERS presents results on canned fruit and vegetable consumption from three data sources.

The United States is among the world’s top producers of fruits and vegetables. In 2006, the United States produced 57 billion pounds of fruit and 126.7 billion pounds of vegetables. Most domestically produced fruits and vegetables are consumed in the United States but the share that is exported is growing. Increased promotion of U.S. fruits and vegetables directed at overseas markets, through efforts such as the USDA’s Market Access Program (<http://www.fas.usda.gov/mos/programs/map.asp>), has likely helped boost foreign sales, particularly to Canada, the largest foreign buyer of U.S. fruits and vegetables. While growth in U.S. fruit exports has been strong, the United States remains a net fruit importer. In 2006, 92 billion pounds of fruit and 129.9 billion pounds of vegetables were available for consumption in the United States when accounting for domestic production, exports, imports, feed and seed use, shrinkage in storage, and beginning and ending stocks (fig. 1).



U.S. fruit and vegetable imports grew during the last two decades and through the 2000s, due in part to the growing population in the United States and the increased demand for new products, such as fruit in single-serving plastic cups. Not only have imports expanded for commodities already produced domestically, creating competition for U.S. producers, but imports have also increased for new items, such as the less traditional types of tropical fruit. In 2006, the United States was the world's largest importer of canned fruit mixtures, accounting for 38 percent of such imports (USITC, 2007). In some cases, U.S. produce is exported in institutional-size metal cans, repackaged into plastic cups or jars in another country, and then imported back to the United States in the form of ready-to-eat products. An example is U.S. canned peach exports to Thailand (USITC, 2007).

Fresh and processed fruits and vegetables are distributed through both retail (e.g., mainly grocery chains) and institutional channels (e.g., hospitals, hotels, prisons, schools, and other foodservice outlets). A large portion of canned peaches, pears, and fruit mixtures is sold to institutional buyers, typically in large containers that are lower priced per pound (USITC, 2007). At retail,

canned fruits and vegetables are typically sold in smaller containers, such as 4-ounce plastic cups or 8-ounce metal cans. Fruits and vegetables, both fresh and processed, are also purchased by the government, such as for USDA's school nutrition programs.

Data on sales of fruits and vegetables to restaurants and other foodservice outlets are not available but data does exist for retail sales. The 2006 Consumer Expenditures Study estimated total retail sales in supermarkets and mass supercenters for food categories with annual sales over \$10 million (Progressive Grocer, 2007).¹ Sales at these outlets were estimated at \$60.3 billion for fresh produce, \$15.8 billion for refrigerated and shelf-stable juice/drinks, \$6.4 billion for canned fruits and vegetables, \$4.9 billion for frozen fruit juice and vegetables, and \$1.8 billion for dried fruit (fig. 2).² Data are unavailable on the value of fruits and vegetables used in mixed, prepared foods like frozen entrées.



¹“The Consumer Expenditures Study is based on data collected by The Nielsen Company for UPC-coded products, as well as sales estimates made by Progressive Grocer's research department for non-tracked categories in perishables and general merchandise” (Progressive Grocer, 2008).

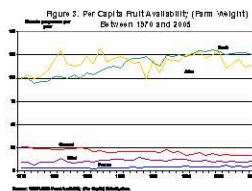
² Juice/drinks were mostly fruit products but included a relatively small amount of vegetable juice, nonalcoholic wine, and clam juice. The data were aggregated so that ERS could not exclude these products.

Consumption Trends for Fruits and Vegetables

The authors used the estimated amounts of canned fruits and vegetables available for consumption in the United States as proxies for actual consumption (see Appendix A1 for further explanation of the data used from the ERS Food Availability Data System).

Canned Fruit Makes Up a Declining Share of Total Fruit

Although the total amount of fruit available for consumption rose 13 percent between 1970 and 2005, the share of canned fruit out of total fruit fell from 11 percent to 6 percent.³ Fresh fruit and juice consistently tallied higher shares than canned fruit though canned fruit maintained a higher share than dried and frozen fruit.



³ Meanwhile, the shares for fruit in fresh, frozen, and juice forms increased between 1970 and 2005. The share of fresh fruit increased the most from 42 to 46 percent. The juice and frozen fruit shares increased by less than 1 percent over this time period and the dried fruit share fell by less than 1 percent. When only looking at total processed fruit, the canned share of total fruit fell from 19 percent in 1970 to 11 percent in 2005 (not shown).

Estimated Consumption of Most Types of Canned Fruits Declined

We use a different data series in the system, the Loss-Adjusted Food Availability Data, when analyzing among the different varieties of canned fruit and vegetables. This series accounts for the amount of food lost at the market and consumer levels (e.g., plate waste and spoilage) in order to obtain a closer approximation of what Americans, on average, consume over time on an annual and daily basis. The estimated amount of canned fruit consumed, per capita, decreased 35 percent between 1970 and 2005. All canned fruit covered in the data decreased during this time period, except for canned olives, which increased by almost fifty percent. Most of the growth in olives is from the increased demand for olives in foodservice channels, such as pizza and fast food chains, restaurants, and hotels, particularly since the 1990s.⁴ One reason for declines in the other canned fruit is that some consumers switched to fresh fruit or other types of processed fruit (e.g., juice).⁵

Canned apples and applesauce were the most popular canned fruit in 2005, followed by peaches and pineapples. Although these three fruits decreased since 1970, they each maintained over a 20 percent share of total canned fruit.

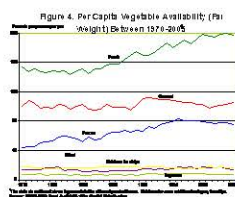
⁴ The sharp growth in per capita canned olive consumption in the U.S. between 1970 and 2005 may be attributed to the large increase in both domestic production and imports. Domestic production averaged 71.5 million pounds (1970/71-1972/73) and imports averaged 95.8 million pounds. For the period 2003/04-2005/06 domestic production averaged 224.9 million pounds and imports averaged 194.3. Spain is our largest supplier of imported canned olives.

⁵ For example, between 1970 and 2005, fresh pear availability rose from 1.1 pounds per capita to 1.8 pounds and fresh pineapples rose from .2 pounds to 1.3 pounds while the amounts of canned pears and pineapples fell.

Canned Vegetables Make Up a Declining Share of Total Vegetables

Between 1970 and 2005, the total availability of vegetables increased by 23 percent and the availability of canned vegetables rose 5 percent. Canned vegetables appear to have been both partially replaced by and supplemented with an increasing amount of fresh and frozen vegetables. As a result, the share of canned vegetables out of total vegetables fell from 30 percent to 25 percent.⁶

During this time period, there was little change in the relative ranking of fresh and processed forms of vegetables. Fresh vegetables consistently made up the highest share of total vegetables. For fruit, juicemaking is the most important type of processing in terms of pounds per year. For vegetables, canning is the most important type of processing, followed by freezing.



⁶Between 1970 and 2005, the share of frozen vegetables rose from 13 percent to 18 percent while the shares of the other three categories remained relatively constant. Fresh vegetables rose 2 percentage points from 46 percent to 48 percent. The canned share of vegetables out of total processed vegetables fell from 55 percent in 1970 to 49 percent in 2005 (not shown).

The Lion's Share of Canned Vegetables are Canned Tomatoes

Once again we used the Loss-Adjusted Food Availability data when estimating consumption among the different varieties of canned vegetables. Estimated consumption of canned vegetables increased by 3 percent between 1970 and 2005, unlike canned fruit, which declined in that time period. Most types of canned vegetables covered in the database decreased between 1970 and 2005 except for canned tomatoes, canned mushrooms, and “other canned” vegetables.

The rise in canned tomatoes added to that vegetable's already dominant share of total canned vegetables. In 2005, the amount of canned tomatoes available for consumption was almost five times higher than the second-ranked canned vegetable, sweet corn. Canned tomatoes include a wide range of products, such as tomato paste, diced tomatoes, and pasta sauce.



Economic Factors Determining Consumer Demand

Americans can now choose among a wider selection of fruits and vegetables year-round than in the past. In 1998, the typical U.S. grocery store carried 345 produce items, compared with 173 in 1987 (Calvin et al., 2001). International trade has helped overcome supply gaps due to seasonality.⁷ Imports also provide U.S. consumers with a larger variety of horticultural products, particularly tropical fruits that cannot be profitably grown in the States. Some of the newer items available to consumers include imported tomato varieties and exotic imports like passion fruit. Demand for convenience, such as for single-serving containers of fruit, has also resulted in a wider array of products available for sale, many of which are from foreign suppliers. In general, increased fruit and vegetable availability could potentially increase the demand for canned produce (see Box 1, “Major Trends and Factors Potentially Affecting the Demand for Canned Fruits and Vegetables”). Processed fruits and vegetables spoil less and tend to have lower handling and transportation costs than fresh versions, thus expanding the reach of geographical markets (Huang, 2004).

Box 1. Major Trends and Factors Potentially Affecting the Demand for Canned Fruits and Vegetables

<u>Trend/factor</u>	<u>Potential direction for demand</u>
↑ Availability of fruits and vegetables (variety, quality)	↑
↓ Price of fruits and vegetables	↑
↑ Increased awareness of nutritional benefits of fruits and vegetables	↑
↑ Eating away from home	↓ (except for some types like canned refried beans)
↑↓ Demographic determinants	↑↓

⁷The United States harvests many kinds of fruits and vegetables for domestic consumption and export during the late summer and early fall. The United States then imports these products from other countries during the remaining months when they are not domestically produced. However, imports can compete with storable U.S. commodities, such as fresh apples and pears, and canned fruit and vegetables.

Source: ERS, March 24, 2008.

International trade has generally lowered prices for many fruits and vegetables and this may increase the demand for these products, including canned versions. International trade has also helped smooth price fluctuations, such as through year-round marketing agreements between wholesalers and retailers. New produce varieties that handle different climates, locations, and pest conditions as well as advances in production, transportation, and handling methods have also played a role in increasing produce availability, maintaining quality, and lowering prices.

Undoubtedly, relative prices of processed fruits and vegetables play a role in which foods consumers purchase. The increase in imported canned fruits and vegetables, new forms of these products, and private-label supplies of traditional canned products has changed the price relationships between products and brands, often diminishing the competitiveness of U.S. canners in the domestic market (USITC, 2007). However, the recent changes in exchange rates have increased the cost of imported produce and made U.S. produce exports more competitive, particularly for more heavily traded types of produce. Exports of canned fruits and vegetables may also increase due to the weakened U.S. dollar.

Encouraging Americans to eat more fruits and vegetables has been a central theme of Federal dietary guidance for the past two decades, in part due to the growing evidence of the health benefits associated with fruit and vegetable consumption. A higher level of education together with an increase in dietary-information campaigns has equipped U.S. consumers with better dietary knowledge and, hence, promoted increased consumption of fruits and vegetables (Lin et al., 2003). One might expect that consumption of all forms of fruits and vegetables, including canned, would increase with greater awareness of the importance of those products in healthy diets.⁸

One of the major dietary trends in the United States is the growing appetite for eating out. In 1970, 26 percent of all food expenditures was spent on food away from home; by 2005, that share rose to 41 percent. A number of factors have contributed to the trend of increased dining

⁸ There appears to be no published study on the effect of dietary knowledge on the consumption of canned fruits and vegetables. However, substantiated health claims appear to have helped increase consumption of some fruit and vegetable products, as well as other foods.

out, including a larger share of women employed outside the home, more two-earner households, higher incomes, more affordable and convenient fast-food outlets, increased advertising and promotion by large foodservice chains, and the smaller size of American households.

Continuation of these economic and demographic trends is expected to keep boosting Americans' preference for eating out. It is not expected that this trend will result in any notable increases in demand for all canned fruits and vegetables, though there may be a few exceptions, such as for canned refried beans, which are already mostly consumed away from home.

Changing economic, social, and demographic characteristics also play a role in shaping consumer preferences for fruits and vegetables, including canned versions. The next section looks at a sample of these characteristics (income, race and ethnicity, region, and age) and consumption of canned fruits and vegetables.

Spending on Fruits and Vegetables

In this report, per-capita spending on canned fruits and vegetables was estimated by using data from the Bureau of Labor Statistics' (BLS) 2004 Consumer Expenditure Survey (see Appendix A2 for a discussion about the survey). This section summarizes the differences in per capita spending by selected social and demographic factors.

High-income households spend more on canned fruits and vegetables

Households are classified into three income groups using the Federal poverty guidelines.⁰⁹

High-income households tend to spend more on canned fruits and vegetables. Spending on canned fruits and vegetables is similar between low- and middle-income groups—the differences are not statistically significant.



⁰⁹The low-income group has income not exceeding 185 percent of the poverty level, the high-income group has income exceeding 300 percent of the poverty level, and the middle-income group has income falling between 185 and 300 percent of the poverty level.

Hispanics spend the least on canned fruits; Blacks spend the most on canned vegetables

Per capita spending on canned fruits and canned vegetables varies greatly by race and ethnicity.

In 2004, Hispanics spent the least on canned fruits, and individuals of “other races” spent the most. Asians spent the least on canned vegetables and Blacks spent the most.

 **Figure 1. Per Capita Spending on Canned Fruits and Vegetables by Race and Ethnicity, 2004**

Individuals living in the South tend to spend more on canned vegetables

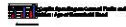
There were regional differences in per capita spending on canned fruits and canned vegetables in 2004. Individuals living in the Northeast spent the least on canned fruits while individuals in the Midwest spent the most. Individuals living in the West spent the least on canned vegetables while individuals in the South spent the most.

Figure 1: Per capita spending on canned fruits and vegetables, by region, 2004

Source: USDA, ERS, Food Expenditure Data


Spending on canned fruits and vegetables rises with the age of household head

Total fruit and vegetable consumption has risen with age in the United States. Young households (head is younger than 40) spent the least on canned fruits, compared with households headed by those aged 40-64 and the oldest households (head is 65 or older). Young households also spent the least on canned vegetables.




Presence of children lowers spending on canned produce

Consistent with the results on age of household head, households with children (age 18 or younger) tend to spend less on canned produce. In 2004, households with children spent less on canned fruits and vegetables than households without children. These findings could also reflect the fact that per capita food spending for children is less than for adults.

 **Canned Fruits and Vegetables**

Presence of senior increases spending on canned produce

In 2004, households with one or more adults aged 65 or over (i.e., “a senior”) spent more on canned fruits and vegetables than households without a senior.

The Quality of Spending on Canned

Source: USDA, Economic Research Service

Demographic Characteristics: Who Eats What, When, and Where

The Bureau of Labor Statistics (BLS) data tell us the spending patterns on canned produce by economic, social, and demographic characteristics. Prices of canned produce vary greatly by the type of produce as well as by product attributes, such as packaging. Therefore, spending more on canned produce may not necessarily mean that a greater quantity of canned produce was purchased.

Data from USDA's food consumption surveys can be used to estimate the amount of canned produce consumed by Americans in different social and demographic groups. Since 2000, ERS researchers have conducted a series of studies combining survey data with availability data to describe who eats produce, how much is eaten, and where it is eaten. These studies were based on 1994-96 and 1998 data. Even though more recent food consumption data have been collected, the recent data cannot be used to estimate the amount of produce consumed (see Appendix A-3 for an explanation and description of the data).

This section highlights findings from 20 ERS published studies pertaining to specific canned fruits and vegetables. Although these findings do not give us a comprehensive story about all types of produce, they provide anecdotal evidence about individual types of fruits and vegetables. These findings show the choices made in the market place and this information reveals consumer preferences, which vary by the type of produce and by product form. That is, purchase decisions for individual commodities are based on income, age, and other demographic factors. However, purchase decisions can also be based on relative prices, availability, and convenience of the different forms (e.g., baby carrots versus canned carrots). Detailed tables and publications are available upon request from Biing-Hwan Lin (blin@ers.usda.gov).

Apples

- Children under the age of 5 eat more applesauce than older children and adults.
- By a substantial margin, Whites consume more applesauce than other individuals.
- Applesauce consumption rose with income.

Tomatoes

- Most processed tomatoes are consumed at home, except ketchup.
- Fast food restaurants account for 34 percent of ketchup use and restaurants with waiter service account for 15 percent.
- Individuals living in the western region eat more tomato sauce and less tomato paste than individuals living in other parts of the United States. The western region accounts for 22 percent of the U.S. population and consumes 25.6 percent of tomato sauce and 20.9 percent of tomato paste.
- Relative to other Americans, Blacks have a preference for ketchup but do not favor tomato juice. Blacks account for 12.6 percent of the U.S. population and consume 14.6 percent of ketchup and 5.8 percent of tomato juice.⁰⁰

Sweet corn

- Sweet corn consumption, on a fresh-equivalent basis, was evenly divided among fresh, frozen, and canned.
- Foodservice uses a larger percentage of frozen and canned sweet corn than fresh sweet corn. The use of prepared frozen and canned corn products is heavily favored in the food service industry to reduce labor costs.

Snap beans

- Consumption of canned snap beans (i.e., green or long beans) is greatest among older Americans (age 60 and above) and weakest among teenagers.

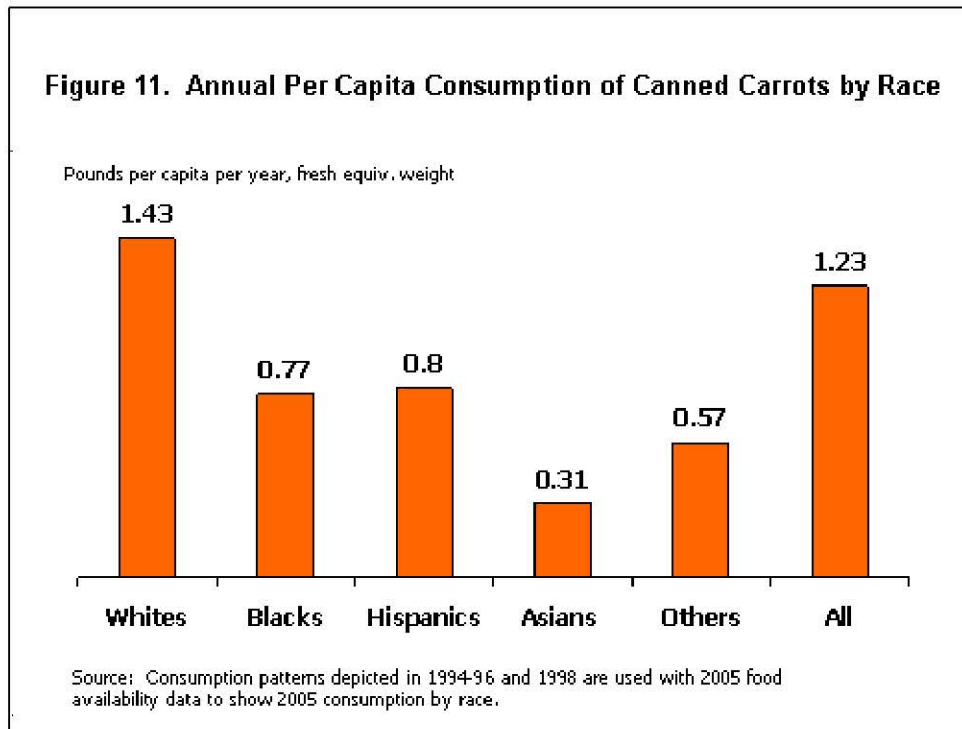
Cucumbers

- The preference for fresh and pickled cucumbers varies by age.
- Men aged 20 to 59 are the largest consumers of pickles, accounting for 27 percent of the U.S. population but consuming 39 percent of pickled cucumbers.
- Seniors consume below the average amount of pickles, likely reflecting their desire to reduce sodium intake.

⁰⁰ The population estimate for Blacks in the 1994-96 survey is from the 1990 Census.

Carrots

- Most processed carrots are consumed at home rather than away from home.
- An estimated 1.55 pounds of fresh-equivalent canned carrots are consumed per capita in 2006, and 86 percent of this amount is consumed at home.
- Restaurants with waiter service account for 7 percent of canned carrot use, followed by 3 percent at school cafeterias.
- At home, individuals living in the southern region consume more canned carrots per capita than individuals in other regions.
- Per capita consumption of canned carrots declines with income and education.
- In 2005, Whites ate more canned carrots at home by a substantial margin than Hispanics, Blacks, and Asians (fig. 11).



- At-home consumption accounts for 90 percent of canned spinach use.
- Canned spinach is favored by older people, those living in the South and West, and those living in rural areas.

Dry beans

- Canned refried pinto beans are distinctly different from other dry beans in terms of where

they are consumed. About 77 percent of all dry beans are consumed at home, whereas 71 percent of canned refried pinto beans are consumed away from home, mostly at fast food outlets (fig. 12).

- Refried pinto bean consumption rises with age and then drops sharply among seniors, reflecting the fact that older Americans are less likely to eat out.
- Canned refried pinto beans are favored by Hispanics, especially Mexican Americans.



Future Trends

How Demographic Shifts May Influence Future Food Choices

The U.S. population is expected to continue to increase, with changes occurring in the number of people in different economic, social, and demographic groups. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. In particular, the racial and ethnic landscape of the U.S. population is undergoing dramatic changes.⁰¹

Two growing groups, Hispanics and Asians, spent the least on canned produce in 2004, whereas

⁰¹ According to the population projections by the U.S. Census Bureau, the White population will decline to 72 percent by 2050, Blacks will increase to 14.6 percent, Asians will more than double to 8 percent, and “all other races” will be 5.3 percent. Hispanics (of any race) will almost double to 24.4 percent.

Whites spent relatively more on canned produce. If these spending patterns continue into the future, the changing demographic landscape suggests a declining spending on canned produce, on a per capita basis. However, with a larger population, the total spending on canned produce in the United States can still increase despite decreased per capita spending. An in-depth analysis is needed to gauge the effects of changing race and ethnic makeup on the future consumption of canned produce.

Americans are getting older, and that aging trend is expected to boost spending on canned produce. Americans are also getting wealthier in the long run, and it has been well-documented that as household income rises, food spending will rise as well.⁰² BLS data indicate that spending on both canned fruits and canned vegetables rises with income. Therefore, we would expect per capita consumption of canned fruits and vegetables to increase with rising income and the graying of the U.S. population in the long run.

The American appetite for eating out is also expected to continue growing. Consequently, we expect these changes to affect per capita consumption of fruits and vegetables, by type and processed form. For example, the current demand for canned refried pinto beans, ketchup, and canned sweet corn in the foodservice industry may increase if this trend prevails.

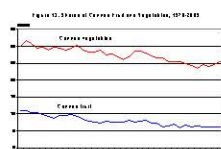
ERS studies of canned produce consumption have not used the more recent survey data because a technical database and programming to convert the amount of foods to their equivalent commodity components have not yet been developed. ERS is currently working with USDA's Agricultural Research Service (ARS) to fill this data void in order to continue estimating the type and amount of food commodities Americans eat and where they are eaten.

Where Will Markets Head in the Future?

Many economic, social, and demographic changes will occur simultaneously. Some will have offsetting effects on the demand for canned fruits and vegetables, making it difficult to predict

⁰² Given current events, such as declining housing prices and rising energy costs, households may not be considered as becoming wealthier in the short term. Our analysis takes the long run approach whereby households have become wealthier in general over time.

the future demand for these products. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables would continue to increase and the canned share of fruits and vegetables would continue to decline (fig. 13). Most of this expected increase in total fruits and vegetables will likely be due to increases in non-canned fruits and vegetables.



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Appendix A: Sources of Data

A1. The Food Availability Data System

The Food Availability data represent the food supply, or the disappearance of food into the food marketing system. In the Food Availability Data System, food available for domestic consumption is calculated as a residual. That is, for a given year, the total supply is the sum of production, imports, and beginning inventories; from this amount, exports, farm and industrial uses, and ending stocks are subtracted, leaving domestic consumption as a residual. USDA collects these data directly from producers, distributors, and government (e.g., for international trade data) using techniques that vary by commodity. These data are not collected from individual consumers, and thus provide an alternative to using consumer surveys to examine food consumption trends.⁰³ Per capita estimates are calculated by dividing the total annual availability for a commodity by the U.S. population for that year. The data measure the food supply of over two-hundred food commodities, such as beef, fresh apples, and eggs.

ERS manages and disseminates the Food Availability data within the Food Availability Data System posted on the ERS website. ERS is the only official source of time series data on the food available for human consumption in the country. Accordingly, the data play a key role in monitoring the potential of the food supply to meet the nutritional needs of Americans and to examine historical consumption trends. Although the Food Availability data series does not directly measure actual quantities ingested, it provides an indication of whether Americans, on average, are consuming more or less of various foods over time. In this report, we use this data series to compare the amount and share of fruits and vegetables that are available fresh or in the different forms of processing (e.g., canned, frozen, juice, and dried) and how these estimates have changed between 1970 and 2005.⁰⁴

In terms of pounds, the total availability of fruit (farm weight) rose 13 percent from 240.7

pounds per capita in 1970 to 272.4 pounds in 2005 (table A1).⁰⁵ Of this amount, the total availability of fruit for canning fell from 26.3 pounds per capita in 1970 to 16.7 pounds in 2005 (a 37 percent decrease).

⁰⁵These estimates are in terms of *farm weight*, which is the weight of a commodity as measured on the farm before further conditioning and processing. The farm weight is essentially the same as the *fresh-weight equivalent*, which is the weight of processed fruits and vegetables converted to an equivalent weight of the fresh produce.

**Table A1. Fruit by Type of Processing (Farm Weight): Per Capita Availability,
1970-2005**

Year	Fresh ¹	Processing					Total fruit ⁶
		Canning ²	Freezing ³	Dried ⁴	Juice ⁵	Total processed fruit ⁶	
Pounds							
1970	100.8	26.3	3.9	9.8	99.3	139.9	240.7
1971	100.7	26.7	4.0	9.8	103.9	145.0	245.7
1972	94.4	24.2	4.0	7.2	99.6	135.6	229.9
1973	96.7	24.6	4.1	10.1	101.7	141.1	237.8
1974	96.1	24.1	3.3	9.6	108.1	146.0	242.1
1975	101.3	23.6	3.6	10.2	119.4	157.2	258.4
1976	102.0	23.5	3.4	13.4	129.0	169.7	271.6
1977	99.6	24.5	3.3	9.8	115.4	153.6	253.2
1978	103.5	24.1	3.7	8.5	113.1	150.3	253.8
1979	99.7	25.0	3.1	10.0	114.5	153.1	252.8
1980	106.2	24.6	3.3	11.2	123.7	163.5	269.7
1981	103.2	21.0	3.0	9.6	115.4	149.4	252.6
1982	107.8	22.1	3.3	12.0	132.7	170.5	278.3
1983	110.5	20.1	3.3	11.7	117.5	153.0	263.4
1984	112.4	19.7	3.4	12.7	120.7	156.9	269.4
1985	110.5	20.9	3.5	12.8	123.3	160.8	271.3
1986	118.4	21.1	4.1	11.5	121.3	158.3	276.6
1987	121.0	21.0	4.1	12.0	115.8	153.3	274.3
1988	121.2	20.8	4.0	14.9	117.2	157.2	278.5
1989	122.7	21.5	4.6	13.2	98.6	138.2	260.9
1990	116.6	21.0	4.3	12.1	119.0	156.5	273.1
1991	112.6	19.7	4.2	12.2	105.7	142.2	254.7
1992	123.8	22.8	4.6	10.7	119.8	158.5	282.3
1993	122.8	20.5	4.4	12.5	119.4	157.1	280.0
1994	124.9	20.7	4.4	12.7	118.2	156.5	281.4
1995	123.1	17.3	5.2	12.6	125.1	160.6	283.7
1996	126.2	18.5	4.7	11.1	124.5	159.0	285.3
1997	129.8	20.1	4.3	10.6	128.2	163.8	293.6
1998	128.9	17.0	4.5	12.1	121.4	155.4	284.2
1999	130.0	19.2	5.0	10.1	125.0	159.9	289.9
2000	128.4	17.5	4.2	10.4	127.4	159.9	288.3
2001	125.7	17.6	7.1	9.8	110.9	145.7	271.3
2002	126.6	16.7	4.1	10.4	114.9	146.3	272.9
2003	127.9	17.2	5.5	9.9	120.1	153.0	280.9
2004	127.6	16.9	4.9	9.3	112.1	143.6	271.2
2005	125.7	16.7	5.4	10.3	113.8	146.7	272.4

¹Includes apples, apricots, avocados, bananas, cherries, cantaloup, cranberries, grapes, grapefruit, honeydew, kiwifruit, lemons, limes, mangoes, nectarines, oranges, papayas, peaches, pears, pineapples, plums, prunes, strawberries, tangelos, tangerines, temples, and watermelon. ²Includes apples, applesauce, apricots, cherries, olives, peaches, pears, pineapples, plums, and prunes. ³Includes apples, apricots, blackberries, blueberries, boysenberries, cherries, loganberries, peaches, plums, loganberries, peaches, plums, prunes, raspberries, strawberries, and other miscellaneous fruit and berries. ⁴Includes apples, apricots, dates, figs, peaches, pears, prunes, and raisins. ⁵Includes apple, cranberry, grape, grapefruit, lemon, lime, orange, pineapple, and prune juice. ⁶Computed from unrounded data.

Source: USDA/ERS Food Availability Data, last updated Feb. 15, 2007.

In terms of pounds, the annual per capita availability of vegetables increased 23 percent from 336.8 pounds per capita in 1970 to 414.6 pounds in 2005 (table A2). A small part of this increase was due to the 5 percent increase in the availability of vegetables for canning (farm weight), which rose from 100.6 pounds per capita in 1970 to 105.5 pounds in 2005. Increases in fresh and frozen vegetables accounted for more than 90 percent of the increase in total vegetables.

**Table A2. Vegetables by Type of Processing (Farm Weight): Per Capita Availability,
1970-2005**

Year	Fresh ¹	Processing						Total vege- tables ⁶
		Canning ²	Freezing ³	Dried ⁴	Potatoes for chips	Legumes ⁵	Total processed vegetables ⁶	
Pounds								
1970	154.3	100.6	43.8	13.2	17.4	7.5	182.5	336.8
1971	148.0	107.8	45.4	13.8	17.2	7.5	191.6	339.6
1972	151.3	104.5	45.4	13.3	16.7	6.7	186.7	337.9
1973	148.0	98.2	50.6	14.3	16.3	7.9	187.3	335.3
1974	145.9	99.3	51.3	16.1	15.7	6.2	188.5	334.4
1975	148.8	98.0	52.8	16.7	15.5	7.2	190.1	338.9
1976	148.1	103.4	57.8	17.1	15.8	6.9	201.0	349.1
1977	148.6	101.6	59.4	12.7	16.2	6.8	196.8	345.3
1978	143.4	96.6	58.9	13.4	16.5	5.7	191.1	334.5
1979	148.5	100.6	55.5	13.1	16.7	6.9	192.8	341.2
1980	151.4	102.5	51.5	10.5	16.5	5.9	187.0	338.4
1981	145.1	96.9	58.2	11.7	16.6	5.9	189.4	334.4
1982	150.9	95.1	54.4	12.4	17.0	6.8	185.7	336.6
1983	151.3	96.4	55.8	11.6	17.8	6.9	188.6	339.9
1984	156.6	102.6	62.7	11.8	18.0	5.5	200.6	357.1
1985	158.6	99.2	64.5	12.8	17.6	7.6	201.7	360.2
1986	158.6	99.5	64.4	12.8	18.1	7.3	202.2	360.8
1987	165.2	98.9	67.0	12.3	17.6	5.7	201.5	366.7
1988	170.3	94.6	64.2	12.1	17.1	7.5	195.5	365.9
1989	175.6	101.8	67.4	12.4	17.4	6.3	205.3	380.9
1990	170.2	110.6	66.8	14.6	16.4	7.2	215.5	385.7
1991	170.3	112.6	72.4	15.4	17.3	7.9	225.6	395.9
1992	173.9	110.6	70.5	14.3	17.1	8.4	220.8	394.8
1993	180.7	110.1	75.3	15.7	17.7	7.6	226.4	407.1
1994	186.5	109.8	77.5	14.2	16.5	8.2	226.2	412.7
1995	180.9	108.0	78.8	14.5	16.4	8.4	226.2	407.2
1996	185.9	106.3	83.3	17.5	16.4	8.1	231.6	417.5
1997	190.4	105.4	80.0	16.4	15.5	8.3	225.5	416.0
1998	185.7	105.3	80.3	17.6	14.7	8.1	226.0	411.8
1999	192.3	102.8	80.8	14.7	15.9	8.4	222.6	414.9
2000	198.7	103.2	79.3	17.3	15.9	8.5	224.1	422.8
2001	195.6	97.3	78.6	15.8	17.6	7.7	217.0	412.6
2002	194.7	100.7	76.7	15.8	16.5	7.5	217.1	411.8
2003	199.2	101.5	78.3	17.3	17.3	7.3	221.6	420.8
2004	200.3	103.4	78.2	15.3	16.5	6.7	220.0	420.3
2005	197.1	105.5	75.0	14.1	16.0	6.9	217.4	414.6

¹Includes artichokes, asparagus, snap beans, broccoli, cabbage, carrots, cauliflower, celery, sweet corn, cucumbers, eggplant, endive, escarole, garlic, head, romaine, and leaf lettuce, mushrooms, onions, bell peppers, potatoes, radishes, spinach, sweetpotatoes, and tomatoes. ²Includes asparagus, lima beans, snap beans, beets, cabbage, carrots, sweet corn, cucumbers, mushrooms, green peas, chile peppers, potatoes, spinach, tomatoes, and other miscellaneous vegetables. ³Includes asparagus, lima beans, snap beans, broccoli, carrots, cauliflower, sweet corn, green peas, potatoes, spinach and other miscellaneous vegetables. ⁴Includes potatoes and onions. ⁵At this time dry field peas and lentils are not available and therefore not included in the total legumes. ⁶Computed from unrounded data.

Source: USDA/Economic Research Service. Data last updated Feb. 15, 2007.

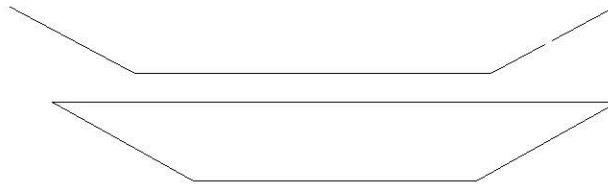
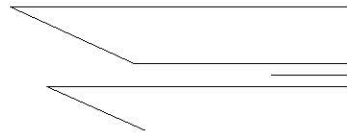
The Food Availability data overstates the amount of food actually ingested by capturing substantial quantities of food lost to human use through waste and spoilage beyond the farm gate in the marketing system and the home. In order to obtain a closer approximation of what Americans, on average, consume over time on an annual and daily basis, a second data series, the Loss-Adjusted Food Availability Data, adjusts the Food Availability data for:

1. Loss from primary (i.e., farm) to retail weight
2. Loss from retail/institutional level to the consumer level (e.g., in supermarkets, megastores like Walmart, and other retail outlets)
3. Loss at the consumer level. This includes losses for food consumed at home and away from home (e.g., restaurants, fastfood outlets etc.) and has two components:
 - (a) “Nonedible share” of a food (e.g., asparagus stalk, apple core). Data on the nonedible share is from the National Nutrient Database for Standard Reference compiled by USDA’s Agricultural Research Service.
 - (b) “Cooking loss and uneaten food such as plate waste” from the edible share.

The goal of accounting for these three general types of losses is that the Loss-Adjusted Food Availability data will more closely approximate actual food intake. In addition to estimates of per capita consumption, the data are presented in two forms:

1. the number of calories available per capita per day, and
2. the number of MyPyramid equivalents available per capita per day which can be used to compare with dietary recommendations for the U.S. population (e.g., Buzby et al., 2007).

Figure A1 illustrates the multistage process that takes the per capita annual estimates for canned sweet corn from the farm to the table.



Each commodity in the Loss-Adjusted Food Availability data has a spreadsheet posted on the ERS website that provides the loss assumptions currently used by ERS (see <http://www.ers.usda.gov/Data/FoodConsumption/FoodGuideIndex.htm>). Additionally, each fruit and vegetable has a separate spreadsheet for each product form. For example, apples have spreadsheets for fresh, frozen, dehydrated/dried, and canned apples as well as a spreadsheet for apples processed into juice. Vegetables do not have tables for juice but have tables for legumes and potatoes processed into chips. The Loss-Adjusted Food Availability data for canned fruits and vegetables are provided in tables 1 and 2 of this report.

It is important to note that like the core Food Availability data, this data series is based on the food that is available for consumption and does not represent data from consumer surveys.⁰⁶ Traditionally, ERS uses the Loss-Adjusted Food Availability Data series to track the dietary status of Americans as compared with Federal dietary recommendations. In this report, however, ERS uses the data to estimate how much of the different kinds of canned fruits and vegetables Americans are consuming over time.

⁰⁶Most consumer surveys of dietary intake cover one or a few years of consumption and most are not nationally representative of the U.S. population. Moreover, time series data on actual consumption by Americans are lacking.

A2. Consumer Expenditure Survey

The Bureau of Labor Statistics conducts the Consumer Expenditure Survey (CEX) and a major objective of the survey is to collect information necessary to construct the Consumer Price Indices. The CEX features two components, each with its own questionnaire and sample:

1. a quarterly interview panel survey in which each of approximately 11,000 households is surveyed every 3 months over a 1-year period.
2. a weekly diary survey of approximately 7,800 households that keep an expenditure record for two consecutive 1-week periods. The diary data from 2004 are analyzed in this report.

The diary survey obtains data on small, frequently purchased items that are normally difficult to recall, including food and beverages, tobacco, housekeeping supplies, nonprescription drugs, personal care products and services, fuels, and utilities. The survey excludes expenditures incurred while respondents are away from home for one night or longer. In addition to reporting expenditure, respondents also report data on income, social, and demographic characteristics. Therefore, CEX data are useful to estimate per capita spending on various food and non-food items by income, social, and demographic characteristics of the U.S. population.

A3. The Food Intake Data

Since 2000, ERS researchers have developed a methodology to analyze food intake survey data to examine the influences of income and demographic factors on the consumption of produce and animal products. Over 20 analyses have been conducted to study the consumption of specific fruits and vegetables (e.g., apples, carrots, and potatoes).⁰⁷ These studies were mostly based on food intake data collected by USDA. USDA has conducted periodic surveys of household and individual food consumption in the United States since the 1930s. During 1994-96 and 1998, the Continuing Survey of Food Intakes by Individuals (CSFII, 1994-96 and 1998) was the last food consumption survey conducted by ARS to collect data on the type and the amount of foods eaten by Americans. In addition to food intake data, ARS also developed the Food Commodity Intake Database (FCID), which provides data on the edible amount of agricultural food commodities contained in each food reported eaten in CSFII.

Besides food intake, CSFII also collects demographic information, such as household size, income, race, age, and gender, and information on where a food was purchased, how it was prepared, and where it was eaten. The data are particularly valuable for measuring the effect of social, economic, and demographic characteristics on food consumption.

The 1994-96 and 1998 CSFII was the last food consumption survey conducted exclusively by USDA. The data have become dated. Currently, USDA is working with the Centers for Disease Control and Prevention to collect food consumption data as part of the National Health and Nutrition Examination Survey (NHANES) conducted by U.S. Department of Health and Human Services (CDC is part of DHHS). Work is underway to develop a Food Commodity Economic Database (a modified FCID database) to continue studying food and commodity consumption using survey data being collected since 1999.

⁰⁷ Whether or not canned products were included in these studies depended on the type of produce. The depth of each analysis depended on the type of publication ERS researchers used to disseminate findings. For example, Commodity Spotlight articles in *Agricultural Outlook* (this publication was later replaced by *Amber Waves*) were short and hence only highlighted selected findings. There were also a number of studies published as ERS Outlook Report articles, which provided more detailed description of produce consumption. These ERS publications are listed in the references of this report and are available on the ERS website—under “Who eats what and where” in <http://www.ers.usda.gov/Briefing/DietQuality/whoeats.htm>. In addition, some of the research findings were published in journals. Interested readers should contact Biing-Hwan Lin (blin@ers.usda.gov) for more information.

United States
Department
of Agriculture



Canned Fruit and Vegetable Consumption in the United States

Report to Congress
September 2008



Canned Fruit and Vegetable Consumption in the United States: A Report to the United States Congress

Abstract

Senate Report 110-134 requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables.

Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. If current trends prevail, total fruit and vegetable availability will continue to increase but canned fruits and vegetables will account for a declining share of that total. However, there are several divergent and offsetting forces that make it difficult to predict the future demand for canned produce.

Keywords: Canned, consumption, fruit, food availability, food intake, food loss, vegetable

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Summary

Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. If current trends prevail, total fruit and vegetable availability will continue to increase, but canned fruits and vegetables will account for a declining share of that total. However, there are several divergent and offsetting forces that make it difficult to predict the future demand for canned produce.

What Is the Issue?

The Senate Report 110-134 accompanying S. 1859, the 2008 Agriculture Appropriations Bill, requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables.

What Did the Study Find?

American consumers are consuming more produce, and they prefer it non-canned. Using food availability data as a proxy for consumption, the amount of fruit available for consumption rose 13 percent between 1970 and 2005, and the amount of vegetables available for consumption increased 23 percent. Most of these increases were for fresh fruits and vegetables. Although the per capita quantity of canned vegetables increased slightly, canned vegetables' share of total vegetables fell from 30 percent to 25 percent. Per capita availability of canned fruit decreased by 37 percent, and canned fruits' share of total fruit decreased from 11 percent to 6 percent.

Consumer spending for canned produce varies across economic and demographic groups.

Analysis of household spending on both fresh and canned fruits and vegetables shows considerable variation in spending on canned produce and that spending was affected by social and demographic factors. Higher income households tend to spend more per capita on canned fruits and vegetables than do lower income households. The same holds true for households headed by older persons, compared with their younger counterparts. Households with children tend to spend relatively less on canned fruits and vegetables. Hispanic households have lower

expenditures on canned fruits than other ethnic groups. Asians spend the least on canned vegetables, while African Americans spend the most.

Looking ahead, market trends suggest that the share of canned produce in total consumption will continue to decline. However, several divergent forces may affect that outcome. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. Many economic, social, and demographic changes will occur simultaneously, and some will have offsetting effects on the demand for canned fruits and vegetables. For example, a wealthier and older population is likely to spend more on canned fruits and vegetables. However, growth in the Hispanic population, who tend to spend less on canned produce than the rest of the population, may head demand for canned produce in the opposite direction. Consequently, it is difficult to predict the future demand for canned fruits and vegetables. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables will continue to increase and the canned share of fruits and vegetables will continue to decline.

How Was the Study Conducted?

The report is based on data from:

1. ERS Food Availability Data System (see www.ers.usda.gov/Data/FoodConsumption/), the only source of time-series data on the food available for human consumption in the United States. The data system provides proxies for actual consumption. The data for fruits and vegetables are presented in various product forms, including fresh and canned. In this report, ERS analyzes the amounts and shares of fruits and vegetables available for consumption, by product form, as well as the type of canned fruits and vegetables for 1970-2005. (See Appendix A1 for further information on the Food Availability Data System.)
2. U.S. Department of Labor Bureau of Labor Statistics' Consumer Expenditure Survey (CEX) conducted in 2004 (www.bls.gov/cex). The CEX's Diary Survey contains data on food expenditure for two consecutive weeks. In addition to reporting expenditure,

respondents also report data on income, social, and demographic characteristics. The CEX data were used to estimate per-capita spending on various food and non-food items by income, social, and demographic characteristics of the U.S. population. (See Appendix A2 for more information.)

3. USDA Continuing Survey of Food Intakes by Individuals (CSFII) (see www.ars.usda.gov/Services/docs.htm?docid=15044) conducted in 1994-96 and 1998. ERS used these data to describe who eats selected fruits and vegetables, the amount eaten, and where fruits and vegetables are eaten. These studies were reviewed and relevant findings on the consumption of canned fruits and vegetables are summarized here. The CSFII data are dated. But more recent data cannot, at this time, be used to estimate the amount of produce consumed because the programming and data are not available to translate food consumption information back into commodity ingredients. A food and commodity translation database is under development to fill this research need. (See Appendix A3 for a further discussion.)

General Background

The Senate Report 110-134 accompanying S. 1859, the 2008 Agriculture Appropriations Bill, requested that the Economic Research Service prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables. Here, “canned” refers to traditional airtight shelf-stable metal cans and containers as well as other newer and increasingly popular types of airtight containers, such as single-serving plastic cups. Although ERS has not directly studied consumer perceptions of canned fruits and vegetables, consumer perceptions are reflected by market behavior as indicated by consumption trends over time and across demographic groups. In this report, ERS presents results on canned fruit and vegetable consumption from three data sources.

The United States is among the world’s top producers of fruits and vegetables. In 2006, the United States produced 57 billion pounds of fruit and 126.7 billion pounds of vegetables. Most domestically produced fruits and vegetables are consumed in the United States but the share that is exported is growing. Increased promotion of U.S. fruits and vegetables directed at overseas markets, through efforts such as the USDA’s Market Access Program (<http://www.fas.usda.gov/mos/programs/map.asp>), has likely helped boost foreign sales, particularly to Canada, the largest foreign buyer of U.S. fruits and vegetables. While growth in U.S. fruit exports has been strong, the United States remains a net fruit importer. In 2006, 92 billion pounds of fruit and 129.9 billion pounds of vegetables were available for consumption in the United States when accounting for domestic production, exports, imports, feed and seed use, shrinkage in storage, and beginning and ending stocks (fig. 1).



U.S. fruit and vegetable imports grew during the last two decades and through the 2000s, due in part to the growing population in the United States and the increased demand for new products, such as fruit in single-serving plastic cups. Not only have imports expanded for commodities already produced domestically, creating competition for U.S. producers, but imports have also increased for new items, such as the less traditional types of tropical fruit. In 2006, the United States was the world's largest importer of canned fruit mixtures, accounting for 38 percent of such imports (USITC, 2007). In some cases, U.S. produce is exported in institutional-size metal cans, repackaged into plastic cups or jars in another country, and then imported back to the United States in the form of ready-to-eat products. An example is U.S. canned peach exports to Thailand (USITC, 2007).

Fresh and processed fruits and vegetables are distributed through both retail (e.g., mainly grocery chains) and institutional channels (e.g., hospitals, hotels, prisons, schools, and other foodservice outlets). A large portion of canned peaches, pears, and fruit mixtures is sold to institutional buyers, typically in large containers that are lower priced per pound (USITC, 2007). At retail,

canned fruits and vegetables are typically sold in smaller containers, such as 4-ounce plastic cups or 8-ounce metal cans. Fruits and vegetables, both fresh and processed, are also purchased by the government, such as for USDA's school nutrition programs.

Data on sales of fruits and vegetables to restaurants and other foodservice outlets are not available but data does exist for retail sales. The 2006 Consumer Expenditures Study estimated total retail sales in supermarkets and mass supercenters for food categories with annual sales over \$10 million (Progressive Grocer, 2007).¹ Sales at these outlets were estimated at \$60.3 billion for fresh produce, \$15.8 billion for refrigerated and shelf-stable juice/drinks, \$6.4 billion for canned fruits and vegetables, \$4.9 billion for frozen fruit juice and vegetables, and \$1.8 billion for dried fruit (fig. 2).² Data are unavailable on the value of fruits and vegetables used in mixed, prepared foods like frozen entrées.



¹“The Consumer Expenditures Study is based on data collected by The Nielsen Company for UPC-coded products, as well as sales estimates made by Progressive Grocer's research department for non-tracked categories in perishables and general merchandise” (Progressive Grocer, 2008).

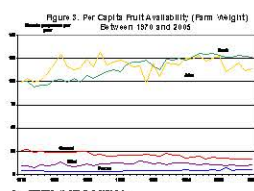
² Juice/drinks were mostly fruit products but included a relatively small amount of vegetable juice, nonalcoholic wine, and clam juice. The data were aggregated so that ERS could not exclude these products.

Consumption Trends for Fruits and Vegetables

The authors used the estimated amounts of canned fruits and vegetables available for consumption in the United States as proxies for actual consumption (see Appendix A1 for further explanation of the data used from the ERS Food Availability Data System).

Canned Fruit Makes Up a Declining Share of Total Fruit

Although the total amount of fruit available for consumption rose 13 percent between 1970 and 2005, the share of canned fruit out of total fruit fell from 11 percent to 6 percent.³ Fresh fruit and juice consistently tallied higher shares than canned fruit though canned fruit maintained a higher share than dried and frozen fruit.



Estimated Consumption of Most Types of Canned Fruits Declined

³ Meanwhile, the shares for fruit in fresh, frozen, and juice forms increased between 1970 and 2005. The share of fresh fruit increased the most from 42 to 46 percent. The juice and frozen fruit shares increased by less than 1 percent over this time period and the dried fruit share fell by less than 1 percent. When only looking at total processed fruit, the canned share of total fruit fell from 19 percent in 1970 to 11 percent in 2005 (not shown).

We use a different data series in the system, the Loss-Adjusted Food Availability Data, when analyzing among the different varieties of canned fruit and vegetables. This series accounts for the amount of food lost at the market and consumer levels (e.g., plate waste and spoilage) in order to obtain a closer approximation of what Americans, on average, consume over time on an annual and daily basis. The estimated amount of canned fruit consumed, per capita, decreased 35 percent between 1970 and 2005. All canned fruit covered in the data decreased during this time period, except for canned olives, which increased by almost fifty percent. Most of the growth in olives is from the increased demand for olives in foodservice channels, such as pizza and fast food chains, restaurants, and hotels, particularly since the 1990s.⁴ One reason for declines in the other canned fruit is that some consumers switched to fresh fruit or other types of processed fruit (e.g., juice).⁵

Canned apples and applesauce were the most popular canned fruit in 2005, followed by peaches and pineapples. Although these three fruits decreased since 1970, they each maintained over a 20 percent share of total canned fruit.



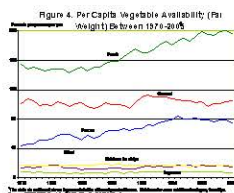
⁴ The sharp growth in per capita canned olive consumption in the U.S. between 1970 and 2005 may be attributed to the large increase in both domestic production and imports. Domestic production averaged 71.5 million pounds (1970/71-1972/73) and imports averaged 95.8 million pounds. For the period 2003/04-2005/06 domestic production averaged 224.9 million pounds and imports averaged 194.3. Spain is our largest supplier of imported canned olives.

⁵ For example, between 1970 and 2005, fresh pear availability rose from 1.1 pounds per capita to 1.8 pounds and fresh pineapples rose from .2 pounds to 1.3 pounds while the amounts of canned pears and pineapples fell.

Canned Vegetables Make Up a Declining Share of Total Vegetables

Between 1970 and 2005, the total availability of vegetables increased by 23 percent and the availability of canned vegetables rose 5 percent. Canned vegetables appear to have been both partially replaced by and supplemented with an increasing amount of fresh and frozen vegetables. As a result, the share of canned vegetables out of total vegetables fell from 30 percent to 25 percent.⁶

During this time period, there was little change in the relative ranking of fresh and processed forms of vegetables. Fresh vegetables consistently made up the highest share of total vegetables. For fruit, juicemaking is the most important type of processing in terms of pounds per year. For vegetables, canning is the most important type of processing, followed by freezing.



The Lion's Share of Canned Vegetables are Canned Tomatoes

⁶Between 1970 and 2005, the share of frozen vegetables rose from 13 percent to 18 percent while the shares of the other three categories remained relatively constant. Fresh vegetables rose 2 percentage points from 46 percent to 48 percent. The canned share of vegetables out of total processed vegetables fell from 55 percent in 1970 to 49 percent in 2005 (not shown).

Once again we used the Loss-Adjusted Food Availability data when estimating consumption among the different varieties of canned vegetables. Estimated consumption of canned vegetables increased by 3 percent between 1970 and 2005, unlike canned fruit, which declined in that time period. Most types of canned vegetables covered in the database decreased between 1970 and 2005 except for canned tomatoes, canned mushrooms, and “other canned” vegetables.

The rise in canned tomatoes added to that vegetable’s already dominant share of total canned vegetables. In 2005, the amount of canned tomatoes available for consumption was almost five times higher than the second-ranked canned vegetable, sweet corn. Canned tomatoes include a wide range of products, such as tomato paste, diced tomatoes, and pasta sauce.



Economic Factors Determining Consumer Demand

Americans can now choose among a wider selection of fruits and vegetables year-round than in the past. In 1998, the typical U.S. grocery store carried 345 produce items, compared with 173 in 1987 (Calvin et al., 2001). International trade has helped overcome supply gaps due to seasonality.⁷ Imports also provide U.S. consumers with a larger variety of horticultural products, particularly tropical fruits that cannot be profitably grown in the States. Some of the newer items available to consumers include imported tomato varieties and exotic imports like passion fruit. Demand for convenience, such as for single-serving containers of fruit, has also resulted in a wider array of products available for sale, many of which are from foreign suppliers. In general, increased fruit and vegetable availability could potentially increase the demand for canned produce (see Box 1, “Major Trends and Factors Potentially Affecting the Demand for Canned Fruits and Vegetables”). Processed fruits and vegetables spoil less and tend to have lower handling and transportation costs than fresh versions, thus expanding the reach of geographical markets (Huang, 2004).

Box 1. Major Trends and Factors Potentially Affecting the Demand for Canned Fruits and Vegetables

<u>Trend/factor</u>	<u>Potential direction for demand</u>
↑ Availability of fruits and vegetables (variety, quality)	↑
↓ Price of fruits and vegetables	↑
↑ Increased awareness of nutritional benefits of fruits and vegetables	↑
↑ Eating away from home	↓ (except for some types like canned refried beans)
↑↓ Demographic determinants	↑↓

Source: ERS, March 24, 2008.

⁷The United States harvests many kinds of fruits and vegetables for domestic consumption and export during the late summer and early fall. The United States then imports these products from other countries during the remaining months when they are not domestically produced. However, imports can compete with storable U.S. commodities, such as fresh apples and pears, and canned fruit and vegetables.

International trade has generally lowered prices for many fruits and vegetables and this may increase the demand for these products, including canned versions. International trade has also helped smooth price fluctuations, such as through year-round marketing agreements between wholesalers and retailers. New produce varieties that handle different climates, locations, and pest conditions as well as advances in production, transportation, and handling methods have also played a role in increasing produce availability, maintaining quality, and lowering prices.

Undoubtedly, relative prices of processed fruits and vegetables play a role in which foods consumers purchase. The increase in imported canned fruits and vegetables, new forms of these products, and private-label supplies of traditional canned products has changed the price relationships between products and brands, often diminishing the competitiveness of U.S. canners in the domestic market (USITC, 2007). However, the recent changes in exchange rates have increased the cost of imported produce and made U.S. produce exports more competitive, particularly for more heavily traded types of produce. Exports of canned fruits and vegetables may also increase due to the weakened U.S. dollar.

Encouraging Americans to eat more fruits and vegetables has been a central theme of Federal dietary guidance for the past two decades, in part due to the growing evidence of the health benefits associated with fruit and vegetable consumption. A higher level of education together with an increase in dietary-information campaigns has equipped U.S. consumers with better dietary knowledge and, hence, promoted increased consumption of fruits and vegetables (Lin et al., 2003). One might expect that consumption of all forms of fruits and vegetables, including canned, would increase with greater awareness of the importance of those products in healthy diets.⁸

One of the major dietary trends in the United States is the growing appetite for eating out. In 1970, 26 percent of all food expenditures was spent on food away from home; by 2005, that share rose to 41 percent. A number of factors have contributed to the trend of increased dining out, including a larger share of women employed outside the home, more two-earner households,

⁸ There appears to be no published study on the effect of dietary knowledge on the consumption of canned fruits and vegetables. However, substantiated health claims appear to have helped increase consumption of some fruit and vegetable products, as well as other foods.

higher incomes, more affordable and convenient fast-food outlets, increased advertising and promotion by large foodservice chains, and the smaller size of American households. Continuation of these economic and demographic trends is expected to keep boosting Americans' preference for eating out. It is not expected that this trend will result in any notable increases in demand for all canned fruits and vegetables, though there may be a few exceptions, such as for canned refried beans, which are already mostly consumed away from home.

Changing economic, social, and demographic characteristics also play a role in shaping consumer preferences for fruits and vegetables, including canned versions. The next section looks at a sample of these characteristics (income, race and ethnicity, region, and age) and consumption of canned fruits and vegetables.

Spending on Fruits and Vegetables

In this report, per capita spending on canned fruits and vegetables was estimated by using data from the Bureau of Labor Statistics' (BLS) 2004 Consumer Expenditure Survey (see Appendix A2 for a discussion about the survey). This section summarizes the differences in per capita spending by selected social and demographic factors.

High-income households spend more on canned fruits and vegetables

Households are classified into three income groups using the Federal poverty guidelines.⁰⁹

High-income households tend to spend more on canned fruits and vegetables. Spending on canned fruits and vegetables is similar between low- and middle-income groups—the differences are not statistically significant.



⁰⁹The low-income group has income not exceeding 185 percent of the poverty level, the high-income group has income exceeding 300 percent of the poverty level, and the middle-income group has income falling between 185 and 300 percent of the poverty level.

Hispanics spend the least on canned fruits; Blacks spend the most on canned vegetables

Per capita spending on canned fruits and canned vegetables varies greatly by race and ethnicity.

In 2004, Hispanics spent the least on canned fruits, and individuals of “other races” spent the most. Asians spent the least on canned vegetables and Blacks spent the most.





Individuals living in the South tend to spend more on canned vegetables

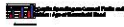
There were regional differences in per capita spending on canned fruits and canned vegetables in 2004. Individuals living in the Northeast spent the least on canned fruits while individuals in the Midwest spent the most. Individuals living in the West spent the least on canned vegetables while individuals in the South spent the most.

Figure 1: Per capita spending on canned fruits and vegetables by region, 2004

Source: USDA, ERS, Food Expenditure Data


Spending on canned fruits and vegetables rises with the age of household head

Total fruit and vegetable consumption has risen with age in the United States. Young households (head is younger than 40) spent the least on canned fruits, compared with households headed by those aged 40-64 and the oldest households (head is 65 or older). Young households also spent the least on canned vegetables.




Presence of children lowers spending on canned produce

Consistent with the results on age of household head, households with children (age 18 or younger) tend to spend less on canned produce. In 2004, households with children spent less on canned fruits and vegetables than households without children. These findings could also reflect the fact that per capita food spending for children is less than for adults.

 **Per Capita Spending on Canned**
Fruits and Vegetables by Gender

Presence of senior increases spending on canned produce

In 2004, households with one or more adults aged 65 or over (i.e., “a senior”) spent more on canned fruits and vegetables than households without a senior.

The Quality of Spending on Canned

Source: USDA, Economic Research Service, 2004

Demographic Characteristics: Who Eats What, When, and Where

The Bureau of Labor Statistics (BLS) data tell us the spending patterns on canned produce by economic, social, and demographic characteristics. Prices of canned produce vary greatly by the type of produce as well as by product attributes, such as packaging. Therefore, spending more on canned produce may not necessarily mean that a greater quantity of canned produce was purchased.

Data from USDA's food consumption surveys can be used to estimate the amount of canned produce consumed by Americans in different social and demographic groups. Since 2000, ERS researchers have conducted a series of studies combining survey data with availability data to describe who eats produce, how much is eaten, and where it is eaten. These studies were based on 1994-96 and 1998 data. Even though more recent food consumption data have been collected, the recent data cannot be used to estimate the amount of produce consumed (see Appendix A-3 for an explanation and description of the data).

This section highlights findings from 20 ERS published studies pertaining to specific canned fruits and vegetables. Although these findings do not give us a comprehensive story about all types of produce, they provide anecdotal evidence about individual types of fruits and vegetables. These findings show the choices made in the market place and this information reveals consumer preferences, which vary by the type of produce and by product form. That is, purchase decisions for individual commodities are based on income, age, and other demographic factors. However, purchase decisions can also be based on relative prices, availability, and convenience of the different forms (e.g., baby carrots versus canned carrots). Detailed tables and publications are available upon request from Biing-Hwan Lin (blin@ers.usda.gov).

Apples

- Children under the age of 5 eat more applesauce than older children and adults.
- By a substantial margin, Whites consume more applesauce than other individuals.
- Applesauce consumption rose with income.

Tomatoes

- Most processed tomatoes are consumed at home, except ketchup.
- Fast food restaurants account for 34 percent of ketchup use and restaurants with waiter service account for 15 percent.
- Individuals living in the western region eat more tomato sauce and less tomato paste than individuals living in other parts of the United States. The western region accounts for 22 percent of the U.S. population and consumes 25.6 percent of tomato sauce and 20.9 percent of tomato paste.
- Relative to other Americans, Blacks have a preference for ketchup but do not favor tomato juice. Blacks account for 12.6 percent of the U.S. population and consume 14.6 percent of ketchup and 5.8 percent of tomato juice.⁰⁰

Sweet corn

- Sweet corn consumption, on a fresh-equivalent basis, was evenly divided among fresh, frozen, and canned.
- Foodservice uses a larger percentage of frozen and canned sweet corn than fresh sweet corn. The use of prepared frozen and canned corn products is heavily favored in the food service industry to reduce labor costs.

Snap beans

- Consumption of canned snap beans (i.e., green or long beans) is greatest among older Americans (age 60 and above) and weakest among teenagers.

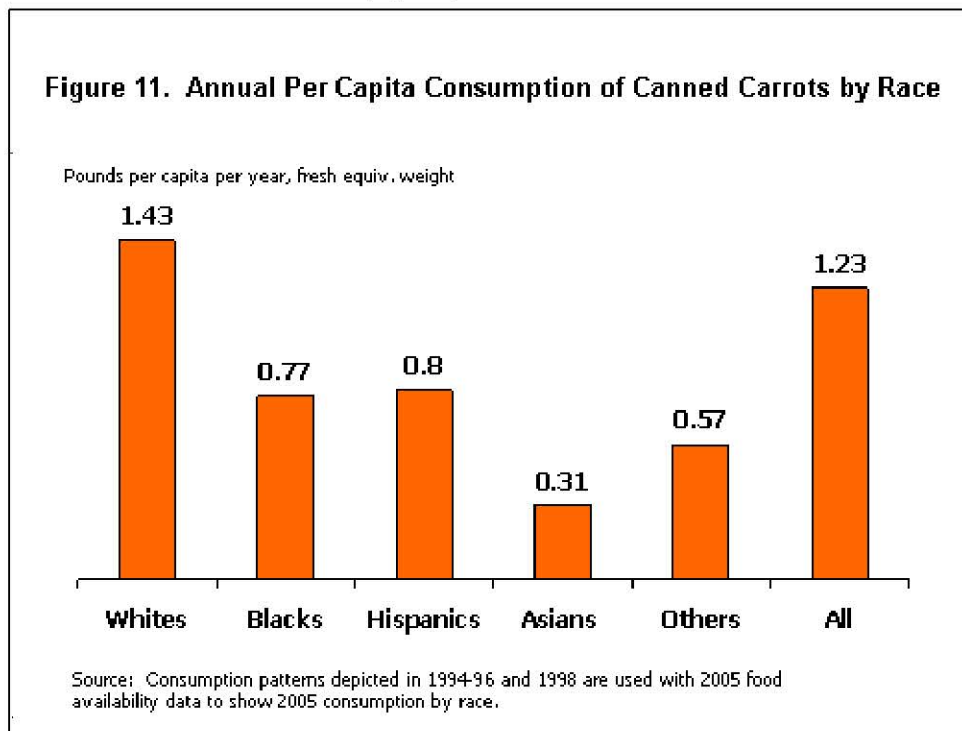
Cucumbers

- The preference for fresh and pickled cucumbers varies by age.
- Men aged 20 to 59 are the largest consumers of pickles, accounting for 27 percent of the U.S. population but consuming 39 percent of pickled cucumbers.
- Seniors consume below the average amount of pickles, likely reflecting their desire to reduce sodium intake.

⁰⁰ The population estimate for Blacks in the 1994-96 survey is from the 1990 Census.

Carrots

- Most processed carrots are consumed at home rather than away from home.
- An estimated 1.55 pounds of fresh-equivalent canned carrots were consumed per capita in 2006, and 86 percent of this amount is consumed at home.
- Restaurants with waiter service account for 7 percent of canned carrot use, followed by 3 percent at school cafeterias.
- At home, individuals living in the southern region consume more canned carrots per capita than individuals in other regions.
- Per capita consumption of canned carrots declines with income and education.
- In 2005, Whites ate more canned carrots at home by a substantial margin than Hispanics, Blacks, and Asians (fig. 11).



- At-home consumption accounts for 90 percent of canned spinach use.
- Canned spinach is favored by older people, those living in the South and West, and those living in rural areas.

Dry beans

- Canned refried pinto beans are distinctly different from other dry beans in terms of where

they are consumed. About 77 percent of all dry beans are consumed at home, whereas 71 percent of canned refried pinto beans are consumed away from home, mostly at fast food outlets (fig. 12).

- Refried pinto bean consumption rises with age and then drops sharply among seniors, reflecting the fact that older Americans are less likely to eat out.
- Canned refried pinto beans are favored by Hispanics, especially Mexican Americans.



Future Trends

How Demographic Shifts May Influence Future Food Choices

The U.S. population is expected to continue to increase, with changes occurring in the number of people in different economic, social, and demographic groups. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. In particular, the racial and ethnic landscape of the U.S. population is undergoing dramatic changes.⁰¹ Two growing groups, Hispanics and Asians, spent the least on canned produce in 2004, whereas Whites spent relatively more on canned produce. If these spending patterns continue into the future, the changing demographic landscape suggests a declining spending on canned produce,

⁰¹ According to the population projections by the U.S. Census Bureau, the White population will decline to 72 percent by 2050, Blacks will increase to 14.6 percent, Asians will more than double to 8 percent, and “all other races” will be 5.3 percent. Hispanics (of any race) will almost double to 24.4 percent.

on a per capita basis. However, with a larger population, the total spending on canned produce in the United States can still increase despite decreased per capita spending. An in-depth analysis is needed to gauge the effects of changing race and ethnic makeup on the future consumption of canned produce.

Americans are getting older, and that aging trend is expected to boost spending on canned produce. Americans are also getting wealthier in the long run, and it has been well-documented that as household income rises, food spending will rise as well.⁰² BLS data indicate that spending on both canned fruits and canned vegetables rises with income. Therefore, we would expect per capita consumption of canned fruits and vegetables to increase with rising income and the graying of the U.S. population in the long run.

The American appetite for eating out is also expected to continue growing. Consequently, we expect these changes to affect per capita consumption of fruits and vegetables, by type and processed form. For example, the current demand for canned refried pinto beans, ketchup, and canned sweet corn in the foodservice industry may increase if this trend prevails.

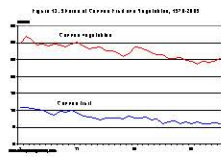
ERS studies of canned produce consumption have not used the more recent survey data because a technical database and programming to convert the amount of foods to their equivalent commodity components have not yet been developed. ERS is currently working with USDA's Agricultural Research Service (ARS) to fill this data void in order to continue estimating the type and amount of food commodities Americans eat and where they are eaten.

Where Will Markets Head in the Future?

Many economic, social, and demographic changes will occur simultaneously. Some will have offsetting effects on the demand for canned fruits and vegetables, making it difficult to predict the future demand for these products. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables would continue to increase and the canned share of fruits and vegetables would continue to decline (fig. 13). Most

⁰² Given current events, such as declining housing prices and rising energy costs, households may not be considered as becoming wealthier in the short term. Our analysis takes the long run approach whereby households have become wealthier in general over time.

of this expected increase in total fruits and vegetables will likely be due to increases in non-canned fruits and vegetables.



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Appendix A: Sources of Data

A1. The Food Availability Data System

The Food Availability data represent the food supply, or the disappearance of food into the food marketing system. In the Food Availability Data System, food available for domestic consumption is calculated as a residual. That is, for a given year, the total supply is the sum of production, imports, and beginning inventories; from this amount, exports, farm and industrial uses, and ending stocks are subtracted, leaving domestic consumption as a residual. USDA collects these data directly from producers, distributors, and government (e.g., for international trade data) using techniques that vary by commodity. These data are not collected from individual consumers, and thus provide an alternative to using consumer surveys to examine food consumption trends.⁰³ Per capita estimates are calculated by dividing the total annual availability for a commodity by the U.S. population for that year. The data measure the food supply of over two hundred food commodities, such as beef, fresh apples, and eggs.

ERS manages and disseminates the Food Availability data within the Food Availability Data System posted on the ERS website. ERS is the only official source of time series data on the food available for human consumption in the country. Accordingly, the data play a key role in monitoring the potential of the food supply to meet the nutritional needs of Americans and to examine historical consumption trends. Although the Food Availability data series does not directly measure actual quantities ingested, it provides an indication of whether Americans, on average, are consuming more or less of various foods over time. In this report, we use this data series to compare the amount and share of fruits and vegetables that are available fresh or in the different forms of processing (e.g., canned, frozen, juice, and dried) and how these estimates have changed between 1970 and 2005.⁰⁴

In terms of pounds, the total availability of fruit (farm weight) rose 13 percent from 240.7 pounds per capita in 1970 to 272.4 pounds in 2005 (table A1).⁰⁵ Of this amount, the total

⁰³Because of the way the data are constructed, the data are available at the national level only and not at the State, county, or regional level. Additionally, the data cannot be broken up by other demographic categories.

⁰⁴Here, canned fruits and vegetables include those fruits and vegetables sold in metal cans, glass containers, or other such packaging that permits the product to be maintained without refrigeration (i.e., shelf-stable). It does not include boxed juice, dried fruits or vegetables (e.g., dried lentils), or potato chips.

⁰⁵For example, the total availability of fruit (farm weight) in 1970 was 240.7 pounds per capita, and in 2005 it was 272.4 pounds per capita.

availability of fruit for canning fell from 26.3 pounds per capita in 1970 to 16.7 pounds in 2005 (a 37 percent decrease).

Table A1. Fruit by Type of Processing (Farm Weight): Per Capita Availability, 1970-2005

Year	Fresh ¹	Processing					Total fruit ⁶
		Canning ²	Freezing ³	Dried ⁴	Juice ⁵	Total processed fruit ⁶	
Pounds							
1970	100.8	26.3	3.9	9.8	99.3	139.9	240.7
1971	100.7	26.7	4.0	9.8	103.9	145.0	245.7
1972	94.4	24.2	4.0	7.2	99.6	135.6	229.9
1973	96.7	24.6	4.1	10.1	101.7	141.1	237.8
1974	96.1	24.1	3.3	9.6	108.1	146.0	242.1
1975	101.3	23.6	3.6	10.2	119.4	157.2	258.4
1976	102.0	23.5	3.4	13.4	129.0	169.7	271.6
1977	99.6	24.5	3.3	9.8	115.4	153.6	253.2
1978	103.5	24.1	3.7	8.5	113.1	150.3	253.8
1979	99.7	25.0	3.1	10.0	114.5	153.1	252.8
1980	106.2	24.6	3.3	11.2	123.7	163.5	269.7
1981	103.2	21.0	3.0	9.6	115.4	149.4	252.6
1982	107.8	22.1	3.3	12.0	132.7	170.5	278.3
1983	110.5	20.1	3.3	11.7	117.5	153.0	263.4
1984	112.4	19.7	3.4	12.7	120.7	156.9	269.4
1985	110.5	20.9	3.5	12.8	123.3	160.8	271.3
1986	118.4	21.1	4.1	11.5	121.3	158.3	276.6
1987	121.0	21.0	4.1	12.0	115.8	153.3	274.3
1988	121.2	20.8	4.0	14.9	117.2	157.2	278.5
1989	122.7	21.5	4.6	13.2	98.6	138.2	260.9
1990	116.6	21.0	4.3	12.1	119.0	156.5	273.1
1991	112.6	19.7	4.2	12.2	105.7	142.2	254.7
1992	123.8	22.8	4.6	10.7	119.8	158.5	282.3
1993	122.8	20.5	4.4	12.5	119.4	157.1	280.0
1994	124.9	20.7	4.4	12.7	118.2	156.5	281.4
1995	123.1	17.3	5.2	12.6	125.1	160.6	283.7
1996	126.2	18.5	4.7	11.1	124.5	159.0	285.3
1997	129.8	20.1	4.3	10.6	128.2	163.8	293.6
1998	128.9	17.0	4.5	12.1	121.4	155.4	284.2
1999	130.0	19.2	5.0	10.1	125.0	159.9	289.9
2000	128.4	17.5	4.2	10.4	127.4	159.9	288.3
2001	125.7	17.6	7.1	9.8	110.9	145.7	271.3
2002	126.6	16.7	4.1	10.4	114.9	146.3	272.9
2003	127.9	17.2	5.5	9.9	120.1	153.0	280.9
2004	127.6	16.9	4.9	9.3	112.1	143.6	271.2
2005	125.7	16.7	5.4	10.3	113.8	146.7	272.4

¹Includes apples, apricots, avocados, bananas, cherries, cantaloupe, cranberries, grapes, grapefruit, honeydew, kiwifruit, lemons, limes, mangoes, nectarines, oranges, papayas, peaches, pears, pineapples, plums, prunes, strawberries, tangelos, tangerines, temples, and watermelon. ²Includes apples, applesauce, apricots, cherries, olives, peaches, pears, pineapples, plums, and prunes. ³Includes apples, apricots, blackberries, blueberries, boysenberries, cherries, loganberries, peaches, plums, loganberries, peaches, plums, prunes, raspberries, strawberries, and other miscellaneous fruit and berries. ⁴Includes apples, apricots, dates, figs, peaches, pears, prunes, and raisins. ⁵Includes apple, cranberry, grape, grapefruit, lemon, lime, orange, pineapple, and prune juice.

⁶Computed from unrounded data.

Source: USDA/ERS Food Availability Data, last updated Feb. 15, 2007.

In terms of pounds, the annual per capita availability of vegetables increased 23 percent from 336.8 pounds per capita in 1970 to 414.6 pounds in 2005 (table A2). A small part of this increase was due to the 5 percent increase in the availability of vegetables for canning (farm weight), which rose from 100.6 pounds per capita in 1970 to 105.5 pounds in 2005. Increases in fresh and frozen vegetables accounted for more than 90 percent of the increase in total vegetables.

Table A2. Vegetables by Type of Processing (Farm Weight): Per Capita Availability, 1970-2005

Year	Fresh ¹	Processing						Total total vege- tables ⁶
		Canning ²	Freezing ³	Dried ⁴	Potatoes for chips	Legumes ⁵	Total processed vegetables ⁶	
Pounds								
1970	154.3	100.6	43.8	13.2	17.4	7.5	182.5	336.8
1971	148.0	107.8	45.4	13.8	17.2	7.5	191.6	339.6
1972	151.3	104.5	45.4	13.3	16.7	6.7	186.7	337.9
1973	148.0	98.2	50.6	14.3	16.3	7.9	187.3	335.3
1974	145.9	99.3	51.3	16.1	15.7	6.2	188.5	334.4
1975	148.8	98.0	52.8	16.7	15.5	7.2	190.1	338.9
1976	148.1	103.4	57.8	17.1	15.8	6.9	201.0	349.1
1977	148.6	101.6	59.4	12.7	16.2	6.8	196.8	345.3
1978	143.4	96.6	58.9	13.4	16.5	5.7	191.1	334.5
1979	148.5	100.6	55.5	13.1	16.7	6.9	192.8	341.2
1980	151.4	102.5	51.5	10.5	16.5	5.9	187.0	338.4
1981	145.1	96.9	58.2	11.7	16.6	5.9	189.4	334.4
1982	150.9	95.1	54.4	12.4	17.0	6.8	185.7	336.6
1983	151.3	96.4	55.8	11.6	17.8	6.9	188.6	339.9
1984	156.6	102.6	62.7	11.8	18.0	5.5	200.6	357.1
1985	158.6	99.2	64.5	12.8	17.6	7.6	201.7	360.2
1986	158.6	99.5	64.4	12.8	18.1	7.3	202.2	360.8
1987	165.2	98.9	67.0	12.3	17.6	5.7	201.5	366.7
1988	170.3	94.6	64.2	12.1	17.1	7.5	195.5	365.9
1989	175.6	101.8	67.4	12.4	17.4	6.3	205.3	380.9
1990	170.2	110.6	66.8	14.6	16.4	7.2	215.5	385.7
1991	170.3	112.6	72.4	15.4	17.3	7.9	225.6	395.9
1992	173.9	110.6	70.5	14.3	17.1	8.4	220.8	394.8
1993	180.7	110.1	75.3	15.7	17.7	7.6	226.4	407.1
1994	186.5	109.8	77.5	14.2	16.5	8.2	226.2	412.7
1995	180.9	108.0	78.8	14.5	16.4	8.4	226.2	407.2
1996	185.9	106.3	83.3	17.5	16.4	8.1	231.6	417.5
1997	190.4	105.4	80.0	16.4	15.5	8.3	225.5	416.0
1998	185.7	105.3	80.3	17.6	14.7	8.1	226.0	411.8
1999	192.3	102.8	80.8	14.7	15.9	8.4	222.6	414.9
2000	198.7	103.2	79.3	17.3	15.9	8.5	224.1	422.8
2001	195.6	97.3	78.6	15.8	17.6	7.7	217.0	412.6
2002	194.7	100.7	76.7	15.8	16.5	7.5	217.1	411.8
2003	199.2	101.5	78.3	17.3	17.3	7.3	221.6	420.8
2004	200.3	103.4	78.2	15.3	16.5	6.7	220.0	420.3
2005	197.1	105.5	75.0	14.1	16.0	6.9	217.4	414.6

¹Includes artichokes, asparagus, snap beans, broccoli, cabbage, carrots, cauliflower, celery, sweet corn, cucumbers, eggplant, endive, escarole, garlic, head, romaine, and leaf lettuce, mushrooms, onions, bell peppers, potatoes, radishes, spinach, sweet potatoes, and tomatoes. ²Includes asparagus, lima beans, snap beans, beets, cabbage, carrots, sweet corn, cucumbers, mushrooms, green peas, chile peppers, potatoes, spinach, tomatoes, and other miscellaneous vegetables. ³Includes asparagus, lima beans, snap beans, broccoli, carrots, cauliflower, sweet corn, green peas, potatoes, spinach and other miscellaneous vegetables. ⁴Includes potatoes and onions. ⁵At this time dry field peas and lentils are not available and therefore not included in the total legumes. ⁶Computed from unrounded data.

Source: USDA/Economic Research Service. Data last updated Feb. 15, 2007.

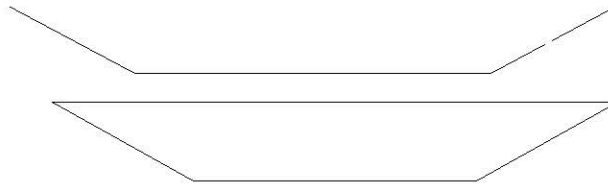
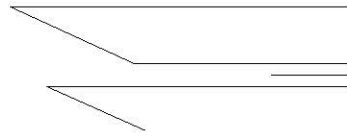
The Food Availability data overstates the amount of food actually ingested by capturing substantial quantities of food lost to human use through waste and spoilage beyond the farm gate in the marketing system and the home. In order to obtain a closer approximation of what Americans, on average, consume over time on an annual and daily basis, a second data series, the Loss-Adjusted Food Availability Data, adjusts the Food Availability data for:

1. Loss from primary (i.e., farm) to retail weight
2. Loss from retail/institutional level to the consumer level (e.g., in supermarkets, megastores like Walmart, and other retail outlets)
3. Loss at the consumer level. This includes losses for food consumed at home and away from home (e.g., restaurants, fastfood outlets etc.) and has two components:
 - (a) “Nonedible share” of a food (e.g., asparagus stalk, apple core). Data on the nonedible share is from the National Nutrient Database for Standard Reference compiled by USDA’s Agricultural Research Service.
 - (b) “Cooking loss and uneaten food such as plate waste” from the edible share.

The goal of accounting for these three general types of losses is that the Loss-Adjusted Food Availability data will more closely approximate actual food intake. In addition to estimates of per capita consumption, the data are presented in two forms:

1. the number of calories available per capita per day, and
2. the number of MyPyramid equivalents available per capita per day which can be used to compare with dietary recommendations for the U.S. population (e.g., Buzby et al., 2007).

Figure A1 illustrates the multistage process that takes the per capita annual estimates for canned sweet corn from the farm to the table.



Each commodity in the Loss-Adjusted Food Availability data has a spreadsheet posted on the ERS website that provides the loss assumptions currently used by ERS (see <http://www.ers.usda.gov/Data/FoodConsumption/FoodGuideIndex.htm>). Additionally, each fruit and vegetable has a separate spreadsheet for each product form. For example, apples have spreadsheets for fresh, frozen, dehydrated/dried, and canned apples as well as a spreadsheet for apples processed into juice. Vegetables do not have tables for juice but have tables for legumes and potatoes processed into chips. The Loss-Adjusted Food Availability data for canned fruits and vegetables are provided in tables 1 and 2 of this report.

It is important to note that like the core Food Availability data, this data series is based on the food that is available for consumption and does not represent data from consumer surveys.⁰⁶ Traditionally, ERS uses the Loss-Adjusted Food Availability Data series to track the dietary status of Americans as compared with Federal dietary recommendations. In this report, however, ERS uses the data to estimate how much of the different kinds of canned fruits and vegetables Americans are consuming over time.

⁰⁶Most consumer surveys of dietary intake cover one or a few years of consumption and most are not nationally representative of the U.S. population. Moreover, time series data on actual consumption by Americans are lacking.

A2. Consumer Expenditure Survey

The Bureau of Labor Statistics conducts the Consumer Expenditure Survey (CEX) and a major objective of the survey is to collect information necessary to construct the Consumer Price Indices. The CEX features two components, each with its own questionnaire and sample:

1. a quarterly interview panel survey in which each of approximately 11,000 households is surveyed every 3 months over a 1-year period
2. a weekly diary survey of approximately 7,800 households that keep an expenditure record for two consecutive 1-week periods. The diary data from 2004 are analyzed in this report.

The diary survey obtains data on small, frequently purchased items that are normally difficult to recall, including food and beverages, tobacco, housekeeping supplies, nonprescription drugs, personal care products and services, fuels, and utilities. The survey excludes expenditures incurred while respondents are away from home for one night or longer. In addition to reporting expenditure, respondents also report data on income, social, and demographic characteristics. Therefore, CEX data are useful to estimate per capita spending on various food and nonfood items by income, social, and demographic characteristics of the U.S. population.

A3. The Food Intake Data

Since 2000, ERS researchers have developed a methodology to analyze food intake survey data to examine the influences of income and demographic factors on the consumption of produce and animal products. Over 20 analyses have been conducted to study the consumption of specific fruits and vegetables (e.g., apples, carrots, and potatoes).⁰⁷ These studies were mostly based on food intake data collected by USDA. USDA has conducted periodic surveys of household and individual food consumption in the United States since the 1930s. During 1994-96 and 1998, the Continuing Survey of Food Intakes by Individuals (CSFII, 1994-96 and 1998) was the last food consumption survey conducted by ARS to collect data on the type and the amount of foods eaten by Americans. In addition to food intake data, ARS also developed the Food Commodity Intake Database (FCID), which provides data on the edible amount of agricultural food commodities contained in each food reported eaten in CSFII.

Besides food intake, CSFII also collects demographic information, such as household size, income, race, age, and gender, and information on where a food was purchased, how it was prepared, and where it was eaten. The data are particularly valuable for measuring the effect of social, economic, and demographic characteristics on food consumption.

The 1994-96 and 1998 CSFII was the last food consumption survey conducted exclusively by USDA. The data have become dated. Currently, USDA is working with the Centers for Disease Control and Prevention to collect food consumption data as part of the National Health and Nutrition Examination Survey (NHANES) conducted by U.S. Department of Health and Human Services (CDC is part of DHHS). Work is underway to develop a Food Commodity Economic Database (a modified FCID database) to continue studying food and commodity consumption using survey data being collected since 1999.

⁰⁷ Whether or not canned products were included in these studies depended on the type of produce. The depth of each analysis depended on the type of publication ERS researchers used to disseminate findings. For example, Commodity Spotlight articles in *Agricultural Outlook* (this publication was later replaced by *Amber Waves*) were short and hence only highlighted selected findings. There were also a number of studies published as ERS Outlook Report articles, which provided more detailed description of produce consumption. These ERS publications are listed in the references of this report and are available on the ERS website—under “Who eats what and where” in <http://www.ers.usda.gov/Briefing/DietQuality/whoeats.htm>. In addition, some of the research findings were published in journals. Interested readers should contact Biing-Hwan Lin (blin@ers.usda.gov) for more information.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

SEP 29 2008

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Senate Report 110-134 accompanying S. 1859, the 2008 Rural Development, Food and Drug and Related Agencies Appropriations Bill, requested that the Economic Research Service (ERS) publish a report regarding consumer perceptions and consumption of canned fruits and vegetables, specifically:

"Canned Fruits and Vegetables- The Committee requests the Economic Research Service to prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables."

Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. Highlights of their findings include:

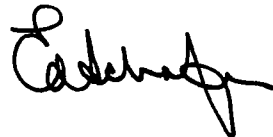
- **American consumers are consuming more produce, and they prefer it non-canned.** Using food availability data as a proxy for consumption, the amount of fruit available for consumption rose 13 percent between 1970 and 2005 and the amount of vegetables available for consumption increased 23 percent. Most of these increases were for fresh fruits and vegetables. Although the per capita quantity of canned vegetables increased slightly, canned vegetables' share of total vegetables fell from 30 percent to 25 percent. Per capita availability of canned fruit decreased by 37 percent, and canned fruits' share of total fruit decreased from 11 percent to 6 percent.
- **Consumer spending for canned produce varies across economic and demographic groups.** Analysis of household spending on both fresh and canned fruits and vegetables shows considerable variation in spending on canned produce and that spending was affected by social and demographic factors. Higher income households tend to spend

more per capita on canned fruits and vegetables than do lower income households. The same holds true for households headed by older persons, compared with their younger counterparts. Households with children tend to spend relatively less on canned fruits and vegetables. Hispanic households have lower expenditures on canned fruits than other ethnic groups. Asians spend the least on canned vegetables, while African Americans spend the most.

- **Looking ahead, market trends suggest that the share of canned produce in total consumption will continue to decline.** However, several divergent forces may affect that outcome. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. Many economic, social, and demographic changes will occur simultaneously and some will have offsetting effects on the demand for canned fruits and vegetables. For example, a wealthier and older population is likely to spend more on canned fruits and vegetables. However, growth in the Hispanic population, who tend to spend less on canned produce than the rest of the population, may head demand for canned produce in the opposite direction. Consequently, it is difficult to predict the future demand for canned fruits and vegetables. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables will continue to increase and the canned share of fruits and vegetables will continue to decline.

ERS researchers would be pleased to provide a briefing to the Committee regarding the report's findings. An identical letter is being sent to Senator Bennett, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Schafer", with a stylized, flowing script.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

SEP 29 2008

The Honorable Robert Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bennett:

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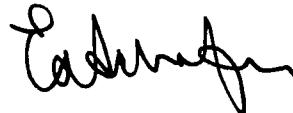
- **American consumers are consuming more produce, and they prefer it non-canned.** Using food availability data as a proxy for consumption, the amount of fruit available for consumption rose 13 percent between 1970 and 2005 and the amount of vegetables available for consumption increased 23 percent. Most of these increases were for fresh fruits and vegetables. Although the per capita quantity of canned vegetables increased slightly, canned vegetables’ share of total vegetables fell from 30 percent to 25 percent. Per capita availability of canned fruit decreased by 37 percent, and canned fruits’ share of total fruit decreased from 11 percent to 6 percent.
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- **Looking ahead, market trends suggest that the share of canned produce in total consumption will continue to decline.** However, several divergent forces may affect that outcome. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. Many economic, social, and demographic changes will occur simultaneously and some will have offsetting effects on the demand for canned fruits and vegetables. For example, a wealthier and older population is likely to spend more on canned fruits and vegetables. However, growth in the Hispanic population, who tend to spend less on canned produce than the rest of the population, may head demand for canned produce in the opposite direction. Consequently, it is difficult to predict the future demand for canned fruits and vegetables. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables will continue to increase and the canned share of fruits and vegetables will continue to decline.

ERS researchers would be pleased to provide a briefing to the Committee regarding the report's findings. An identical letter is being sent to Senator Kohl, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,



Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

SEP 29 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
Room 2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

The Senate Report 110-134 accompanying S. 1859, the 2008 Rural Development, Food and Drug and Related Agencies Appropriations Bill, requested that the Economic Research Service (ERS) publish a report regarding consumer perceptions and consumption of canned fruits and vegetables, specifically:

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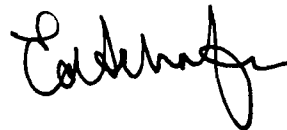
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Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

SEP 29 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

The Senate Report 110-134 accompanying S. 1859, the 2008 Rural Development, Food and Drug and Related Agencies Appropriations Bill, requested that the Economic Research Service (ERS) publish a report regarding consumer perceptions and consumption of canned fruits and vegetables, specifically:

"Canned Fruits and Vegetables- The Committee requests the Economic Research Service to prepare and publish a report regarding consumer perceptions and consumption of canned fruits and vegetables."

Economic Research Service researchers used USDA's food consumption survey data, Bureau of Labor Statistics' Consumer Expenditure Survey data, and the ERS Food Availability Data System to study U.S. consumption of selected fruits and vegetables with available data, including select canned fruits and vegetables. Highlights of their findings include:

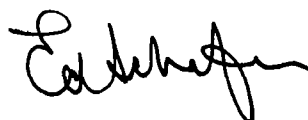
- **American consumers are consuming more produce, and they prefer it non-canned.** Using food availability data as a proxy for consumption, the amount of fruit available for consumption rose 13 percent between 1970 and 2005 and the amount of vegetables available for consumption increased 23 percent. Most of these increases were for fresh fruits and vegetables. Although the per capita quantity of canned vegetables increased slightly, canned vegetables' share of total vegetables fell from 30 percent to 25 percent. Per capita availability of canned fruit decreased by 37 percent, and canned fruits' share of total fruit decreased from 11 percent to 6 percent.
- **Consumer spending for canned produce varies across economic and demographic groups.** Analysis of household spending on both fresh and canned fruits and vegetables shows considerable variation in spending on canned produce and that spending was affected by social and demographic factors. Higher income households tend to spend

more per capita on canned fruits and vegetables than do lower income households. The same holds true for households headed by older persons, compared with their younger counterparts. Households with children tend to spend relatively less on canned fruits and vegetables. Hispanic households have lower expenditures on canned fruits than other ethnic groups. Asians spend the least on canned vegetables, while African Americans spend the most.

- **Looking ahead, market trends suggest that the share of canned produce in total consumption will continue to decline.** However, several divergent forces may affect that outcome. The U.S. population is expected to become wealthier, older, better educated, and more ethnically diverse in the long run. Many economic, social, and demographic changes will occur simultaneously and some will have offsetting effects on the demand for canned fruits and vegetables. For example, a wealthier and older population is likely to spend more on canned fruits and vegetables. However, growth in the Hispanic population, who tend to spend less on canned produce than the rest of the population, may head demand for canned produce in the opposite direction. Consequently, it is difficult to predict the future demand for canned fruits and vegetables. However, if the trends shown in the food availability data prevail in the future, total per capita consumption of fruits and vegetables will continue to increase and the canned share of fruits and vegetables will continue to decline.

ERS researchers would be pleased to provide a briefing to the Committee regarding the report's findings. An identical letter is being sent to Senators Kohl and Bennett, and Congresswoman DeLauro.

Sincerely,



Edward T. Schafer
Secretary

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Senator McConnell:

We are pleased to transmit to Congress the Report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act. The report we have enclosed includes all notifications received of a theft, loss, or release of a select agent or toxin between January 1, 2007, and December 31, 2007.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation.

Your continued support in this critical area of public health, animal and plant health, and national security is greatly appreciated.

Sincerely,

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Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

The Honorable John Boehner
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Boehner:

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Secretary
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U.S. Department of Agriculture



U.S. Department of Health and Human Services

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

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Edward T. Schafer
Secretary
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Michael O. Leavitt
Secretary
Department of Health and Human Services

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U.S. Department of Agriculture



U.S. Department of Health and Human Services

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

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U.S. Department of Agriculture



U.S. Department of Health and Human Services

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Senator Reid:

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Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

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The United States Department of Agriculture
and
The United States Department of Health and Human Services

Report to Congress on Thefts, Losses, or Releases
of Select Agents or Toxins
For Calendar Year 2007

September 2008

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Overview

The Select Agent Programs at the Department of Health and Human Services (HHS) and the Department of Agriculture (USDA) received seventy-one (71) reports of theft, loss (failure to account for a select agent or toxin), or release (occupational exposure or release of a select agent or toxin outside of the primary barriers¹ of the biocontainment area) of a select agent between January 1, 2007 and December 31, 2007. As a result of the follow-up investigations conducted by HHS, USDA, and the Federal Bureau of Investigation (FBI) regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- One (1) confirmed loss of a select agent; and,
- One (1) confirmed release of a select agent.

Thirteen (13) of the seventy-one (71) reports involved apparent non-compliance with the Select Agent Regulations (7 CFR part 331, 9 CFR part 121, 42 CFR part 73). Of these thirteen (13) reports, six (6) reports involving one (1) entity were referred to the HHS Office of Inspector General (OIG) and seven (7) reports² involving five (5) entities were referred to the USDA, Animal and Plant Health Inspection Service, Investigative and Enforcement Services (IES).

Four (4) of the seventy-one (71) reports did not involve a select agent. However, one of the reports was referred to USDA IES for further investigation.

For the remaining sixty-seven (67) of the seventy-one (71) reports received by HHS and USDA, there were nine (9) reports of a possible loss of a select agent and fifty-eight (58) reports of a possible release of a select agent.

Reports of Possible Losses

It is important to note that none of the reported losses were considered by HHS or USDA to be a threat to public, animal, or plant health or safety. Of the nine (9) reports of a possible loss of a select agent:

¹ In interpreting its regulations, the Select Agent Programs use the concept of "primary barrier of containment" found in the 5th edition of *Biosafety in Microbiological and Biomedical Laboratories*. The term "containment" is used in describing safe methods, facilities and equipment for managing infectious materials in the laboratory environment where they are being handled or maintained. Primary containment, the protection of personnel and the immediate laboratory environment from exposure to infectious agents, is provided by both good microbiological technique and the use of appropriate safety equipment. Safety Equipment (Primary Barriers) includes biological safety cabinets (BSCs), enclosed containers, and other engineering controls designed to remove or minimize exposures to hazardous biological materials.

²Three (3) of the seven (7) reports involved one entity.

- There was one (1) confirmed report of a loss of a select agent. This loss involved a package that contained a select agent lost during shipment. After the entity reported the loss of the select agent in transit, the FBI conducted an investigation. The FBI determined that there was no criminal intent because the FBI believed that the package containing the select agent was damaged by the courier and discarded as refuse. This report was referred to the Department of Transportation for further investigation and enforcement.
- One (1) report involved an inventory discrepancy where the entity was able to determine that the vials had been inadvertently autoclaved.
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Reports of Possible Releases

It is important to note that none of the reported releases were considered by HHS or USDA to be a threat to public, animal, or plant health or safety. Of the fifty-eight (58) reports of a possible release of a select agent:

- There was one (1) confirmed report of a release of a select agent. This release was identified by an illness in a laboratorian that occurred as a result her working with *Brucella melitensis* under conditions that failed to protect her from an aerosol exposure. This report involved an apparent non-compliance with the Select Agent Regulations and was referred to HHS OIG for further investigation and enforcement.
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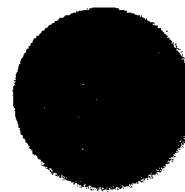
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U.S. Department of Agriculture



U.S. Department of Health and Human Services

OCT - 3 2008

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

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Edward T. Schafer
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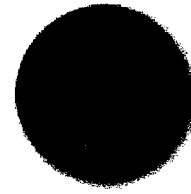
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U.S. Department of Agriculture



U.S. Department of Health and Human Services

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Michael O. Leavitt
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The United States Department of Agriculture
and
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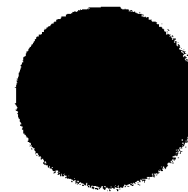
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U.S. Department of Agriculture



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OCT - 3 2008

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Washington, D.C. 20510

Dear Senator McConnell:

We are pleased to transmit to Congress the Report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act. The report we have enclosed includes all notifications received of a theft, loss, or release of a select agent or toxin between January 1, 2007, and December 31, 2007.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation.

Your continued support in this critical area of public health, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure

The United States Department of Agriculture
and
The United States Department of Health and Human Services

Report to Congress on Thefts, Losses, or Releases
of Select Agents or Toxins
For Calendar Year 2007

September 2008

Report to Congress on Thefts, Losses, or Releases of Select Agents or Toxins January 1, 2007 to December 31, 2007

The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188) requires the Secretaries of Health and Human Services and Agriculture to report to Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins (select agents) regulated pursuant to that Act.

Overview

The Select Agent Programs at the Department of Health and Human Services (HHS) and the Department of Agriculture (USDA) received seventy-one (71) reports of theft, loss (failure to account for a select agent or toxin), or release (occupational exposure or release of a select agent or toxin outside of the primary barriers¹ of the biocontainment area) of a select agent between January 1, 2007 and December 31, 2007. As a result of the follow-up investigations conducted by HHS, USDA, and the Federal Bureau of Investigation (FBI) regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- One (1) confirmed loss of a select agent; and,
- One (1) confirmed release of a select agent.

Thirteen (13) of the seventy-one (71) reports involved apparent non-compliance with the Select Agent Regulations (7 CFR part 331, 9 CFR part 121, 42 CFR part 73). Of these thirteen (13) reports, six (6) reports involving one (1) entity were referred to the HHS Office of Inspector General (OIG) and seven (7) reports² involving five (5) entities were referred to the USDA, Animal and Plant Health Inspection Service, Investigative and Enforcement Services (IES).

Four (4) of the seventy-one (71) reports did not involve a select agent. However, one of the reports was referred to USDA IES for further investigation.

For the remaining sixty-seven (67) of the seventy-one (71) reports received by HHS and USDA, there were nine (9) reports of a possible loss of a select agent and fifty-eight (58) reports of a possible release of a select agent.

Reports of Possible Losses

It is important to note that none of the reported losses were considered by HHS or USDA to be a threat to public, animal, or plant health or safety. Of the nine (9) reports of a possible loss of a select agent:

¹ In interpreting its regulations, the Select Agent Programs use the concept of "primary barrier of containment" found in the 5th edition of *Biosafety in Microbiological and Biomedical Laboratories*. The term "containment" is used in describing safe methods, facilities and equipment for managing infectious materials in the laboratory environment where they are being handled or maintained. Primary containment, the protection of personnel and the immediate laboratory environment from exposure to infectious agents, is provided by both good microbiological technique and the use of appropriate safety equipment. Safety Equipment (Primary Barriers) includes biological safety cabinets (BSCs), enclosed containers, and other engineering controls designed to remove or minimize exposures to hazardous biological materials.

²Three (3) of the seven (7) reports involved one entity.

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It is important to note that none of the reported releases were considered by HHS or USDA to be a threat to public, animal, or plant health or safety. Of the fifty-eight (58) reports of a possible release of a select agent:

- There was one (1) confirmed report of a release of a select agent. This release was identified by an illness in a laboratorian that occurred as a result her working with *Brucella melitensis* under conditions that failed to protect her from an aerosol exposure. This report involved an apparent non-compliance with the Select Agent Regulations and was referred to HHS OIG for further investigation and enforcement.
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Summary

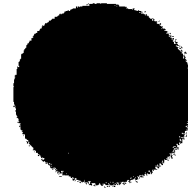
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result of the follow-up investigations conducted by HHS, USDA, and the FBI regarding these reports, it was determined that there were:

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U.S. Department of Agriculture



U.S. Department of Health and Human Services

OCT - 3 2008

The Honorable John Boehner
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Boehner:

We are pleased to transmit to the Congress the Report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act. The report we have enclosed includes all notifications received of a theft, loss, or release of a select agent or toxin between January 1, 2007, and December 31, 2007.

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Your continued support in this critical area of public health, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure

The United States Department of Agriculture
and
The United States Department of Health and Human Services

Report to Congress on Thefts, Losses, or Releases
of Select Agents or Toxins
For Calendar Year 2007

September 2008

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Reports of Possible Losses

It is important to note that none of the reported losses were considered by HHS or USDA to be a threat to public, animal, or plant health or safety. Of the nine (9) reports of a possible loss of a select agent:

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- There was one (1) confirmed report of a loss of a select agent. This loss involved a package that contained a select agent lost during shipment. After the entity reported the loss of the select agent in transit, the FBI conducted an investigation. The FBI determined that there was no criminal intent because the FBI believed that the package containing the select agent was damaged by the courier and discarded as refuse. This report was referred to the Department of Transportation for further investigation and enforcement.
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It is important to note that none of the reported releases were considered by HHS or USDA to be a threat to public, animal, or plant health or safety. Of the fifty-eight (58) reports of a possible release of a select agent:

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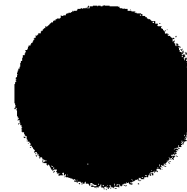
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U.S. Department of Agriculture



U.S. Department of Health and Human Services

OCT - 3 2008

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Senator Reid:

We are pleased to transmit to Congress the Report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

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Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure

The United States Department of Agriculture
and
The United States Department of Health and Human Services

**Report to Congress on Thefts, Losses, or Releases
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For Calendar Year 2007**

September 2008

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January 1, 2007 to December 31, 2007

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

Reports accompanying the FY 2008 Consolidated Appropriations Act request a report that examines the effectiveness of current regulatory and inspection efforts for *Phytophthora ramorum* (*P. ramorum*); the risk from infected plant material; and the risk posed by the importation and interstate movement of *P. ramorum* host plants. In response to this request, we are pleased to submit the enclosed report.

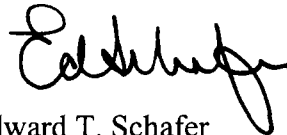
P. ramorum is a highly infectious plant disease that causes Sudden Oak Death (SOD) and threatens 117 trees, shrubs, and plants. It was first detected in the United States in 1995 but did not widely impact the U.S. nursery industry until 2003, when it was detected in nurseries in California, Oregon, and Washington. *P. ramorum* has dramatically affected ecosystems and the landscape of California's coast. It has spread to forested areas of California and Oregon and has been detected in hundreds of U.S. nurseries.

Since FY 2002, the Animal and Plant Health Inspection Service (APHIS) has conducted a regulatory and control program to prevent the artificial (human-assisted) spread of *P. ramorum* from infested areas and reduce the infection level in nurseries. To achieve these goals, the Agency works with officials in California, Oregon, and Washington to establish quarantines, and require nursery inspections before host plants may be shipped interstate. These activities minimize the artificial spread of *P. ramorum* through nursery shipments while allowing healthy plants to move. To date there is no evidence of any disease caused by *P. ramorum* being established outside of the quarantine area as a result of artificial movement. This program has protected the nation's landscape and has safeguarded several industries from enormous potential losses.

The Honorable Rosa DeLauro
Page 2

We appreciate the Committee's interest in this program and stand ready to provide you and your staff with any additional information and briefings you may want. We are sending identical letters to Congressman Kingston, and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Schafer', with a stylized flourish at the end.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Herb Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Reports accompanying the FY 2008 Consolidated Appropriations Act request a report that examines the effectiveness of current regulatory and inspection efforts for *Phytophthora ramorum* (*P. ramorum*); the risk from infected plant material; and the risk posed by the importation and interstate movement of *P. ramorum* host plants. In response to this request, we are pleased to submit the enclosed report.

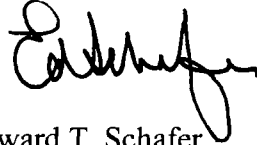
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The Honorable Herb Kohl
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We appreciate the Committee's interest in this program and stand ready to provide you and your staff with any additional information and briefings you may want. We are sending identical letters to Senator Bennett, Congresswoman DeLauro and Congressman Kingston.

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

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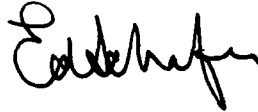
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The Honorable Jack Kingston
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United States Department of Agriculture

Office of the Secretary
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OCT 02 2008

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Ranking Member, Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
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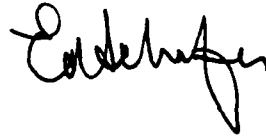
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The Honorable Robert F. Bennett
Page 2

We appreciate the Committee's interest in this program and stand ready to provide you and your staff with any additional information and briefings you may want. We are sending identical letters to Senator Kohl, Congresswoman DeLauro and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Schafer", with a stylized, flowing script.

Edward T. Schafer
Secretary

Enclosure

U.S. Department of Agriculture
Animal and Plant Health Inspection Service
2008 Report on the Status of the *Phytophthora ramorum* Program

P. ramorum is a highly infectious plant disease that causes Sudden Oak Death (SOD) and threatens 117 tree, shrub, and plant species. It was first detected in the United States in 1995 in Marin County, California, but did not widely impact the U.S. nursery industry until 2003. Nevertheless, this pathogen has dramatically affected ecosystems and the landscape along California's coast. It has spread within forests of California and Oregon, and to hundreds of U.S. nurseries. No pathogen has ever spread across so many plant species so quickly. Detection can be difficult, and no practical control measures are known. Once a plant is infected, it must be either burned or double-bagged, and buried. Currently, *P. ramorum* is well established in 14 California counties and also exists in southwest Oregon (Curry County). While *P. ramorum* has not been found in Washington's forest and urban landscapes, it has been found in the State's nurseries.

The Animal and Plant Health Inspection Service (APHIS) conducts a regulatory and control program to prevent the artificial (human-assisted) spread of *P. ramorum* from infested areas and reduce the infection level in nurseries. To achieve these goals, the Agency establishes quarantines and requires nursery inspections before host plants may be shipped interstate. These activities minimize the artificial spread of *P. ramorum* through nursery shipments, the most likely means of transporting the pathogen, while still allowing healthy plants to move. To date, no evidence of any disease caused by *P. ramorum* has been found established outside the quarantine area as a result of artificial movement. This program is designed to eventually eliminate *P. ramorum* from production nurseries. When the pathogen is found in a nursery, the program promptly suspends shipments, intensively surveys the nurseries and vicinity, and investigates the origin and destination of the infected material. Through these efforts, this program protects the nation's landscape and safeguards several industries – primarily forest, horticultural and small fruit agricultural industries – from enormous potential losses.

In 2003, USDA's Forest Service (FS) conducted an assessment on the risk of *P. ramorum* spread in forests. Similarly, APHIS conducted an assessment in 2004 on the risk of *P. ramorum* spread in nurseries. Both assessments found a high risk for spread and the greatest risk for establishment in the eastern States notably through the Appalachians. This risk level is based on *P. ramorum*'s ability to reproduce well and disperse naturally and artificially. In addition, no effective eradication techniques are known. The FS found a high risk for *P. ramorum* establishment in the wild since it was found outside its native distribution area. The FS also cited high reproduction potential due to the number of ports of entry or major destinations that provide a suitable climate and abundant host material. In addition, the FS rated economic risk as high since the disease attacks valuable products, causes tree death, and increases costs for production, mitigation, and regulatory compliance. Environmental risk was also rated as high, based on ecological disruption and biodiversity reduction. Both assessments included risk maps to guide their surveys. These maps indicated that vast numbers of potentially infested shipments were shipped nationwide in 2003 and 2004. However, surveys in eastern States have not

detected any *P. ramorum* infestations outside of nurseries. When the pathogen has been detected in nurseries, APHIS and States have destroyed all plants linked to SOD in affected nurseries, and have instituted quarantines to require nursery inspections before host plants could be sold.

In APHIS' study, the disease level was found to be minimized by pesticides and to have a low infection frequency in the summer. In January 2008, APHIS analyzed several measures to prevent *P. ramorum* and the risk posed by importing and shipping host plants. Several biological factors, including host range and symptom variety, affect the risk of introduction and establishment. This study found a high risk of climate-host interaction since most eastern States have many hosts in suitable climates. The host range was rated as high risk based on the disease's virulence and host's volume. The study also found a high risk of dispersal, since the hosts are abundant and susceptible. Also, the environmental risk was rated as high, since the disease can spread naturally or artificially to areas conducive to establishment. The risk potential for all pathways was rated as high because the pathogen occurs in forests and in regulated articles, and because few effective treatments exist.

APHIS addresses these risks by enforcing quarantines in affected areas, updating the host list as necessary, and amending survey protocols in high-risk situations. In addition, APHIS may conduct follow-up activities to ensure that all instances of *P. ramorum* are detected and addressed promptly. Communication and coordination are vital as well. APHIS communicates regularly with other governmental entities and industry groups involved in the program. In addition, the Agency is working with industry to enforce uniform compliance agreements and implement best management practices (BMPs). Toward this end, APHIS is working to establish a standing science panel to quickly address issues as they arise. In addition, APHIS is developing enhanced diagnostic tools for use by State and university laboratories. For example, APHIS has been developing a field diagnostic test for *P. ramorum* that should be available for use on regulatory samples by the 2009 testing season. This new technology will enable the program to quickly and accurately identify the pathogen in the field.

In November 2007, APHIS conducted a risk analysis to assess the risks of importing *P. ramorum* host plants, and the risks of moving the pathogen domestically through these hosts. This analysis found a high risk associated with both the importation and domestic movement of hosts and host products from infested areas without specified growing, inspection, and certification requirements. APHIS reached this conclusion since *P. ramorum* hosts are widely distributed, abundant, and susceptible. In addition, the pathogen has more than one disease cycle per growing season, infections may remain undetected for years, and there is demonstrated long distance dispersal through trade as well as likely long distance dispersal by natural means. APHIS' analysis identified several major pathways that facilitate the movement of *P. ramorum*, and rated the overall risk potential for all pathways as high. The study noted considerable challenges in devitalizing *P. ramorum* because it occurs in forests and regulated articles, treatment options are limited, and the efficacy of these treatments is limited. Pathway mitigation measures include chemical, physical, and cultural and biological treatments.

To address these risks, APHIS carries out phytosanitary measures to restrict the movement of host plant materials from the European Union. APHIS requires that host plant materials be accompanied by a phytosanitary certificate affirming the origin from a nursery that is tested annually and found free of *P. ramorum*, and that the plants are found free of the pathogen before export. In addition to APHIS' measures, the national plant protection organization (NPPO) of the exporting nation conducts annual surveys of nurseries exporting these materials to ensure that those nurseries are free of *P. ramorum*. Further, the NPPO inspects all host material shipments to the United States, and samples test plants bearing *P. ramorum* symptoms.

Domestically, APHIS has established regulations requiring nurseries in quarantined areas to be tested annually for *P. ramorum* symptoms. These regulations also require inspections before interstate movement. In addition, nurseries in regulated areas of California, Oregon and Washington State must have annual and pre-shipment inspections of host materials before interstate shipment. If the pathogen is detected during any inspection process, APHIS will immediately initiate control efforts. Currently, APHIS is promulgating a rule to enable fall inspections of at-risk nurseries in California, Oregon, and Washington. These nurseries are now inspected only in the spring. The additional inspections will enhance APHIS' capability to rapidly detect and address infested nurseries, and prevent shipments of infected plants. The rule also would lift inspection requirements for nurseries in those States that do not carry host materials. This aspect of the rule would reduce shipment delays, and would enable the Agency to conduct additional inspections where they are most needed.

In addition to regulatory efforts, APHIS is promoting a systems approach to *P. ramorum* management in the three States. Under this approach, at-risk nurseries would adopt BMPs, clean stock programs, or pest-free production areas to preclude or prevent *P. ramorum* establishment in nurseries. APHIS is encouraging nurseries to inspect all incoming stock, monitor nearby host plants for *P. ramorum* symptoms in the spring and summer, and avoid exposing host plants to irrigation and standing water. If nurseries follow these and other practices and comply with State and Federal regulations, they can assure that only high quality healthy plants are shipped. In Oregon, a coalition of the Oregon Department of Agriculture, Oregon State University, and the Oregon Association of Nurseries is conducting a pilot "Grower Assisted Inspection Program" (GAIP). APHIS is supporting the development of this promising program. The GAIP consists of on-line training and a training certification program for growers, BMPs with monitoring to reduce all *Phytophthora* species from nursery production, documentation of efforts and results, and an audit system to validate compliance. Although the California Department of Food and Agriculture has not adopted a complete systems approach, they are establishing a pilot program to evaluate BMPs at select nurseries. This effort is designed to inform nurseries of measures that should reduce the risk of *P. ramorum* introduction and establishment in their nurseries. Washington State has developed training for nursery employees that should mitigate the risk. APHIS would eventually like to harmonize the BMPs used by each of the three States.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE EXECUTIVE SECRETARIAT
WASHINGTON, D.C. 20250

TO: Dale W. Moore, Chief of Staff

SUBJECT: Report on Conferences Sponsored or Held
By or Attended by Employees of USDA

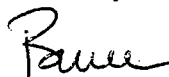
DATE: October 20, 2008

As required by Section 14208 of the 2008 Farm Bill, here is a report to Congress prepared by OCFO on conferences sponsored or held by the Department of Agriculture or attended by employees of the Department of Agriculture. The folder also includes transmittal letters to the Chairs and Ranking Members of the Committees on Agriculture.

The report and transmittal letters were prepared in OCFO, and they have been cleared by OGC, OBPA, Congressional Relations, and OCFO. I note, however, that the enclosure does not seem to have been reviewed by OGC or OBPA.

I forward the report and letters for your consideration, and as appropriate, the Secretary's review and signature.

Thank you.



Bruce G. Bundick
Director

*Ann reviewed
signed 10/21
5580189*



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 21 2008

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
328A Russell Senate Office Building
United States Senate
Washington, D.C. 20510-0001

Dear Senator Chambliss:

In accordance with Section 14208 of the Food, Conservation, and Energy Act of 2008, the Department of Agriculture (USDA) is submitting a report on "conferences sponsored or held by the Department of Agriculture or attended by employees of the Department of Agriculture." A copy of this report is available in a searchable format on USDA's Web site at www.catts.ocfo.usda.gov.

We are sending a similar letter to Chairman Harkin and Congressmen Goodlatte and Peterson.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned above the typed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 21 2008

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
1301 Longworth House Office Building
House of Representatives
Washington, D.C. 20515-6001

Dear Mr. Chairman:

In accordance with Section 14208 of the Food, Conservation, and Energy Act of 2008, the Department of Agriculture (USDA) is submitting a report on "conferences sponsored or held by the Department of Agriculture or attended by employees of the Department of Agriculture." A copy of this report is available in a searchable format on USDA's Web site at www.catts.ocfo.usda.gov.

We are sending a similar letter to Congressman Goodlatte and Senators Harkin and Chambliss.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 21 2008

The Honorable Bob Goodlatte
Ranking Member
Committee on Agriculture
1305 Rayburn House Office Building
House of Representatives
Washington, D.C. 20515-4606

Dear Congressman Goodlatte:

In accordance with Section 14208 of the Food, Conservation, and Energy Act of 2008, the Department of Agriculture (USDA) is submitting a report on "conferences sponsored or held by the Department of Agriculture or attended by employees of the Department of Agriculture." A copy of this report is available in a searchable format on USDA's Web site at www.catts.ocfo.usda.gov.

We are sending a similar letter to Chairman Peterson and Senators Harkin and Chambliss.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure

DEPARTMENT OF AGRICULTURE
OFFICE OF THE EXECUTIVE SECRETARIAT
WASHINGTON, D.C. 20250

TO: Jennifer Cervantes, Deputy Chief of Staff

SUBJECT: PAR Transmittal Letters

DATE: November 13, 2008

Here are the letters from the Secretary that will transmit the printed copies of the Performance and Accountability Report for fiscal year 2008.

These letters were omitted from the signature package that OCFO sent forward yesterday, but they have been in the ECMM folder that was circulated for review and clearance.

We understand that these will not be needed until Monday (or until the paper copies are prepared for submission).

I forward the letters for your consideration and, as appropriate, the Secretary's review and signature.

Thank you.



Bruce G. Bundick
Director

signed 11/13

559 7095 



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2008

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for fiscal year 2008. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission and Execution of the Budget." It also has been provided to the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Mr. President.

Respectfully,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned above the printed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2008

The Honorable Robert Byrd
President Pro Tempore
United States Senate
S-131 Capitol Building
Washington, D.C. 20510

Dear Senator Byrd:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for fiscal year 2008. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission and Execution of the Budget." It also has been provided to the President of the United States, the Speaker of the House of Representatives, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work with you, Senator Byrd, and other leaders in Congress to improve the Department's performance and management and our service to the Nation.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned below the word "Sincerely,".

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2008

The Honorable Nancy Pelosi
Speaker of the House
of Representatives
H-232 Capitol Building
Washington, D.C. 20515

Dear Madam Speaker:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for fiscal year 2008. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission and Execution of the Budget." It also has been provided to the President of the United States, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work with you, Madam Speaker, and other leaders in Congress to improve the Department's performance and management and our service to the Nation.

Sincerely,

A handwritten signature in black ink, which appears to read "Ed Schafer", is positioned above the printed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2008

The Honorable Jim Nussle
Director, Office of Management and Budget
17th Street and Pennsylvania Avenue, NW
Washington, D.C. 20503

Dear Director Nussle:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for fiscal year 2008. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's Circular A-11, "Preparation, Submission and Execution of the Budget." It also has been provided to the President of the United States, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work with you, Mr. Nussle, to improve the Department's performance and management and our service to the Nation.

Sincerely,

A handwritten signature in black ink, which appears to read "Ed Schafer", is positioned above the printed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Chambliss:

This letter transmits the report required by section 1618 of the Food, Conservation, and Energy Act of 2008 (Farm Bill) on the information technology challenges and needs of the Farm Service Agency (FSA). The report was prepared by a third party (BearingPoint) and focuses on the state of FSA information technology (IT) and efforts to stabilize and modernize the systems and processes necessary to deliver farm benefit programs. The report responds to the seven criteria identified in the Farm Bill, including discussion of the need for and benefits of modernization of FSA IT systems.

As BearingPoint identifies in the report, FSA's modernization program, also referred to as MIDAS, is one of the most crucial IT initiatives underway at the U.S. Department of Agriculture (USDA). Presently, the delivery of farm benefit programs relies upon a compilation of various technologies that have been pieced together over time with some dating back to the 1980s. This approach has created tremendous inefficiencies in the benefit program business processes for both USDA employees and program participants. Producers experience a loss of productivity due to the number of trips to their local FSA office required to complete a transaction, and employees must often switch between applications on different platforms to fully service a producer. As FSA conducts around 20 million transactions annually, there is a significant expense associated with these inefficiencies.

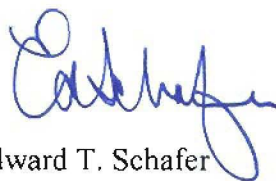
BearingPoint also found that the fragmented system has resulted in reduced reliability and increased security vulnerabilities. As was demonstrated at the end of 2006 and the beginning of 2007 when the Web Farm crashed, system reliability is critical to the continued delivery of farm benefit programs. This lack of reliability resulted in the development of the stabilization efforts presently being implemented. In addition, security vulnerabilities remain in the legacy components of the FSA IT system that increase the chance for fraud and abuse in the delivery of benefit programs. A modernized FSA IT system, in conjunction with USDA's implementation of the Financial Management Modernization Initiative, will greatly improve system security and financial management at USDA.

USDA has put in place measures to ensure consistent planning and oversight of the modernization and stabilization efforts. These measures include: utilizing the System Development Life Cycle approach to project planning and management; creating a MIDAS project management office and hiring a project manager; and establishing a Senior Management Oversight Committee comprised of senior Departmental policy, financial, and technical officials to provide guidance to FSA on IT initiatives. Implementation of these measures has created a structure that will allow USDA to refine the project scope and funding requirements and ensure consistent oversight as MIDAS moves from the initiation phase to full implementation.

USDA's efforts to stabilize and modernize the FSA IT system are directed at ensuring that the mission critical delivery of farm benefit programs continues to be carried out successfully. The funding requested for stabilization and MIDAS will allow USDA to continue operations and move the modernization initiative into the detailed planning and implementation stages. I encourage the Committee to approve our budget proposal to ensure that the necessary resources are made available to USDA to implement the FSA stabilization and modernization plans to achieve the benefits identified in this report. I greatly appreciate the Committee's interest in these FSA IT efforts and the opportunities provided for USDA staff to brief the Committee on these projects. We look forward to continued dialog on these important efforts.

I am sending similar letters to the Committees on Agriculture and to the Committees on Appropriations.

Sincerely,



Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

This letter transmits the report required by section 1618 of the Food, Conservation, and Energy Act of 2008 (Farm Bill) on the information technology challenges and needs of the Farm Service Agency (FSA). The report was prepared by a third party (BearingPoint) and focuses on the state of FSA information technology (IT) and efforts to stabilize and modernize the systems and processes necessary to deliver farm benefit programs. The report responds to the seven criteria identified in the Farm Bill, including discussion of the need for and benefits of modernization of FSA IT systems.

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The Honorable Jack Kingston
Page 2

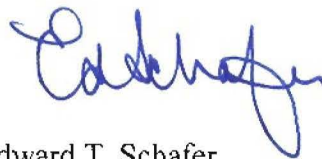
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USDA has put in place measures to ensure consistent planning and oversight of the modernization and stabilization efforts. These measures include: utilizing the System Development Life Cycle approach to project planning and management; creating a MIDAS project management office and hiring a project manager; and establishing a Senior Management Oversight Committee comprised of senior Departmental policy, financial, and technical officials to provide guidance to FSA on IT initiatives. Implementation of these measures has created a structure that will allow USDA to refine the project scope and funding requirements and ensure consistent oversight as MIDAS moves from the initiation phase to full implementation.

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Sincerely,



Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Frank Lucas
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lucas:

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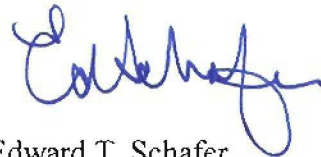
The Honorable Frank Lucas
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Sincerely,



Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Herbert Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

This letter transmits the report required by section 1618 of the Food, Conservation, and Energy Act of 2008 (Farm Bill) on the information technology challenges and needs of the Farm Service Agency (FSA). The report was prepared by a third party (BearingPoint) and focuses on the state of FSA information technology (IT) and efforts to stabilize and modernize the systems and processes necessary to deliver farm benefit programs. The report responds to the seven criteria identified in the Farm Bill, including discussion of the need for and benefits of modernization of FSA IT systems.

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The Honorable Herbert Kohl
Page 2

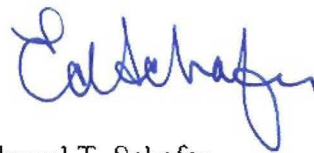
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USDA's efforts to stabilize and modernize the FSA IT system are directed at ensuring that the mission critical delivery of farm benefit programs continues to be carried out successfully. The funding requested for stabilization and MIDAS will allow USDA to continue operations and move the modernization initiative into the detailed planning and implementation stages. I encourage the Committee to approve our budget proposal to ensure that the necessary resources are made available to USDA to implement the FSA stabilization and modernization plans to achieve the benefits identified in this report. I greatly appreciate the Committee's interest in these FSA IT efforts and the opportunities provided for USDA staff to brief the Committee on these projects. We look forward to continued dialog on these important efforts.

I am sending similar letters to the Committees on Agriculture and to the Committees on Appropriations.

Sincerely,



Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Robert F. Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bennett:

This letter transmits the report required by section 1618 of the Food, Conservation, and Energy Act of 2008 (Farm Bill) on the information technology challenges and needs of the Farm Service Agency (FSA). The report was prepared by a third party (BearingPoint) and focuses on the state of FSA information technology (IT) and efforts to stabilize and modernize the systems and processes necessary to deliver farm benefit programs. The report responds to the seven criteria identified in the Farm Bill, including discussion of the need for and benefits of modernization of FSA IT systems.

As BearingPoint identifies in the report, FSA's modernization program, also referred to as MIDAS, is one of the most crucial IT initiatives underway at the U.S. Department of Agriculture (USDA). Presently, the delivery of farm benefit programs relies upon a compilation of various technologies that have been pieced together over time with some dating back to the 1980s. This approach has created tremendous inefficiencies in the benefit program business processes for both USDA employees and program participants. Producers experience a loss of productivity due to the number of trips to their local FSA office required to complete a transaction, and employees must often switch between applications on different platforms to fully service a producer. As FSA conducts around 20 million transactions annually, there is a significant expense associated with these inefficiencies.

BearingPoint also found that the fragmented system has resulted in reduced reliability and increased security vulnerabilities. As was demonstrated at the end of 2006 and the beginning of 2007 when the Web Farm crashed, system reliability is critical to the continued delivery of farm benefit programs. This lack of reliability resulted in the development of the stabilization efforts presently being implemented. In addition, security vulnerabilities remain in the legacy components of the FSA IT system that increase the chance for fraud and abuse in the delivery of benefit programs. A modernized FSA IT system, in conjunction with USDA's

The Honorable Robert F. Bennett
Page 2

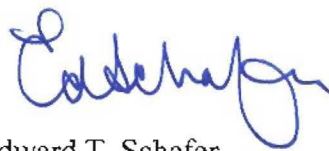
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

JAN 15 2009

Dear Mr. Chairman:

This letter transmits the report required by section 1618 of the Food, Conservation, and Energy Act of 2008 (Farm Bill) on the information technology challenges and needs of the Farm Service Agency (FSA). The report was prepared by a third party (BearingPoint) and focuses on the state of FSA information technology (IT) and efforts to stabilize and modernize the systems and processes necessary to deliver farm benefit programs. The report responds to the seven criteria identified in the Farm Bill, including discussion of the need for and benefits of modernization of FSA IT systems.

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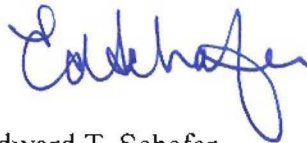
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

This letter transmits the report required by section 1618 of the Food, Conservation, and Energy Act of 2008 (Farm Bill) on the information technology challenges and needs of the Farm Service Agency (FSA). The report was prepared by a third party (BearingPoint) and focuses on the state of FSA information technology (IT) and efforts to stabilize and modernize the systems and processes necessary to deliver farm benefit programs. The report responds to the seven criteria identified in the Farm Bill, including discussion of the need for and benefits of modernization of FSA IT systems.

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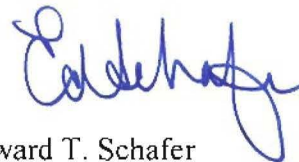
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Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 15 2009

The Honorable Rosa L. DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

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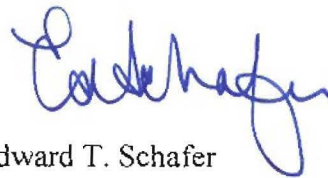
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I am sending similar letters to the Committees on Agriculture and to the Committees on Appropriations.

Sincerely,



Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture
Office of Inspector General



Office of Inspector General

Semiannual Report to Congress

FY 2008 - 2nd Half

No. 60 November 2008



KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	34
Number of Recommendations	142

Management Decisions Made

Number of Reports	25
Number of Recommendations	153

Total Dollar Impact (Millions) of Management-Decided Reports \$118.6

Questioned/Unsupported Costs \$0.7

Funds To Be Put to Better Use \$117.9

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued 129

Impact of Investigations

Indictments	359
Convictions	358
Arrests	994

Total Dollar Impact (Millions) \$40.0

Administrative Sanctions 78

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2008)

1) Interagency Communications, Coordination, and Program Integration Need Improvement

Related material can be found on pages 8 and 16-17.

2) Implementation of Strong, Integrated Internal Control Systems Still Needed

Related material can be found on pages 3, 7-11, 15-18, and 23-24.

3) Continuing Improvements Needed in Information Technology (IT) Security

Related material can be found on pages 17-18.

4) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Related material can be found on pages 4 and 39.

5) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

Related material can be found on pages 21.

6) USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge

Related material can be found on page 16.

7) Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires *Related material can be found on pages 3-4.*

8) Improved Controls Needed for Food Safety Inspection Systems

Related material can be found on pages 1-2.

9) Implementation of Renewable Energy Programs at USDA

Related material can be found on pages 13-15.

Message From the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), for the 6-month period that ended September 30, 2008. This report summarizes the most significant OIG activities during the period, organized according to the goals set forth in the OIG Strategic Plan for FY 2007-2012, as shown below.

- **Safety, Security, and Public Health** – Prompted by a Congressional request, OIG determined that the Food Safety and Inspection Service (FSIS) needs to strengthen controls for reinspecting meat and poultry products at U.S. ports of entry. We also responded to then Acting Secretary Conner's request and found that FSIS should collect and analyze a more representative sample during outbreak investigations related to recalls for adulterated or contaminated products. Our investigative work resulted in sentencing in cases involving dogfighting and contaminated meat and poultry.
- **Integrity of Benefits** – Our investigative cases involving the Food Stamp Program (FSP, renamed the Supplemental Nutrition Assistance Program, effective October 1, 2008) and other feeding programs, as well as conversion of mortgaged collateral, produced significant prison sentences and court-ordered restitutions and forfeitures totaling millions of dollars. Our audit work found that the Food and Nutrition Service should strengthen its processes for approving retailers in FSP, the Farm Service Agency (FSA) was limited in its ability to enforce collection of tobacco assessments to fund the Tobacco Transition Payment Program, and FSA did not have effective controls to ensure interest rates charged by lenders met requirements of FSA's guaranteed farm loan programs.
- **Management Improvement Initiatives** – Our audits found that USDA's implementation of renewable energy activities needs improvement, FSA did not effectively determine eligibility for the Emergency Forestry Conservation Reserve Program, and improper reimbursement requirements and ill-defined missions directed by the Federal Emergency Management Agency increased costs and may have hindered Forest Service operations. In addition, the National Finance Center received its first unqualified opinion on its general control environment. After our investigation, a former USDA employee was convicted of computer fraud.
- **Stewardship Over Natural Resources** – Our audit work found that the Natural Resources Conservation Service improperly obligated Wetlands Reserve Program funds and inadequately monitored easements, but it improved the status review process to evaluate producer compliance with highly erodible land conservation and wetland conservation provisions.

During this reporting period, we conducted successful investigations and audits that led to 994 arrests, 358 convictions, \$40.0 million in recoveries and restitutions, 138 program improvement recommendations, and \$118.6 million in financial recommendations. In response to some of our program improvement recommendations, FSA agreed to revise its examination procedures and forms to provide comprehensive procedural guidance for warehouse examiners at port facilities, and the Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers.

These program improvements and monetary results would not have been possible without the continuing interest and support of the Congress, Secretary Schafer, and Deputy Secretary Conner. Their strong commitment is vital to our mutual success in improving USDA programs and operations. The excellence of OIG staff work has been recognized by the Secretary, the President, and the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (see page 27).



Phyllis K. Fong
Inspector General

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Abbreviations of Organizations	43

Safety, Security, and Public Health

OIG Strategic Goal 1:

Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent and professional audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, safety of the food supply, and homeland security.

In the second half of fiscal year (FY) 2008, we devoted 21 percent of our total direct resources to Goal 1, with 99.6 percent of these resources assigned to critical/high-impact work. A total of 92.3 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 98.5 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 4 audit reports under Goal 1 during this reporting period and a total of 10 during the full fiscal year. OIG's investigations under Goal 1 yielded 91 indictments, 172 convictions, and about \$7.1 million in monetary results during this reporting period and a total of 113 indictments, 449 convictions, and about \$8.9 million in monetary results during the full fiscal year.

Management Challenges Addressed UNDER GOAL 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2, 3, and 4)
- Continuing Improvements Needed in Information Technology (IT) Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 3)
- Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 3 and 4)
- Improved Controls Needed for Food Safety Inspection Systems

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

Food Safety and Inspection Service (FSIS) Needs To Strengthen Inspection Processes for Meat and Poultry Imports

In response to a Congressional request, we conducted an audit to evaluate FSIS inspection processes for meat and poultry imports to ensure the integrity of the U.S. food supply. We determined that FSIS needs to strengthen controls for reinspecting meat and poultry products at U.S. ports of entry. FSIS should determine the number of "intensified inspections" (which are called for after physical or laboratory failures to meet U.S. requirements) that would provide the appropriate level of protection to ensure the safety and wholesomeness of imported products. FSIS also needs to strengthen procedures

for specifying the priority of performing reinspection activities, verifying production dates, analyzing data in its information system, and managing noncompliance records.

We also found that FSIS had adequately implemented the corrective actions reported for 49 of 51 previous recommendations. However, FSIS had not documented the protocols implemented in the agency's management controls. FSIS needs to document controls for assessing the equivalence of foreign countries' food safety systems, specifically the controls concerning the methodology used to select foreign establishments for review. FSIS also should document its policy to perform onsite audits before receiving product from a new or suspended country. FSIS agreed with our recommendations and has begun corrective action. (Audit Report No. 24601-08-Hy, Followup Review of Controls Over Imported Meat and Poultry Products)

FSIS Should Collect and Analyze a More Representative Sample During Outbreak Investigations

In September 2007, FSIS announced that a New Jersey establishment was expanding a voluntary recall to more than 21 million pounds of frozen ground beef products possibly contaminated with *E. coli* O157:H7. In response to the Deputy Secretary's (then Acting Secretary) request in October 2007, we assessed whether improvements could be made to protocols for handling recalls to ensure that accurate information is rapidly obtained and conveyed to the appropriate decision makers and whether FSIS is taking full advantage of its statutory authorities to address recalls.

We found that FSIS has taken strides to strengthen its investigative and recall procedures and has taken full advantage of its recall authority. However, FSIS needs a protocol to collect a more representative sample from establishments for laboratory analysis during an outbreak investigation. Due to lack of guidance, FSIS collected from the company the only available package that had the identical labeling and production date as the non-intact (opened) product from a case patient's home. (FSIS later became aware of additional product at the company.) The product collected from the company tested negative for *E. coli* O157:H7. As a result, FSIS could not conclude that contamination had occurred at the establishment, and the lack of additional product testing potentially delayed the agency's ability to recommend a recall. In addition, FSIS has not finalized and implemented its draft directive for investigating foodborne illnesses and its revised directive for handling recalls. FSIS agreed with our recommendations. (Audit Report No. 24601-09-Hy, FSIS' Recall Procedures for Adulterated or Contaminated Product)

New Jersey Man Convicted in Federal Court for Contaminating Meat

In June 2008, a co-owner of a Jersey City, New Jersey, meat distributing company was sentenced to serve 24 months of probation and fined \$1,000 after pleading guilty in Federal court to holding adulterated meat products for sale. The co-owner had stored approximately 9,000 pounds of goat and beef carcasses in a manner that led to the product becoming adulterated with rodent infestation. The product was destroyed by FSIS before any adulterated meat could reach consumers.

This case was worked jointly with FSIS' Office of Program Evaluation, Enforcement and Review.

Plant Employee Contaminates Poultry To Get Day Off From Work

In April 2008, an employee of a poultry plant was ordered to pay the company \$199,587 in restitution after he contaminated poultry to get a day off from work. In November 2007, the employee pled guilty and was sentenced in Circuit Court, Johnson County, Arkansas, to serve 60 months of probation and was ordered to pay a \$1,000 fine and perform 40 hours of community service for felony criminal mischief. The employee was seen on company surveillance cameras throwing ink into a chiller, adulterating the poultry inside. The employee confessed to the crime and stated that he just wanted a day off from work. This case was worked jointly with the Clarksville, Arkansas, Police Department.

Tennessee Man Sentenced to Prison for Communicating False Information That a Consumer Product Was Tainted

In September 2008, a Tennessee man was sentenced in Federal court to serve 12 months and 1 day in prison, followed by 36 months of probation upon release, and was ordered to pay restitution of \$471,712 for communicating false information that a consumer product had been tainted. In September 2007, a food processing facility received a telephone call from an anonymous source who advised that their food product was contaminated with pesticide. The investigation disclosed the man as a potential subject, and the Food and Drug Administration (FDA) administered a polygraph examination. The man subsequently admitted to making the telephone call but denied contaminating any food product. This misinformation caused the food processing facility to experience a temporary interruption of service while awaiting the return of laboratory results. All product samples tested negative for pesticide residue. This case was worked jointly with FDA's Office of Criminal Investigations.

Joint Investigation Uncovers Dogfighting Ring

In June 2008, a man was sentenced in State Court, Hamilton County, Ohio, to 162 months in prison for dogfighting and both possession of and trafficking in marijuana. The 14-month undercover investigation disclosed that the man was a principal

organizer of a dogfighting ring and gambling organization in the Dayton and Cincinnati metropolitan areas and other parts of Ohio, Kentucky, and Michigan. Judicial action is pending against numerous other defendants charged with similar offenses. This case is being worked jointly with various Federal, State, and local law enforcement entities as part of the Ohio Organized Crime Investigations Commission Taskforce. OIG's National Computer Forensic Division (NCFD) provided computer forensics assistance in this case.

Incident Commander (IC) in Thirtymile Fire Is Sentenced

In August 2008, the IC for the Thirtymile Fire was sentenced to 90 days of incarceration, followed by 36 months of probation, and assessed a \$50 penalty. He was also required to submit to a complete mental health, alcohol, and substance abuse evaluation. He must abstain from alcohol during his probationary period and submit to alcohol testing as required. In addition, he is prohibited from seeking firefighter qualifications or engaging in firefighting or fire-line activities. In April 2008, in the Eastern District of Washington, the IC had pled guilty to two counts of making false statements. On July 10, 2001, four Forest Service (FS) firefighters died after they became entrapped and their fire shelter deployment site was burned over by the Thirtymile Fire in the Chewuch River Canyon, 30 miles north of Winthrop, Washington. The investigation disclosed that the IC failed to order the firefighters off a rock slope where the firefighters had deployed their emergency fire shelters; he subsequently provided false statements to investigators. This fire led to the passage of Public Law 107-203, which was signed into law on July 24, 2002, requiring OIG to conduct an independent investigation into the death of any FS employee resulting from a burnover or entrapment in a wildland fire.

Inspections of Port Facilities Do Not Guarantee Quality of USDA Food Exports

The Farm Service Agency (FSA) facilitates the sale, donation, and transfer of Commodity Credit Corporation (CCC)-owned commodities by arranging for their export as part of various food aid programs. We found that FSA's port examination process, initiated in 1999 to improve storage conditions for food awaiting shipment, was not sufficient to guarantee the quality of food exports. FSA had developed and maintained a list of "approved" port facilities but does not have a statutory basis for discontinuing relationships with substandard facilities. Rather than promulgate regulations for approving and removing a port from its list of approved ports, FSA relied on its procurement regulations (which provide that the adequacy of the port be considered before final selection) to conduct the examinations since it had to determine whether a port or transloading facility was able to perform. However, there is no binding contractual agreement between FSA and the port or transloading facility. Moreover, port examinations were inconsistent because FSA's examination procedures did not contain precise and comprehensive guidance for warehouse examiners to determine the significance of violations. FSA also failed to adequately follow up on deficiencies.

In response, FSA reported that it plans to create, under the authority of the U.S. Warehouse Act (USWA), a license for port facilities and require during the procurement process that only USWA-licensed facilities handle Government food assistance commodities. This would allow FSA to use current licensing program policies and procedures, written standards for approval, and due process for approving and disapproving facilities under USWA, as well as current procedures to track and follow up on adverse examination reports and to suspend and revoke licenses. FSA also plans to revise its examination procedures and forms to provide comprehensive procedural guidance for examiners. (Audit Report No. 03099-198-KC, Inspection of Temporary Domestic Storage Sites for Foreign Food Assistance)

GOVERNMENTWIDE ACTIVITIES – GOAL 1

Participation on Committees, Working Groups, and Task Forces

- An OIG Special Agent is assigned full time to the Federal Bureau of Investigation's (FBI) National Joint Terrorism Task Force (NJTTTF). The agent attends the NJTTTF threat briefings and provides a variety of products related to terrorist intelligence to OIG and other agencies and offices within the Department. OIG Special Agents nationwide are assigned to the FBI's local JTTFs. OIG's participation on the national and local JTTFs has provided an excellent means for sharing critical law enforcement intelligence and has served to help broaden the knowledge of the FBI and other law enforcement agencies about conducting criminal investigations with a connection to the food and agriculture sector.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

Topics that will be covered in ongoing or planned reviews under Goal 1 include:

- oversight of the National Organic Program (Agricultural Marketing Service (AMS)),
- followup on purchase specifications for ground beef (AMS),
- fresh product grading (AMS),
- assessment of USDA controls to ensure compliance with beef export requirements (AMS and FSIS),
- evaluation of management controls over pre-slaughter activities (FSIS),
- oversight of the recall by a California slaughterhouse (FSIS),
- animal care inspections of dealers (Animal and Plant Health Inspection Service (APHIS)),
- oversight of the designated qualified persons enforcing the Horse Protection Act (APHIS),
- controls over animal import centers (APHIS),
- Plant Protection and Quarantine program (APHIS),

- swine and poultry handling and inspection (FSIS),
- national residue program in non-cull cow, swine, and poultry plants (FSIS),
- followup of APHIS licensing of animal exhibitors,
- Food Emergency Response Network (FSIS),
- salmonella verification testing program (FSIS),
- USDA's role in the export of genetically engineered (GE) agricultural commodities (Senior Advisor to the Secretary for International and Homeland Security Affairs and Biotechnology; APHIS; Agricultural Research Service (ARS); Cooperative State Research, Education, and Extension Service (CSREES); Foreign Agricultural Service (FAS); and Grain Inspection, Packers and Stockyards Administration (GIPSA)),
- USDA controls over GE animals and insects research (ARS, CSREES, and APHIS),
- controls over GE food and agriculture imports (APHIS),
- agency controls over the National Plant Diagnostic Network (CSREES and APHIS),
- agency controls over the National Animal Health Laboratory Network (APHIS and CSREES),
- USDA's response to colony collapse disorder (ARS),
- implementation of flood control dams rehabilitation (Natural Resources Conservation Service (NRCS)),
- FS contracted labor crews,
- followup on prior firefighter safety audits (FS),
- FS firefighting succession plans,
- FS replacement plan for firefighting aerial resources,
- FS National Fire Plan Reporting System, and
- FS Fire Program Analysis System.

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Integrity of Benefits

Strategic Goal 2:

Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.

OIG conducts audits and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. The size of these programs is daunting: the Food Stamp Program (FSP, renamed the Supplemental Nutrition Assistance Program, effective October 1, 2008) alone accounts for approximately \$40 billion in benefits annually, while well over \$20 billion annually is spent on USDA farm programs. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and producers. These programs support nutrition, farm production, and rural development.

In the second half of FY 2008, we devoted 39 percent of our total direct resources to Goal 2, with 89.3 percent of these resources assigned to critical/high-impact work. A total of 97.7 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 84.5 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 16 audit reports under Goal 2 during this reporting period and a total of 26 during the full fiscal year. OIG investigations under Goal 2 yielded 237 indictments, 152 convictions, and about \$29.4 million in monetary results during the reporting period and a total of 335 indictments, 244 convictions, and about \$60.5 million in monetary results during the full fiscal year.

Management Challenges Addressed Under Goal 2

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 3, and 4)
- Implementation of Strong, Integrated Internal Control Systems Still Needed (also under Goal 3)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Food Stamp Cases and Related Offenses in Several States Yield Substantial Prison Sentences and Millions of Dollars in Restitutions and Forfeitures

- In July 2008, the owner of a Newark, New Jersey, grocery store was sentenced in Federal court to serve 43 months in prison, followed by 36 months of probation upon release, and was ordered to pay restitution of \$1,482,864 to USDA for discounting Electronic Benefits Transfer (EBT) benefits for cash. The owner was arrested in June 2000 and shortly thereafter fled to the Dominican Republic until 2007, when she was extradited to the United States to face the charges. As reported for the first half of FY 2007, in October 2006, three other individuals connected with this case were ordered to pay a total of \$1.1 million in restitution for their role in committing food stamp trafficking via the EBT system by discounting large amounts of EBT benefits for cash. One individual received 21 months in prison, and the other two received probation for a term of 36 months each. This case was worked jointly with the U.S. Secret Service.
- In conjunction with the U.S. Attorney's Office for the Southern District of New York, in the fall of 2006, OIG initiated a large-scale investigation of food stamp trafficking. As a result, in April 2007, two grocery store owners and their employees were charged with violations of Federal law, including food stamp trafficking and theft of Government funds. Also, more than \$1.1 million in cash and property associated with the fraud were seized and forfeited to the Government. In January 2008, the owner of one store pled guilty, and the owner of the other store was found guilty at trial. In June 2008 and July 2008, the grocery store owners received sentences of, respectively, 57 months of imprisonment and restitution of \$442,352, and 37 months of imprisonment and \$1,471,248 in restitution. In addition, their employees pled guilty and received sentences ranging from probation to imprisonment and restitution.
- In May 2008, a former Chicago, Illinois, grocery store owner was sentenced in Federal court to serve 12 months and 1 day in prison, followed by 36 months of probation, and was ordered to pay \$1,082,987 in restitution and a \$200 fine, and forfeit \$698,014 for exchanging EBT benefits for cash. From May 2002 to December 2002, the former grocery store owner redeemed approximately \$794,416 in food stamp benefits despite reported annual

food sales of \$169,840. The former grocery store owner also operated and exchanged EBT benefits for cash at two additional grocery stores. From September 2001 to March 2002, the second store redeemed \$311,285 in food stamp benefits, and from May 2003 to February 2004, the third store redeemed \$177,638 in food stamp benefits. This investigation was conducted jointly with the Internal Revenue Service's Criminal Investigation (IRS CI).

- In August 2008, a co-owner of a Flint, Michigan, grocery store was sentenced in Federal court to serve 27 months in prison and 24 months of supervised release, and was ordered to pay restitution of \$916,888 for trafficking in EBT benefits and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) coupons. The remaining store owner was sentenced in Federal court on the same day to serve 4 months in prison, 2 months of home confinement, and 24 months of supervised release and was ordered to pay restitution of \$44,547 for fraud in connection with various Federal welfare programs. The investigation disclosed that, from 2001 to 2003, the co-owners fraudulently redeemed approximately \$322,000 in food stamp benefits and \$594,000 in WIC coupons. This was a joint investigation with the U.S. Department of Health and Human Services OIG and the State of Michigan's Department of Human Services OIG.
- As reported previously, from January 2002 to January 2004, an Ohio furniture store owner led a nationwide network that trafficked in stolen merchandise and food stamps through inner-city markets near Dayton, Ohio. Stolen merchandise transported to several other States included infant formula, diabetic blood glucose test strips, over-the-counter medications, and health and beauty aids valued at approximately \$448,656. Much of the stolen infant formula was transported interstate to WIC-authorized stores. In January 2004, the store owner and 19 others were charged with food stamp trafficking, receipt and interstate transportation of stolen property, conspiracy, and money laundering. Nineteen, including the store owner, have pled guilty or been convicted. Sixteen received sentences ranging from 8 to 28 months of incarceration with 12 to 36 months of probation, total fines of \$6,950, and total restitution of \$87,552. In March 2006, the store owner was sentenced to 11 years in prison, 5 years of supervised release, and more than \$2.6 million in restitution. In May and June 2008, the last two individuals were sentenced to serve 30 and 15 months, respectively, in Federal prison

for their participation in this scheme. OIG's NCFD provided computer forensics assistance in this case.

- In April 2008, the owner of a San Antonio, Texas, grocery store was sentenced in Federal court to serve 36 months of probation and was ordered to pay \$458,995 in restitution for WIC and EBT trafficking. In July 2007, and September 2007, a former WIC employee for the city and two co-conspirators received sentences ranging from 24 months of probation to 15 months in prison and were ordered to pay \$57,472 in restitution. A third co-conspirator remains a fugitive. The OIG investigation disclosed that, between January 2001 and October 2001, the WIC employee and three others conspired to embezzle and create approximately 691 fictitious WIC vouchers totaling \$49,290 from the Metropolitan Health District, WIC Division. The grocery store owner was aware of the WIC fraud scheme and subsequently purchased the WIC vouchers and also exchanged EBT benefits for cash. A financial analysis revealed that, from January 1999 to May 2003, the grocery store owner redeemed approximately \$458,000 in WIC and food stamp benefits that were not supported by legitimate sales.

Long Prison Sentences and Restitutions Ordered for Fraud in Feeding Programs

- In May 2008, a Texas church pastor was sentenced in Federal court for fraudulently participating in the Summer Food Service Program (SFSP). The OIG investigation disclosed that, from April 2003 to April 2006, the church pastor illegally obtained \$586,347 in SFSP benefits, formed five corporations and one business entity that he used to launder the illegally obtained benefits, and used a portion of the illegal gains to purchase a residence and two vehicles. The pastor was sentenced to serve 235 months in prison, followed by 36 months of supervised release, and was ordered to pay \$544,649 in restitution, jointly and severally with the business interests. The court also ordered forfeiture of the pastor's residence and two vehicles. This investigation was conducted jointly with the Department of Homeland Security's (DHS) U.S. Immigration and Customs Enforcement (ICE) and IRS CI.
- In July 2008, the executive director of a sponsoring organization in North Carolina and her daughter were sentenced in Federal court for defrauding the Child and Adult Care Food Program (CACFP) and IRS. The investigation disclosed that, between October 2002 and March 2005, the sponsoring organization

falsified documents to illegally obtain \$777,902 in CACFP reimbursements. In addition, the executive director and her daughter failed to pay taxes on the illegally obtained funds deposited into their personal bank accounts. The executive director was sentenced to serve 57 months in prison, followed by 36 months of supervised release, and was ordered to pay \$1,191,749 in restitution to the North Carolina Health and Human Services and IRS. Her daughter was sentenced to 90 days of home confinement, 5 years of probation, and 200 hours of community service, and was ordered to pay a \$3,000 fine and \$49,134 in restitution to IRS. This investigation was conducted jointly with IRS CI.

Food and Nutrition Service (FNS) Should Strengthen Its Processes for Approving Retailers for Participation in the Food Stamp Program (FSP)

FSP is carried out in cooperation with private retailers. We found that, generally, FNS had controls in place to ensure proper retailer authorizations. However, we identified two areas where FNS could strengthen its processes for approving retailers for participation in FSP, and thus strengthen program integrity. FNS does not verify FSP applicant retailers' criminal records prior to approval and therefore cannot comply with its own requirement to deny authorization to any retailer with a criminal conviction that reflects on the business integrity of the owner. Instead, FNS relies on applicant retailers to certify to the accuracy of information provided relative to their criminal record at the point of application. Also, FNS field offices are no longer required to hold face-to-face meetings with applicants to provide training and explain compliance with FSP regulations and the different types of violations (i.e., trafficking), which could impair the successful prosecution of FSP violators. We recommended that FNS require retailers to undergo a criminal record background check before acceptance into FSP. In response to FNS concerns about the difficulty of obtaining these records and the necessity of implementing a regulatory change that may not be cost beneficial, we advised that FNS should continue to seek other options to better ensure the integrity of retailers applying to participate in the program. FNS agreed to consult with the Department of Justice (DOJ) to ensure that the retailer authorization process is sufficient for successful prosecution of retailers who are trafficking food stamp benefits. (Audit Report No. 27601-15-At, FSP Retailer Authorizations and Store Visits)

New Jersey Needs To Strengthen Controls for Allocating Administrative Costs to FSP

We concluded that the New Jersey State agency needs to improve its controls over how FSP administrative costs are allocated to the program. Each county welfare agency in New Jersey has staff assigned to different work units that provide assistance to applicants for welfare programs, including FSP. Administrative costs are allocated for each unit based on an approved method—one being a statistically selected random moment time study—or distributed based on employee personnel activity reports that should reflect actual activity for each employee.

The three counties in our review did not ensure that employees' salaries were charged to the correct work units, and two counties did not ensure that all employees were included in the sample universe before making sample selections for the random moment time studies. For one, county staff misunderstood instructions from the State agency relating to requirements for the random moment time studies. The State agency also had not ensured allocations were in compliance with procedures because it relied on Office of Management and Budget (OMB) guidance on Single Audits that suggests, but does not require, testing of a State agency's cost allocation plan. Therefore, there is no assurance that payroll cost allocations were reviewed as part of the Single Audit process. FNS and the State agency agreed with our recommendations to implement a corrective action plan to ensure that costs are properly allocated to benefiting programs and to train staff on proper cost allocation. (Audit Report No. 27002-25-Hy, FSP Administrative Costs in New Jersey)

Colorado Needs To Significantly Improve Management of FSP Through Its EBT System

In 2006, FNS officials in Denver, Colorado, informed us of multimillion-dollar discrepancies and unexplained over-issuances caused by the failure of its new computerized FSP eligibility system to operate properly. As a result, we initiated an audit as part of a multi-year plan to provide a comprehensive assessment of the adequacy of the established controls over food stamp EBT on a national basis and to evaluate the effectiveness of FNS' oversight efforts. Although the audit did not disclose any deficiencies with the EBT system itself, the Colorado State Agency's management of FSP through its EBT system needs

significant improvement. The State agency needs to improve controls for issuing FSP benefits and establishing claims through its computerized system. In addition, we identified deficiencies in controls that the State agency established to oversee and secure its EBT system. For example, the State agency did not use available EBT management reports to monitor program operations for improper activity. It also did not establish units to assist in the prosecution of trafficking by food stamp recipients. We also noted deficiencies in issuing benefits and EBT system security.

FNS agreed to require the State agency to ensure that errors in the FSP eligibility system are corrected and claims properly established, perform system data analysis for FY 2007 if a similar FY 2006 data analysis discloses significant over-issuances, pursue for collection any over-issuances identified in their analysis, and improve oversight of its EBT system and strengthen controls over system security to prevent misuse of FSP funds. (Audit Report No. 27099-68-Hy, EBT System in Colorado)

FSA Was Limited in Its Ability To Enforce Collection of Tobacco Assessments To Fund the Tobacco Transition Payment Program (TTPP)

TTPP, administered by FSA for tobacco quota holders and producers of tobacco, is funded by assessments levied and collected by FSA from tobacco manufacturers and importers of tobacco products and based on volumes of domestic tobacco sales as reported to FSA by the manufacturers and importers. We concluded that FSA controls were, overall, adequate to ensure that FSA levied and collected the vast majority of assessments. However, 90 entities that filed required reports with FSA did not pay their \$58.3 million in levied assessments for FYs 2005 and 2006. CCC funded these non-paying entities' shares of the TTPP payments, and FSA has referred a number of them to DOJ for debt collection. Moreover, although the Department of the Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) provides data to FSA to identify companies for assessment, the Internal Revenue Code of 1986 limits the use of such tax data, and FSA has been unable to pursue collection of assessments against an additional 62 manufacturers and importers that have not reported their volumes of domestic sales to FSA.

FSA agreed to work with USDA's Office of the General Counsel (OGC) to take legal action, as necessary, to enforce

collection of assessments and penalties from non-paying and non-reporting entities. In addition, FSA is working with TTB to achieve an official Memorandum of Understanding that will allow FSA to use TTB's data to calculate and levy assessments against non-reporting entities. FSA also agreed, generally, to develop and implement regulations and procedures authorizing onsite compliance reviews and documenting the process for calculating assessments. (Audit Report No. 03601-15-At, TTPP – Tobacco Assessments)

FSA Needs To Strengthen Controls Over Guaranteed Farm Loan Interest Rates

We found FSA did not have effective controls to ensure that interest rates charged by lenders met program requirements. For FSA's portfolio of 56,000 guaranteed farm loans valued at \$12.1 billion, Federal regulations require that lenders' interest rates on guaranteed loans not exceed the rate lenders charge their "average agricultural loan customers" ("average rate"). Neither FSA personnel nor any of the five lenders we reviewed could clearly articulate a methodology that demonstrated such compliance. Using lenders' self-described rate-setting methodologies, we calculated that, for 28 of the 71 guaranteed loans reviewed, lenders charged interest rates up to 2.25 percent above their average rate. Our review was limited because we did not have access to the lenders' private (non-guaranteed) agricultural loan information to validate the average rates. We estimated the 28 borrowers could have saved approximately \$277,000 over the life of the loans, had the lenders limited the guaranteed loan interest rates to the OIG-calculated average rates. Also, FSA's oversight review process did not include procedures to evaluate interest rates charged by lenders. FSA officials acknowledged that controls over interest rates were not adequate and that additional controls were needed.

In response to the audit, FSA generally agreed to simplify and clarify its interest rate requirements, issue guidance to its loan-approving officials for assessing compliance with such requirements, issue instructions to lenders to clarify their responsibilities for adhering to interest rate requirements, and require lenders to provide evidence that interest rates meet program requirements. FSA further agreed to seek legal advice to determine what actions could be taken in those cases where the lenders potentially charged higher interest rates to borrowers than allowed by regulations. FSA also decided to develop an automated system to help evaluate and monitor

interest rates. FSA will outline a specific interest rate review process, use the system to identify trends, and take appropriate actions to correct any identified deficiencies. (Audit Report No. 03601-17-Ch, Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance)

Pulse Crop Production Increases After 2002 Farm Bill Enacts New Pulse Crop Loan Programs

The 2002 Farm Bill created new Marketing Assistance Loan and Loan Deficiency Payment (LDP) programs for pulse crops (dry peas, lentils, etc.) and established national loan rates for such crops for the first time. We initiated this audit in response to a hotline complaint alleging that FSA was using incorrect posted county prices (PCP) to determine loan repayment rates for dry peas, resulting in excessive payments to pea growers and dramatic increases in planted acres of dry peas. (Generally, the loan repayment rate is the market price for the crop, often referred to as the PCP. When the loan rate is greater than the repayment rate, producers may receive a marketing loan gain when they repay the loan or, if the producer agrees to forego a loan, the producer may receive an LDP based on the amount by which the applicable loan rate exceeds the loan repayment rate.)

We found the dry pea loan rate established by the 2002 Farm Bill was significantly higher than the PCPs for feed peas. FSA had concluded the loan rates set by Congress under the 2002 Farm Bill reflected food quality (U.S. No. 1 grade) dry peas and lentils, rather than feed grade dry peas and U.S. No. 3 grade lentils. Therefore, for lower quality 2002 crop dry peas and lentils, FSA applied discounts to the established loan rates. Subsequently, in the 2003 Consolidated Appropriations Resolution, Congress mandated that pulse crop loan rates (specific rates prescribed by law) and loan repayment rates be based on feed grade dry peas and U.S. No. 3 grade lentils, effectively terminating FSA's loan discount schedule.

Since Congress passed the 2003 Consolidated Appropriations Resolution, FSA's rates have adhered to the legislation. However, planted acres; production; and numbers and amounts of loans, marketing loan gains, and LDPs increased substantially since inception of the program. This occurred, in part, because the established loan rate for feed peas is significantly higher than the PCPs for feed peas. This disparity allows producers to receive benefits greater than if the loan rates were adjusted for the quality of the commodity actually

produced. When FSA's discount schedule was in place for crop year 2002, the differences between the (discounted) loan rates and repayment rates were such that there were no marketing loan gains or LDPs on dry peas. After the 2003 Consolidated Appropriations Resolution ended the discount schedule, outlays to dry pea producers totaled approximately \$14 million for crop year 2003. We concluded that Congress achieved its goal of making pulse crops an attractive production option for producers. The 2008 Farm Bill has since set lower loan rates for pulse crops for crop years 2009 through 2012. We therefore did not make any recommendations. (Audit Report No. 03601-26-KC, Methodology for Establishing National/Regional Loan Rates for USDA's Pulse Crop Loan Program)

Ohio Producer Sentenced to Prison for Conversion of Collateral Mortgaged to CCC

In April 2008, a producer from Mount Sterling, Ohio, was sentenced in Federal court to serve 6 months in prison, followed by 36 months of supervised release, and was ordered to pay \$630,270 in restitution for converting collateral. The producer obtained two CCC farm-stored loans totaling \$630,270, and pledged 72,000 bushels of soybeans and 125,000 bushels of corn as collateral for the loans. The producer was also appointed as an attorney-in-fact for two brothers in connection with their \$61,920 FSA/CCC loan, which was secured by an additional 12,000 bushels of soybeans. The OIG investigation disclosed that the producer converted all of the soybeans and corn and used the funds to purchase a lakefront vacation home, two race cars, and a race boat.

Producer Sentenced for Converting Loan Collateral

In May 2008, a producer from Albert City, Iowa, was sentenced in Federal court to serve 71 months in prison, followed by 36 months of probation, and ordered to pay \$1.2 million in restitution. The investigation disclosed that, in 2001, the producer, who was a convicted felon, pledged 62,000 bushels of grain as collateral for a CCC loan, even though much of the grain belonged to other producers. The producer subsequently sold some of the mortgaged grain and failed to remit sales proceeds to FSA. In 2003, the producer made false statements to a local bank to obtain a loan for \$2.5 million and, in 2004, committed bankruptcy fraud by failing to disclose his assets, incomes, and debt structure to a Bankruptcy Trustee. In July 2008, the producer, who was scheduled to surrender to the U.S. Marshals to begin his prison term, committed suicide.

Risk Management Agency (RMA) Claims for Aflatoxin-Infected Corn

RMA insures corn producers against economic losses due to aflatoxin (a toxic fungus byproduct) infecting their harvests. Of the 2,453 claims for crop year 2005 for aflatoxin-infected corn in Texas, totaling \$17.5 million, we identified 2,033 claims where the value established for infected corn was extremely low—\$.25 or less per bushel. In 394 of 397 claims selected for more detailed review, we found that the approved insurance providers (AIP) accepted extremely low values (from \$.08 to \$.25) for infected corn but that producers later sold this infected corn for prices ranging from \$.80 to \$2.30 per bushel—5 to 28 times the value used to calculate the indemnity. Because the AIPs failed to ensure that their adjusters were using reasonable values for the producers' corn, the AIPs paid Texas producers indemnities of \$15.9 million.

We recommended that RMA issue administrative findings to recover the portion of improper payments resulting from the cited \$15.9 million in claims; revise the current Loss Adjustment Manual (LAM) procedures to require that AIPs use the proposed graduated discount factors to compute a preliminary settlement for losses due to aflatoxin contamination and adjust the preliminary settlement based on the final sales price or market values determined for the crop upon final disposition, withholding final settlement of claims until the date of final disposition; and notify all AIPs that the current LAM procedures require that claims with aflatoxin levels exceeding levels set by the Federal or State Government or any other regulatory body cannot be finalized until the final disposition of the crop. RMA agreed to pursue the overpayments but did not agree with having to track them. In addition, RMA agreed that the LAM procedures need to be strengthened but did not agree that claims should remain open until final disposition. (Audit Report No. 05601-15-Te, Crop Loss and Quality Adjustments for Aflatoxin-Infected Corn)

Delta Regional Authority (DRA) Appropriately Accounted for Funds

We found that DRA is accounting for appropriated funds and tracking grantee adherence to Federal regulations and DRA policy. Our review of DRA's operations for FYs 2005-2007 disclosed no substantial matters of concern. DRA, a Federal-State partnership, helps economically distressed communities

in eight States develop infrastructure, improve transportation, encourage business, and train workers. (Audit Report No. 62099-02-Te, Controls Over Issuance of Appropriated Funds by DRA – FYs 2005-2007)

Payment Limitation Provisions Were Violated, Allowing Two Partnerships To Improperly Receive More Than \$1.4 Million in Program Payments

We found that two partnerships in Louisiana were not separate and distinct for payment limitation purposes and, hence, had applied for and received more than \$1.4 million in improper farm program payments. They were operating as one farming operation to conceal the true interest of one individual, a medical doctor. Each partnership was composed of 3 individual partners and 3 corporate partners, resulting in 12 separate payment limitations for the 2 partnerships. The six individuals were related and constituted the stockholders in the six corporations.

The partnerships did not maintain funds and accounts separate from each other, and the members did not exercise separate responsibility for their interests. The same equipment (mostly owned by the doctor) was shared by the partnerships for farming operations, funds were shifted between the partnerships and the doctor, and some operating expenses were not paid timely to individuals or entities with direct or indirect interests in the partnerships' farming operations or were not proportionately shared between the partnerships.

The Louisiana State FSA Committee agreed with our findings and, in response to our recommendations, determined that the members of the partnerships did not meet the procedural requirements to be recognized for separate payment limitations and that the members of the partnerships adopted and participated in a scheme or device designed to evade payment limitation and payment eligibility provisions for the years 2000 through 2002. FSA began collection on resultant overpayments of about \$1.4 million. (Audit Report No. 03099-181-Te, Payment Limitation Review in Louisiana)

Grantee Failed To Comply With Federal Regulations and Rural Utilities Service (RUS) Grant Agreements

We conducted a closeout audit of seven RUS broadband grants to determine whether the grantee incurred any allowable expenditures between the date of the last RUS compliance review, March 18, 2005, and the suspension date of the grants,

September 30, 2005, or whether there were any other costs incurred that RUS should credit. We found that the Texas grantee failed to abide by the terms of the grant agreements and did not comply with Federal regulations. We determined that the grantee's request for funding far exceeded the immediate need for reimbursement. The grantee requested and received approximately \$1.9 million of the \$2.7 million authorized for the seven grants. Specifically, the grantee requested the entire amount budgeted for line items as reimbursement for expenses incurred even though it had not expended that amount almost 2 years later. Also, in many instances, the grantee claimed reimbursement for expenses that were not allowable according to Federal regulations or were not properly supported by adequate documentation. RUS agreed to require the grantee to refund \$429,159 in Federal grant funds received. (Audit Report No. 09601-6-Te, Texas Community Connect Grantee Close-Out Audit)

GOVERNMENTWIDE ACTIVITIES – GOAL 2

Review of Legislation, Regulations, Directives, and Memoranda

- In connection with our audit of FSA's TTPP assessments, OIG provided comments and feedback to FSA on a draft revision to TTPP regulations. FSA included the term "third parties" to describe those to whom FSA would release the market share data of tobacco manufacturers and importers. OIG commented that FSA could be in violation of the Internal Revenue Code of 1986 (26 U.S.C. 6103) if FSA disclosed any information about a company that was not provided to FSA directly from the manufacturers and importers. The final rule dated April 29, 2008, states that, in future assessment notices, FSA will release to reporting manufacturers and importers the qualifying market share of other manufacturers and importers, based solely on information supplied by the reporting manufacturer or importer to FSA. This is a deviation from the language in the original draft we reviewed, as FSA is no longer including the term "third party" to describe who will be receiving the market share information.

Participation on Committees, Working Groups, and Task Forces

- Since November 2005, OIG Special Agents have been working on Hurricanes Katrina/Rita Task Force investigations in Mississippi and Louisiana. To date, OIG has conducted 75 cases in which FNS, FSA, and Rural Development (RD) have been defrauded by individuals who have submitted false claims or provided false statements to obtain Federal benefits. From June 2006 to date, 103 individuals have been indicted, 50 have been convicted and sentenced, and fines and restitution thus far have totaled \$26,725 and \$691,568, respectively. The judicial process continues with 53 additional subjects that have pled guilty or are awaiting trial. The task force is expected to continue through FY 2009.
- An OIG Special Agent has been working with the FBI's Safe Streets Task Force in Indianapolis, Indiana, since 2000. The mission of the task force is to deter street gang and drug-related violence, as

well as seek the most significant fugitives wanted for crimes of violence through long-term, proactive, and coordinated teams of Federal, State, and local law enforcement officers and prosecutors.

- OIG Special Agents are participating on a Bridge Card Enforcement Team (BCET) task force to investigate criminal violations of the Food Stamp Program and WIC. Members include the Michigan State Police and IRS CI. The FBI, Social Security Administration OIG, and ICE have provided assistance during warrant operations. The initiative, which has been operational since June 2007, has resulted in 64 arrests and 73 search warrants served in the Detroit metropolitan area. Criminal prosecutions are being pursued through the U.S. Attorney's Office for the Eastern District of Michigan and the Michigan Attorney General's Office. To date, work in this area has resulted in 27 guilty pleas, and sentences that include incarceration, fines, and restitution. Forfeiture actions of \$1.6 million have also been initiated by the U.S. Attorney's Office. The task force is expected to continue through FY 2009.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

Topics that will be covered in ongoing or planned reviews under Goal 2 include:

- Child and Adult Care Food Program (FNS),
- WIC vendor monitoring (FNS),
- continued monitoring of EBT implementation (FNS),
- 2008 Farm Bill changes to payment limitation (FSA),
- adjusted gross income limitation (NRCS and FSA),
- price discovery efforts for various crops reported nationwide (National Agricultural Statistics Service (NASS)),
- implementation of the Average Crop Revenue Election (ACRE) Program (FSA),
- implementation of the Supplemental Agricultural Disaster Assistance Programs (FSA),

- management controls over research agreements (ARS),
- management controls over the Market Access Program (FAS),
- Pasture, Rangeland, and Forage Programs (RMA),
- citrus indemnity payments resulting from 2005 Florida hurricanes (RMA),
- implementation of AIPs' appendix IV/ quality control reviews (RMA),
- Catastrophic Risk Protection Program (RMA),
- Farm and Ranch Lands Protection Program, review of non-governmental organizations (NRCS),
- FSA and NRCS methods to assess integrity of programs,
- Conservation Loan and Loan Guarantee Program (NRCS and FSA),
- Midwest disaster assistance programs (FSA, NRCS, and RD),
- FS administration of grants,
- Rural Business-Cooperative Service's (RBS) Intermediary Relending Program,
- effectiveness and enforcement of debarment and suspension regulations throughout USDA,
- controls over lender activities in the Single Family Housing (SFH) Guaranteed Loan Program (Rural Housing Service (RHS)),
- Rural Rental Housing maintenance costs and inspection procedures (RHS), and
- distance learning and telemedicine grants and loans (RD).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Management Improvement Initiatives

OIG Strategic Goal 3:

Support USDA in implementing its management improvement initiatives.

OIG conducts audits and investigations that focus on such areas as improved financial management and accountability, IT security and management, research, real property management, employee corruption, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with \$128 billion in public resources annually. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains.

In the second half of FY 2008, we devoted 37 percent of our total direct resources to Goal 3, with 98.2 percent of these resources assigned to critical/high-impact work. A total of 97.6 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 87.6 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 11 audit reports under Goal 3 during this reporting period and a total of 25 during the full fiscal year. OIG investigations under Goal 3 yielded 30 indictments, 34 convictions, and \$3.5 million in monetary results during the reporting period and a total of 32 indictments, 34 convictions, and about \$4 million in monetary results during the full fiscal year.

Management Challenges Addressed UNDER GOAL 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 4)
- Implementation of Strong, Integrated Internal Control Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 1)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 4)
- Implementation of Renewable Energy Programs at USDA

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

USDA's Implementation of Renewable Energy Activities Needs Improvement

We reviewed renewable energy activities in USDA at the Department level and at seven agencies (ARS, CSREES, FSA, FS, NRCS, RBS, and RUS). We found that USDA does not have a renewable energy strategy covering all agencies and programs within the Department. Consequently, agency managers for programs that did not receive funds

appropriated for renewable energy did not place sufficient emphasis on renewable energy, including analyzing proposed projects to identify those that would provide the greatest benefit for the funds expended. We found that no agency within the Department analyzed the results of completed commercialization projects to compare expected and actual renewable energy results. In the research area, the Department was not always performing work in high-priority areas. We also found that the Department had not established controls to prevent or detect duplicate funding to recipients of loans and grants for renewable energy projects. In addition, in

FY 2006, the Department understated renewable energy activities reported to OMB by up to \$97 million.

The Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers, a detailed course of action to accomplish those goals, and measures to evaluate performance; develop and implement controls for agencies to check for duplicate funding of renewable energy projects; and revise the renewable energy reporting format to ensure that all renewable energy funding is reported. (Audit Report No. 50601-13-Ch, Implementation of Renewable Programs in USDA)

ARS Needs a Process To Evaluate the Continued Relevance of Its Renewable Energy Research Projects and To Report Renewable Energy Research Activities Accurately

We generally did not find problems with ARS' administration of renewable energy research, but we did note that in some cases the agency's efforts were directed toward areas of questionable benefit. Since the inception of the Bioenergy and Energy Alternatives National Program in April 1999, ARS has followed a 5-year cycle for its research projects. Although the agency reviews its ongoing research projects annually, this review does not evaluate the continued importance or relevance of ongoing research in terms of outside factors such as changing economic conditions. In addition, research projects that continue for 5 years without being re-evaluated may not address new priorities set by the Administration or by Congress. Specifically, our review of 7 of 29 ARS biofuels research projects disclosed that 3 were targeted toward either process improvements or the identification of saleable co-products to benefit the corn ethanol industry. These projects began from 2000 to 2004, but outside economic factors allowed the corn ethanol industry to expand and mature even without the benefits of this ongoing research. This conclusion was also reached by an independent panel of experts performing a retrospective review of ARS' Bioenergy and Energy Alternatives National Program in 2007. While highly supportive of ARS' biofuels research program overall, the reviewers noted that because corn ethanol was now viable on its own, little or no public funding for research was justified. ARS generally agreed with our findings and recommendations. (Audit Report No. 02601-2-Ch, Implementation of Renewable Energy Programs at ARS)

CSREES Needs To Strengthen Oversight of Funding Grant Projects and Ensure Consistent Information Is Reported on Renewable Energy

Our review of the National Research Initiative Competitive Grants Program (NRICGP) found that while CSREES implemented processes for evaluating, prioritizing, and funding grant proposals, it did not develop written guidance on how to use its research information system as an oversight tool to check for duplicate funding or monitor work performed. As a result, CSREES had reduced assurance that grant funds were used for intended purposes. We also found that CSREES had not fully reported all renewable energy activity to the Department. This occurred because CSREES' program staff did not follow the Office of Budget and Program Analysis (OBPA) guidance, which lists everything that should be included to determine the activity to report. CSREES agreed to document policies and procedures to review the information system for duplicate research and will incorporate guidance to determine the renewable activity to report to the Department. (Audit Report No. 13601-01-Hy, NRICGP)

FS Needs To Implement a National Strategy for and Establish Controls To Track Its Renewable Energy Resources

Our review of FS' Renewable Energy Program concluded that FS has made strides toward increasing renewable energy production—especially in using woody biomass—but still needs to develop a national strategy with annual performance measures for renewable energy resources in national forests. Further, FS needs to more effectively track its renewable energy resources (wind, solar, hydropower, geothermal, and woody biomass) to ensure they meet the goals of the National Energy Policy and the President's Advanced Energy Initiative. Otherwise, FS lacks a proactive plan to increase the use of renewable energy resources and cannot measure its success in increasing production.

We also determined that FS lacks controls to ensure that the reimbursements to Woody Commercial Biomass Utilization Program grant recipients match the expenses incurred by them. Finally, FS does not have formal procedures to ensure that its research projects do not duplicate other USDA research projects. FS relies on information recorded in the Current Research Information System (CRIS) to prevent research from

being duplicated. However, the agency has not developed guidance on when its research units should enter their research projects into CRIS or use CRIS to check for duplicative research.

FS generally concurred with our findings, agreed to take corrective actions to implement the recommendations, and stated its belief that the corrective actions would benefit the overall renewable energy program. (Audit Report No. 08601-52-SF, FS's Renewable Energy Program)

RBS Could Improve Its Renewable Energy Activities

We found that RBS funded many worthwhile renewable energy projects that have had a positive impact, including ethanol and bio-diesel production facilities, wind and solar power generation projects, and landfill recovery systems. However, we found that more emphasis could have been placed on renewable energy projects in the five programs where funds were not appropriated for that purpose, in part, because field staff were not using selection criteria developed by the national office that benefited applications involving renewable energy projects. RBS also had not identified the projects that would provide the highest energy output per amount funded on the project. Further, agency officials had not analyzed the results of completed projects to compare expected and actual renewable energy outcomes.

In addition, the agency had not developed effective and formal internal controls to prevent applicants from receiving duplicate funding from RBS' six programs with renewable energy activity or even to detect duplication when it did occur. Moreover, RBS underreported renewable energy activities to OBPA by more than \$38 million for FY 2006 because agency officials misunderstood reporting requirements but did not contact OBPA for guidance.

We found no instances where funds spent on renewable energy projects were provided to ineligible applicants and no instances where funds specifically appropriated for renewable energy activities were diverted to other purposes. RBS generally agreed with the findings and recommendations. (Audit Report No. 34600-5-Ch, Implementation of Renewable Energy Programs in RBS)

FSA Did Not Correctly and Consistently Determine Eligibility for the Emergency Forestry Conservation Reserve Program (EFCRP)

Our review of 55 EFCRP offers identified potential overpayments of \$814,430 for 11 offers, of which FSA corrected \$655,520 during our fieldwork. The purpose of EFCRP is to provide assistance to owners and operators of private non-industrial forestland who suffered at least 35 percent losses of merchantable timber as a result of the 2005 Hurricanes Dennis, Katrina, Ophelia, Rita, and Wilma. Some errors occurred because the agency's procedures did not provide clear guidelines for determining the eligibility of offers. For example, we found three offers that were considered eligible for EFCRP although all or part of the offered acres had been clear-cut before the qualifying hurricanes. In other cases, FSA employees and technical service providers did not determine eligibility in accordance with procedure. We also found that Alabama, Mississippi, and Texas used different methodologies to determine the value of damaged trees, which caused differences in applicants' calculated loss percentages and eligibility.



This is part of 54.1 acres that were clear-cut on a tract of land before Hurricane Katrina. OIG photo.

FSA agreed to clarify guidelines and terminology that had been subject to interpretation by the agency's State and county employees and State forest agency personnel, require second-party or other reviews to ensure offers are eligible before accepting contracts, and review all questionable EFCRP offers not corrected during our audit and take appropriate corrective

action. The audit was conducted as part of the President's Council on Integrity and Efficiency (PCIE) examination of the Federal Government's relief efforts after Hurricanes Katrina and Rita. (Audit Report No. 03601-24-KC, Hurricane Relief Initiatives: EFCRP)

FAS Needs To Strengthen Certain Aspects of the Export Credit Guarantee Program

Our review generally found that FAS had developed, implemented, and demonstrated a commitment to the necessary internal controls for the General Sales Manager (GSM) 102 program, which provide guarantees for commercial financing by U.S. private banking institutions of U.S. agricultural exports. Our audit did note areas where improvements could be made to the program's internal controls and where formalizing the controls is needed.

In September 2004, the World Trade Organization ruled that this export credit guarantee program included a subsidy that was in violation of the trade agreement. Unless the subsidy matters were resolved by July 1, 2005, a \$4 billion trade sanction would be imposed on the United States. In response, FAS implemented a country risk-based premium structure for the GSM-102 program in July 2005 to reduce the subsidy. We found, however, that the risk associated with the soundness of the foreign bank was not considered in the premium structure. FAS agreed to develop a new guarantee fee structure that includes the financial risk of both the foreign country and the foreign bank itself.

FAS also needs to develop and implement controls for safeguarding GSM-102 claim files. In September 2005, the control of claim files was divided between FAS (for foreign privately owned banks) and FSA (for foreign government-sponsored banks). We identified that the claim files for privately owned banks located in three countries had not been transferred to FAS at the time of our fieldwork and could not be readily produced. FAS officials were later able to provide these records for our review. Subsequent to our audit fieldwork, control and possession of all claim files were transferred to FAS. (Audit Report No. 07601-2-Hy, Export Credit Guarantee Program)

Management Controls Need To Be Strengthened Over RMA's Oversight of Agricultural Risk Protection Act of 2000 (ARPA) Contracts and Partnership Agreements

ARPA provided RMA with the authority to enter into research and development contracts and partnerships for new or expanded crop insurance products. Our audit did not find any improprieties when we examined whether RMA effectively implemented and properly monitored ARPA contracts and partnership agreements awarded during FYs 2004 through 2006. However, we determined that RMA should strengthen its management controls over documenting, monitoring, and administering ARPA research and development contracts and partnership agreements and over the training of officials responsible for administering these contracts and partnership agreements. The weaknesses we identified could potentially reduce the assurance that ARPA contract and partnerships provisions were being met.

We recommended that RMA officials establish and implement formal policies and procedures on sufficient documentation and proper administration and monitoring of ARPA contracts and partnerships. We also recommended RMA officials establish and implement a formal training plan, including completing training needs assessments and internally tracking continuous learning received by program officials responsible for administering and monitoring ARPA contracts and partnerships. RMA officials generally agreed and stated that they planned to issue formal policies and procedures after reviewing the recommendations. (Audit Report No. 05099-112-KC, Contracting for Services Under ARPA)

Improper Reimbursement Requirements and Ill-Defined Missions Increase Costs and May Hinder FS Operations

In a national disaster, FS can be directed by the Federal Emergency Management Agency (FEMA) to help respond to the emergency. FS recoups its expenses from Federal disaster relief funds, subject to FEMA's approval. Our audit found that FEMA did not follow directions contained in the National Response Plan (NRP) on reimbursements to Federal agencies. NRP directs FEMA to rely on agencies' internal controls to ensure expenses are accurate and allowed, while FEMA required FS to provide expensive and unnecessary documentation to justify every expense. FEMA denied reimbursements for

63 percent (\$117 million) of the \$186 million FS spent. This reduced critical firefighting funds and left FS responsible for expenses incurred supporting FEMA's disaster relief. A subsequent audit by DHS OIG (coordinated with USDA OIG) demonstrated that FS had an error rate of only 0.003 percent, or \$490.63 out of \$15 million in sampled transactions. Our audit also found that FS had accepted mission assignments from FEMA that were poorly defined and ill-suited to FS' training and expertise, wasting resources and endangering personnel.

FS agreed to elevate the reimbursement issues to the Undersecretary of DHS; continue its efforts in meeting with FEMA to establish the appropriate "reverse" chargeback amount upon receipt of the DHS OIG audit results; create a formal Memorandum of Understanding (MOU) between FS and FEMA to establish agreed-upon procedures for reimbursement, property, and missions; and use the dispute resolution process to resolve any future conflicts with FEMA. (Audit Report No. 08601-51-SF, FS Controls Over Documenting and Reporting Its Hurricane Relief Expenditures to FEMA)

National Finance Center (NFC) Receives First Unqualified Opinion on Its General Controls

USDA's NFC received its first unqualified opinion on its general control environment. Our review disclosed that NFC's description of controls presented fairly, in all material respects, the relevant aspects of NFC controls that had been placed in operation as of June 30, 2008. Also, in our opinion, the controls included in the description were suitably designed and operating with sufficient effectiveness to provide reasonable assurance that associated control objectives would be achieved. (Audit Report No. 11401-28-FM, Statement on Auditing Standards No. 70 Report on the NFC General Controls – FY 2008)

Retirement, Health, and Life Insurance Withholdings/Contributions Were Reasonable

As required annually by OMB, we assisted the Office of Personnel Management (OPM) in assessing the reasonableness of retirement, health, and life insurance withholdings/contributions and employee data submitted by the Office of the Chief Financial Officer (OCFO)/NFC. We found that no differences exceeded the allowable OPM thresholds. (Audit

Report No. 11401-29-FM, FY 2008 Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to OPM)

Rural Telephone Bank (RTB) Final Liquidation and Dissolution Activities Met Standards

We performed a limited scope closeout audit of RTB to evaluate whether the dissolution and liquidation activities of RTB subsequent to the final RTB financial statement audit as of September 30, 2006, were conducted according to prescribed accounting principles relating to disbursements. RTB had approximately \$40 million available for final distribution as of September 30, 2006, which was subsequently paid to the bank's stockholders. The distribution payment calculations for each shareholder were based on Section 411 of the Rural Electrification Act. We concluded that RD and RTB conducted the final dissolution and liquidation activities according to prescribed accounting principles relating to disbursements. (Audit Report No. 15401-08-FM, RTB Closeout Audit)

Operation Talon Update—1,910 Arrests in 7 States During This Reporting Period

OIG began Operation Talon in 1997 to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. As of September 30, 2008, Operation Talon had resulted in 13,905 arrests of fugitive felons during joint OIG-State and local law enforcement operations. During this reporting period, OIG agents conducted Talon operations in 7 States, making a total of 1,910 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest 937 fugitives in Ohio, 507 in Tennessee, 401 in Massachusetts, 35 in California, 16 in Maryland, 8 in Oregon, and 6 in Arizona for offenses including homicide, arson, assault, burglary, motor vehicle theft, assorted drug charges, robbery, fraud, forgery, driving under the influence, extortion and blackmail, rape, sex offenses, offenses against family and children, larceny, stolen property, weapons violations, and other offenses.

Former USDA Employee Sentenced for Computer Fraud

In May 2008, a former FSA employee in Missouri was sentenced in Federal court to serve 60 months of probation and was ordered to pay \$35,207 in restitution and a \$100

special assessment. The former employee used her Government computer to embezzle approximately \$35,207 in FSA program payments over 18 months by issuing FSA payments in the names of inactive or deceased producers. The woman then deposited the funds electronically into her personal bank account. OIG's NCFD provided computer forensics assistance in this case.

Stronger Controls Needed To Protect USDA Data When Using Wireless Connections

We evaluated security controls in place over the use of wireless technology connected to USDA networks and the controls that Office of the Chief Information Officer (OCIO) and selected agencies had over wireless devices. We found that controls over wireless connections were inadequate and that stronger oversight was needed by OCIO. OCIO concurred with our recommendations and has proposed additional corrective actions. (Audit Report No. 50501-09-FM, Management and Security Over USDA Wireless Connections)

Information Technology (IT) Improvements Have Been Made, but More Are Needed for an Effective Department Security Plan

Our review determined that the Department has improved its IT security oversight in several areas during FY 2008. For example, oversight of the certification and accreditation process has significantly improved. However, a continuing material IT control weakness exists within the Department because of the lack of an effective Departmentwide plan. Although improvements were noted, weaknesses still remain in updating software, finding and fixing vulnerabilities, and using standard security settings. With such a large and diverse Department, ensuring that all agencies comply with standards will take time and resources. OCIO is working diligently toward this goal. (Audit Report No. 50501-13-FM, FY 2008 Federal Information Security Management Act Report)

OCIO/National Information Technology Center's (NITC) Controls Were Suitably Designed and Operating Effectively

Our review of OCIO/NITC internal controls as of June 30, 2008, disclosed that the documentation of control objectives and techniques provided by OCIO/NITC presented fairly, in all material aspects, the relevant aspects of OCIO/NITC's controls taken as a whole and those controls had been placed

in operation. Also, in our opinion, the policies and procedures were suitably designed to provide reasonable assurance that control objectives would be achieved and operate effectively. (Audit Report No. 88501-12-FM, FY 2008 Statement on Auditing Standards No. 70, Report on the NITC General Controls)

OCFO Strengthened Controls for Individually Billed Travel Cards

In June 2003, OIG issued a report finding inadequacies in USDA's internal controls over the individually billed travel card program (Audit Report No. 50601-05-HQ). In a new report, we determined that our prior recommendations had been implemented and that internal controls for the program had been strengthened. For example, in response to our recommendation, OCFO restricted travel card use at vendors that offered services and/or products that are non-travel related. In addition, OCFO instituted analytical procedures to monitor the use of travel cards. Finally, we noted that OCFO is implementing OMB requirements for credit checks and training for program participants. Based on our testing, we did not find the level of misuse that had been evident in our prior audit. We found USDA and its agencies taking an active role in monitoring the use of the individually billed cards. Based on data from OCFO, the delinquency rates for the agencies we reviewed had declined. As such, our new report made no recommendations. (Audit Report No. 50601-04-Hy, Adequacy of Internal Controls Over Travel Card Expenditures Followup)

APHIS Is Performing Transfers in Accordance With Appropriations Language

We audited APHIS' Veterinary Services (VS), at the request of a Member of Congress, to determine whether APHIS VS was inappropriately transferring program funds. We found that the questioned transfers are between fund accounts of programs within APHIS VS; therefore, APHIS is performing transfers in accordance with appropriations language and agency guidelines. We also determined that APHIS is accurately tracking time and attendance information as submitted by its employees. Based on our testing, we did not find that APHIS was mischarging expenses. (Audit Report No. 33601-03-Hy, APHIS' Transfer Authority of Program Funding)

GOVERNMENTWIDE ACTIVITIES – GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *Federal Information Infrastructure Response Act of 2008.* OIG reviewed this draft Senate bill, which proposed to amend 44 U.S.C. § 2545(a)(1), requiring the PCIE to annually review, update, and accept information security standards. OIG commented that, because the PCIE does not have separate appropriations and relies upon staff from member OIGs to perform its various functions, this new requirement would take away resources from various Inspectors General (IG) that could otherwise be used to address waste, fraud, and abuse in their respective agencies. Additionally, OIG suggested that the drafters of the bill clarify the role of the PCIE, to include who would initially develop information security standards. If the PCIE were to develop such standards, it might conflict with the IG Act's prohibition on an IG playing an operational or policy-making role. Lastly, OIG noted that, if the PCIE were to set Governmentwide information security standards, it would create a conflict with the Federal auditing standards issued by the Government Accountability Office (GAO).
- *Strengthening Transparency and Accountability in Federal Spending Act of 2008.* OIG reviewed S. 3077, which would, in part, require OIG to review a statistically representative sample of agency Federal awards every 6 months. Such reviews would be conducted to verify the accuracy of the data and that data standards are being followed. OIG commented that reviewing USDA's payment data is an internal control process that is already a responsibility of the Department, as set forth in current OMB guidance. As such, requiring OIG to conduct such reviews would be potentially duplicative. Furthermore, due to OIG's other Congressionally mandated audits, OIG was concerned that the new requirements would be overly burdensome and potentially limit OIG's ability to fulfill its primary mission of detecting and deterring waste, fraud, and abuse. Therefore, OIG recommended that the section mandating the semiannual reviews be deleted or, in the alternative, revised to call for periodic rather than semiannual reviews, subject to OIG discretion regarding the scope and purpose of such reviews.

- *Government Credit Card Abuse Prevention Act of 2008.* OIG reviewed S. 789, which proposes new safeguards and internal controls for use of Government travel charge cards and purchase cards. OIG recommended that language be added to clarify that an "approving official" charged with approval and disapproval of expenditures of a particular cardholder must not be subject to the supervisory control of such cardholder. OIG also recommended that the provisions regarding referral of suspected employee fraud to the U.S. Attorney's office be strengthened to clarify that such referrals be made for criminal or civil prosecution, as appropriate. Finally, OIG noted that the penalties differed for violation of travel charge card regulations and purchase card regulations, in that the latter were more detailed. Although OIG recognized that there are inherent differences between the two types of cards, OIG felt that certain actions, specifically referral of allegations of fraud to the IG, should be taken regardless of which type of card is involved. Therefore, OIG recommended that such provisions also be added to the section regarding travel charge cards.

Participation on Committees, Working Groups, and Task Forces

- *PCIE Legislation Committee.* The USDA IG continues to serve the Federal IG community as the Chair of the Legislation Committee of the PCIE. During the reporting period, the Legislation Committee held several meetings to discuss pending bills that would amend the IG Act and provided comments as requested to the House Oversight and Government Reform Committee and the Senate Homeland Security and Governmental Affairs Committee (HSGAC). On April 23, 2008, the Senate passed S. 2324, the "Inspector General Reform Act of 2007" (the Senate counterpart to H.R. 928, the "Improving Government Accountability Act"). After conferencing, H.R. 928 was amended and renamed the "Inspector General Reform Act of 2008." The Senate passed H.R. 928 on September 24, 2008, by unanimous consent, and the House passed it on September 27, 2008, by a vote of 414-0. (The President signed the legislation after the end of the reporting period on October 14, 2008.)
- On an ongoing basis, the Legislation Committee monitored and tracked all IG-related legislation that

was introduced in Congress and kept the affected IGs notified of these bills' progress. The committee considered specifically the requirements that would be imposed upon OIGs and their host establishments by several bills. For example, several IGs met with HSGAC staff and GAO officials to discuss concerns with provisions in H.R. 5683, the "Government Accountability Act of 2008," that would authorize GAO to perform additional audit work on an agency's audited financial statements and receive reimbursement. This bill was subsequently amended to address IG community concerns. As amended, H.R. 5683 passed Congress and was signed by the President on September 22, 2008, as P.L. 110-323.

In addition, the committee provided comments to HSGAC expressing IG community concerns on the following bills: (1) S. 2583, the "Improper Payments Elimination and Recovery Act of 2008," which would amend the "Improper Payment Information Act of 2002" and impose additional requirements on OMB, Federal agencies, executive branch IGs, and the PCIE; (2) S. 789, the "Government Credit Card Abuse Prevention Act of 2008," regarding proposals for IGs to make findings regarding an employee's culpability for alleged misuse of a Government credit card and undertake periodic audits and reporting; (3) S. 3077, the "Strengthening Transparency and Accountability in Federal Spending Act of 2008," which would mandate that OIGs conduct audits of data on agency awards (such as financial assistance and procurement) every 6 months, among other provisions; and (4) S. 3474, the "Federal Information Security Management Act of 2008 (FISMA)," which would change the requirements for evaluation or review of the agency's information security systems under the current FISMA to an annual audit.

- The USDA IG is a member of the National Procurement Fraud Task Force, formed by DOJ in October 2006 as a partnership among Federal agencies charged with the investigation and prosecution of illegal acts in connection with Government contracting

and grant activities. The task force has worked to better allocate resources and improve coordination in procurement and grant fraud cases and otherwise to accelerate investigations and prosecutions. During this period, the task force has developed training programs on procurement and forensic auditing. At the regional level, OIG Investigations field offices in the Northeast Region, Great Plains Region, Midwest Region, Southeast Region, and Western Region participate on Procurement Fraud Task Forces initiated by the local U.S. Attorneys' Offices. This task force is expected to continue through FY 2009.

- OIG auditors are members of the Interagency Suspension and Debarment Committee (ISDC), created as an OMB committee by Executive Order 12549 to monitor the implementation of the order, which mandates that executive departments and agencies:
 - participate in a Governmentwide system of suspension and debarment,
 - issue regulations with Governmentwide criteria and minimum due process procedures when debarring or suspending participants, and
 - send debarred and suspended participants' identifying information to the General Services Administration for inclusion on the Excluded Parties List System.

The committee also facilitates lead agency coordination; serves as a forum to discuss current issues related to suspension and debarment; assists in developing unified Federal policy; and, when requested by OMB, serves as a regulatory drafting body for revisions to the Governmentwide nonprocurement suspension and debarment common rule.

In addition to participating in the ISDC monthly meetings, OIG is acting as co-chair on the ISDC subcommittee on parallel proceedings. Parallel proceedings are the concurrent use of criminal, civil, and administrative actions (e.g., suspension and debarment) to fully employ all the remedies available to the Federal Government when taking actions against those persons or entities that abuse or harm Federal programs.

- OIG's NCFD is an active participant in the PCIE IT Committee's Investigations Subcommittee and the Working Group on Computer Forensics. The subcommittee is now reviewing Encryption Key Escrow policies within each participating agency to help establish a best-practices document related to key escrow. The subcommittee is expected to continue through FY 2009.
- A forensic analyst from OIG's NCFD participates full time at the FBI's Heart of America Regional Computer Forensic Lab (HARCFL) in Kansas City, Missouri. Participation in HARCFL has been beneficial in obtaining direct access to a Regional Computer Forensics Laboratory, training, sample policies and procedures, and, as needed, FBI assistance in OIG's forensic examinations. OIG work in this area is expected to continue through FY 2009.
- *National Single Audit Sampling Project.* This project is being conducted under the auspices of the PCIE Audit Committee study, Report on National Single Audit Sampling Project, issued to OMB in June 2007, on the quality of audits performed under OMB Circular A-133 and how to improve them. Prompted by the PCIE study, but not under the purview of PCIE, OMB has designated a number of Federal agencies to examine whether the Single Audit process should be changed and, if so, how. USDA OIG continues to participate in one of eight Single Audit Improvement Workgroups, entitled "The New and Improved Single Audit Process." This workgroup is seeking input from the audit community—Federal (including GAO), State, and local governmental auditors, and certified public accountants—as well as the report user community. Since February 2008, the workgroup has been reviewing OMB Circular A-133 to identify changes needed, addressing both the impact on the community and the Single Audit process. Upon completion of the review within OMB, the workgroup will draft a Federal Register Notice to accompany a Notice of Proposed Rulemaking.
- OIG auditors are members of the Financial Statement Audit Network (FSAN), consisting of OIG auditors from numerous Federal agencies who share ideas, knowledge, and experiences in the audit community. In conjunction with an FSAN workgroup, USDA OIG

assisted in the PCIE Peer Review Standards revision process, prompted by changes in the Government Auditing Standards and the Statement of Auditing Standards issued by the American Institute of Certified Public Accountants. OIG staff provided technical assistance in revising Appendix D, which provides guidance for reviewing financial statement audits where an OIG is the primary auditor.

Testimony Delivered

- *IG Testifies Before the House Committee on Oversight and Government Reform's Subcommittee on Government Management, Organization, and Procurement Regarding USDA's Management Actions on Civil Rights Complaints.* On May 14, 2008, IG Phyllis Fong presented testimony describing OIG's oversight work related to civil rights issues at USDA. IG Fong stated that ensuring fair treatment and due consideration for all USDA stakeholders and employees must be a matter of daily emphasis for USDA's agencies and offices. OIG's audit work on civil rights complaint processing at USDA has identified recurring themes such as continual internal reorganization within the Civil Rights office (CR, now the Office of Adjudication and Compliance), turnover of management and staff, and lack of adequate management controls to track and monitor progress in achieving results, among other issues. After discussing OIG's extensive work on management and administrative issues related to civil rights concerns over the past decade, the IG's testimony discussed OIG's most recent oversight work—the May 2007 report evaluating USDA's progress in addressing Equal Employment Opportunity (EEO) complaints, which had three primary findings. First, CR had improved its timeliness in processing complaints but needs to implement additional measures to close them within an acceptable timeframe. Second, CR's automated system for processing and tracking EEO complaints did not have sufficient business rules to ensure the completeness of the complaint data being entered. Finally, OIG found that CR has made progress in properly maintaining case files but had not yet established adequate controls over its file room operations and documentation. IG Fong advised the Subcommittee Members of the recommendations OIG had issued to CR to address each of these concerns.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

Topics that will be covered in ongoing or planned reviews under Goal 3 include:

- annual audits of the Department and standalone agencies' financial statements for FYs 2008 and 2009 (OCFO),
- GIPSA's management and oversight of the Packers and Stockyards Program,
- acquisition of IT software, hardware, and services by OCFO,
- agreed-upon procedures: retirement, health, and life insurance withholdings/contribution and supplemental headcount report submitted to OPM FYs 2008 and 2009 (OCFO),
- accounting for farm loan programs (FSA),
- National School Lunch Program improper payments (FNS),
- controls over property used to secure farm loans (FSA),
- FY 2009 Defense Contract Audit Agency (DCAA) Contract Audit Administration (USDA),
- GovTrip to Foundation Financial Information System Interface (OCFO),
- Controls Over Implementation of Competitive Sourcing Efforts (OCFO),
- Hurricane Relief Initiatives:

- Section 32 disaster programs including the Feed, Hurricane (crop), and Livestock Indemnity Programs (FSA and CCC),

- establishment of average yields (NASS),
- USDA's Joint Subcommittee on Aquaculture's coordination of research (ARS),
- compliance activities (RMA),
- 2005 emergency hurricane relief efforts in Florida (RMA),
- programs for beginning farmers and ranchers (FSA, RMA, NRCS, and RD),
- Livestock Risk Protection Program (RMA),
- monitoring the implementation of the new farm bill provisions and mandates (FSA, NRCS, RMA, and RD),
- FS acquisition of IT software/hardware,
- FS working capital fund,
- FS firefighting cost share agreements with non-Federal entities,
- Federal lands recreation enhancement fund (FS), and
- Electronic Incident Reporting System (FS).
- The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Stewardship Over Natural Resources

OIG Strategic Goal 4:

Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

OIG's audits and investigations focus on USDA's management and stewardship of natural resources, including soil, water, and recreational settings. Our work in this area is vital because USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as the 192.5 million acres of national forests and wetlands. USDA also provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the second half of FY 2008, we devoted 2.8 percent of our total direct resources to Goal 4, with 97.0 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 4 resulted in management decision within 1 year, and 56.1 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued three audit reports under Goal 4 during this reporting period and a total of three during the full fiscal year. OIG investigations under Goal 4 yielded one indictment, no convictions, and \$299,076 in monetary results during the reporting period and a total of four indictments, five convictions, and about \$1.6 million in monetary results during the full fiscal year.

Management Challenges Addressed Under Goal 4

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 3)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 3)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

NRCS Improperly Obligated Wetlands Reserve Program (WRP) Funds and Inadequately Monitored Easements

During the 2002 Farm Bill period, 38 NRCS State offices improperly incurred new obligations for more than 1,400 contracts with expired WRP funds authorized under the 1996 Farm Bill. In some cases, NRCS deobligated and reobligated the same funds over multiple years—in effect, exceeding its 2002 Farm Bill fiscal authority multiple times using the same 1996 Farm Bill funds. In consultation with OGC, we determined that NRCS violated the appropriation-level prohibition of the Anti-Deficiency Act (ADA). Once notified, NRCS cured this ADA violation by deobligating all open obligations from the 1996 Farm Bill, totaling about \$78 million, except for four contracts with installment payments; and by reimbursing CCC the amount that was already expended, totaling about \$15.8 million.

We also found that 5 of 6 NRCS State offices did not annually monitor 134 of 153 (88 percent) sampled WRP easements. As a result, NRCS did not detect violations on 37 of 92 (40 percent) easements we visited. Furthermore, we found that the Florida and Arkansas NRCS State offices paid more than the 75-percent cap for two 30-year easements, which totaled \$418,598 more than the allowed Federal share. NRCS agreed to develop a monitoring system to prioritize the easements and optimize monitoring resources by implementing, for example, a risk-based system; and to collect the \$418,598 in cost shares from the landowners in Florida and Arkansas. (Audit Report No. 10099-4-SF, NRCS' WRP—Wetlands Restoration and Compliance)

NRCS Improved Status Review Process

The Food Security Act of 1985, as amended, provides disincentives to farmers and ranchers to discourage them from producing annually tilled agricultural commodity crops on highly erodible cropland without adequate erosion protection. NRCS designed the status review process to evaluate producer compliance with these highly erodible land conservation (HELC) and wetland conservation (WC) provisions. Our review confirmed that NRCS has made considerable improvements to the status review sample selection and

data collection processes, addressing major areas of concern included in previous OIG audit reports. In response to earlier criticisms that tracts subject to sample selection included those not subject to the HELC or WC provisions, NRCS discussed with FSA ways to identify alternatives for establishing a more applicable universe of eligible tracts. NRCS refined the data selection criteria to provide better assurance that the universe of land tracts from which a random sample is selected includes tracts that are subject to the HELC and WC provisions, thus decreasing the time and effort associated with identifying substitute tracts and providing for more reasonable estimates of producer compliance and noncompliance.

NRCS also implemented policy that calls for the sample selection process to be completed in January of each year to ensure that the sampling and notification processes are timely completed during critical erosion control periods. Through a Web-based application, NRCS can now perform the appropriate summarization, analysis, and reporting of status review results by yearend. Our report presented no findings or recommendations. (Audit Report No. 50601-13-KC, Status Review Process)

Management Controls Over the Technical Service Provider (TSP) Process Were Generally Adequate

USDA certifies third parties that can provide conservation technical services to the Nation's farmers and ranchers

through the TSP process. We found that the TSP process generally worked as intended and made conservation technical assistance available to farmers and ranchers, supplementing the capabilities of NRCS staff. However, we determined that the acquisition of, and payment for, these technical services from third-party vendors through contribution agreements needed to be improved. Contribution agreements are used when third parties seek to partner with NRCS in accomplishing conservation assistance. Each partner contributes an equal share of the cost of the agreed-to assistance.

Our assessment of the use of contribution agreements in two States found that one State lacked much of the information that should have existed to support both the awarding of the contribution agreements and subsequent payments for the work performed. In addition, oversight of contribution agreements by the NRCS national office was not sufficient to identify and correct ongoing problems. Without better documentation, misunderstandings may occur regarding the type and extent of assistance provided, and unsupported claims could result in NRCS making improper payments. NRCS agreed to revise its guide for conducting management reviews of the acquisition process at State offices, targeting improved coverage of pre- and post-award functions performed by the States when acquiring conservation assistance through contribution agreements. (Audit Report No. 10601-5-Ch, Controls Over TSPs)

ONGOING AND PLANNED REVIEWS FOR GOAL 4

Topics that will be covered in ongoing or planned reviews under Goal 4 include:

- Conservation Security Program (NRCS),
- Wildlife Habitat Incentives Program (NRCS),
- review of NRCS conservation compliance,
- Environmental Quality Incentives Program (NRCS),
- Conservation Stewardship Program (NRCS),
- FS Invasive Species Program,
- FS watershed management,
- FS management of oil and gas resources on National Forest System lands,
- FS Legacy Program – appraisal process,
- FS administration of special use permits,
- FS cost contracting – engine crews,
- FS rights-of-way and easements,
- oversight and control of FS activities, and
- timber sale administration – Northwest Forest Plan (FS).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Gauging the Impact of OIG

MEASURING PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our newly revised goals that became effective in FY 2008:

1. Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
2. Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
3. Support USDA in implementing its management improvement initiatives.
4. Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

A second way we gauge our impact is by tracking the outcomes of our audits and investigations. Many of these measures are codified in the Inspector General Act of 1978, as amended. The following pages present a statistical overview of the OIG's accomplishments this period.

For audits we show

- reports issued
- management decisions made (number of reports and recommendations)
- total dollar impact of management-decided reports (questioned costs and funds to be put to better use)
- program improvement recommendations
- audits without management decision

For investigations we show

- indictments
- convictions
- arrests
- total dollar impact (recoveries, restitutions, fines)
- administrative sanctions
- OIG Hotline complaints

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2007 Actual	FY 2008 Target	FY 2008 2nd Half Actual	FY 2008 Full Year Actual
OIG direct resources dedicated to critical-risk and high-impact work	92.8%	90%	95.0%	95.3%
Audit recommendations resulting in management decision within 1 year of report issuance	84.0%	85%	97.0%	84.3%
Closed investigations previously referred for action that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result	73.7%	65%	68.7%	72.5%

RECOGNITION OF OIG EMPLOYEES BY THE PRESIDENT, THE DEPARTMENT, AND THE IG COMMUNITY

PRESIDENTIAL RANK AWARD

Meritorious Executives
Robert Young
Audit

SECRETARY'S HONOR AWARD

Meat and Poultry Risk-Based Inspection Team
Audit

PCIE/EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY AWARDS

Alexander Hamilton Award
Marlane Evans
Audit

Gaston L. Gianni, Jr., Better Government Award
LINK Task Force
Investigations

Barry R. Snyder Award
Financial Statement Audit Network
Audit

AWARDS FOR EXCELLENCE

Meat and Poultry Risk-Based Inspection Team
Audit

Ohio Organized Crime Investigations Commission Task
Force 08-2
Investigations

Faith in Action/Community Outreach, et al., Investigation
Team
Investigations

USDA Animal Import Controls Review Team
Audit

Bad Newz Kennels Investigation Forfeiture Team
Multiple Disciplines

GOLD PRESIDENTIAL VOLUNTEER SERVICE AWARD

Rodney DeSmet
Office of Inspections and Research

Matthew Wilkins
Investigations

SUMMARY OF AUDIT ACTIVITIES—APRIL–SEPTEMBER 2008

Reports Issued	34
Audits Performed by OIG	33
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	0
Audits Performed by Others	1
Management Decisions Made	
Number of Reports	25
Number of Recommendations	153
Total Dollar Impact (Millions) of Management-Decided Reports	\$118.6
Questioned/Unsupported Costs	\$0.7 ^{ab}
Recommended for Recovery	\$0.7
Not Recommended for Recovery	\$0.0
Funds To Be Put to Better Use	\$117.9
^a These were the amounts the auditees agreed to at the time of management decision. ^b The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.	

SUMMARY OF INVESTIGATIVE ACTIVITIES— APRIL–SEPTEMBER 2008

Reports Issued	129
Cases Opened	193
Cases Closed	150
Cases Referred for Prosecution	111
Impact of Investigations	
Indictments	359
Convictions	358 ^a
Searches	132
Arrests	994
Total Dollar Impact (Millions)	\$40.0
Recoveries/Collections	\$2.0 ^b
Restitutions	\$21.1 ^c
Fines	\$0.3 ^d
Claims Established	\$7.7 ^e
Cost Avoidance	\$2.7 ^f
Administrative Penalties	\$6.2 ^g
Administrative Sanctions	78
Employees	14
Businesses/Persons	64
^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 358 convictions do not necessarily relate to the 359 indictments. ^b Includes money received by USDA or other Government agencies as a result of OIG investigations. ^c Restitutions are court-ordered repayments of money lost through a crime or program abuse. ^d Fines are court-ordered penalties. ^e Claims established are agency demands for repayment of USDA benefits. ^f Consists of loans or benefits not granted as the result of an OIG investigation. ^g Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.	

Full FY 2008 Results in Key Categories

SUMMARY OF AUDIT ACTIVITIES— OCTOBER 2007–SEPTEMBER 2008	
Reports Issued	64
Management Decisions Made	
Number of Reports	47
Number of Recommendations	333
Total Dollar Impact (Millions) Of Management-Decided Reports	\$482.4
Questioned/Unsupported Costs	\$31.3
Funds To Be Put to Better Use	\$451.1

SUMMARY OF INVESTIGATIVE ACTIVITIES— OCTOBER 2007–SEPTEMBER 2008	
Reports Issued	275
Impact of Investigations	
Indictments	484
Convictions	732
Arrests	1,176
Total Dollar Impact (Millions)	\$74.7
Administrative Sanctions	132

**INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM APRIL 1 THROUGH SEPTEMBER 30, 2008**

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2008	4	\$3,116,001
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	3	\$191,433,339
	TOTALS	7	\$194,549,340
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	3	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		\$117,871,854
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	4	\$76,677,486
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	3	\$2,727,159

**INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS
FROM APRIL 1 THROUGH SEPTEMBER 30, 2008**

		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED^a COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2008	7	\$2,987,251	\$569,119
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	7	\$18,538,470	\$0
	TOTALS	14	\$21,525,721	\$569,119
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	4		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$715,060	\$2,808
	NOT RECOMMENDED FOR RECOVERY		\$34,830	\$0
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$633,834	\$542,422
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	10	\$20,141,997	\$23,889
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	5	\$2,191,596	\$23,889

^aUnsupported values are included in questioned values.

PROGRAM IMPROVEMENT RECOMMENDATIONS

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 128 program improvement recommendations, and management agreed to implement a total of 138 program improvement recommendations that were issued this period or earlier. Examples of the program improvement recommendations issued this period (see the main text of this report for a summary of the audits that prompted these program improvement recommendations) include the following:

- FSA agreed to revise its examination procedures and forms to provide comprehensive procedural guidance for warehouse examiners at port facilities.
- FNS agreed to consult with DOJ to ensure that the retailer authorization process is sufficient for successful prosecution of retailers who are trafficking food stamp benefits.
- FNS agreed to require the Colorado State agency to ensure that errors in the FSP eligibility system are corrected and claims properly established.
- RMA officials agreed to establish and implement formal policies and procedures on sufficient documentation and proper administration and monitoring of ARPA contracts and partnerships.
- FS agreed to use the dispute resolution process to resolve any future conflicts with FEMA after disaster relief activities.
- The Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers.
- NRCS agreed to develop a monitoring system to prioritize WRP easements and optimize monitoring resources by implementing, for example, a risk-based system.

SUMMARY OF AUDIT REPORTS RELEASED FROM APRIL 1 THROUGH SEPTEMBER 30, 2008
DURING THE 6-MONTH PERIOD FROM APRIL 1 THROUGH SEPTEMBER 30, 2008,
THE OFFICE OF INSPECTOR GENERAL ISSUED 34 AUDIT REPORTS, INCLUDING 1 PERFORMED BY OTHERS.
THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE	1			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
CHIEF INFORMATION OFFICER	1			
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE	1			
DELTA REGIONAL AUTHORITY	1			
FARM SERVICE AGENCY	6	\$1,591,532		\$655,520
FOOD AND NUTRITION SERVICE	4	\$102,087		
FOOD SAFETY AND INSPECTION SERVICE	2			
FOREIGN AGRICULTURAL SERVICE	1			
FOREST SERVICE	2	\$46,078		\$116,827,492
MULTIAGENCY	5			
NATURAL RESOURCES CONSERVATION SERVICE	2	\$418,598		\$73,950,327
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
RISK MANAGEMENT AGENCY	2	\$15,951,016		
RURAL BUSINESS-COOPERATIVE SERVICE	1			
RURAL TELEPHONE BANK	1			
RURAL UTILITIES SERVICE	1	\$429,159		
TOTALS	34	\$18,538,470		\$191,433,339
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	29			
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	34			
TOTAL COMPLETED UNDER CONTRACT ^b	1			
TOTAL SINGLE AUDIT ISSUED ^c	0			

^aUnsupported values are included in questioned values

^bIndicates audits performed by others

^cIndicates audits completed as Single Audit

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Agricultural Research Service						
026010002CH	2008/05/13	Implementation of Renewable Energy Programs at the Agricultural Research Service				
Total: Agricultural Research Service			1			
Animal and Plant Health Inspection Service						
336010002HY	2008/04/21	APHIS' Transfer Authority of Program Funding				
Total: Animal and Plant Health Inspection Service			1			
Chief Information Officer						
885010012FM	2008/09/19	Statement on Auditing Standards No. 70 Report on the National Information Technology Center General Controls				
Total: Chief Information Officer			1			
Cooperative State Research, Education, and Extension Service						
136010001HY	2008/05/30	CSREES – National Research Initiative Competitive Grants Program (NRICGP)				
Total: Cooperative State Research, Education and Extension Service			1			
Delta Regional Authority						
620990002TE	2008/07/31	Controls Over Issuance of Appropriated Funds by the Delta Regional Authority FY's 2005-2007				
Total: Delta Regional Authority			1			
Farm Service Agency						
030990181TE	2008/05/08	Payment Limitation Review in Louisiana		\$1,432,622		
030990198KC	2008/08/22	FSA Inspection of Temporary Domestic Storage Sites for Foreign Food Assistance				
036010015AT	2008/09/04	Tobacco Transition Payment Program/Tobacco Assessments (Against Tobacco Manufacturers and Importers)				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
036010017CH	2008/09/29	Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance				
036010024KC	2008/09/17	Hurricane Relief Initiative – Emergency Forestry Conservation Reserve Program		\$158,910		\$655,520
036010026KC	2008/09/25	Marketing Assistance Loans and Loan Deficiency Payment Provisions for Pulse Crops				
Total: Farm Service Agency			6	\$1,591,532		\$655,520
Food and Nutrition Service						
270020025HY	2008/09/10	FNS Food Stamp Program, New Jersey Administrative Costs				
270170006HQ	2008/08/19	DCAA Audit of ABT Associates, Inc., FY 2004 Incurred Cost				
270990068HY	2008/06/20	Audit of the Colorado State Agency Oversight of EBT Operations		\$102,087		
276010015AT	2008/09/26	FNS Food Stamp Program Retailer Authorization Controls and Visits				
Total: Food and Nutrition Service			4	\$102,087		
Food Safety and Inspection Service						
246010008HY	2008/08/04	Followup on FSIS' Inspection of Meat and Poultry Imports				
246010009HY	2008/08/07	FSIS Recall Procedures for Adulterated and Contaminated Product				
Total: Food Safety and Inspection Service			2			
Foreign Agricultural Service						
076010002HY	2008/07/22	GSM 102 Export Credit Guarantee Program				
Total: Foreign Agricultural Service			1			
Forest Service						
086010051SF	2008/08/05	FS Controls Over Documenting and Reporting Its Hurricane Relief Expenditures to FEMA				\$116,827,492

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
086010052SF	2008/08/12	FS' Renewable Energy Program		\$46,078		
Total: Forest Service			2	\$46,078		\$116,827,492
Multi-Agency						
505010009FM	2008/07/11	Management and Security Over USDA Wireless Connections				
505010013FM	2008/09/30	FY 2008 Federal Information Security Management Act (FISMA) Report				
506010004HY	2008/09/18	Adequacy of Internal Controls Over Travel Card Expenditures – Followup				
506010013CH	2008/08/14	Implementation of Renewable Energy Programs in USDA				
506010013KC	2008/06/11	NRCS Status Review Process				
Total: Multi-Agency			5			
Natural Resources Conservation Service						
100990004SF	2008/08/25	NRCS Wetland Reserve Program – Restoration Compliance		\$418,598		\$73,950,327
106010005CH	2008/09/16	Controls Over Technical Service Providers				
Total: Natural Resources Conservation Service			2	\$418,598		\$73,950,327
Office of the Chief Financial Officer						
114010028FM	2008/09/19	Statement on Auditing Standards No. 70 Report on the National Finance Center General Controls				
114010029FM	2008/09/18	Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/ Contribution and Supplemental Headcount Report Submitted to the Office of Personnel Management FY 2008				
Total: Office of the Chief Financial Officer			2			
Risk Management Agency						
050990112KC	2008/05/09	Contracting for Services Under the Agricultural Risk Protection Act of 2000				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
056010015TE	2008/09/30	Crop Loss and Quality Adjustments for Aflatoxin Infected Corn		\$15,951,016		
Total: Risk Management Agency			2	\$15,951,016		
Rural Business-Cooperative Service						
346010005CH	2008/07/03	Implementation of Renewable Energy Programs in RBS				
Total: Rural Business-Cooperative Service			1			
Rural Telephone Bank						
154010008FM	2008/07/11	RTB Closeout Audit				
Total: Rural Telephone Bank			1			
Rural Utilities Service						
096010006TE	2008/07/03	Texas Community Connect Grants Close-out Audit		\$429,159		
Total: Rural Utilities Service			1	\$429,159		
Grand Total:			34	\$18,538,470		\$191,433,339

AUDITS WITHOUT MANAGEMENT DECISION

The Inspector General Act has a number of reporting requirements, among them tracking audits without management decision. The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives for new entries follow this table. An asterisk (*) indicates that an audit is pending judicial, legal, or investigative proceedings that must be completed before the agency can act to complete management decisions.

NEW SINCE LAST REPORTING PERIOD

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. (in dollars)
APHIS	01/15/08	1. USDA's Implementation of the National Strategy for Pandemic Influenza (33701-1-Hy)	0	0
Multiagency	03/31/08	2. USDA's Controls Over the Importation and Movement of Live Animals (50601-12-Ch)	0	0

PREVIOUSLY REPORTED BUT NOT YET RESOLVED

These audits are still pending agency action or are under judicial, legal, or investigative proceedings. Details on the recommendations where management decisions had not been reached have been reported in previous Semiannual Reports to Congress. Agencies have been informed of actions that must be taken to reach management decision, but for various reasons the actions have not been completed. The appropriate Under and Assistant Secretaries have been notified of those audits without management decisions.

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. (in dollars)
CSREES	08/17/07	3. CSREES – Tribal 1994 Land-Grant Institutions (13011-3-At)	951,345	874,986
FAS	02/22/07	4. Trade Promotion Operations (07601-1-Hy)	0	0
FSA	9/26/07	5. Tobacco Transition Payment Program – Quota Holder Payments and Flue-Cured Tobacco Quotas (03601-12-At)	456,703	29,820
FSIS	06/21/00	6. Implementation of the Hazard Analysis and Critical Control Point (HACCP) System (24001-3-At)	0	0
	09/30/03	7. Oversight of Production Process and Recall at ConAgra Plant (Establishment 969)(24601-2-KC)	0	0
	06/24/05	8. HACCP – Compliance by Very Small Plants (24601-5-At)	0	0
Multiagency	09/30/03	9. Implementation of ARPA (50099-12-KC)	0	0
	02/23/04	10. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
	03/28/07	11. Implementation of Trade Title of 2002 Farm Bill and President's Management Agenda (50601-12-At)	0	0
	08/27/07	12. Crop Bases on Lands With Conservation Easements Conservation Easements	1,385,937	1,385,937
RBS	01/28/02	13. Lender Servicing of Business and Industry Guaranteed Loans, Florida (34601-3-At)	1,536,060	1,536,060
RHS	09/30/04	14. Rural Rental Housing Project Costs, Cairo, IL (04099-143-Ch)	164,000	164,000
RMA	03/15/02	15. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	03/26/07	16. Evaluation of RMA Indemnity Payments for 2004 Florida Hurricanes (05099-27-At)	415,710	415,710

AUDITS WITHOUT MANAGEMENT DECISION— NARRATIVE FOR NEW ENTRIES

1. USDA's Implementation of the National Strategy for Pandemic Influenza (33701-01-Hy), Issued January 15, 2008

OIG found that certain support tasks (e.g., tasks for which USDA is responsible for coordinating and collaborating with the lead agency) were not properly assigned. USDA was tasked to implement response or screening protocols at domestic airports and other transport modes based on disease characteristics and availability of rapid detection methods and equipment. USDA, however, does not have the authority to regulate interstate transportation of agricultural products. APHIS agreed to coordinate with DHS, the lead agency, to determine scope and suggest any reassignments to the U.S. Homeland Security Council. OIG agreed with this proposed corrective action; however, to reach management decision, APHIS needs to provide a date when the collaboration will take place on the details regarding the reassignment of this task.

2. USDA's Controls Over the Importation and Movement of Live Animals (50601-12-Ch), Issued March 31, 2008

OIG found that APHIS needed increased inspection efforts for import restrictions, enhanced animal surveillance at the northern border, better controls to ensure imported animals reach slaughter, and steps to prevent the importation of diseased/unhealthy bovine at the southern border. In addition APHIS needs better accountability of official USDA seals and improved oversight of port operations. APHIS agreed with most of these nine open recommendations. To reach management decision, APHIS needs to describe how an information system will track import problems and provide a plan for oversight to ensure that the United States can rely on Canadian certifications. APHIS also needs to describe how it will receive notification of animal shipments from U.S. Customs and Border Protection and provide procedures for reconciling all imported-restricted animals, analyzing trends, and implementing corrective actions. Further, APHIS needs to enforce existing requirements concerning bovine tuberculosis testing and provide procedures for analyzing animal rejections from Mexico. APHIS needs to identify when it will complete an inventory of USDA seals. Finally, APHIS needs to identify additional controls needed for its Import Tracking System.

INDICTMENTS AND CONVICTIONS

From April 1 through September 30, 2008, OIG completed 129 investigations. We referred 111 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 359 indictments and 358 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 358 convictions do not necessarily relate to the 359 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$40.0 million.

The following is a breakdown, by agency, of indictments and convictions for the reporting period.

Indictments and Convictions— April 1–September 30, 2008		
Agency	Indictments	Convictions*
AMS	3	1
APHIS	102	176
ARS	0	1
FNS	213	137
FS	6	4
FSA	15	23
FSIS	4	7
GIPSA	0	1
NRCS	1	0
OCFO	1	0
RBS	0	1
RHS	7	5
RMA	3	0
RUS	4	2
Totals	359	358
*This category includes pretrial diversions.		

OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 767 complaints,

which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and figure 2 displays the disposition of those complaints.

Figure 1. Volume and Type

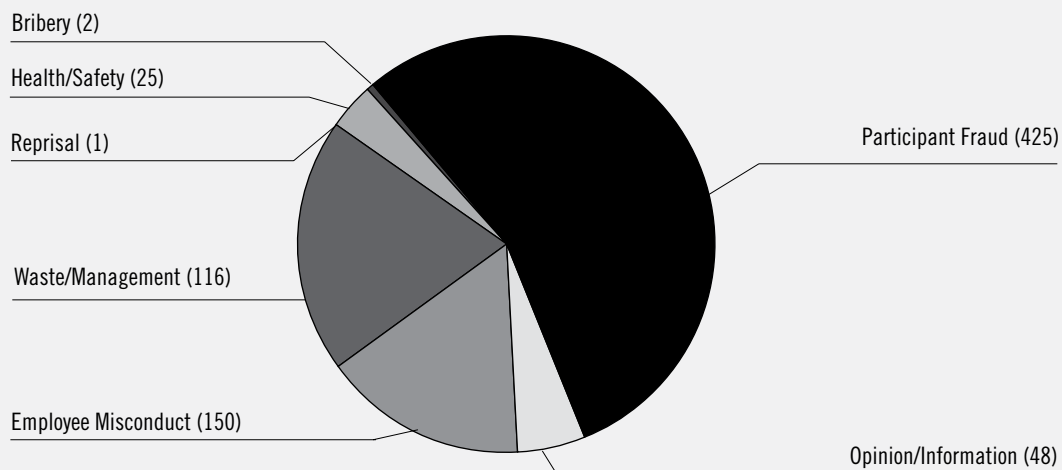
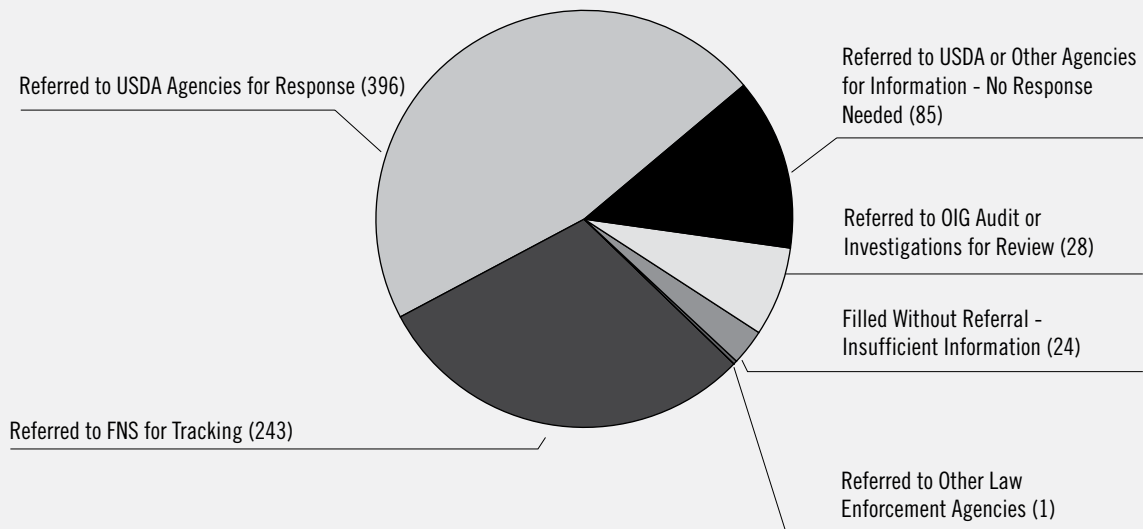


Figure 2. Disposition of Complaints Received



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD APRIL 1 TO SEPTEMBER 30, 2008	
Number of FOIA/PA Requests Received	95
Number of FOIA/PA Requests Processed	106
Number Granted	8
Number Partially Granted	62
Number Not Granted	36
Reasons for Denial	
No Records Available	12
Referred to Other Agencies	1
Requests Denied in Full Exemption 5	1
Requests Denied in Full Exemption 7(A)	6
Requests Denied in Full Exemption 7(C)	4
Request Withdrawn	5
Fee-Related	1
Not a Proper FOIA Request	2
Not an Agency Record	1
Duplicate Request	3
Other	0
Requests for OIG Reports From Congress and Other Government Agencies	
Received	25
Processed	22
Appeals Received	2
Appeals Processed	1
Appeals Completely Upheld	1
Appeals Partially Reversed	0
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0
Other	0
Number of OIG Reports/Documents Released in Response to Requests	68
NOTE 1: A request may involve more than one report.	
NOTE 2: During this 6-month period, 30 audit reports were posted to the Internet at the OIG website: http://www.usda.gov/oig .	

Abbreviations of Organizations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BCET	Bridge Card Enforcement Team
CCC	Commodity Credit Corporation
CI	Criminal Investigation (IRS)
CR	Office of Civil Rights (now OAC)
CSREES	Cooperative State Research, Education, and Extension Service
DCAA	Defense Contract Audit Agency
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
DRA	Delta Regional Authority
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FDA	Food and Drug Administration
FEMA	Federal Emergency Management Agency
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers and Stockyards Administration
HARCFL	Heart of America Regional Computer Forensic Lab
ICE	Immigration and Customs Enforcement (DHS)
IRS	Internal Revenue Service

Abbreviations of Organizations

ISDC	Interagency Suspension and Debarment Committee
JTTF	Joint Terrorism Task Force
NASS	National Agricultural Statistics Service
NJTTF	National Joint Terrorism Task Force
NCFD	National Computer Forensic Division
NFC	National Finance Center
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OAC	Office of Adjudication and Compliance
OBPA	Office of Budget and Program Analysis
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCIE	President's Council on Integrity and Efficiency
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RTB	Rural Telephone Bank
RUS	Rural Utilities Service
TTB	Alcohol and Tobacco Tax and Trade Bureau (Treasury)
USDA	U.S. Department of Agriculture
VS	Veterinary Services (APHIS)

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (138 TOTAL)

- FSA agreed to revise its examination procedures and forms to provide comprehensive procedural guidance for warehouse examiners at port facilities.
- FNS agreed to consult with DOJ to ensure that the retailer authorization process is sufficient for successful prosecution of retailers who are trafficking food stamp benefits.
- FNS agreed to require the Colorado State agency to ensure that errors in the FSP eligibility system are corrected and claims properly established.
- RMA officials agreed to establish and implement formal policies and procedures on sufficient documentation and proper administration and monitoring of ARPA contracts and partnerships.
- FS agreed to use the dispute resolution process to resolve any future conflicts with FEMA after disaster relief activities.
- The Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers.
- NRCS agreed to develop a monitoring system to prioritize WRP easements and optimize monitoring resources by implementing, for example, a risk-based system.

MISSION OF OIG

OIG assists USDA by promoting effectiveness and integrity in the hundreds of programs of the Department. These programs encompass a broad spectrum, involving such areas as consumer protection, nutrition, animal and plant health, agricultural production, agricultural product inspection and marketing, rural development, research, conservation, and forestry. They affect our citizens, our communities, and our economy.

OIG STRATEGIC GOALS

We have focused nearly all of our audit and investigative direct resources on our four goals:

- Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
- Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
- Support USDA in implementing its management improvement initiatives.
- Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.



To learn more about OIG, visit our Web site at
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The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider and employer.





United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 01 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Madam Speaker:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended September 30, 2008.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

A handwritten signature in black ink, which appears to read "Ed Schafer", is positioned above the printed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 01 2008

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20502

Dear Mr. President:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended September 30, 2008.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafer", is positioned above the printed name and title of the Secretary.

Edward T. Schafer
Secretary

Enclosure

**U.S. Department of Agriculture Report to
Congress**

**Status of Organic Production and Market
Data Activities
As Required by the 2008 Farm Bill**

December 2008

Background

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) requires the Secretary of Agriculture to submit a report to Congress 180 days after enactment describing the progress that has been made in implementing Section 10302, Organic Production and Market Data Initiatives, and identifying additional production and marketing data needs. The manager's report accompanying the 2008 Farm Bill provides for \$5 million in mandatory funding to be divided between the Agricultural Marketing Service, the Economic Research Service, and the National Agricultural Statistics Service. Below is the progress report from the three agencies.

Agricultural Marketing Service (AMS)

The 2008 Farm Bill report language mandated \$3.5 million for AMS' Market News Branches for the collection and distribution of organic market data. Market News (MN) has responded by improving existing reporting of organic products and has planned for even further enhancement of organic reporting and the development of additional organic market information tools. This section provides an overview of how the AMS has accomplished immediate enhancements during fiscal year (FY) 2008 as well as an outline of the plans for FY 2009 through FY 2012 with this funding.

Current and Planned General Market News Technological Enhancements

AMS is undertaking modifications to the Market News Information System (MNIS) across AMS Branches (Fruit and Vegetable, Livestock, Dairy, Cotton, and Poultry) in order to:

- Segregate organic data from conventional data;
- Allow for input of data specific to organic commodities;
- Migrate existing organic data from disparate systems; and
- Create new reports and modify existing reports for presentation of organic market information.

Also, AMS is adding the Cotton, Dairy and Poultry Market News Branches to the Market News Portal website. The Portal provides public access to current and historical market information on hundreds of agricultural products in important markets in the U.S and internationally in an easy to use fashion. Users can generate their own market reports, email them to themselves or others, create graphs and charts, download data in a variety of formats, and create their own personalized Portal entry page. The enhanced Portal website will allow users to more easily access and analyze organic data.

Dairy Market News

AMS Dairy Programs will: expand current organic market reporting by establishing a voluntary base of cooperators for reporting prices paid for organic milk by handlers and received by dairy farmers; expand current organic market reporting by establishing a voluntary base of cooperators for reporting prices paid for organic manufactured dairy

products and received by plants; and develop a report at the retail level to report weekly advertised specials of organic milk and dairy products.

Fruit and Vegetable Market News (FVMN)

AMS Fruit and Vegetable Programs added a special section on all observed weekly advertised prices on fresh organic fruits and vegetables to the National Fruit and Vegetable Retail Report (Completed by end of FY 2008). In addition, the Program is developing the National Fruit and Vegetable Organic Report – a report which will display all available organic market data available from FVMN including prices at terminal market, shipping point, and retail levels as well as movement data (Projected completion by early FY 2009).

By the end of FY 2008, AMS will develop a virtual “community” available on the Portal specific to fruit and vegetable organic market information. AMS is continuing to identify contacts to develop a regional wholesale/distributor organic price report to complement organic prices collected at terminal markets, as well as actively pursuing additional organic market information to terminal market and shipping point price reports and movement data.

Livestock and Grain Market News (LGMN)

AMS Livestock and Seed Programs will investigate the data available and determine the feasibility of adding a special section to retail level reporting to include weekly advertised specials on organic or other related marketing term items. AMS is exploring the feasibility of reporting: livestock and wholesale meat cuts produced as organic; international organic grain and feedstuffs market information; and organic beans, peas, and lentils.

Livestock and Seed Programs plan to report imported organic grain and feedstuffs and create a western U.S. Organic Grain and Feedstuffs report. Finally, the Upper Midwest Organic Grain and Feedstuffs and Eastern Cornbelt Organic Grain and Feedstuffs reports will be expanded.

Poultry Market News and Analysis (PMNA)

AMS Poultry Programs will expand the following: the organic cooperator base for the Weekly Certified Organic Poultry and Eggs report; the Weekly Poultry Slaughtered Under Federal Inspection report to include organically grown chicken and turkeys; the Weekly Shell Egg Inventory report to include and segregate organic shell egg and egg product data; the retail weekly features reporting to include more detailed information on organic chicken and eggs and to include organic turkey products; and organic production in the reporting of processed eggs.

In addition, AMS Poultry Programs will: develop a benchmark price report for shell eggs; include organic whole body turkeys in the Weekly Fresh Turkeys report; include organic

information on all poultry and egg products in the International Poultry and Egg Review when available; include organic information in the annual Poultry Market Statistics Summary; and develop a comprehensive report to include all organic poultry and egg market information available from PMNA.

Cotton Market News

In addition to adding cotton market reports to the Market News Portal to allow public access to historical and current information, AMS will monitor the growth in domestic production of organic cotton and look to add information products as needed.

National Agricultural Statistics Service (NASS)

NASS provides timely, accurate, and useful statistics in service to U.S. agriculture. Organic farming and ranching is one of the fastest growing segments of U.S. agriculture in the last 10 years. Producers are turning to organic production to lower input costs, decrease reliance on nonrenewable resources, capture high-value markets, and boost farm income. Recent trends by consumers show a preference for organically produced commodities, so continued growth of the industry is an almost certainty. The 2008 Farm Bill provided \$1 million for NASS to develop surveys and report statistical analysis on organically produced agricultural products.

This infusion of funds for statistical data begins to fill a data gap which has existed for many years. A literature review for data collection and statistics covering organic production yields minimal results. A few examples can be found in the Organic Farming Research Foundation's sporadic surveys of producers dating back to 1997. The latest survey was conducted in 2001 and estimated 7,200 operations nationwide involved in some aspect of organic agriculture. The USDA's Economic Research Service (ERS) conducts an annual data collection project of all known organic certifying associations and completes a summary for all of the associations. In 2005, the latest information published by ERS, they estimated 8,493 operations producing organic commodities. The 2002 Census of Agriculture, conducted by NASS, documented 11,998 organic agriculture operations. These combined data sets show fast expansion of this sector as consumer demands continue to grow.

While several data series exist to document the overall growth of the organic agricultural industry, there is little detailed information available on the economic and production practices of organic farming. The Census of Agriculture should begin to address this shortfall.

Census of Agriculture

The 2007 Census of Agriculture contained a new section completely dedicated to organic agriculture. The seven questions in this new section consisted of acres devoted to organic agriculture and the aggregate value of organic commodities produced. However, the

design of a census is to provide a broad picture of a particular topic and not great detail on any specific topic.

The funding provided by the 2008 Farm Bill will allow a more comprehensive follow-on study of organic agriculture production. The population of interest will include producers with organic production reported in the Census of Agriculture, plus any new operators found from all certifying associations.

The scope and content of the 2008 Census of Organic Agriculture is partially hindered by the limited funding provided by the 2008 Farm Bill. However, all efforts are being made to provide as much detailed information as possible. A questionnaire has been drafted and is currently being processed through cognitive testing. The questions have been developed through consultation with USDA's ERS, the Agricultural Marketing Service's National Organic Program (AMS-NOP), and industry producer groups. The questionnaire collects information on various items, including:

- Acreage and production for several major organic commodities and an 'all other' categories to capture the less common commodities. Specific commodities were determined based on reported acreage and percent of U.S. acreage as reported by the AMS-NOP;
- Cash receipts by 4-digit North American Industry Classification System (NAICS) codes, i.e. field crops, vegetables, fruit, etc;
- Organically produced livestock inventory, products (i.e. wool), and value of sales;
- Production Expenses;
- Production practices; and
- Marketing practices.

Data will be published at the U.S. and State level for all items which pass the NASS disclosure policy. Data collection is tentatively scheduled to begin in Spring 2009, referencing the 2008 calendar year, with a projected release date late in the same year.

Economic Research Service (ERS)

ERS conducts economic research and analysis on organic agriculture, and has expanded activities on this topic in recent years. The broad themes of ERS's research program include adoption of organic farming systems, the economic characteristics of organic producers, marketing and distribution of organic food, and consumer preferences and demand for organic food.

Adoption of Certified Organic Farming Systems

ERS has been tracking the adoption of certified organic farming systems in the United States since the mid-1990s. ERS collaborates with over 50 State and private certification organizations, other USDA agencies, and several State offices of USDA's National Agricultural Statistics Service (NASS) to estimate the extent of certified organic

farmland acreage and livestock, by commodity and by State (see www.ers.usda.gov/Data/Organic and www.ers.usda.gov/publications/aib780).

Organic Handler Surveys

ERS has conducted several nationwide surveys of certified organic handlers and retailers in the last few years and has published an interactive database and report on the characteristics of processors, distributors and other handlers in the supply chain (see www.ers.usda.gov/Publications/EIB36 and www.ers.usda.gov/Data/OrganicHandlers).

Organic Production Costs and Returns

In 2005, ERS initiated an organic pilot project as part of its major annual economic survey of U.S. farmers and ranchers, the Agricultural Resources and Management Survey (ARMS). ERS worked with the NASS to add a targeted sample of organic dairy producers to ARMS in 2005, and subsequently added organic samples for soybeans (in 2006) and apples (in 2007). Research is currently underway using data from the dairy survey comparing production costs, revenues, yields, energy intensiveness, structure, marketing and other economic and environmental aspects of conventional and organic dairy farming. National and regional estimates of production costs and returns have already been estimated for both the U.S. organic dairy sector and the U.S. organic soybean sector (see www.ers.usda.gov/data/CostsandReturns).

Consumer Demand and Organic Prices

ERS has purchased retail scanner data in recent years to analyze the characteristics of organic consumers, what they buy, how much they spend, and the price premiums they pay for organic produce (www.choicesmagazine.org/2007-2/2007-2.pdf#page=37) and organic milk (www.ers.usda.gov/publications/LDP/2007/05May/LDPM15501). ERS also examines consumer demand and price premiums in specific markets, including the produce, eggs and poultry and dairy sectors. Recent articles and reports examine trends in organic produce, egg and poultry markets, as well as the socioeconomic characteristics of organic milk and produce consumers (see www.ers.usda.gov/Briefing/Organic). Historical farm-gate and wholesale organic prices and price premiums for selected fruits, vegetables, livestock and eggs have also been produced and are available at www.ers.usda.gov/data/OrganicPrices .

ERS will use additional targeted funds for organic data collection and research to expand the organic pilot project within the ARMS survey (including a survey of organic wheat producers in 2009), and to continue expanding the agency's overall program of research and analysis on organic agriculture. In addition, ERS will contribute resources to work on the Census Organic Follow-on survey jointly with NASS.

Background

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AMS has developed a virtual “community” available on the Portal specific to fruit and vegetable organic market information. AMS is continuing to identify and reach out to contacts to develop a regional wholesale/distributor organic price report to complement organic prices collected at the terminal markets covered. Additionally, AMS is actively pursuing additional organic market information at the terminal markets and at shipping point markets, including movement data.

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This infusion of funds for statistical data begins to fill a data gap which has existed for many years. A literature review for data collection and statistics covering organic production yields minimal results. A few examples can be found in the Organic Farming Research Foundation's sporadic surveys of producers dating back to 1997. The latest survey was conducted in 2001 and estimated 7,200 certified organic operations nationwide involved in some aspect of organic agriculture. The USDA's Economic Research Service (ERS) conducts an annual data collection project of all known organic certifying associations and completes a summary for all of the associations. In 2005, the latest information published by ERS, they estimated 8,493 certified organic operations producing organic commodities. The 2002 Census of Agriculture, conducted by NASS, documented 11,998 transitional, uncertified, and certified organic agriculture operations. These combined data sets show fast expansion of this sector as consumer demands continue to grow.

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The scope and content of the 2008 Census of Organic Agriculture will provide as much detailed information as possible within available funding. A questionnaire has been drafted and is currently being processed through cognitive testing. The questions have been developed through consultation with USDA's ERS, the Agricultural Marketing Service's National Organic Program (AMS-NOP), and industry producer groups. The questionnaire collects information on various items, including:

- Acreage and production for several major organic commodities and an 'all other' category to capture the less common commodities. Specific commodities were determined based on reported acreage and percent of U.S. acreage as reported by the ERS;
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Data will be published at the U.S. and State level for all items which pass the NASS disclosure policy. Data collection is tentatively scheduled to begin in Spring 2009, referencing the 2008 calendar year, with a projected release date late in the same year.

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Adoption of Certified Organic Farming Systems

ERS has been tracking the adoption of certified organic farming systems in the United States since the mid-1990s. ERS collaborates with over 50 State and private certification organizations, other USDA agencies, and several State offices of USDA's National Agricultural Statistics Service (NASS) to estimate the extent of certified organic farmland acreage and livestock, by commodity and by State (see www.ers.usda.gov/Data/Organic and www.ers.usda.gov/publications/aib780).

Organic Handler Surveys

ERS has conducted several nationwide surveys of certified organic handlers and retailers in the last few years and has published an interactive database and report on the characteristics of processors, distributors and other handlers in the supply chain (see www.ers.usda.gov/Publications/EIB36 and www.ers.usda.gov/Data/OrganicHandlers).

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ERS will use additional targeted funds for organic data collection and research to continue expanding the agency's overall program of research and analysis on organic agriculture. In addition, ERS will contribute resources to jointly work with NASS on the 2008 Census of Organic Agriculture.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 29 2008

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Section 10302 of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246) requires the Department of Agriculture (USDA) to submit a report to the Senate and House Agriculture Committees which outlines the progress that has been made in implementing the organic production and market data initiatives described in this section and identifies any additional production and marketing data needs. The statutory language requires that the Secretary shall, at a minimum, do the following:

1. Collect and distribute comprehensive reporting of prices relating to organically produced agricultural products;
2. Conduct surveys and analysis and publish reports relating to organic production, handling, distribution, retail, and trend studies (including consumer purchasing patterns); and,
3. Develop surveys and report statistical analysis on organically produced agricultural products.

The enclosed report highlights the progress made, and future activities planned, by the three USDA agencies implementing this section of the Farm Bill. These activities include: modifying existing Market News technologies to allow for enhanced reporting of organic data; developing surveys and reporting statistical analysis for organic products; and expanding economic surveys and reporting of organic production costs and product prices.

If you have any questions regarding the report, please do not hesitate to contact us. We have sent similar letters to Congressman Goodlatte and Senators Chambliss and Harkin.

Sincerely,

A handwritten signature in black ink, which appears to read "Ed Schafer", is positioned above the typed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 29 2008

The Honorable Robert Goodlatte
Ranking Minority Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Goodlatte:

Section 10302 of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246) requires the Department of Agriculture (USDA) to submit a report to the Senate and House Agriculture Committees which outlines the progress that has been made in implementing the organic production and market data initiatives described in this section and identifies any additional production and marketing data needs. The statutory language requires that the Secretary shall, at a minimum, do the following:

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2. Conduct surveys and analysis and publish reports relating to organic production, handling, distribution, retail, and trend studies (including consumer purchasing patterns); and,
3. Develop surveys and report statistical analysis on organically produced agricultural products.

The enclosed report highlights the progress made, and future activities planned, by the three USDA agencies implementing this section of the Farm Bill. These activities include: modifying existing Market News technologies to allow for enhanced reporting of organic data; developing surveys and reporting statistical analysis for organic products; and expanding economic surveys and reporting of organic production costs and product prices.

If you have any questions regarding the report, please do not hesitate to contact us. We have sent similar letters to Congressman Peterson and Senators Chambliss and Harkin.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 29 2008

The Honorable Saxby Chambliss
Ranking Minority Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Senator Chambliss:

Section 10302 of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246) requires the Department of Agriculture (USDA) to submit a report to the Senate and House Agriculture Committees which outlines the progress that has been made in implementing the organic production and market data initiatives described in this section and identifies any additional production and marketing data needs. The statutory language requires that the Secretary shall, at a minimum, do the following:

1. Collect and distribute comprehensive reporting of prices relating to organically produced agricultural products;
2. Conduct surveys and analysis and publish reports relating to organic production, handling, distribution, retail, and trend studies (including consumer purchasing patterns); and,
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The enclosed report highlights the progress made, and future activities planned, by the three USDA agencies implementing this section of the Farm Bill. These activities include: modifying existing Market News technologies to allow for enhanced reporting of organic data; developing surveys and reporting statistical analysis for organic products; and expanding economic surveys and reporting of organic production costs and product prices.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 29 2008

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Chairman
Committee on Agriculture, Nutrition and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Frank Lucas
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1305 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lucas:

On behalf of Department of Agriculture's (USDA) BioPreferredSM Program, I am pleased to submit the BioPreferred Strategic Management Plan for fiscal years (FY) 2009 through 2012. The plan reflects the Federal government's long-standing commitment to the promotion and commercialization of biobased products and BioPreferred's unique role in carrying out that commitment.

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) directed USDA to report to Congress on the progress and future planning of the BioPreferred Program, including the status of the voluntary labeling program and item designations. The BioPreferred Strategic Management Plan has been enclosed for your information.

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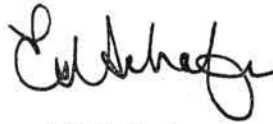
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

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Chairman
Committee on Agriculture
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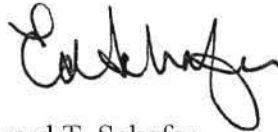
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Office of the Secretary
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JAN 16 2009

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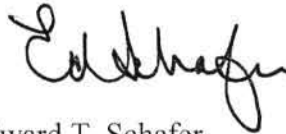
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

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Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Senate Russell Office Building
Washington, DC 20510

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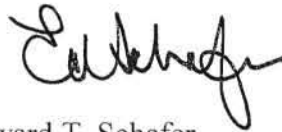
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Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Robert Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bennett:

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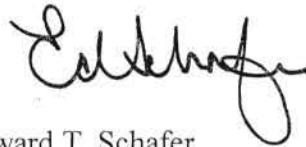
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Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Herb Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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The Honorable Herb Kohl

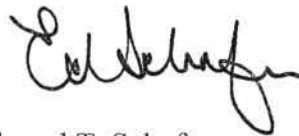
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

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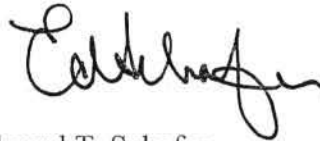
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Rosa DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515

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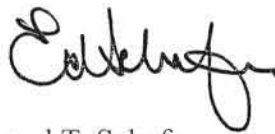
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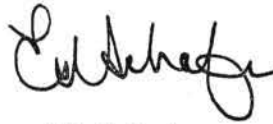
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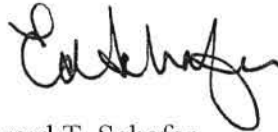
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Committee on Agriculture, Nutrition, and Forestry
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Washington, DC 20510

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On behalf of Department of Agriculture's (USDA) BioPreferredSM Program, I am pleased to submit the BioPreferred Strategic Management Plan for fiscal years (FY) 2009 through 2012. The plan reflects the Federal government's long-standing commitment to the promotion and commercialization of biobased products and BioPreferred's unique role in carrying out that commitment.

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) directed USDA to report to Congress on the progress and future planning of the BioPreferred Program, including the status of the voluntary labeling program and item designations. The BioPreferred Strategic Management Plan has been enclosed for your information.

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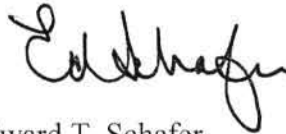
The Honorable Saxby Chambliss
Page 2

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I am pleased with the progress of the BioPreferred Program and thank you for your continued support of the Program. A similar letter was sent to Congressmen Kingston, Peterson, and Lucas, Congresswoman DeLauro, and Senators Kohl, Bennett, and Harkin.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Schafer", with a stylized flourish at the end.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Senate Russell Office Building
Washington, DC 20510

Dear Mr. Chairman:

On behalf of Department of Agriculture's (USDA) BioPreferredSM Program, I am pleased to submit the BioPreferred Strategic Management Plan for fiscal years (FY) 2009 through 2012. The plan reflects the Federal government's long-standing commitment to the promotion and commercialization of biobased products and BioPreferred's unique role in carrying out that commitment.

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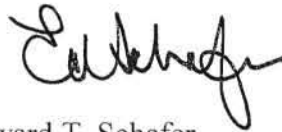
The Honorable Tom Harkin
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Robert Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bennett:

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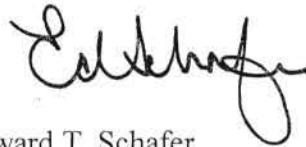
The Honorable Robert Bennett
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Herb Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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The Honorable Herb Kohl

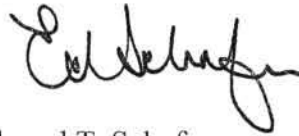
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

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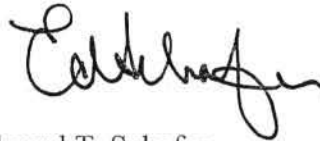
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JAN 16 2009

The Honorable Rosa DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515

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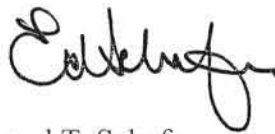
The Honorable Rosa DeLauro
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Enclosure

USDA Reports to Congress Not Published on Public Web Sites
Released by the USDA Office of The Chief Financial Officer,

FILE #3



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 20 2009

The Honorable Herbert Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United State Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

This letter is in response to the request in the Joint Explanatory Statement for division A of the Consolidated Appropriations Act, 2008 (H.R. 2764; Pub. L. 110-161), for the Department of Agriculture's (USDA) status on reaching management decisions for those audit recommendations that have been outstanding more than 180 days. Enclosed is USDA's consolidated report. The report provides information as of January 31, 2009.

I have directed our senior career team to resolve these issues as we strive to make USDA more accountable. We are also conducting an indepth review of the implementation of recommendations from closed audits to be sure USDA has done the proper followup.

Please feel free to contact our Acting Chief Financial Officer Jon M. Holladay at (202) 720-5539 for further assistance in this matter.

A similar letter is being sent to Senator Sam Brownback, Congresswoman Rosa DeLauro, and Congressman Jack Kingston.

Sincerely,

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 20 2009

The Honorable Rosa DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 20 2009

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 20 2009

The Honorable Sam Brownback
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

The Honorable Frank D. Lucas
Ranking Member
House Committee on Agriculture
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lucas:

Enclosed is the report on *Perennial Crops, Pecans and the Federal Crop Insurance Program*, as required by section 12030 of the Food, Conservation, and Energy Act of 2008. This report is focused on the concerns specific to perennial crop producers, particularly the effects of downward trending and alternate bearing (i.e., variable yields). A separate report to Congress will address the declining yield concerns of perennial and annual crop producers.

A similar letter has been sent to Senators Chambliss, Harkin, Inouye, and Cochran, and Congressmen Peterson, Obey, and Lewis.

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

The Honorable Collin C. Peterson
Chairman
House Committee on Agriculture
1301 Longworth House Office Building
Washington, D.C. 20515

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

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Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

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Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

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Thomas J. Vilsack
Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

The Honorable David Obey
Chairman
Committee on Appropriations
U.S. House of Representatives
The Capitol, Room H-218
Washington, D.C. 20515

Dear Chairman Obey:

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Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
U.S. House of Representatives
The Capitol, Room H-218
Washington, D.C. 20515

Dear Congressman Lewis:

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

The Honorable Daniel K. Inouye
Chairman
Committee on Appropriations
United States Senate
The Capitol, S-128
Washington, D.C. 20510

Dear Chairman Inouye:

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Secretary

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 14 2009

The Honorable Thad Cochran
Ranking Member
Committee on Appropriations
United States Senate
The Capitol, S-128
Washington, D.C. 20510

Dear Senator Cochran:

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Report to Congress:

Perennial Crops, Pecans and the Federal Crop Insurance
Program

Submitted by

Secretary of Agriculture Thomas J. Vilsack

as required by section 12030 of the Food, Conservation, and Energy Act of 2008

07/02/2009

United States Department of Agriculture
Federal Crop Insurance Corporation
1400 Independence Avenue, 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

Executive Summary

Section 12030 of the Food, Conservation, and Energy Act of 2008 directed the Secretary of Agriculture to deliver to the House Committee on Agriculture and to the Senate Committee on Agriculture, Nutrition, and Forestry a report on options for addressing the effects of declining and variable yields for perennial crops in the Federal crop insurance program. Specifically, section 12030 reads as follows:

Not later than 180 days after the date of enactment of this Act, the Secretary shall submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a report containing details about activities and administrative options of the Federal Crop Insurance Corporation and Risk Management Agency that address issues relating to—

- (1) declining yields on the actual production histories of producers; and*
- (2) declining and variable yields for perennial crops, including pecans.*

This report is focused on the concerns specific to perennial crop producers, particularly the effects of downward trending and alternate bearing. A separate report to Congress will address the declining yield concerns of perennial and annual crop producers.

For most perennial crops productive capability is negligible until a certain stage of growth is reached. Once this point is attained production increases rapidly until some maximum physiological level is achieved and then remains relatively constant until age, disease, etc. begin to reduce the plant's productivity. Another physiological characteristic of some perennial crops is alternate bearing—a phenomenon characterized by alternating periods of high and low yields. Adverse environmental conditions are often thought to initiate alternate bearing as the stress may leave plants more susceptible to damage from conditions including freeze, high temperatures and drought, etc.

Procedures developed by the Risk Management Agency (RMA) provide adjustments to insurance guarantees to address downward trending and alternate bearing. Conceptually, such adjustments may be appropriate if the insurance guarantee is to be consistent with production expectations—though at the cost of potentially providing the producer with a lower insurance guarantee. The practical impact of these adjustments (or of not making adjustments) depends on how prevalent and predictable are these phenomena. If downward trending and alternate bearing are relatively frequent occurrences, providing guarantees higher than experience suggests is warranted will eventually necessitate premium rate increases. However, higher premium rates will lead to reduced program participation and/or negatively impact coverage level choices. Yet, reducing guarantees to reflect the effects of downward trending and alternate bearing may be perceived as decreasing the value of the crop insurance coverage. Therefore, key issues are: (1) how prevalent are downward trending and alternate bearing; and (2) how appropriate are the current procedural adjustments to address these situations.

Recognizing these concerns, in 2005, RMA solicited proposals for an evaluation of insurance coverage for perennial crops with a particular focus on the alternate bearing and downward trending adjustments. The objectives of the evaluation were to:

- Provide a comprehensive evaluation of the existing perennial crop actual production history (APH) insurance program, underwriting methods, and procedures;
- Provide an assessment of whether present underwriting methods and procedures are appropriate to maintain an actuarially sound insurance program and establish uniformity and consistency by crop or crops across RMA regions; and
- Provide recommendations for program improvements.

In regards to the frequency of alternate bearing and downward trending, the study noted that adjustments for these phenomena are not particularly prevalent, as indicated in the following passage:

Of the 50,191 databases, 1,165 (2.32%) were adjusted for alternate bearing and 851 (1.70%) were adjusted for down[ward] trending. In addition, 496 policies (0.99%) had the down[ward] trending adjustment waived via RO [RMA regional office]-issued underwriting guidelines and 1,848 (3.68%) had RO determined yields.

Also, the study concluded that the current alternate bearing adjustment introduces significant complexity with relatively few offsetting benefits, noting that:

More generally, however, the inability of the CIH formula [RMA Crop Insurance Handbook adjustment procedure] to do a better job than a simple average predicting the next season's yield, coupled with the evidence of low persistence of the up-down pattern, lead us to conclude that the test is of little benefit in aggregate.

A similar conclusion was reached with regard to the downward trending adjustment:

Down[ward] trending yields are a fact of life at some point for most of these crops. None of the formula adjustments do a very good job of predicting the coming year's yield. Only about half the time is the next year's yield actually below 75% of the APH. Nevertheless, our tests indicate that the CIH downward trending adjustment more accurately predicts yields than the APH yield for crops with a 10-year APH. However, moving to a shorter (four to six) year average would do almost as well.

Based on the findings of the contracted evaluation, as well as its own analysis, RMA provides the following recommendations for addressing the effects of variable yields for perennial crops in the Federal crop insurance program.

1. Greater flexibility to establish the base period for determining the approved yield for perennial crops, in particular, by adopting a base period shorter than the current 10 years.
2. Replace the current catastrophic yield adjustment based on regional average yields with an adjustment based on the actual production history of the producer.
3. Restrict the use of the alternate bearing and downward trending adjustments when a shorter base period is implemented.

4. Enhance policy and procedure for adjustments in measured acreage when there is a significant reduction in the stand from the previous year.
5. Modify the Pecan Revenue program to specify a minimum level of revenue that must be achieved as a condition of insurability, reduce the minimum age requirement, and add percent stand requirements similar to other nut crops such as almonds. A catastrophic adjustment based on the producer's history would also be implemented for pecan growers, similar to that of other perennial crops as indicated in recommendation 2.

Recommendations 1 and 2 above will require legislative changes in order for RMA to implement. Recommendation 3 can be accomplished administratively; however, the desired impact will not be achieved unless RMA is able to concurrently implement recommendation 1. Aside from the catastrophic adjustment for pecan growers, recommendations 4 and 5 require only administrative changes, which RMA is implementing.

1. Background

Section 12030 of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) directed the Secretary of Agriculture (Secretary) to provide Congress with a report on options for addressing the effects of declining and variable yields for perennial crops in the Federal crop insurance program. Specifically, section 12030 reads as follows:

Not later than 180 days after the date of enactment of this Act, the Secretary shall submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a report containing details about activities and administrative options of the Federal Crop Insurance Corporation and Risk Management Agency that address issues relating to—

- (1) declining yields on the actual production histories of producers; and*
- (2) declining and variable yields for perennial crops, including pecans.*

As stated in the conference report “The Managers recognize risk management challenges faced by producers, especially with respect to declining yields in light of increases in premiums. Managers also understand that there are unique issues with yield variability for perennial crops, such as pecans. The Managers are interested in the Department of Agriculture’s activities to address these issues and options that the Department has to address these issues administratively.” This report is focused on the concerns specific to perennial crop producers, particularly the variable yield adjustments to reflect the effects of downward trending and alternate bearing. A separate report to Congress will address the declining yield concerns of perennial and annual crop producers.

A perennial crop, as defined by the Federal Crop Insurance Corporation (FCIC), is a plant, bush, tree, or vine crop that has a life span of more than one year.¹ Perennial crops insured under the actual production history (APH) plan of insurance include almonds, apples, avocados, citrus, blueberries, cranberries, figs, grapes, macadamia nuts, pears, plums, prunes, stonefruit (apricots, nectarines and peaches), table grapes, walnuts, and Hawaii Tropical Fruit (bananas, coffee and papaya). The APH plan of insurance protects against the loss of production due to natural causes such as hail, fire, drought, etc. The insurance guarantee for APH-based policies is based on an average of the insured producer’s individual yield history. The producer selects the amount of the average yield he or she wishes to insure – from 50 to 75 percent² – in order to establish the insurance guarantee. If the actual yield is less than the insurance guarantee, the producer is paid an indemnity based on the difference. The amount of the indemnity is calculated as the product of the yield shortfall and the price election chosen by the producer. This price election is determined as the product of the expected market price (as determined by the Risk Management Agency (RMA)) and the percentage of that price the producer wishes to insure – from 55 to 100 percent.

Citrus crops in some areas, particularly in California and Florida, can also be insured under the Dollar Revenue plan of insurance. Dollar Revenue plans represent a hybrid between revenue

¹ Perennial plants (e.g., the trees, vines, bushes) are insurable under separate plans of insurance from perennial crops (fruits, nuts, etc.). This report focuses on insurance for perennial crops.

² For crops in some areas coverage levels of up to 85 percent are available.

coverage and yield coverage. The guarantee is based on the cost of growing a crop in a specific area, and there is one reference dollar value for a county. Producers choose a coverage level ranging from 50 to 85 percent of the reference dollar value, which determines the amount of insurance. A loss occurs when the value of the crop is less than the amount of insurance. The value of the crop typically is determined by calculating the average price realized from sales, minus an amount representing harvest costs and other post-production value-added activities, multiplied by the quantity sold.

Pecans are insurable under the Pecan Revenue plan of insurance, which bases the producer's insurance guarantee on an average of his or her historical cash receipts from pecan production. The Pecan Revenue program requires a two year policy as a result of the crop's inherent tendency to alternate bearing. The producer can choose to insure from 50 to 75 percent of the historical average revenue to establish the guarantee. An insured loss results when the value of pecan production is less than the guarantee, whether due to a production/quality loss, a price decline, or some combination thereof. The actual revenue history (ARH) plan of insurance was recently introduced on a pilot basis for cherries. As with Pecan Revenue, the ARH insurance guarantee is based on an average of the producer's historical cash receipts, and an indemnity is paid when the value of production is less than this guarantee.³ The ARH program design is being evaluated as a basis for providing revenue coverage to other crops that lack a centralized price discovery mechanism (for example, a commodity futures exchange), including citrus, lentils and sugar beets.

Objectives of the Federal Crop Insurance Program

There are three general objectives that govern the administration of the Federal crop insurance program. The first is to provide effective risk management products to producers. The second is to increase program participation by expanding availability into new crops and regions. The third is to maintain actuarial soundness. Critical to achieving the first two objectives is that the insurance products must provide adequate amounts of protection and the associated premium rates must be affordable as perceived by producers. The third objective – actuarial soundness – is required by sections 506(n) and 508(d) of the Federal Crop Insurance Act (Act). The usual measure of actuarial soundness in the insurance industry is the loss ratio, calculated as incurred losses divided by earned premiums. Section 506(n)(2) of the Act, as amended by the 2008 Farm Bill, mandates the Federal crop insurance program operate with a projected loss ratio of no greater than 1.0, which means that premium collections are sufficient to cover the indemnities paid to policyholders.⁴

Yet, there is an inherent tension among the objectives of maintaining actuarial soundness, providing affordable premium rates, and providing an adequate amount of protection. Increasing the amount of protection or adding new coverage will lead to higher premium rates, given the statutory mandate that actuarial soundness be maintained. However, raising premium rates to maintain actuarial soundness will likely dissuade some producers from purchasing a Federal crop

³ While both Pecan Revenue and ARH provide revenue coverage in a similar manner, the underwriting and administration of the two programs are somewhat different.

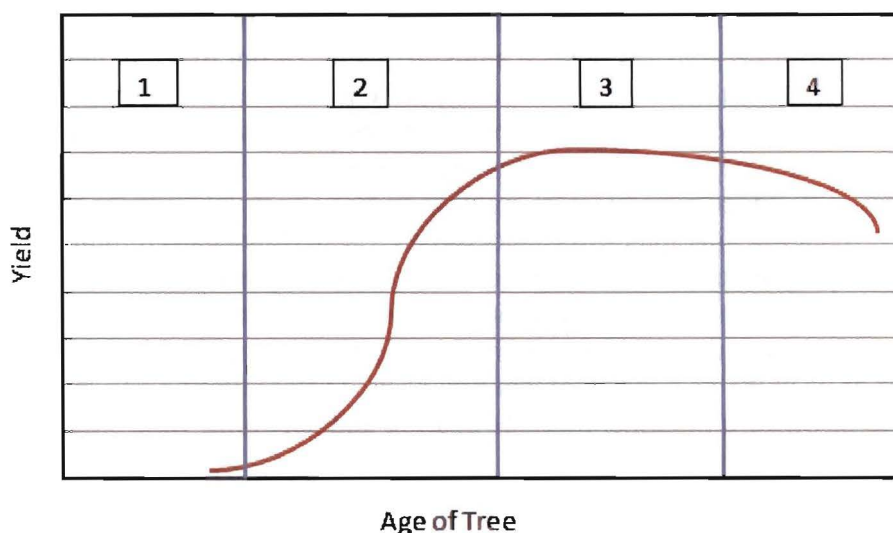
⁴ Section 502(b)(6) of the Act, as well as section 508(d)(2), specifies that the premium collections shall be sufficient to cover anticipated losses and a reasonable reserve.

insurance policy and/or negatively impact coverage level choices, thereby reducing program participation and program benefits.

Concerns of Perennial Crop Producers

Although perennial crop producers may have declining yield concerns similar to those of annual crop producers, they have relayed specific concerns related to the adjustments to insurance guarantees to reflect the effects of downward trending and alternate bearing. Downward trending reflects the finite commercial life of perennial crops. The productivity of most perennial crops follows a similar pattern, as depicted in Figure 1: (1) establishment – productive capability is zero as the plant is established and growth begins; (2) development – once a certain stage of growth is reached (maturity of the perennial plant), production begins and productive capability increases exponentially until some maximum physiological level is achieved; (3) maintenance – maximum productive capability remains relatively constant for a period of years; and (4) decline – productivity begins to decline as age, disease, etc. reduce the plant’s productive capacity. In commercial situations the plant is often kept in production for some period of time after the onset of decline because the cost of replacement (for example, costs of new stock and replanting, no production during the establishment stage, etc.) exceeds the value of the lost production. However, eventually the decline in production becomes so great that it is more profitable to replace the aged tree, vine or bush. The physiological phenomenon whereby productivity begins to decline as the plant becomes aged is referred to as downward trending.

Figure 1: Depiction of Downward Trending for Perennial

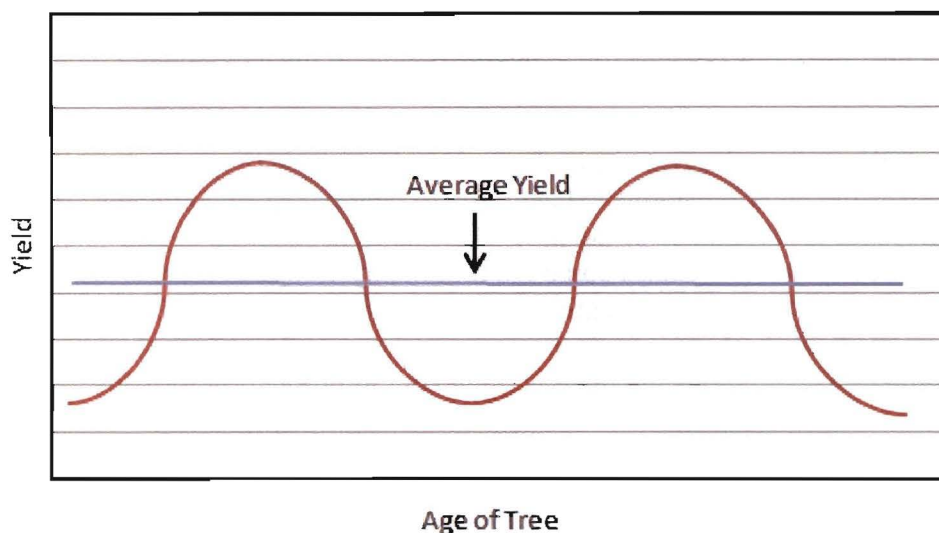


Crops

Another physiological characteristic of some perennial crops is alternate bearing – a pattern of alternating years of high and low yields as portrayed in Figure 2. Adverse environmental conditions are often thought to initiate alternate bearing, though some perennials may exhibit the phenomenon even in the absence of environmental stresses. For example, a period of high production may leave plants weakened and stressed and, therefore, more susceptible to damage from freeze, high temperatures, drought, etc. Once such damage is incurred, the plant redirects its resources to repair and recovery rather than to crop production. Thus, a period of high production (“on-years”) is followed by a period of low production (“off-years”). Alternate bearing has been documented in certain deciduous fruits, including apple, pear, plums, prunes,

apricot, cranberry, and blackberry, as well as in various citrus fruits. Other perennial crops, such as figs, grapes, and peaches, have demonstrated the ability to produce a full crop every year.

Figure 2: Depiction of Alternate Bearing for Perennial Crops



As discussed in section 2 of this report, RMA procedures provide adjustments to the insured's guarantee to address downward trending and alternate bearing situations. Conceptually adjustments may be appropriate if the insurance guarantee is to be consistent with production expectations – though at the cost of potentially providing the producer with a lower insurance guarantee. The practical impacts of such adjustments (or of not making these adjustments) depend on how prevalent and demonstrable are these phenomena. If downward trending and alternate bearing are relatively prevalent, providing guarantees higher than experience may suggest is warranted will eventually necessitate premium rate increases. Of course, higher premium rates will reduce program participation and/or negatively impact coverage level choices. Yet, reducing guarantees to reflect the effects of downward trending and alternate bearing may be perceived as decreasing the value of the crop insurance coverage. A further consideration is that proper management practices may mitigate the some of the effects of downward trending and alternate bearing, but multiple catastrophic years can erode the effectiveness of even the best management practices. Differentiating between yield declines attributable to downward trending/alternate bearing and declining yield situations due to multiple catastrophic years can be problematic.

Contracted Perennial Crop Evaluation

Recognizing these concerns and issues, RMA solicited proposals for an evaluation of insurance coverage for perennial crops with a particular focus on the alternate bearing and downward trending adjustments. The contract was awarded to Promar International (Promar). The objectives of the evaluation were to:

- Provide a comprehensive evaluation of the existing perennial crop APH insurance program, underwriting methods, and procedures;

- Provide an assessment of whether present underwriting methods and procedures are appropriate to maintain an actuarially sound insurance program and establish uniformity and consistency by crop or crops across RMA regions; and
- Provide recommendations for program improvements.

The contract emphasized a review of RMA's current methods and procedures for adjusting insurance guarantees for alternate bearing or downward trending situations.

To keep the scope of the evaluation manageable, the evaluation was primarily focused on six perennial crops in five regions, as depicted in the Table 1. These six crops account for about 75 percent of total program liabilities for all perennial crops. The five regions account for about 97 percent of national liability for perennial crops. The contractor engaged crop experts from each of the regions to assist in the evaluation, in addition to conducting multiple listening sessions in each region to solicit feedback from producers, agents, and other interested parties. The contracted study was delivered to RMA in April, 2007. A copy of the study is provided as an appendix to this report.

Crop/Region	West	Mid-Atlantic	Pacific-Northwest	Midwest	Southeast
Apples	X	X	X	X	X
Peaches	X	X	X	X	X
Grapes	X	X	X	X	
Oranges	X				
Almonds	X				
Blueberries					X

Subsequent to delivery of the contracted study, RMA established an internal Perennial Crop Review Team that was charged with the responsibility of reviewing the final report, considering other program improvements identified by the team outside of those contained in the contracted evaluation, and providing recommendations on those changes that would enhance the overall program for perennial crops. In particular, the review team:

- Provided recommendations for changes and improvement to the perennial crop underwriting procedure and all related functions, including the rationale identifying the pros, cons and associated impacts of the recommended actions;
- Evaluated required changes to regulations, policies or procedures; and
- Developed implementation timeframes.

The analysis and evaluations conducted by the Perennial Crop Review Team form the basis of the recommendations contained in this report.

2. Underwriting of Perennial Crops

FCIC offers multiple peril crop insurance for perennial crops to cover loss of production due to natural causes, but not losses due to a failure to follow good farming practices or that are inherent to the life-cycle of the plant.⁵ The productivity of perennial crops is heavily influenced by the producer's production choices. Examples include variables such as location, climate, soil, cultural practices (for example, crop, rootstock, planting pattern, density, pruning, which includes method and pattern, fertilization, weed control, crop thinning, pest control, insecticide, pollinators, use of bees, disease control, fungicide, and frost control), or other management practices such as grafting, dehorning/buckhorning/stumping, acreage thinning, and interplanting new, similar or different varieties of the same or other crops. These factors are often inter-related, and many are influenced by timing and frequency. This makes the underwriting of perennial crops inherently more difficult as these factors must be addressed when determining coverage and establishing the policy and procedures for insurance.

For APH insurance plans for perennial crops, the insurance guarantee is based on a simple average of four to ten years of actual historical yields (approved APH yield), multiplied by the coverage level chosen by the producer. The assumption behind the simple averaging procedure of the APH plan of insurance is that historical yield performance is the best predictor of future yield performance. Transitional yields (T-Yields) are available to use in place of actual yields when fewer than four years of actual production history are available to determine the guarantee. T-Yields are typically based on county average yields as reported by the USDA National Agricultural Statistics Service (NASS), for the type, variety, practice, etc. as applicable. Establishing T-Yields for perennial crops can be difficult because credible data is often lacking, particularly at the level of detail necessary for perennial crop insurance which may vary by age and density of the trees. For certain perennial crops, minimum age and/or production requirements may also be applicable before insurance attaches.

Adjustments to Historical Average Yields for Perennial Crops

In some situations the historical average yield may also be a poor predictor of future expected yields. Depending on circumstances, there are various potential adjustments to the simple average yield. Of note are the following adjustments:

- A. Yield adjustment.
- B. High variability.
 - Alternate bearing.
 - Downward trending.
- C. Determined yield.

The yield adjustment serves to limit the impact of low actual yields due to insured causes of loss on an insured producer's guarantee. The purpose of the high variability adjustment for downward trending is to reduce the guarantee to be consistent with production expectations when the perennial plant begins to experience a decline in productivity. The alternate bearing

⁵ The Federal Crop Insurance Act authorizes indemnity payments only for loss of production resulting from naturally occurring causes of loss such as drought and hail, along with price movements in the case of revenue plans of insurance.

adjustment attempts to adjust the guarantee to reflect the high-low yield pattern present in alternate bearing situations to prevent over and underinsurance. Further discussion of these adjustments is provided below.

- A. The yield adjustment (YA) is generally available to perennial crop producers to avoid large year-to-year declines in the approved APH yield. The YA allows producers to substitute 60 percent of the applicable T-Yield for actual yields that are less than 60 percent of the T-Yield due to insured causes of loss in the determination of the approved APH yield. The yield adjustment was introduced by the Agriculture Risk Protection Act of 2000 (ARPA) and implemented for the 2001 crop year.

In order to benefit from the YA, an insured's actual yield must be less than 60 percent of the T-Yield. For those producers who typically realize yields above the county average, this may be an infrequent occurrence and the yield adjustment generally has little or no effect on their approved APH yield. In contrast, producers with yields below the county average may receive substantial benefit from the YA since a higher proportion of their yields are likely to fall below 60 percent of the county T-Yield. Furthermore, producers with yields that are inherently low may use the YA to increase their approved APH yield even during periods of normal yields. For example, consider a producer whose actual yields typically average only 40 percent of the county T-Yield. The approved APH yield for this producer will nevertheless be at least 60 percent of the county T-Yield because of the YA.

- B. RMA's current underwriting procedures provide for a high variability yield adjustment that may be applicable in certain situations to account for the presence of either alternate bearing or downward trending. A series of tests are performed to determine the applicability of either the alternate bearing or the downward trending adjustment for a block or unit, as well as the amount of any applicable adjustment.
- C. For situations when the approved insurance provider (AIP) cannot apply the alternate bearing or downward trending tests, an RMA Regional Office (RO) review and determined yield is required. Also, if the insured producer disputes the alternate bearing or downward trending adjustment calculated by the AIP, the insured can request an RO review and determined yield. Other situations that may give rise to an RO determined yield include the approval of insurability at earlier growth stages than specified in the Crop Provisions, or information provided by the producer that indicate reduced productivity, including a change in management practices or an inadequate irrigation water supply.

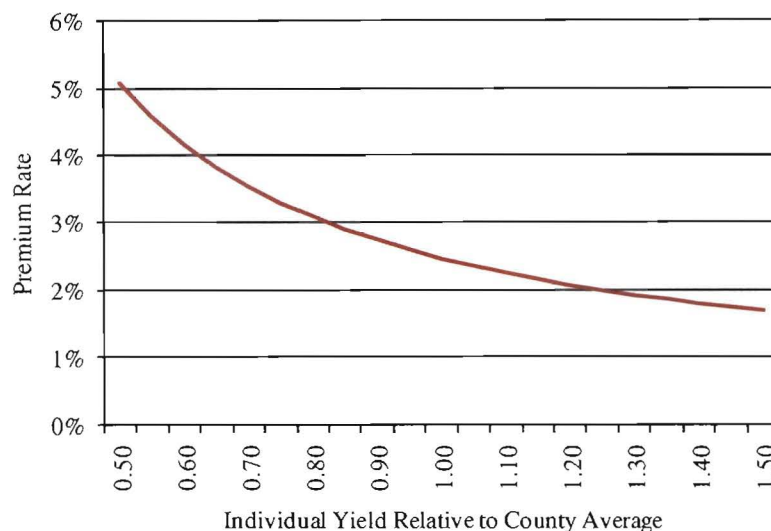
Underwriting and Risk Classification

Most perennial crops are "flat-rated". This simply means that for a given coverage level the premium rate is the same for all producers of the crop in the county. For a few perennial crops, the premium rate for a given coverage level varies based on the producer's risk classification.⁶ RMA's rating function, as applied to these latter crops, imply that the risk of a payable loss is a decreasing function of yield, which means that the frequency and severity of payable losses are greater for producers with a below-average yield (relative to the county average) than for producers with an above-average yield. The degree to which an insured's average yield is above

⁶ Such a variable rate structure is used for most annual crops insured under an APH-based plan of insurance.

the county average, the insured's premium rate is reduced and vice-versa, as illustrated in the Figure 3. Thus, the average yield not only determines the insurance guarantee but also affects the premium rate paid by the producer.

Figure 3: Relationship Between an Individual's Yield and Premium Rate



The variability of yields that is typical to the growth and production pattern for some perennial crops complicates this method of risk classification, especially when dealing with the individual blocks that are common to many perennial crops such as trees. For example, recall the typical growth pattern of many perennial crops as illustrated above in Figure 1. Yields during the development stage are often lower, though rapidly increasing. Even though yields are lower during this stage, the block may have high vigor and thus be more resistant to damage than it would be at a later stage. In this situation, a lower yield does not necessarily equate to higher risk. Conversely, during the decline stage the perennial plant is considerably aged, downward trending is present, and vigor may be reduced. In this situation, the lower yield may indeed equate to higher risk. As a result, the risk classification for many perennials considers factors other than yield, including practice, type, variety, density, and age.

A further consequence of risk classification based on yield is that when a producer experiences a period of low yields, not only does the insurance guarantee decline but the assessed premium rate increases. This decline in an insured's guarantee, and the corresponding increase in the premium rate, can reduce the usefulness of crop insurance for some participants. This gives rise to pressure on Congress and RMA to do something to mitigate the impact of the low yields on the insurance offer to affected producers. The yield adjustment is an attempt to address concerns about the impact of low actual yields on insurance guarantees. Because this measure increases the guarantee of affected producers and, therefore, generates larger program losses, premium rates are necessarily higher given the statutory requirement that the program be actuarially

sound, as discussed above.⁷ Similarly, eliminating the downward trending and alternate bearing adjustments may lead to larger program losses and higher premium rates – if these two phenomena occur with regularity and guarantees are not appropriately adjusted. Producers, however, have concerns regarding the appropriateness of the downward trending and alternate bearing adjustments and with the consistency of these adjustments between regions. Therefore, the key issues are: (1) how prevalent are the downward trending and alternate bearing tendencies; and (2) how appropriate are the current procedural adjustments to address these situations. The conclusions of the contracted study with regard to these and other issues are presented in the following section of the report.

⁷ Section 506(n)(2) of the Federal Crop Insurance Act, as amended by the 2008 Farm Bill, requires the federal crop insurance program to operate with a loss ratio of no greater than 1.0, i.e., premiums collected must approximately equal indemnities paid. The immediate implication of this requirement is that as indemnities increase, so too must premium rates increase if actuarial soundness is to be maintained.

3. Summary of Findings from the Contracted Study

The complete Promar evaluation of the perennial crop APH insurance program, underwriting methods, and procedures is provided as an appendix to this report. A summary of the study's key findings is provided below, with a particular focus on issues surrounding downward trending and alternate bearing.

Incidence of alternate bearing and downward trending

The Promar evaluation found that adjustments for alternate bearing and downward trending are relatively infrequent based on an analysis of over 50,000 APH databases for the perennial crops under study. About 2.3 percent of the APH databases were adjusted for alternate bearing, and about 1.7 percent of the databases were adjusted for downward trending. An additional 3.7 percent of the databases had RO determined yields. The variation among regions regarding the incidence of alternate bearing and downward trending was not great, though the frequency of adjustments tended to be lowest in the West region. However, the West region accounted for the largest number of adjusted databases, primarily because the region accounts for such a large share of perennial crop production.

Length of APH period

The APH program is premised on the idea that an individual's past production history (actual production history) is the best predictor of his/her expected (future) production, and is therefore the most appropriate basis for establishing the individual's insurance guarantee. However, perennial crops tend to exhibit much greater yield variability than do annual crops, even in years of "normal" weather. In particular, the Promar study found that the average yield deviation for the perennial crops under study generally ranged from 25 to 50 percent, expressed relative to the average yield of the corresponding APH database. Based on this finding, Promar evaluated the predictive ability of alternative (shorter) time periods for constructing an APH database, relative to the standard 10-year APH database. The study concluded that a shorter (4-6 year) average is at least as accurate as a 10-year average, as indicated in the following excerpt:

In light of the above, we conducted a set of tests intended to determine whether a shorter experience period would predict yields as well as or better than the standard ten years. In general, our approach was to calculate successively shorter "APH periods" (nine year average, eight-eight year average ... through four-year average), and to compare these to the actual yields. We measured the difference between the predicted and average yield, and averaged this difference for all usable databases. Our conclusion is that a 4-6 year average works as well as or better than longer period averages.

Alternate bearing

Promar conducted listening sessions at 13 locations across the country in the course of their evaluation. The consensus opinion among the participants, which included producers, insurance providers and academic researchers, is that alternate bearing is not a major issue or concern among perennial crop producers. This is because cultural practices have enabled producers to largely mitigate the impact that alternate bearing would otherwise have on production patterns. The exception is citrus for which specific cultural practices are not used to manage alternate bearing tendencies.

Promar also evaluated the effectiveness of the alternate bearing adjustments using tests of accuracy and persistency. The test of accuracy compared the predictive ability of the current alternate bearing adjustments to the predictive ability of various alternatives for determining the approved APH yield. The contractor concluded that a four or five year APH database was as accurate as the current alternate bearing adjustments. For the test of persistency, Promar assessed whether perennial crops continued to exhibit the alternate bearing pattern after the alternate bearing adjustment had been triggered. The contractor concluded that, in general, the expected pattern was realized less than half of the time. In addition for an approximately equal number of cases, the outcome was opposite that which would be expected from alternate bearing. Given these results, Promar concluded that the alternate bearing adjustments should be generally eliminated in favor of a shorter APH database, though RMA regional offices would retain optional authority to adjust APH databases for alternate bearing if warranted.

We concluded that these two tests provide very strong arguments for eliminating the alternate bearing adjustment as a general requirement. The alternate bearing test should certainly not be applied to crops like peaches, nectarines, figs and grapes where it is not a documented phenomenon. More generally, however, the inability of the CIH formula to do a better job than a simple average predicting the next season's yield, coupled with the evidence of low persistence of the up-down pattern, lead us to conclude that the test is of little benefit in aggregate.

Downward trending

As with alternate bearing, downward trending was not identified as a major issue or concern in the listening sessions. Producers recognize that most perennial crops have a limited commercial lifespan, that yields will eventually begin to decline, and that insurance guarantees should appropriately reflect the effects of downward trending.

Similar to alternate bearing, Promar evaluated the effectiveness of the downward trending adjustments using tests of predictive ability and persistency. The test of accuracy compared the predictive ability of the current downward bearing adjustments to the predictive ability of various alternatives for determining the approved APH yield. The current downward trending adjustments perform better than a simple 10-year average. However, the predictive ability of the four or five year averages is equal to that of the current downward trending adjustments. The persistency test assessed the percentage of APH databases that continue to exhibit the downward trending pattern after the downward trending adjustment has been triggered. Similar to alternate bearing, less than half of the databases showed a continuation of the downward trending pattern. Promar concluded that a shorter (4 or 5 year) APH database would generally perform approximately as well as the current downward trending adjustment.

Down[ward] trending yields are a fact of life at some point for most of these crops. None of the formula adjustments do a very good job of predicting the coming year's yield. Only about half the time is the next year's yield actually below 75% of the APH. Nevertheless, our tests indicate that the CIH downward trending adjustment more accurately predicts yields than the APH yield for crops with a 10-year APH. However, moving to a shorter (four to six) year average would do almost as well.

4. RMA Recommendations

Section 12030 of the 2008 Farm Bill directed the Secretary deliver to Congress a report on options for addressing the effects of declining and variable yields for perennial crops in the federal crop insurance program. Congress was particularly interested in the administrative options open to RMA for addressing these issues. The RMA Perennial Crop Review Team evaluated the findings of the contracted evaluation and conducted additional analysis in developing its recommendations for the perennial crop program. These recommendations were reviewed within the agency before being formalized as RMA's recommendations.

As directed by Congress, below are RMA's recommendations for addressing the effects of declining and variable yields for perennial crops, including a discussion of the changes that can be accomplished administratively and those that require enabling legislation. These recommendations are an effort to unify the crop insurance program for perennial crops, improve underwriting methods and procedures to maintain an actuarially sound insurance program, establish uniformity and consistency by crop or crops across RMA regions where appropriate, and enhance the overall program for perennial crops. These changes would impact the APH-based perennial crop programs, and other perennial plans of insurance. A brief synopsis of the major recommendations for the perennial crop program is provided below:

1. Greater flexibility to establish the base period and method for determining the approved yield, for example, by shortening the base period for establishing the approved yield from 10 years to a shorter period. The contracted evaluation indicates that an approved yield based on a shorter time period can provide a more appropriate guarantee reflective of the current growth stage and capabilities.
2. Use producer history for catastrophic yield adjustments for APH-based perennial crop programs in place of the current adjustments based on regional average yields. Basing a catastrophic adjustment on T-Yields derived from regional average yields may not be equitable, particularly for perennial crops as yields may vary by plant density, age, etc. For example, producers with expected yields well above the county average arguably receive inadequate benefit from a county-based catastrophic adjustment. Conversely, producers with expected yields well below the county average arguably receive excessive benefit.
3. Restrict the applicability of the alternate bearing and downward trending adjustments as a shorter base period is implemented. The shorter base period will generally provide adequate responsiveness to changes in the crop's productive capability, negating much of the need for the current high variability adjustments.
4. Enhance policy and procedure for adjustments in measured acreage when there is a significant reduction in the stand from the previous year. Currently all acreage in the block may be counted in the acreage determination, even though a significant portion of the acreage may be out of production (for example, a storm uproots a large number of trees). By including all acreage the approved yield may be greatly reduced and the premium rate much higher (for perennial crops with variable rates), but the undamaged acreage remaining in production is no less productive than prior to the storm.

5. Modify the Pecan Revenue program to specify a minimum level of revenue that must be achieved as a condition of insurability, reduce the minimum age requirement, and add percent stand requirements similar to other nut crops such as almonds. A catastrophic adjustment based on the producer's history would also be implemented for pecan growers, similar to that of other perennial crops as indicated in recommendation 2.

RMA is able to administratively implement certain of the recommendations listed above. These changes will help to clarify procedures and increase standardization across the perennial crop program. RMA has recently incorporated the recommended changes in the measurement of perennial crop acreage with the release of the 2009 and 2010 crop year Special Provision statements (recommendation 4 above). RMA is also working to strengthen and clarify current underwriting procedures for acreage determinations and adjustments. The recommended changes specific to the Pecan Revenue program also can be implemented administratively, though some will require changes to policy language (recommendation 5 above). Changes to policy language will require publication of the proposed changes in the Federal Register to allow the public the opportunity to review and comment.

Restricting the applicability of the high yield variability adjustments can technically be accomplished administratively (recommendation 3 above). However, RMA does not believe that it would be prudent to implement this recommended change without both the recommended change to the base period (recommendation 1 above) and the replacement of the YA with a catastrophic adjustment based on the producer's own production history (recommendation 2 above). Implementing only the restriction on the high yield variability adjustments may not be actuarially appropriate and could result in unacceptable premium rate increases. However, recommendations 1 and 2 both require changes in statute in order for RMA to proceed with implementation. Current legislation mandates a 10-year base period for all crops, thus necessitating a change in statute to allow a shorter base period for perennial crops. The use of actual production histories to establish catastrophic yield adjustments is an innovation that RMA believes would also benefit its annual crop programs. As a result, the declining yield report will provide more specific recommendations to enable RMA to proceed with recommendation 2.

Budgetary Impact of Recommended Changes

RMA's analysis of recommendation 1 indicates adoption of a shorter base period for perennial crops will result in a relatively small increase in liability, estimated to be approximately \$20 million annually based on data for the 2006 and 2007 crops. Accordingly, this change would be scored as an increase in program costs because premium subsidies, administrative and operating (A&O) subsidies and indemnities would increase by a similar amount. Recommendation 2 – a catastrophic adjustment based on the producer's yield history – is also applicable to annual crops, which will likely be a far larger determinant of potential costs as compared to perennial crops. Analysis of recommendation 2 as applied to both annual and perennial crops is ongoing and will be addressed in the forthcoming declining yields report. The legislative changes (and associated scoring impacts) to accommodate recommendation 2 would also be applicable to the catastrophic adjustment for pecans (part of recommendation 5).

Implemented in isolation, recommendation 3 would result in an increase in program costs. As noted above, RMA does not intend to implement recommendation 3 until it is also able to implement recommendations 1 and 2. Thus, implementation of recommendation 3 would have only a minimal budgetary impact. Most perennial crops are flat-rated, i.e., the premium rate is not a function of yield. Thus, recommendation 4 has no budgetary impacts for these perennial crops. For the few perennial crops that are not flat-rated, recommendation 4 would actually result in small program savings. This is because the earned premium rate for these crops would decline while liability is unchanged, resulting in lower premiums, premium subsidies, A&O subsidies, and indemnities. Aside from the catastrophic adjustment, the remaining elements of recommendation 5 are largely routine program maintenance to assure program integrity. The minimum revenue and percent stand requirements of recommendation 5 are somewhat more stringent underwriting standards. Reducing the minimum age requirement recognizes current production practices that allow pecan trees to reach full production earlier in their life cycle.

Appendix

Contracted Study:
Evaluation of Perennial Category C APH Crop Insurance Program



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 10 2009

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition and Forestry
United States Senate
731 Hart Office Building
Washington, DC 20515

Dear Mr. Chairman:

The Packers and Stockyards Act, 1921, as amended, mandates that not later than March 1st of each year, the Secretary shall submit to Congress an Annual Report on the industries regulated by the Act and on USDA's enforcement efforts under the Act. I am pleased to provide the enclosed 2008 Packers and Stockyards Program Annual Report provides information responsive to this mandate.

To address some of the concerns identified in the enclosed report, USDA plans to provide to Congress in the near future legislative proposals to amend the Act to increase administrative authority for the Department under the Act and to increase protections for livestock sellers.

If you have any questions regarding these issues, please feel free to have your staff contact Alan Christian, Acting Administrator, Grain Inspection, Packers and Stockyards Administration at 202-720-0219.

A similar letter is being sent to the President of the Senate, the Speaker of the House of Representatives, and the Chairman of the House Committee on Agriculture.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is positioned above the printed name and title.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 10 2009

The Honorable Collin Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
2211 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

The Packers and Stockyards Act, 1921, as amended, mandates that not later than March 1st of each year, the Secretary shall submit to Congress an Annual Report on the industries regulated by the Act and on USDA's enforcement efforts under the Act. I am pleased to provide the enclosed 2008 Packers and Stockyards Program Annual Report.

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 10 2009

The Honorable Joseph Biden
President of the United States Senate
United States Senate
Washington, D.C. 20510

Dear Mr. President:

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A similar letter is being sent to the Speaker of the House of Representatives, the Chairman of the House Committee on Agriculture, and the Chairman of the Senate Committee on Agriculture, Nutrition and Forestry.

Sincerely,

A handwritten signature in black ink, reading "Tom J. Vilsack". The signature is fluid and cursive, with the first name "Tom" and last name "Vilsack" clearly legible.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 10 2009

The Honorable Nancy Pelosi
Speaker of the House of Representatives
235 Cannon House Office Building
Washington, D.C. 20515-0508

Dear Madam Speaker:

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since fiscal year 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Rosa DeLauro
Page 2

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The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Congressman Kingston and Senators Kohl and Brownback, as well as Members from the affected districts.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", with a stylized flourish at the end.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

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The Honorable Jack Kingston
Page 2

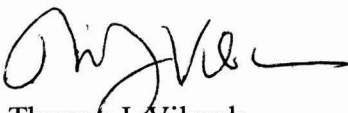
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If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Congresswoman DeLauro and Senators Kohl and Brownback, as well as Members from the affected districts.

Sincerely,

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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The Honorable Herbert Kohl
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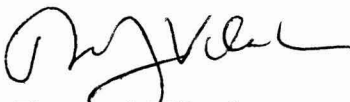
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If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Senator Brownback, Congresswoman DeLauro, and Congressman Kingston, as well as Members from affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Sam Brownback
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Sam Brownback

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If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Senator Kohl, Congresswoman DeLauro, and Congressman Kingston, as well as Members from the affected districts.

Sincerely,

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Bill Nelson
United States Senate
716 Senate Hart Office Building
Washington, DC 20510

Dear Senator Nelson:

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The Honorable Bill Nelson
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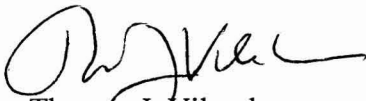
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If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to the Subcommittees on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies of the Committees on Appropriations, U.S. House of Representatives and United States Senate, as well as other Members from the affected districts.

Sincerely,



Thomas I. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Mel Martinez
United States Senate
356 Russell Senate Office Building
Washington, DC 20510

Dear Senator Martinez:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Mel Martinez
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The annual lease cost for the current facilities in Orlando is \$400,000. However, the program has outgrown the facility and there is no room to expand on the existing property. Accordingly, APHIS must relocate the program. APHIS ultimately chose Newnan, Georgia, as the site of the new facility for three reasons.

The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to the Subcommittees on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies of the Committees on Appropriations, U.S. House of Representatives and United States Senate, as well as other Members from the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Corrine Brown
U.S. House of Representatives
2336 Rayburn House Office Building
Washington, D.C. 20515-0903

Dear Congresswoman Brown:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Corrine Brown
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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Ginny Brown-Waite
U.S. House of Representatives
414 Cannon House Office Building
Washington, D.C. 20515-0905

Dear Congresswoman Brown-Waite:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Ginny Brown-Waite
Page 2

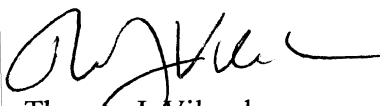
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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Alan Grayson
U.S. House of Representatives
1605 Longworth House Office Building
Washington, D.C. 20515-0908

Dear Congressman Grayson:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Alan Grayson
Page 2


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Sincerely,



Thomas J. Nilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Bill Posey
U.S. House of Representatives
132 Cannon House Office Building
Washington, D.C. 20515-0915

Dear Congressman Posey:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Bill Posey

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Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Vilsack', with a stylized flourish at the end.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Suzanne Kosmas
U.S. House of Representatives
238 Cannon House Office Building
Washington, D.C. 20515-0924

Dear Congresswoman Kosmas:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Suzanne Kosmas
Page 2

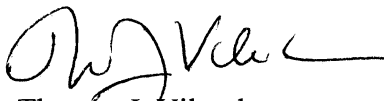
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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

Honorable Saxby Chambliss
United States Senate
416 Russell Senate Office Building
Washington, D.C. 20510-1005

Dear Senator Chambliss:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

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The Honorable Saxby Chambliss
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Sincerely,

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

**Office of the Secretary
Washington, D.C. 20250**

MAR 3 0 2009

Honorable Johnny Isakson
United States Senate
120 Russell Senate Office Building
Washington, D.C. 20510-1004

Dear Senator Isakson:

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Honorable Johnny Isakson

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Secretary



United States Department of Agriculture

**Office of the Secretary
Washington, D.C. 20250**

MAR 30 2009

The Honorable Jim Marshall
U.S. House of Representatives
504 Cannon House Office Building
Washington, D.C. 20515-1008

Dear Congressman Marshall:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since FISCAL 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Jim Marshall

Page 2

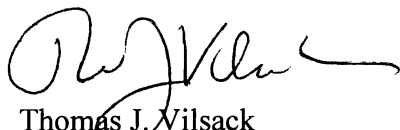
The annual lease cost for the current facilities in Orlando is \$400,000. However, the program has outgrown the facility and there is no room to expand on the existing property. Accordingly, APHIS must relocate the program. APHIS ultimately chose Newnan, Georgia, as the site of the new facility for three reasons.

The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to the Subcommittees on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies of the Committees on Appropriations, U.S. House of Representatives and United States Senate, as well as other Members from the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Phil Gingrey
U.S. House of Representatives
119 Cannon House Office Building
Washington, D.C. 20515-1011

Dear Congressman Gingrey:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since FISCAL 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Phil Gingrey
Page 2

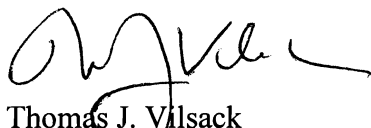
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The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to the Subcommittees on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies of the Committees on Appropriations, U.S. House of Representatives and United States Senate, as well as other Members from the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2009

The Honorable Tom Harkin
Chairman
Committee on Agriculture,
Nutrition & Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The Food, Conservation, and Energy Act of 2008 directed the U.S. Department of Agriculture (USDA) to prepare a study that would evaluate the role of animal manure as a source of fertilizer, and its other uses (Title XI, Sec. 11014). The study was to provide:

- (1) a determination of the extent to which animal manure is utilized as fertilizer in agricultural operations by type (including species and agronomic practices employed) and size;
- (2) an evaluation of the potential impact on consumers and on agricultural operations (by size) resulting from limitations being placed on the utilization of animal manure as fertilizer; and
- (3) an evaluation of the effects on agriculture production contributable to the increased competition for animal manure use due to bioenergy production, including as a feedstock or a replacement for fossil fuels.

Economic Research Service (ERS) researchers used data from USDA's Agricultural Resource Management Survey (ARMS), USDA's Census of Agriculture, the Environmental Protection Agency's database on anaerobic digesters, and the American Society of Agricultural and Biological Engineers standards for manure production and characteristics to assess the issues. Some key findings from this study are:

- About 15.8 million acres of cropland, equivalent to about 5 percent of all U.S. cropland, are fertilized with livestock manure. Patterns of manure use are driven by the agronomic needs of crops and by transport costs, which limit the distance that manure can be moved and create close links between types of livestock and certain crop commodities.
- Higher commercial fertilizer prices also favor the use of manure as fertilizer. However, manure is not a complete substitute for commercial fertilizers because it rarely contains the precise combination of nutrients needed for optimal crop growth. Farmers who use manure therefore reduce their use of commercial fertilizer but rarely eliminate it.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2009

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515-6001

Dear Mr. Chairman:

The Food, Conservation, and Energy Act of 2008 directed the U.S. Department of Agriculture (USDA) to prepare a study that would evaluate the role of animal manure as a source of fertilizer, and its other uses (Title XI, Sec. 11014). The study was to provide:

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2009

The Honorable David Obey
Chairman
Committee on Appropriations
U.S. House of Representatives
Room H-218, The Capitol
Washington, D.C. 20515-6015

Dear Mr. Chairman:

The Food, Conservation, and Energy Act of 2008 directed the U.S. Department of Agriculture (USDA) to prepare a study that would evaluate the role of animal manure as a source of fertilizer, and its other uses (Title XI, Sec. 11014). The study was to provide:

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2009

The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate
Room S-146A, The Capitol
Washington, D.C. 20510

Dear Mr. Vice Chairman:

The Food, Conservation, and Energy Act of 2008 directed the U.S. Department of Agriculture (USDA) to prepare a study that would evaluate the role of animal manure as a source of fertilizer, and its other uses (Title XI, Sec. 11014). The study was to provide:

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2009

The Honorable Frank D. Lucas
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1305 Longworth House Office Building
Washington, D.C. 20510

Dear Congressman Lucas:

The Food, Conservation, and Energy Act of 2008 directed the U.S. Department of Agriculture (USDA) to prepare a study that would evaluate the role of animal manure as a source of fertilizer, and its other uses (Title XI, Sec. 11014). The study was to provide:

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 18 2009

The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lewis:

The Food, Conservation, and Energy Act of 2008 directed the U.S. Department of Agriculture (USDA) to prepare a study that would evaluate the role of animal manure as a source of fertilizer, and its other uses (Title XI, Sec. 11014). The study was to provide:

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- Large livestock operations are increasingly required to comply with nutrient management plans, which require balancing nutrient applications with the nutrient utilization of crops. Farms can comply with plans by spreading manure on more of their own cropland, by moving manure to other farms for spreading, by altering feed mixes to reduce manure production, or by developing herds or flocks with reduced manure production.
- Estimated costs of compliance with nutrient management plans vary sharply with the degree to which excess manure needs to be disposed of and the willingness of nearby farmers to accept manure for application to their cropland. With a limited willingness to accept manure, ERS estimates that production costs, including those for manure management, would likely rise by 2.5-3.5 percent for large operations. Such increases are unlikely to alter the emerging structure of livestock production, where large operations have substantial cost advantages over small operations. Other regulatory interventions, such as moratoriums on new construction, can affect the location of livestock production.
- Manure-to-energy projects are not currently in widespread use; currently, the costs generally exceed the revenues that most farmers can receive from electricity production. But because such projects use existing resources, they could provide society with benefits if manure replaces newly mined fossil fuels in energy production, and if methane, a greenhouse gas, can be captured. Those societal benefits have led to proposals to support manure-to-energy projects through state utility mandates, through subsidies for capital costs, and through direct subsidies and credits for energy production. Expanded support could lead to a substantial growth of energy applications for manure.
- Currently envisioned manure-to-energy projects are not likely to impose substantive constraints on the use of manure as fertilizer. Many of the nutrients that are beneficial to crop growth remain after energy production, but in condensed form and with reduced odors. Each element reduces nutrient transportation costs and storage costs, enhancing the value of manure nutrients as fertilizers.

ERS researchers would be pleased to provide a briefing to the requesters regarding the report's findings.

Similar letters have been sent to Chairman Tom Harkin, Chairman Daniel Inouye, Chairman Collin Peterson, Chairman David Obey, Senator Saxby Chambliss, Vice Chairman Thad Cochran, and Congressman Frank Lucas.

Sincerely,

Thomas J. Vilsack
Secretary

Enclosure



United States
Department
of Agriculture

Office of
Inspector
General

No. 61
May 2009



Office of Inspector General

Semiannual Report to Congress

First Half 2009

KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	22
Number of Recommendations	133

Management Decisions Made

Number of Reports	22
Number of Recommendations	237

Total Dollar Impact (Millions) of Management-Decided Reports \$112.9

Questioned/Unsupported Costs \$3.6

Funds To Be Put to Better Use \$109.3

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued 141

Impact of Investigations

Indictments 228

Convictions 225

Arrests 103

Total Dollar Impact (Millions) \$47.4

Administrative Sanctions 74

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2008)

1) Interagency Communications, Coordination, and Program Integration Need Improvement

Related material can be found on pages 11 and 16.

2) Implementation of Strong, Integrated Internal Control Systems Still Needed

Related material can be found on pages 6, 9, 12, and 15-17.

3) Continuing Improvements Needed in Information Technology (IT) Security

Related material can be found on page 21.

4) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Related material can be found on page 4.

5) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

No work was reported during this period.

6) USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge

Related material can be found on page 3.

7) Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires

Related material can be found on pages 25-26.

8) Improved Controls Needed for Food Safety Inspection Systems

Related material can be found on pages 1-2 and 4.

9) Implementation of Renewable Energy Programs at USDA

No work was reported during this period.

Message From the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), for the 6-month period ending March 31, 2009. This is the first Semiannual Report that we have issued to the new Congress and the new Administration. We look forward to working with our stakeholders to provide effective oversight to USDA programs, particularly the new economic recovery programs funded under the American Recovery and Reinvestment Act of 2009 (ARRA). Immediately upon passage of the ARRA, we began a number of proactive measures to review ARRA funding, including reviewing open recommendations from audits of agency programs receiving such funding, working with the Chief Information Officer and the Chief Financial Officer to ensure accurate ARRA reporting, and reviewing agency Recovery Act Plans. Some of our current work on specific recovery program projects is described in the "Ongoing and Planned Work" sections of this report.

This report also highlights the most significant OIG activities completed during the period. During this reporting period, we conducted successful investigations and audits that led to 103 arrests, 225 convictions, \$47.4 million in recoveries and restitutions, 202 program improvement recommendations, and \$112.9 million in financial recommendations. Narrative descriptions of our completed work are presented in the body of this report, organized under the goals set forth in the OIG Strategic Plan for fiscal years (FY) 2007-2012, as shown below. Some of our most significant work completed in the last 6 months includes:

- **Safety, Security, and Public Health** – Prompted by Congressional and public concerns expressed after the release of videos showing inhumane treatment of animals at a California slaughterhouse, OIG conducted a review both of oversight at this plant and at similar plants across the country. In response to our recommendations, the Food Safety and Inspection Service agreed to reassess the inhumane handling risks associated with such establishments and strengthen its pre-slaughter inspection processes. Our investigative work resulted in sentencing in other cases involving uninspected meat and poultry products, illegal importation of plant pests, and international smuggling of orchids.
- **Integrity of Benefits** – Our investigations involving the Supplemental Nutrition Assistance Program and other feeding programs—as well as conversion of mortgaged farm collateral, payment limitations schemes, tobacco and other fraud, and broadband scams—produced significant prison sentences and monetary recoveries totaling millions of dollars. In addition, Congress requested that OIG revisit the rural broadband programs to determine whether the Rural Utilities Service (RUS) had taken sufficient corrective action in response to our previous recommendations. Our audit work found that RUS continues to make loans to broadband providers in areas with preexisting service, sometimes in close proximity to large urban areas.
- **Management Improvement Initiatives** – Our audit of claims from policies reinsured under the Federal Crop Insurance Program resulting from the 2005 hurricanes in Florida found that errors by just one approved insurance provider led to more than \$16 million in erroneous payments. Our audit work also found that the National Agricultural Statistics Service's weekly published average peanut prices are unreliable because they may not be complete, cannot be verified, and do not reflect prevailing weekly market values. In addition, the USDA FY 2008 consolidated financial statements received an unqualified opinion. Our investigations included ones involving embezzlement, witness tampering, and unlawfully buying and selling prescription drugs.
- **Stewardship Over Natural Resources** – Our investigation found that 18 participants submitted fraudulent soil test results to unlawfully receive compensation from the Conservation Security Program, resulting in administrative recoveries totaling \$628,591, as well as Civil False Claims Act settlements.

In many ways, 2009 has ushered in an era of great challenge for the Nation, for USDA, and for those of us in the oversight community. We look forward to working closely with Secretary Vilsack, Deputy Secretary Merrigan, and the new USDA management team to ensure that USDA programs are delivered effectively and with integrity.



Phyllis K. Fong
Inspector General



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 05 2009

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Madam Speaker:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended March 31, 2009.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the typed name.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 05 2009

The Honorable Joseph R. Biden, Jr.
President of the Senate
Washington, D.C. 20501

Dear Mr. President:

In accordance with the requirements of the Inspector General Act of 1978 (Public Law 95-452), I am transmitting the Office of Inspector General's Semiannual Report to Congress covering the 6-month period that ended March 31, 2009.

This report reflects the work of the Office of Inspector General to promote efficiency and effectiveness and to prevent and detect fraud and mismanagement in the Department of Agriculture's operations.

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A handwritten signature in black ink, appearing to read "T. Visack", is written over the printed name of the Secretary.

Thomas J. Visack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 07 2009

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

As requested by the Senate Report accompanying the American Recovery and Reinvestment Act of 2009 (ARRA), enclosed is a report that identifies how funds made available for the Watershed and Flood Prevention Operations Program and the Watershed Rehabilitation Program are being allocated. We will provide quarterly reports on the status of these activities until they are completed as requested in the report language.

A similar letter, including the report, is being sent to Chairman Herbert Kohl, Senator Sam Brownback, and Chairwoman Rosa L. DeLauro. Please contact Bruce Julian, Special Assistant, Natural Resources Conservation Service at (202) 690-0513 should you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 07 2009

The Honorable Rosa L. DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

As requested by the Senate Report accompanying the American Recovery and Reinvestment Act of 2009 (ARRA), enclosed is a report that identifies how funds made available for the Watershed and Flood Prevention Operations Program and the Watershed Rehabilitation Program are being allocated. We will provide quarterly reports on the status of these activities until they are completed as requested in the report language.

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 07 2009

The Honorable Sam Brownback
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

As requested by the Senate Report accompanying the American Recovery and Reinvestment Act of 2009 (ARRA), enclosed is a report that identifies how funds made available for the Watershed and Flood Prevention Operations Program and the Watershed Rehabilitation Program are being allocated. We will provide quarterly reports on the status of these activities until they are completed as requested in the report language.

A similar letter, including the report, is being sent to Chairman Herbert Kohl, Chairwoman Rosa L. DeLauro and Congressman Jack Kingston. Please contact Bruce Julian, Special Assistant, Natural Resources Conservation Service at (202) 690-0513 should you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

AUG 07 2009

The Honorable Herbert Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
122 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

As requested by the Senate Report accompanying the American Recovery and Reinvestment Act of 2009 (ARRA), enclosed is a report that identifies how funds made available for the Watershed and Flood Prevention Operations Program and the Watershed Rehabilitation Program are being allocated. We will provide quarterly reports on the status of these activities until they are completed as requested in the report language.

A similar letter, including the report, is being sent to Senator Sam Brownback, Chairwoman Rosa L. DeLauro, and Congressman Jack Kingston. Please contact Bruce Julian, Special Assistant, Natural Resources Conservation Service at (202) 690-0513 should you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the typed name of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure

Report to Congress
on the Use and Allocation of Funding for Watersheds
Included in the America Recovery and Reinvestment Act of 2009 (ARRA)
Prepared by the Natural Resources Conservation Service

Introduction

ARRA assigned the Department of Agriculture's Natural Resources Conservation Service (NRCS) a key role in creating thousands of private sector jobs for Americans in areas of our Nation that are most impacted economically and where public and environmental benefits can be achieved. America's watersheds are cornerstones of our Nation's natural resource conservation efforts, as well as the economic security for America's citizens.

This report is being prepared in response to language contained in the Senate report accompanying the Act. As requested, this report identifies how funds made available for the Watershed and Flood Prevention Operations Program and the Watershed Rehabilitation Program are being allocated. This report will be updated and provided to the Congress on a quarterly basis until the projects are completed.

Role Of NRCS

NRCS projects under ARRA are estimated to create or sustain thousands of jobs across the country in the two funded programs. In addition to jobs to implement these projects, this work will provide multiple benefits for people, such as clean and abundant water through, construction, repair, or rehabilitation of dams and improved floodplain management. This investment in jobs will also mitigate future risks and the dangers and damages that result from flooding, changes in environmental conditions, and aging infrastructure.

Jobs that result from rehabilitating aging dams, improving natural resources at the watershed scale, and mitigating future flooding will have a positive impact on the quality of the Nation's communities, waterways, and on the vibrancy of the economy.

Investing in America's watersheds protects or enhances water quality, improves access to fresh water, mitigates risk of flooding and drought, and protects or enhances soil conservation and overall environmental health. Investing in comprehensive solutions to rehabilitation or decommissioning of flood control dams improves public safety, reduces flooding, and protects community water supplies. Restoring flood-prone lands mitigates the damages from future flooding, enhances wetlands and wildlife habitat, and provides economic stability for farmers, ranchers, and downstream landowners.

NRCS established a Web page to help address questions from the public and to provide transparency to this process: <http://www.nrcs.usda.gov/recovery>.

Use and Allocation of Funds**Watershed and Flood Prevention Operations Program****Watershed Operations**

Funding: \$145 million

Program Description:

This voluntary program provides assistance to sponsoring local organizations of authorized watershed projects, planned and approved under the authority of the Watershed Protection and Flood Prevention Act of 1954 (P.L. 83-566), and designated watersheds authorized by the Flood Control Act of 1944 (P.L. 78-534). NRCS provides technical assistance (TA) and financial assistance (FA) to States, local governments, and tribes (as project sponsors) to implement authorized watershed project plans for the purpose of watershed protection, flood mitigation, water quality improvements, soil erosion reduction, rural, municipal and industrial water supply, irrigation water management, sediment control, fish and wildlife enhancement, and wetlands and wetland function creation and restoration. Attachment 1 shows the amount of funding allocated to date.

Floodplain Easements

Funding: \$145 million (\$30 million maximum for any State)

Program Description:

Floodplain easements restore, protect, maintain, and enhance the functions of the floodplain; conserve natural values including fish and wildlife habitat, water quality, flood water retention, ground water recharge, and open space; reduce long-term Federal disaster assistance; and safeguard lives and property from floods, drought, and the products of erosion. NRCS may purchase easements on floodplain lands that meet program criteria. Purchases are based upon established priorities. The easement provides NRCS with the authority to restore and enhance the floodplain's functions and values. Landowners retain several rights to the property, including quiet enjoyment, the right to control public access, and the right to undeveloped recreational use, such as hunting and fishing.

At the heart of the floodplain easement program is FA provided to landowners who voluntarily place a perpetual conservation easement on their recently flooded property. Additionally, the agreement may include TA to restore the floodplain to its natural topography and vegetation.

NRCS is utilizing ARRA funds designated for the floodplain easement program through grants and agreements with individual landowners. These financial awards are being structured to create jobs, stimulate the economy, and accomplish high priority work on flood-prone lands.

A nationwide signup was completed on April 10, 2009, and over 4,300 applications were received from 48 States and Territories representing nearly 480,000 acres. NRCS ranked the applications to ensure that projects yielding the greatest public and environmental benefits were approved. Secretary Vilsack announced on June 2, 2009, the selection of 289 projects for the program representing more than 36,300 acres in 36 States. Attachment 2 shows a State-by-State allocation of easement funding.

Watershed Rehabilitation Program

Watershed Rehabilitation

Funding: \$50 million

Program Description:

The authority for rehabilitation of aging watershed dams is included in Section 14 of P.L. 83-566. Any of the over 11,000 dams in 47 States that were constructed under the four watershed programs (P.L. 78-534, P.L. 83-566, Pilot, or Resource Conservation and Development) are eligible for assistance under this authority. Many of these dams are nearing the end of their 50-year design life. Rehabilitation of these dams is needed to address critical public health and safety issues in these communities. Funding projects is based on a priority ranking system that considers the condition of the dam and number of people at risk if the dam should fail. NRCS may provide TA and 65 percent of the total rehabilitation project cost.

There are many flood control dams across the country in a race against time when it comes to their ability to protect people and property from flooding. NRCS will deliver this assistance through its Watershed Rehabilitation Program and direct the funding toward the most cost-effective projects where there is the greatest risk of infrastructure failure and threat to life and property. State and local sponsors will provide 35 percent of the funding for their projects.

At this time, 26 projects in 11 States have received about \$45 million in ARRA funds to rehabilitate aging flood control structures nationwide. These projects are listed on Attachment 3 and will help revitalize dams and rural economies by creating jobs and supporting local businesses that supply needed products and services.

Attachment 1

**ARRA Allocation for Watershed Protection and Flood Prevention Program under the
Watershed and Flood Prevention Operations Program—Announced April 16, 2009**

Location	Project	Funding
Arkansas	Upper Petit Jean	134,000
California	Stemple Creek	275,000
California	Lower Silver Creek	10,000,000
Colorado	Beaver Creek	2,500,000
Colorado	Highline Breaks	629,000
Colorado	Holbrook Lake Ditch	185,000
Colorado	Limestone-Graveyard Creeks	187,000
Colorado	Trinidad Lake North	79,000
Iowa	Mill Creek	57,500
Iowa	Hacklebarney	161,000
Iowa	East Fork of The Grand River	1,258,250
Idaho	Southern Washington County Water Quality Project	430,000
Kansas	Big Caney	214,000
Kentucky	Fox Creek	4,092,880
Louisiana	Bayou Duralde-Lower Nezpique	1,270,000
Louisiana	Red Bayou	3,200,000
Minnesota	Whitewater River	299,000
Minnesota	Kanaranzi-Little Rock	245,000
Missouri	East Yellow Creek	420,000
Missouri	West Fork of Big Creek	950,000
Missouri	Upper Locust Creek	1,730,000
Missouri	Big Creek-Hurricane Creek	950,000
Missouri	East Fork of Big Creek	850,000
Montana	Buffalo Rapids	281,000
Nebraska	Blackwood Creek	2,000,000
New York	New York City Watersheds	1,000,000
North Carolina	Swan Quarter Watershed	5,280,858
Oklahoma	Upper Red Rock Creek	60,000
Oklahoma	Stillwater Creek	40,000
Oklahoma	Turkey Creek	1,670,000
Pennsylvania	Tulpehocken Creek	1,375,000
Pennsylvania	Red-White Clay Creeks	430,000
Pennsylvania	Brandywine Creek	20,000
Pennsylvania	Neshaminy Creek	10,075,000
Northern Marianas (Saipan)	Kagman	4,150,000
Texas	Elm Creek (Cen-Tex)	746,000
Texas	Caney Creek	399,000
Texas	Trinity - Big Sandy Creek	369,000
Texas	Lower Brushy Creek	2,502,000

Texas	Plum Creek	1,335,000
Texas	Trinity - Little Elm & Laterals	1,508,000
Texas	Trinity - Chambers Creek	8,558,000
Texas	Trinity - East Fork Above Lavon	666,000
Texas	Trinity - Hickory Creek	658,000
Texas	Trinity - Pilot Grove	744,000
Texas	Trinity - Richland Creek	3,125,000
Texas	Upper Brushy Creek	930,000
Virginia	Little Reed Island Creek	225,300
Virginia	Chestnut Creek	367,700
Virginia	North Fork Powell River	380,000
Washington	Omak Creek	625,000
West Virginia	Upper Deckers Creek	2,100,000
West Virginia	Upper Tygart	3,025,000
Total		84,761,488

ARRA Allocation for Watershed Protection and Flood Prevention Program under the Watershed and Flood Prevention Operations Program—Announced June 2, 2009

State	Project	Funding
AL	Camp Branch	\$175,000
AL	Northeast Yellow River	\$255,000
CA	Lower Silver Creek	\$9,000,000
IA	Bear Creek	\$755,000
IN	Honey Creek	\$3,300,000
KS	Lyons Creek	\$1,248,000
MS	Ellison Creek	\$1,875,000
MS	Little and Upper Tallahatchie	\$2,200,000
MS	Town Creek	\$930,000
MS	Yazoo-Arkabutla Creek	\$1,000,000
MS	Yazoo-Upper Piney Creek	\$875,000
MS	Yazoo-Upper Skuna River	\$750,000
MT	Lower Birch Creek	\$527,000
NE	Gering Valley	\$2,200,000
SC	South Darlington	\$1,040,000
KS	Wet Walnut No. 5	\$199,000
KY	North Fork of Little River	\$725,000
NM	Prop Canyon and Tributaries	\$1,200,000
NM	Santa Cruz River	\$240,000
OK	Bear-Fall-Coon Creeks	\$75,000
OK	Lost Duck Creek	\$45,000
OK	Lower Clear Boggy Creek	\$50,000
OK	Uncle John Creek	\$175,000
OK	Upper Black Bear Creek	\$110,000
OK	Upper Muddy Boggy Creek	\$45,000
OK	Upper Red Rock Creek	\$85,000
OK	Washita Creek	\$809,000
TN	Cane Creek	\$12,400,000
Total		\$42,288,000

Attachment 2

ARRA Allocation for Flood Plain Easements under the Watershed and Flood Prevention Operations Program

State	Number of Applications	Acres	Funding
Alabama	3	1,152	\$2,971,627
Alaska	13	379	\$3,120,424
Arkansas	8	1,501	\$2,237,586
California	6	970	\$7,970,784
Colorado	3	629	\$614,234
Connecticut	1	65	\$888,270
Georgia	5	563	\$3,647,268
Illinois	10	1,403	\$5,946,931
Indiana	13	3,016	\$8,150,472
Iowa	42	4,240	\$24,135,568
Kansas	3	853	\$2,294,232
Kentucky	6	810	\$3,585,541
Louisiana	2	1,052	\$1,798,528
Maine	3	73	\$469,665
Maryland	1	166	\$667,849
Michigan	1	108	\$515,574
Minnesota	14	1,388	\$2,421,541
Mississippi	6	1,390	\$2,596,164
Missouri	10	1,507	\$4,817,131
Nebraska	1	139	\$361,260
New Hampshire	2	32	\$569,403
New Jersey	1	167	\$841,164
New York	14	409	\$2,007,966
North Carolina	3	62	\$741,000
North Dakota	27	4,504	\$11,802,508
Ohio	23	1,074	\$4,533,426
Oklahoma	4	1,766	\$2,810,520
Oregon	3	677	\$3,035,826
Pennsylvania	5	34	\$1,340,340
Rhode Island	4	137	\$2,347,200
South Carolina	1	435	\$559,500
South Dakota	3	768	\$1,904,514
Tennessee	3	498	\$1,751,895
Washington	4	284	\$1,687,815
West Virginia	18	17	\$1,389,700
Wisconsin	23	4,040	\$19,718,769
Total	289	36,308	\$136,252,195

Attachment 3

ARRA Allocation for Rehabilitated Watershed Program

State	Project	Funding
Arkansas	Poteau River 5	1,495,000
Georgia	Little Sandy & Trail 1	840,000
Georgia	Marbury 22	300,000
Georgia	Sandy Creek 23	1,675,000
Georgia	Sandy Creek 15	1,975,000
Georgia	South River 4	1,375,000
Kansas	Switzler Creek 7	1,135,000
Massachusetts	Su-As-Co MA301	2,357,400
Massachusetts	Su-As-Co MA303	2,007,000
Missouri	Lost Creek B-2	400,000
Nebraska	Papio W-3	1,170,000
New York	Little Choconut 2	344,200
New York	Conewango 3	1,200,000
New York	Conewango 6	1,200,000
Oklahoma	Cottonwood Creek 15	3,610,000
Oklahoma	Sallisaw Creek 18	4,160,000
Oklahoma	Upper Clear Boggy Creek 33	1,010,000
Oklahoma	Upper Clear Boggy Creek 34	960,000
Oklahoma	Upper Clear Boggy Creek 35	840,000
Oklahoma	Washita-Sugar Creek L-43	1,645,000
Oklahoma	Washita-Sugar Creek L-44	1,790,000
Texas	Calaveras Creek 6	2,373,000
Texas	Plum Creek 5	2,452,000
Virginia	Pohick Creek 2	2,195,000
Virginia	Pohick Creek 3	2,160,000
West Virginia	Potomac-New Creek-Whites 14	4,050,000
Total		44,718,600



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 31 2009

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Mr. Chairman:

Section 501(d) of the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7401) requires the Secretary of Agriculture to submit annually to the Congress information on administrative expenses of programs established under commodity promotion laws. The enclosed report provides such information for the current 18 active commodity promotion programs. If you have any questions concerning the content of this report, please have your staff contact Christine Sarcone of the Agricultural Marketing Service at 202-720-3203. A similar letter is being sent to Senator Chambliss and Congressmen Peterson and Lucas.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250


JUL 31 2009

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Senator Chambliss:

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Sincerely,



Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 31 2009

The Honorable Frank Lucas
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515-6001

Dear Congressman Lucas:

Section 501(d) of the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7401) requires the Secretary of Agriculture to submit annually to the Congress information on administrative expenses of programs established under commodity promotion laws. The enclosed report provides such information for the current 18 active commodity promotion programs. If you have any questions concerning the content of this report, please have your staff contact Christine Sarcone of the Agricultural Marketing Service at 202-720-3203. A similar letter is being sent to Congressman Peterson and Senators Harkin and Chambliss.

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Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 31 2009

The Honorable Collin Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515-6001

Dear Mr. Chairman:

Section 501(d) of the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7401) requires the Secretary of Agriculture to submit annually to the Congress information on administrative expenses of programs established under commodity promotion laws. The enclosed report provides such information for the current 18 active commodity promotion programs. If you have any questions concerning the content of this report, please have your staff contact Christine Sarcone of the Agricultural Marketing Service at 202-720-3202. A similar letter is being sent to Congressman Lucas and Senators Harkin and Chambliss.

Sincerely,

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Thomas J. Vilsack
Secretary

Enclosure

ADMINISTRATIVE EXPENSES OF RESEARCH AND PROMOTION BOARDS
SUPERVISED BY AMS
2009

Board	Board's Fiscal Period¹	Total Projected Income²	Projected Administrative Expenses³	Projected Percent Administration
Beef ⁴	October 1, 2008 – Sept. 30, 2009	\$41.7 million	\$1,940,000	4.6%
Blueberries	Calendar Year 2009	\$5.6 million	\$592,503	10.5%
Cotton	Calendar Year 2009	\$116 million	\$3.7 million	3.0%
Dairy	Calendar Year 2009	\$100.6 million	\$4 million	4.0%
Eggs	Calendar Year 2009	\$26.9 million	\$977,300	3.6%
Fluid milk ⁴	Calendar 2009	\$107 million	\$2.9 million	2.7%
Hass avocado ^{4,5}	Nov. 1, 2008 - December 31, 2009	\$22.9 million	\$1,194,408	5.2%
Honey	October – December 2008	\$4.9 million	\$482,100	9.8%
Lamb ⁴	October 1, 2008 – Sept. 30, 2009	\$2.1 million	\$195,000	9.3%
Mangos	Calendar Year 2009	\$2.7 million	\$294,151	10.8%
Mushrooms	Calendar Year 2009	\$4.2 million	\$223,200	5.3%
Peanuts	Nov. 1, 2008 – October 31, 2009	\$9.1 million	\$635,500	6.9%
Popcorn	Calendar Year 2008	\$1.2 million	\$167,230	13.9%
Pork	Calendar Year 2009	\$57.2 million	\$1.6 million	2.8%
Potatoes	July 1, 2008 - June 30, 2009	\$21.7 million	\$1,160,728	5.3%
Sorghum	October 1, 2008 – Sept. 30, 2009	\$8 million	\$414,800	5%
Soybeans ⁴	October 1, 2008 – Sept. 30, 2009	\$64.3 million	\$3,212,930	5%
Watermelons	April 1, 2009 – March 31, 2010	\$3.2 million	\$534,200	16.6%

Footnotes

1. Information from USDA-approved budgets at the beginning of each board's fiscal year.
2. Includes assessments, interest income, carry over from prior years, product sales, MAP funds (as indicated below), etc.

EXCEPTIONS: Only assessment income is listed for the beef, fluid milk, and soybean boards due to the statutory requirements described in footnote 4 below.

Boards receiving MAP funds: honey; popcorn; potato; and watermelon.

3. INCLUDES staff salaries, benefits, and travel; board member travel; meeting expenses; equipment rental, purchases, repair, and maintenance; furniture purchases and rental; depreciation; supplies; printing; rent and utilities; automobiles; telephone; audit fees; insurance and bonds; bank fees; legal fees; postage and shipping; consultants on administrative matters; memberships and subscriptions; licenses; taxes, and compliance operations. EXCLUDES user fees for AMS, and OGC because these costs are not considered to be administrative costs for the purpose of determining a board's compliance with statutory caps on administrative expenses.

4. For the beef, fluid milk, and soybean boards, administrative expenses may not exceed 5 percent of projected assessments under the authorizing statute. For the dairy program, administrative expenses may not exceed 5 percent of projected revenue under the authorizing statute. For the Hass avocado board, administrative expenses may not exceed 10 percent of projected assessments and other income received. For the lamb program, administrative expenses may not exceed 10 percent of projected assessments under the Order.

5. Hass Avocado Board receives all funds and then sends 85% of the assessments collected from growers in California to a state program, and 85% of import assessments collected from growers in Mexico and Chile to country specific certified importer associations for Mexico and for Chile.

6. Cotton's income projection includes projected assessment income, interest and its reserves as calculated at 12/31/08. Please note that at 12/31/08, the cotton industry is in the middle of its cotton season, so its reserves may be higher during this period.



United States Department of Agriculture

SEP - 1 2009

Office of the Secretary
Washington, D.C. 20250

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As requested by the Food, Conservation, and Energy Act (Farm Bill) of 2008, I am writing to provide a report on the plans developed by the Animal and Plant Health Inspection Service (APHIS) for funding provided under Section 10201 of the Act for Plant Pest and Disease Management and Disaster Prevention. In developing these plans, APHIS sought input from the National Plant Board and State departments of agriculture and consulted its Cooperative Agricultural Pest Survey cooperators, the Specialty Crop Farm Bill Alliance, industry organizations, and other stakeholders. All agree that early pest detection is important in avoiding significant economic and environmental damage. Once a pest becomes established or spreads significantly, the cost to eradicate, suppress, or manage it can be in the millions—not to mention the cost in lost crops and damage to the ecosystem. APHIS and its partners are using the Farm Bill funds to build on existing early detection efforts and develop new strategies to identify pests and diseases that pose threats to U.S. agriculture and ways to mitigate them.

Section 10201 will allow APHIS to bridge the gaps between a myriad of pest detection and surveillance programs and increase the diagnostic capacity for plant pests and diseases. By better integrating and coordinating Federal, State, and industry efforts on this front, APHIS can develop a more comprehensive picture of plant health in the United States based on solid, accurate data. This information will help considerably to facilitate and enhance trade opportunities for U.S. plant producers and nursery growers. APHIS and its cooperators have identified six key areas to concentrate on: 1) enhanced analysis and survey; 2) targeted inspection at vulnerable points in the United States; 3) enhanced pest identification tools and technology; 4) programs to safeguard nursery production; 5) enhanced education and outreach; and, 6) enhanced mitigation capabilities.

APHIS held a 2-day stakeholders meeting at its Riverdale, Maryland, headquarters office June 8-9, 2009, to get feedback on its fiscal year (FY) 2009 spending plan and to develop priorities for FY 2010. APHIS will continue to keep the States' needs in mind as we implement Section 10201 and allocate funds. As part of this effort, we have actively sought our partners'

The Honorable Collin C. Peterson

Page 2

input in developing goals, objectives, strategies, milestones, and timelines. We will continue to seek their feedback, evaluating and adjusting the plan as needed to reach our goals and ensure that available funding is distributed fairly, effectively, and efficiently.

Enclosed is a document describing APHIS' plans for the Section 10201 funds. It outlines the strategies APHIS will use to implement Section 10201 over the 5 years authorized in the Farm Bill and describes specific projects APHIS is conducting in FY 2009. I appreciate the Committee's interest in this matter. Similar letters are being sent to Congressman Lucas and Senators Harkin and Chambliss.

Sincerely,

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Thomas J. Vilsack
Secretary

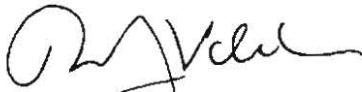
Enclosure

The Honorable Frank D. Lucas
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Thomas J. Wilsack
Secretary


Enclosure

The Honorable Thomas Harkin
Page 2

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Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

SEP - 1 2009

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Committee on Agriculture, Nutrition and Forestry
United States Senate
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The Honorable Saxby Chambliss
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Secretary

Enclosure

FOOD, CONSERVATION, AND ENERGY ACT OF 2008
FARM BILL SECTION 10201
PLANT PEST AND DISEASE MANAGEMENT
AND DISASTER PREVENTION

Introduction

The Farm Bill—H.R. 6124 Food, Conservation, and Energy Act of 2008—became law in June 2008. Section 10201 (“Plant Pest and Disease Management and Disaster Prevention”) directs the Secretary of Agriculture to make available Commodity Credit Corporation funds for early plant pest detection and surveillance, for threat identification and mitigation of plant pests and diseases, and for technical assistance in the development and implementation of audit-based certification systems and nursery plant pest risk management systems. The 5-year Farm Bill specifies that these funds be made available incrementally, starting with \$12 million in fiscal year (FY) 2009, \$45 million in FY 2010, and \$50 million in FY 2011 and thereafter. As required by the Farm Bill, the Department of Agriculture’s (USDA) Animal and Plant Health Inspection Service (APHIS) sought input from the National Plant Board and State departments of agriculture. APHIS also consulted its Cooperative Agricultural Pest Survey (CAPS) cooperators, the Specialty Crop Farm Bill Alliance, industry organizations, and other stakeholders.

Now more than ever, early pest detection is important to avert significant economic and environmental damage in our country. Once a pest becomes established or spreads significantly, the cost to eradicate, suppress, or manage it can be in the millions—not to mention the cost in lost crops and damage to the ecosystem. In 1997, for example, it was estimated that introduced invasive species cost taxpayers \$41 billion annually in lost production, prevention, and control expenses. In 1998, the impact due to weeds alone was estimated at about \$15 billion. In 2005, some of the previous estimates were updated to \$34.5 billion due to all invasive plants (cultivated or weedy) and \$59.4 billion in damages caused by microbes (affecting animals and/or plants). However, when a pest or disease is detected early, plant health officials can respond rapidly to eradicate the outbreak before it has a chance to become established or spread to other areas. This results in significant cost savings, as it avoids the high costs of a long-term management program and helps maintain access to international markets for U.S. plants and plant products.

An Enhanced Approach to Pest Detection and Mitigation

From a historical perspective, the pest detection program within APHIS is similar to Farm Bill Section 10201. The program uses a multi-pronged strategy to accomplish its mission of identifying pest threats. This includes developing and deploying scientifically sound survey protocols and pest diagnostics, conducting pest surveys, accurately identifying pests of regulatory significance, and reporting pest survey results in a timely manner. To support and facilitate exports and interstate commerce, the program also maintains nationwide survey results for pests of regulatory significance as a means to provide direct evidence of pest-free areas in the United States.

All of these efforts involve stakeholders, the scientific community, other USDA agencies and Federal entities, State departments of agriculture, universities, and industry partners. In most cases, APHIS establishes formal partnerships with these groups through cooperative agreements administered by the CAPS program. APHIS and its State cooperators carry out surveys for high-risk pests of national and state interest through the CAPS network each year. The National Agricultural Pest Information System is the database that serves as the repository of survey results conducted by the States under cooperative agreements with APHIS and is available to both Federal officials and State cooperators. However, the

current pest detection program cannot fund the diversity of approaches proposed in Section 10201 without impacting the sustainability of CAPS with all 50 States and 3 Territories. To begin, the program does not provide for an adequate and immediately available resource base to implement rapid mitigation of new threats. Section 10201 provides funds—and flexibility in the funding structure—over the next 5 years to support some emergency mitigation activities. Having the necessary resources for rapid mitigation will position APHIS to develop a more proactive approach to plant health protection, solidifying its partnerships with the States and industry, and enabling meaningful advances in our pest detection infrastructure. These funds will not preclude requests for additional funds if necessary to mitigate the most severe new pest incursions, but they will provide much needed flexibility and ready access to funds to assist States in their initial mitigation efforts.

APHIS believes rapid mitigation is critical to averting plant pest-caused “disasters,” and it proposes a significant proportion of Section 10201 funding be used for this effort. Rapid mitigation is essential for eradication and control of a plant pest or disease outbreak in order to prevent economic and or environmental harm, after an outbreak has been detected and verified. Cooperators have told APHIS they would be more willing to report a new pest because they would be more likely to benefit from a “surgical” mitigation that is specific to a small area, is quick, and doesn't cause longer-term, deleterious local or national impacts.

By capitalizing on APHIS' existing pest detection program and surveillance system, the Agency will work to establish an unprecedented level of communication and coordination with the States, industry, and the public. APHIS' State plant health regulatory counterparts and departments of agriculture fully appreciate what it takes to eradicate, suppress, or manage a pest outbreak, as they are our partners in carrying out emergency mitigation programs. While our partners actively support the survey activity to detect pests of national importance, they also want flexibility in determining how to use Federal funds provided through Section 10201 of the 2008 Farm Bill. In particular, the States have expressed the need to use the Farm Bill funds to support their efforts not just to discover new pests as in the current CAPS program but to mitigate pests offshore and pathways of introduction, prepare for the potential introduction of certain pests, and rapidly and effectively respond to introductions when they occur.

Key Strategies

This plan defines the following strategies—organized into six major areas—to integrate and coordinate plant pest and disease management and disaster prevention activities that will be funded by Section 10201 of the 2008 Farm Bill: 1) enhancing plant pest/disease analysis and survey; 2) targeting domestic inspection activities at vulnerable points; 3) enhancing pest identification tools and technology; 4) developing programs to safeguard nursery production; 5) enhancing outreach and education to increase public understanding and support of plant pest and disease eradication and control programs; and 6) enhancing mitigation capabilities. Specific actions and spending figures for each of these six areas are further described below.

Benefits to Small Producers and Distributors

All U.S. producers, small and large, will benefit from an enhanced early detection system that prevents introductions of exotic pests from becoming widespread and requiring costly control measures. Activities conducted under the following four areas will specifically benefit small producers:

Enhance plant pest/disease analysis and survey

Under this strategy, APHIS will fund surveys for high-risk pests such as plum pox virus and *Phytophthora ramorum*. These surveys will provide protection for and help small growers and nursery owners avoid control costs through rapid and thorough detection of pests that threaten their operations.

Safeguard nursery production

Activities included in this strategy include developing science-based best management practices and risk mitigation practices to exclude, contain, and control regulated pests from the nursery production chain and developing and harmonizing audit-based nursery certification programs. These activities will help small producers and distributors mitigate pest risks, reduce operational costs, enhance the value of nursery stock they produce, and facilitate movement of plant material.

Outreach and education

Under this strategy, APHIS will work to engage the public in early detection efforts through, among other things, a formal volunteer program for exotic pest surveillance. Interested small producers and distributors could benefit from the training for volunteers on recognizing and reporting exotic pests.

Enhance mitigation capabilities

Under this strategy, APHIS will provide technical assistance prior to, during, and immediately following the development of a plant health emergency through the development of New Pest Response Guidelines (Action Plans), as well as strengthening rapid mitigation capabilities. Although larger growers can sometimes absorb the cost of quarantine actions and loss of business, smaller growers are often challenged to stay in business after being under quarantine for a season. These new funds will provide for small, quick, and effective mitigation that will reduce disproportional impacts to small growers, releasing them from quarantine quickly and allowing them to get back into production.

Partnership and Collaboration

Many organizations play a crucial role in protecting the Nation's agriculture, environment, and natural resources from plant pests and disease. APHIS' Plant Protection and Quarantine (PPQ) program works closely with several Federal, State, industry, academic, and foreign entities to develop and implement scientifically-sound approaches to pest detection, surveillance, and eradication. APHIS is responsible for coordinating the identification and prioritization of pest threats of national interest, identifying survey protocols, prescribing pest diagnostic procedures, confirming the taxonomic identity of plant pests, administering cooperative agreements to States to carry out pest and disease detection surveys, ensuring the timely recording and reporting of survey results, and coordinating regulatory response to pest and disease outbreaks. Other agencies within USDA that also have a role include:

- Cooperative State Research, Education, and Extension Service (CSREES). CSREES provides outreach to and training for first detectors, oversees the National Plant Diagnostic Network, and conducts diagnostic response exercises for pests of regulatory significance. When a pest cannot be eradicated, CSREES, through its Land Grant University system, may provide research to support long-term control efforts.
- Agricultural Research Service (ARS). ARS conducts research, searches for biological control agents in foreign countries, and coordinates the development of certain high-priority National Plant Disease Recovery preparedness documents in response to HSPD9. ARS also serves as a technical liaison to the Environmental Protection Agency on pesticide issues via their Office of Pest Management Policy.
- U.S. Forest Service (FS). FS manages pests (including survey activity) in national forests, and coordinates similar efforts with the State and private foresters.
- Risk Management Agency (RMA). RMA provides guidance for documenting good farming practices and crop insurance programs.

State departments of agriculture play a critical role by carrying out pest and disease detection surveys as part of the CAPS program. States also carry out specific pest and disease detection and delimiting surveys to support control and eradication programs. States often lead specific regulatory responses to new pests in accordance with APHIS national policy, typically as a joint command with PPQ under the Incident Command System (ICS).

Expanded and enhanced partnerships with plant industries and academia has created new opportunities for information sharing and coordinated pest and disease detection and reporting activities. Collaboration and cooperation, based on well-established partnerships between plant industries, State officials, academia, and PPQ, remains the catalyst for continued success. PPQ's partnerships will be essential to the success of actions identified in this plan, as well as future strategies. In fact, several new opportunities exist or are being developed to work with industry in finding and reporting pests and diseases new to the United States.

- The part of this plan addressing nursery programs is a partnership with several States, national, regional and State organizations, focused on best management practices. It is important to place some responsibility on industry, while providing a reasonable level of Federal oversight that is not unnecessarily burdensome.
- Certain industry organizations have proposed sharing data with APHIS on pests of mutual interest. There is tremendous benefit to enhancing the export certification program in some of these cooperative efforts. For example, when seed labs are accredited and certified, the quality of certain data may be validated. With soybean rust (SBR), industry stakeholders voluntarily entered their disease observations into an electronic system that APHIS had initially funded to respond to the 2004 incursion of SBR into the United States. Industry data were kept separate from other data provided by Federal or State authorities, but provided a complementary and comprehensive view to the total distribution and relevance of SBR findings over the season for the entire United States.

The general public also plays an essential role in protecting U.S. plant and agricultural health. In many respects the public is already involved in pest detection—a number of pests of regulatory significance have been found and reported by members of the public. However, public involvement is more serendipitous than planned. In 2007, the light brown apple moth was reported by a professor in Berkley, California, who found it in his backyard. Asian longhorned beetle was reported by a woman in Massachusetts, who found the pest while hiking. Given the large number of pests and the inherent difficulty of detecting and knowing the significance of any new or exotic plant pest, APHIS can benefit from an increase in the number of “eyes on the ground” to look for unusual plant pests should they be introduced into the United States. There are several challenges to engaging citizens meaningfully in this effort that APHIS will work to overcome—(1) the need to educate the public regarding the pest threats of interest, (2) the need to establish a mechanism to more formally involve the public in PPQ's activities, and (3) the need to provide and communicate to the public the venue for reporting any pests that they find.

This document describes strategies APHIS will pursue as it implements Section 10201 over the next 5 years. It also contains information about specific projects APHIS is conducting in FY 2009 to initiate these strategies.

**IMPLEMENTATION
OF FARM BILL SECTION 10201
FY 2009**

I. ENHANCE ANALYSIS AND SURVEY: \$3,517,514

GOAL: To enhance the gathering and analysis of all available data to efficiently and effectively make informed decisions and to deploy resources to detect pests as early as possible.

This component of the plan will enhance pest detection survey activity in three ways:

1. Identify and target high-risk pest pathways,
2. Fully fund the highest priority pest-specific surveys, and
3. Enhance high-risk surveillance programs through State survey cooperative agreements.

Strategy 1. Identify and target high-risk pest pathways.

Evaluate and mitigate high-risk pathways from ports-of-entry in those States that are high-risk for exotic pests and disease introductions. Provide PPQ staff and stakeholders with detailed, field-level risk analyses for creating targeted surveys. This includes the development or application of online tool(s) that allow APHIS personnel and cooperators to make intelligent, timely choices as to the allocation of material and human resources for the highest risk pests, pathways, and points of entry or distribution. In FY 2009, APHIS will spend \$639,548 on the new plant health information system and \$373,070 on high risk pathway analysis projects.

Strategy 2. Fully fund the highest priority pest-specific surveys.

Fully fund viable/specific local and national detection surveys to mitigate or manage immediate pest threats (i.e., plum pox virus [PPV] in Pennsylvania, New York, and Michigan) and expand survey efforts for high-risk, economically significant pests and diseases (i.e., *Phytophthora ramorum*, false codling moth, and others). Note: Specific/target surveys will change from year to year to meet ever-changing pest and disease risks. In FY 2009, APHIS is spending \$639,548 on PPV surveys and \$159,887 on honeybee pest surveys.

Strategy 3. Enhance high-risk surveillance programs through State survey cooperative agreements.

Implement a targeted high-risk surveillance and mitigation program in the highest-risk States through Farm Bill cooperative agreements. In each State, APHIS will identify highest risk pests and pathways through the risk analysis system described above and from the Offshore Pest Information Program. In FY 2009, APHIS is allocating \$1,705,461 among the highest risk States for these surveys.

II. TARGET DOMESTIC INSPECTION ACTIVITIES: \$1,065,913

GOAL: To target domestic inspection activities at vulnerable points in the safeguarding continuum that result from the movement of products and commodities potentially carrying pests of regulatory significance.

Strategy 1. Promote and expand inland inspections of containers and mail facilities, where possible.

One way to efficiently allocate resources towards this end is to identify commercial facilities that would be “choke points” and increase inspectional efforts at the Hawaii and Puerto Rico mail facilities. Specific

locations would be targeted for inspection in order for States to find prohibited and/or pest-contaminated material and prevent its further distribution.

Strategy 2. Expand the use of canine teams for domestic survey detection activities.

Since 1984, APHIS has trained and utilized canines in agriculture quarantine inspection activities to detect high-risk agriculture items entering our country from foreign nations. APHIS would like to enhance States' efforts to mitigate pests that escape undetected through ports-of-entry by deploying canine teams at strategic locations within the States or at interstate borders and, in some cases, in tactical situations where potentially deliberate introductions of illegal goods have occurred. APHIS is using \$1,065,913 in FY 2009 to train and deploy canine teams in California, one of the highest risk States.

Strategy 3. Develop, initiate, and support States in inspections for Official Control.

As the procedures and strategies for Official Control are developed, facilitate the delivery of a system to enhance States' inspection and surveillance activities as would be required under an official control program.

Strategy 4. Promote increased levels of inspection for regulated articles for interstate movement.

Increase the number and quality of State inspections of facilities under Compliance Agreements to handle regulated articles. Develop audit standards for these Compliance Agreements.

III. ENHANCE PEST IDENTIFICATION AND TECHNOLOGY: \$2,065,181

GOAL: To develop, provide training, and deploy survey procedures and tools that will improve our ability to rapidly detect and accurately identify pests of regulatory significance.

Strategy 1. Improve all aspects of early detection resources, including improving traps/lures and expanding their availability, developing novel approaches to survey for exotic pests, stockpiling supplies for rapid deployment, and developing new diagnostic techniques.

Keys to this strategy include:

Develop and improve traps and lures in terms of efficiency of catching targets (e.g., more specific traps to reduce screening time) and ease of removing targets for identification (e.g., find alternatives for sticky traps for trapping Lepidoptera).

- 1) Employ a system that procures and inventories traps and lures in advance of time needed in the field.
- 2) Develop novel traps, lures, and survey strategies, including detector canines, to more efficiently detect target pests.
- 3) Educate cooperators on the most efficient and effective trap and lure combinations for target pests. Standardize methodology nationally.
- 4) Develop and apply quality control standards to traps and lures used at the field level.
- 5) Design and develop electronic commodity-based identification tools (i.e., pests, diseases, weeds, disorders of a commodity) that complement and provide field detection support for CAPS commodity reference and survey guidelines publications to increase accurate and timely identification of pests.

- 6) Develop state-of-the-art digital image-based identification capability. Based on analysis of need and image resources, design and develop a resource that allows users to filter, sort, group, and resize images to greatly facilitate field identification of reportable and actionable pests by recognition.

In FY 2009, APHIS is spending \$243,028 on a trap/lure module in the plant health information system and \$1,137,836 to purchase traps and lures to support survey efforts.

Strategy 2. Enhance pest screening expertise and taxonomic capacity.

Keys to this strategy include:

- 1) Develop the expertise and capacity to identify a greater variety of plant pests to
 - a. accept and screen a greater volume and variety of survey samples from States,
 - b. train and certify field personnel for detecting specific threatening pests,
 - c. provide screening aids, specimens, and tools for first detectors and cooperating land grant universities, State departments of agriculture, industry, and other Federal and State agencies,
 - d. employ standardized pest identification procedures including procedures for communicating results, and
 - e. oversee increased associated field infrastructure and agreements, thereby providing more timely and accurate identifications for pest detection activities.
- 2) Develop cooperative agreements capitalizing on the taxonomic expertise at other institutions (i.e., land grant universities and State departments of agriculture) to augment national identification needs for surveys and function as regional taxonomic screening centers that accept and process survey samples from neighboring States.
- 3) Develop, validate, and transfer diagnostic methods to cooperators. Accreditation and certification would be necessary to transfer the technology to non-PPQ entities, so that the knowledge, tools, and appropriate authority levels are shared beyond PPQ.

In FY 2009, APHIS is devoting \$79,944 to increasing diagnostic support for high-threat arthropods.

Strategy 3. Increase the deployment of molecular diagnostic tools for specific plant diseases and pest identifications and determinations of pest point of origin by increasing resources for:

- method validations and operational deployments,
- laboratory accreditation,
- hands-on biochemical and molecular diagnostic laboratory training, and
- development of scientific expertise for the performance of molecular diagnostic analysis and confirmation of pest organisms.

In FY 2009, APHIS is using approximately \$604,373 to develop molecular diagnostic tools.

Strategy 4. Develop and implement a comprehensive Traps & Lures (T&L) Management Program that will be held accountable for the timely procurement and delivery of quality survey supplies to PPQ field personnel and State cooperators.

Keys to this strategy include:

- 1) Establish a National T&L Program to oversee and be held accountable for all aspects of the ordering, procurement, quality control and quality assurance, and delivery of survey supplies from the national level, including a National T&L Committee to provide direction and facilitate communications within the survey community.

- 2) Review the funding mechanism for trap and lure supplies and adjust as allowed by regulations. Conduct an audit of the accounting practices used in the program and implement recommendations in order to improve the reliability and efficiency of trap and lure procurements.
- 3) Fund a suitable inventory of traps, lures, and other survey supplies to be stored at the warehouse in Mission, Texas, to guard against shortages during emergencies.
- 4) Develop, implement, and maintain a new Web-based storefront for ordering supplies, maintaining inventory, and tracking orders through shipment. The T&L Program should be user-friendly, flexible, and responsive so that field personnel can procure needed survey supplies in a timely manner and maintain adequate supplies.
- 5) Place or re-assign procurement personnel dedicated to the T&L Program at Moore Air Base in Edinburg, Texas, and Minneapolis, Minnesota. This will strengthen the system and facilitate communications.
- 6) Implement and integrate into the procurement process a quality control and quality assurance program to ensure the use of high-quality, effective materials in the field.

Currently, no Section 10201 funds are being devoted in FY 2009 to this strategy. APHIS-PPQ is currently working on a plan for addressing this strategy.

Strategy 5. Pursue offshore initiatives to optimize early detection programs.

Key components of this strategy include:

- 1) Apply sophisticated pest prioritization methods to analyze, determine, and rank offshore pest threats to target offshore surveillance (i.e., via the Offshore Pest Information Program, OPIP) and to alert Customs and Border Protection to look for the highest risk pests.
- 2) Work with partners to conduct offshore surveys as appropriate. Share distribution and pathway information to enhance the development of appropriate safeguarding strategies at the U.S. border and domestically.
- 3) Develop an expatriate plant inspection program to monitor pests that attack U.S. plant germplasm abroad (similar to New Zealand's project).
- 4) With cooperators, conduct methods development activities on emerging pest threats abroad to develop survey and control technologies, including biocontrol, that may be applied to the United States should they become necessary.

In FY 2009, APHIS has provided \$53,296 for discovery of new biological control agents against the Asian citrus psyllid. However, this activity appears under Goal VI, Enhance Mitigation Capabilities, because of the immediate need to develop tools to mitigate the spread and impact of Asian citrus psyllid in the United States.

IV. SAFEGUARD NURSERY PRODUCTION: \$1,388,174

GOAL I: To develop science-based best management practices (BMPs) and risk mitigation practices to exclude, contain, and control regulated plant pests from the nursery production system.

Strategy 1. Establish and operate a research station in California (National Ornamentals Research Site at Dominican University) to develop BMPs to exclude, contain, and eradicate *Phytophthora ramorum* in a nursery environment.

This strategy is designed to improve the ability of nurseries to exclude, detect and eradicate, and mitigate the spread, of *P. ramorum*, as well as APHIS' ability to regulate nurseries and the movement of nursery stock, and implement effective protocols to eradicate *P. ramorum* in the nursery setting. APHIS is providing \$1,059,926 for the establishment of the experimental nursery within the area regulated for *P. ramorum* in California and an additional \$53,296 to support State oversight of the nursery.

Strategy 2. Expand research scope to study plant pests of quarantine significance that are present in California and threaten other States as well.

GOAL II: To develop and harmonize audit-based Nursery Certification Programs (including the harmonization of different certification programs, audit and inspection training for cooperators, and launching).

Strategy 1. Develop a harmonized and integrated nursery certification program to facilitate exports and the domestic movement of nursery stock in partnership with State regulatory officials.

This strategy includes the greenhouse program, the U.S. Nursery Certification Program, and other accreditation/certification initiatives. The nursery certification program has several components that include providing the cleanest possible environment; isolating the clean materials; and, following systems approaches and BMPs to keep plants healthy, documentation, recordkeeping, audit, and compliance. APHIS proposes to partner with States through a memorandum of understanding to adopt and implement national standards for certification of greenhouses and registered nursery blocks producing nursery stock. Ultimately, the certification programs will be harmonized with North American Plant Protection Organization and International Plant Protection Convention guidelines. In FY 2009, APHIS is using \$70,350 to develop model regulations for a harmonized State-based nursery certification program and \$107,604 to develop national nursery virus certification program pilots in several states.

Strategy 2. Develop and deliver training to cooperators, providing material and technical assistance in developing the quality operational manual for small-scale nurseries.

APHIS proposes to deliver a training module through the Agency's Professional Development Center (PDC) for audit-based certification programs for Federal and other cooperators. This training will be provided at regular intervals and measures will be in place to ensure the accreditation and certification of the trainees. The experimental nursery for *P. ramorum* and certified mother blocks will be used as a classroom for training. In partnership with academic institutions, outreach and education will be provided to nurserymen and growers through media, publications and growers meetings. In addition, through State cooperators, PDC will create technical assistance programs to help small-scale nurseries develop a quality manual enabling them to participate in the certification programs. APHIS is using \$26,648 on training programs in FY 2009.

Strategy 3. Work with all stakeholders and cooperators to launch and support the certification program for the nursery industry.

This initiative includes launching audit-based certification program pilots in select States, developing the training module for audit-based certification programs, and integrating with planned initiatives of the National Clean Plant Network (NCPN) and other clean stock programs, as outlined under Section 10201 of the 2008 Farm Bill. The commodity-based clean plant networks for grape and fruit trees currently provide certified planting materials to the nurseries and growers under State certification programs. APHIS expects that this clean plant program and the need for associated nursery certification will be expanded significantly as resources become available during FY 2010. The ultimate objective is to develop a "value added certified identity" to the planting material for acceptance by trading partners.

Procedures will be in place for audit, non-compliance, and mitigation. APHIS is spending \$70,350 on outreach efforts in FY 2009.

V. CONDUCT EDUCATION AND OUTREACH: \$1,100,023

GOAL I: To increase public understanding, acceptance, and support of plant pest and disease eradication and control efforts.

Strategy 1. Initiate efforts in affected or at-risk areas to systematically engage citizens in public decision-making and consensus-building forums in an effort to include public and stakeholder input when developing regulatory policy and program delivery strategies.

Strategy 2. Enhance ongoing pest/disease information campaigns by creating and maintaining a highly visible, centralized, and coordinated Web site and portal that offers timely, standardized information about plant pests/diseases of regulatory significance.

Strategy 3. Evaluate opportunities in affected or at-risk areas to use social media to support strategic public communications.

In FY 2009, APHIS is spending \$969,981 on outreach programs for forest pests and \$31,977 on outreach regarding laurel wilt, which threatens avocados.

GOAL II: To encourage public and stakeholder participation in pest surveillance and detection activities and instill public confidence in PPQ programs.

Strategy 1. Promote and expand the use of the APHIS PPQ Plant Biosecurity Curriculum in an effort to build an educational foundation for plant protection and biosecurity and regulatory studies in cooperation with educational institutions.

Strategy 2. Develop and implement a formal volunteer program to support the Cooperative Agricultural Pest Survey.

Strategy 3. Develop and promote a single, national mechanism (e.g., hotline and Web site) to simplify and streamline the reporting of suspected pests and diseases and ensure that reports are funneled to the appropriate authorities.

Strategy 4. Conduct outreach to key stakeholder groups (e.g., scientific societies) to reinforce the importance of active reporting of suspected pests and diseases.

In FY 2009, APHIS is using \$98,064 to develop a series of First Detector Training modules appropriate for small farm audiences to be delivered in an extension/continuing education context.

GOAL III: To increase the likelihood that the public will adopt behaviors to help mitigate the introduction or spread of exotic pests/diseases.

Strategy 1. Develop and implement a single, coordinated, national, multi-year public awareness/social marketing initiative to educate the public about the unintended consequences often associated with common behaviors (moving firewood, shipping citrus, traveling internationally, etc.) in an effort to create a sense of personal relevance/responsibility and motivate the public to take steps to minimize the accidental introduction/spread of invasive species/exotic pests and disease.

VI. ENHANCE MITIGATION CAPABILITIES: \$2,863,195

GOAL: To provide an unencumbered mechanism to determine the most suitable mitigation measures and deploy resources quickly to reduce potential economic and environmental damage and further spread of a detected pest of regulatory significance when deemed appropriate.

Section 10201 will help provide flexibility to enhance mitigation capabilities and avert large and often late (biologically speaking) emergency response efforts. The goal is to be able to rapidly respond to new pests when outbreaks are manageable. All six elements of the implementation plan, when conducted in a collaborative environment with stakeholders, will lead to lower-cost, more rapid responses to new pests. Activities such as increasing survey trap densities are an important aspect of rapid mitigation in the case of an exotic fruit fly detection and infestation. This mitigation function is carried out routinely in almost every fiscal year. APHIS carries out mitigation activities on a daily basis, such as implementing immediate trace back and trace forward initiatives when Smuggling Interdiction and Trade Compliance personnel find illegal agriculture products in the marketplace. Rapid mitigation includes the safeguarding, seizure, and destruction of prohibited products and product recalls. APHIS' authority to carry out the range of mitigation activities exists as an inherent part of the consolidated Plant Protection Act. The only reason that the existing basic pest detection program did not carry out a robust agenda of mitigation initiatives was that the program never had adequate funding to support them.

Strategy 1. Build on and improve the current mechanism to assess and decide an appropriate short term course of action to respond quickly to a new detection of a pest of potential regulatory significance.

Strategy 2. Utilize PPQ initial response protocols for the overarching goals of containment, control, or eradication at the onset of plant health emergencies. Promote the use of the ICS as a unified strategy between cooperating agencies in response to plant health emergencies.

Strategy 3. To prepare the Agency and collaborative programs in the use of the ICS for plant health response activities by reaching risk-based target levels of capability with the development of a multi-year training schedule.

Strategy 4. Provide technical assistance prior to, during, and immediately following the development of a plant health emergency through the development of New Pest Response Guidelines for the potential introduction of exotic plant pests. The New Pest Advisory Group (NPAG) works with interested and involved parties, surveys the literature, gathers expert opinion, and makes recommendations that are in the best interest of safeguarding American plant resources. Only the PPQ Deputy Administrator can accept and put the recommendations into effect. NPAG recommendations may be one of the following: collect additional information before a decision can be made to address the new pest; conduct a survey to assess the pest's geographic range, host range, or damage; develop methods to detect, identify, control, or eradicate the pest; recommend no action; recommend an action to eradicate the pest, to quarantine the infected or infested area, to evaluate biological or chemical control for pest management, to prepare and distribute educational information to the public, or to recommend that PPQ refer options and actions to other institutions, such as affected States or industries.

In FY 2009, APHIS is conducting activities to address situations involving a number of pests and diseases and prevent them from developing into full-blown emergencies:

- 1) \$906,026 for survey and suppression of Asian citrus psyllid in Mexico;
- 2) \$751,052 for PPV mitigation in New York, Michigan, and Pennsylvania;
- 3) \$664,064 for fruit fly mitigation in California;
- 4) \$291,562 for control of golden nematode in targeted areas of New York;

- 5) \$170,546 for laurel wilt research focused on protecting avocados;
- 6) \$26,648 for cryopreservation of fruit flies to enhance preparedness; and,
- 7) \$53,296 for discovery of new biological control agents against the Asian citrus psyllid.



United States Department of Agriculture

NOV - 2 2009

Office of the Secretary
Washington, D.C. 20250

The Honorable Rosa L. DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

As directed in the Joint Explanatory Statement accompanying the Omnibus Appropriations Act, 2009, the Department of Agriculture (USDA), in consultation with the Administrator of the U.S. Agency for International Development (USAID), hereby submits to the Committees on Appropriations this quarterly report on the status of the Bill Emerson Humanitarian Trust for the fourth quarter of fiscal year (FY) 2009. There have been no expenditures made under the trust during the fourth quarter. There were two purchase adjustments that occurred during the fourth quarter, resulting in positive allocations to the trust. The first is a return by USAID to the trust of \$4.619 million that resulted from the closeout of awards from the trust for FY 2003 and FY 2005. The second, a return by USAID to the trust of \$3,797, was made to the trust since the amount of funds USAID spent on contract expenses was less than the budgeted amount.

USDA's Foreign Agricultural Service prepared this report in consultation with USAID's Office of Food for Peace.

Similar letters have been sent to Congressman Kingston and Senators Kohl and Brownback.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack".

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

NOV - 2 2009

Office of the Secretary
Washington, D.C. 20250

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

As directed in the Joint Explanatory Statement accompanying the Omnibus Appropriations Act, 2009, the Department of Agriculture (USDA), in consultation with the Administrator of the U.S. Agency for International Development (USAID), hereby submits to the Committees on Appropriations this quarterly report on the status of the Bill Emerson Humanitarian Trust for the fourth quarter of fiscal year (FY) 2009. There have been no expenditures made under the trust during the fourth quarter. There were two purchase adjustments that occurred during the fourth quarter, resulting in positive allocations to the trust. The first is a return by USAID to the trust of \$4.619 million that resulted from the closeout of awards from the trust for FY 2003 and FY 2005. The second, a return by USAID to the trust of \$3,797, was made to the trust since the amount of funds USAID spent on contract expenses was less than the budgeted amount.

USDA's Foreign Agricultural Service prepared this report in consultation with USAID's Office of Food for Peace.

Similar letters have been sent to Congresswoman DeLauro and Senators Kohl and Brownback.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over a circular official seal.

Thomas J. Vilsack
Secretary

Enclosure



NOV - 2 2009

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

The Honorable Herb Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
122 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

As directed in the Joint Explanatory Statement accompanying the Omnibus Appropriations Act, 2009, the Department of Agriculture (USDA), in consultation with the Administrator of the U.S. Agency for International Development (USAID), hereby submits to the Committees on Appropriations this quarterly report on the status of the Bill Emerson Humanitarian Trust for the fourth quarter of fiscal year (FY) 2009. There have been no expenditures made under the trust during the fourth quarter. There were two purchase adjustments that occurred during the fourth quarter, resulting in positive allocations to the trust. The first is a return by USAID to the trust of \$4.619 million that resulted from the closeout of awards from the trust for FY 2003 and FY 2005. The second, a return by USAID to the trust of \$3,797, was made to the trust since the amount of funds USAID spent on contract expenses was less than the budgeted amount.

USDA's Foreign Agricultural Service prepared this report in consultation with USAID's Office of Food for Peace.

Similar letters have been sent to Senator Brownback, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



NOV - 2 2009

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

The Honorable Sam Brownback
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Brownback:

As directed in the Joint Explanatory Statement accompanying the Omnibus Appropriations Act, 2009, the Department of Agriculture (USDA), in consultation with the Administrator of the U.S. Agency for International Development (USAID), hereby submits to the Committees on Appropriations this quarterly report on the status of the Bill Emerson Humanitarian Trust for the fourth quarter of fiscal year (FY) 2009. There have been no expenditures made under the trust during the fourth quarter. There were two purchase adjustments that occurred during the fourth quarter, resulting in positive allocations to the trust. The first is a return by USAID to the trust of \$4.619 million that resulted from the closeout of awards from the trust for FY 2003 and FY 2005. The second, a return by USAID to the trust of \$3,797, was made to the trust since the amount of funds USAID spent on contract expenses was less than the budgeted amount.

USDA's Foreign Agricultural Service prepared this report in consultation with USAID's Office of Food for Peace.

Similar letters have been sent to Senator Kohl, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure

**Bill Emerson Humanitarian Trust
Fiscal Year (FY) 2009 Financial Report**

FY 2009 Summary

First Quarter

Cash Available as of October 1, 2008:	\$314,854,986.77
- Expenditures: Commodity and Bags (Democratic People's Republic of Korea)	(\$4,434,251.96)
Cash Balance Available as of December 31, 2008:	\$310,420,734.81

Second Quarter

Cash Available as of January 1, 2009:	\$310,420,734.81
Cash Balance Available as of March 31, 2009:	\$310,420,734.81

Third Quarter

Cash Available as of April 1, 2009:	\$310,420,734.81
Cash Balance Available as of June 30, 2009:	\$310,420,734.81

Fourth Quarter

Cash Available as of June 30, 2009:	\$310,420,734.81
- FY 03 and FY 05 Cash Recoveries Returned from USAID:	\$4,619,394.26
- Expenditure Adjustment	\$3,797.30
Cash Balance Available as of September 30, 2009	\$315,043,926.37



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The President
The White House
1600 Pennsylvania Avenue, NW.
Washington, D.C. 20500

Dear Mr. President:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Mr. President.

Respectfully,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is positioned above the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Nancy Pelosi
Speaker of the House of Representatives
U.S. Capitol, Room H-232
Washington, D.C. 20515

Dear Madam Speaker:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work with you, Madam Speaker, and other leaders in Congress to improve the Department's performance and management—and our service to the Nation.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Robert Byrd
President Pro Tempore of the Senate
United States Senate
311 Hart Senate Building
Washington, D.C. 20510

Dear Senator Byrd:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work with you, Senator Byrd, and other leaders in Congress to improve the Department's performance and management—and our service to the Nation.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Peter Orszag
Director
Office of Management and Budget
725 17th Street, NW.
Washington, D.C. 20503


Dear Director Orszag:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work with you, Mr. Orszag, to improve the Department's performance and management—and our service to the Nation.

Sincerely,



Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable David R. Obey
Chairman
Committee on Appropriations
U.S. House of Representatives
U.S. Capitol, Room H-218
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Obey.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is written over the printed name and title.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Jerry Lewis
Ranking Member
Committee on Appropriations
U.S. House of Representatives
2112 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Lewis:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Lewis.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Rosa L. DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2413 Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congresswoman DeLauro.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Kingston:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Kingston.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Daniel Inouye
Chairman
Committee on Appropriations
United States Senate
U.S. Capitol, Room S-128
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Inouye.

Sincerely,

A handwritten signature in black ink, reading "Tom Vilsack", is positioned above the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate
113 Dirksen Senate Office Building
Washington, D.C. 20510-2402

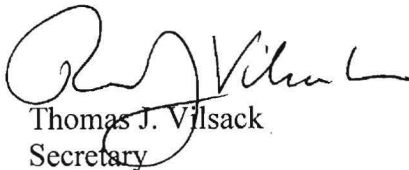
Dear Senator Cochran:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Cochran.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Herb Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
330 Hart Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Kohl.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Sam Brownback
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

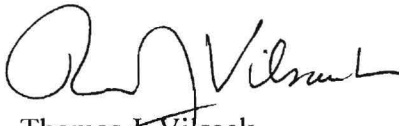
Dear Senator Brownback:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Brownback.

Sincerely,


Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Peterson.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Frank D. Lucas
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lucas:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Lucas.

Sincerely,

A handwritten signature in black ink, reading "Tom Vilsack", is written over the printed name of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Blanche Lincoln
Chairwoman
Committee on Agriculture, Nutrition, and Forestry
United States Senate
328A Senate Russell Office Building
Washington, D.C. 20510

Dear Madam Chairwoman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Lincoln.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate
Washington, D.C. 20510


Dear Senator Chambliss:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Chambliss.

Sincerely,



Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Edolphus Towns
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Towns.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable John M. Spratt, Jr.
Chairman
Committee on the Budget
U.S. House of Representatives
207 Cannon House Office Building
Washington, D.C. 20515-6065

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Spratt.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Nick J. Rahall, II
Chairman
Committee on Natural Resources
U.S. House of Representatives
1324 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Rahall.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Henry A. Waxman
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congressman Waxman.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", written over the printed name and title.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Nydia Velazquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Congresswoman Velazquez.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Kent Conrad
Chairman
Committee on the Budget
United States Senate
624 Dirksen Senate Office Building
Washington, D.C. 20510


Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Conrad.

Sincerely,



Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Joseph I. Lieberman
Chairman
Committee on Homeland Security
and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Lieberman.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Tom Harkin
Chairman
Committee on Health, Education, Labor, and Pensions
United States Senate
428 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Harkin.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Jeff Bingaman
Chairman
Committee on Energy and Natural Resources
United States Senate
304 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Bingaman.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Barbara Boxer
Chairwoman
Committee on Environment and Public Works
United States Senate
410 Dirksen Senate Office Building
Washington, D.C. 20510-6175

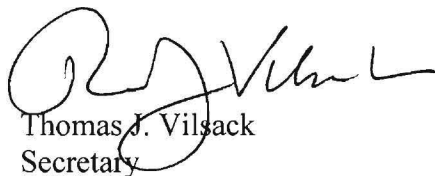
Dear Madam Chairwoman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Boxer.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over the typed name and title.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 13 2009

The Honorable Patrick Leahy
Chairman
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Agriculture (USDA) is pleased to present its Performance and Accountability Report for Fiscal Year 2009. This report was prepared in accordance with the requirements of the Government Performance and Results Act of 1993 and the Office of Management and Budget's (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget." We have also provided copies of this report to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Director of OMB.

USDA's performance results and services continue to address customer priorities and challenges in the management of an improved, effective, and accountable Department.

USDA will continue to work to improve its performance and management—and its service to the Nation—in the years to come. Thank you for your support, Senator Leahy.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is written over the printed name and title of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States
Department of
Agriculture

JUN 28 2010

Animal and
Plant Health
Inspection
Service

Legislative and
Public Affairs

Freedom of
Information

4700 River
Road
Unit 50

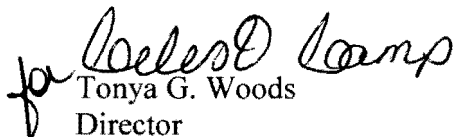
Riverdale, MD
20737-1232

This is in response to your June 1, 2010, Freedom of Information Act (FOIA) request for a copy of each report produced for Congress by the USDA, during the past three years which are not posted on the USDA public internet website. Your request was received in this office on June 1, 2010, and assigned case number FOIA 10-475.

Agency employees conducted a thorough search of their files and located 274 pages of responsive records. These records are appropriate for release in their entirety, without redactions.

Inasmuch as this completes our work, we are closing your file in this office. If you have any questions, please contact Ms. Tamara M. Wade of my staff at (301) 734-5268.

Sincerely,



Tonya G. Woods

Director

Freedom of Information & Privacy Act Staff
Legislative and Public Affairs

Enclosures



United States
Department of
Agriculture

JUN 28 2010

Animal and
Plant Health
Inspection
Service

Legislative and
Public Affairs

Freedom of
Information

4700 River
Road
Unit 50

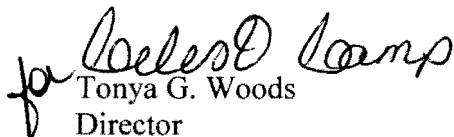
Riverdale, MD
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Inasmuch as this completes our work, we are closing your file in this office. If you have any questions, please contact Ms. Tamara M. Wade of my staff at (301) 734-5268.

Sincerely,


Tonya G. Woods

Director
Freedom of Information & Privacy Act Staff
Legislative and Public Affairs

Enclosures



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Chambliss:

Section 202 of the Specialty Crops Competitiveness Act of 2004 (Public Law 108-465) directed the Department of Agriculture (USDA) to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops. Specifically, USDA is required to report on *"(1) the total number of applications processed to completion; (2) the number of backlog applications processed to completion; (3) the percentage of backlog applications processed to completion; and (4) the number of backlog applications remaining."* The report is enclosed.

USDA's Animal and Plant Health Inspection Service (APHIS) works to facilitate safe agricultural trade. Sanitary (animal health) and phytosanitary (plant health) (SPS) issues are sometimes used inappropriately to restrict or block trade. There are several challenging factors that determine how long it takes to complete work on an export petition, including the number, gravity, and intricacy of issues raised by an export petition, and the willingness of the foreign government to negotiate over a particular request. However, APHIS officials strive to resolve SPS trade barriers by working with their foreign counterparts to eliminate unjustified SPS measures, negotiate science-based import requirements and standards, and intervene to release U.S. shipments held at foreign ports due to SPS-related concerns. APHIS' efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually.

I am sending a similar letter to the Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, and the Chairman and Ranking Member of the House Committee on Agriculture.

Sincerely,

A handwritten signature in dark ink, appearing to read "E. Schafer", is written over the typed name.

Edward T. Schafer
Secretary

Enclosure

Specialty Crops Competitiveness Act of 2004, Report to Congress
June 2008

In response to the requirements of Section 202 of the Specialty Crops Competitiveness Act of 2004, the Department of Agriculture (USDA) is transmitting the following information:

1. The total number of applications processed to completion—234 total export issues were resolved in 2007*. This number includes progress on gaining or expanding market access, as well as retaining access to markets that were threatened.
2. The number of backlog applications processed to completion—6 of the export issues, resolved in 2007 were backlog issues USDA has been working on for more than a year.
3. The percentage of backlog applications processed to completion—24 percent of backlog export issues were resolved in 2007. This number was obtained by dividing the number of backlog issues resolved in 2007 (6), by the number of backlog export issues that were pending (25).
4. The number of backlog applications remaining—There are 19 export issues remaining that were initiated prior to 2006.

* This number includes the retention of the Canadian and Mexican markets for all the hosts of the Light Brown Apple Moth (these markets are worth an estimated \$750 million annually), in addition to 19 specific commodities affected by regulatory changes in Thailand (market value over \$60 million). Total market retention exceeded \$886 million in 2007.



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation. The report of notifications received of a theft, loss, or release of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006, is enclosed.

Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

DEC 4 2007

TO: The Secretary
Through: DS
COS
ES

FROM: Director
Centers for Disease Control and Prevention

SUBJECT: Report to Congress on Thefts, Losses, or Releases of a Select Agent or Toxin

BACKGROUND

Section 201(a) of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-1088) required the Secretary to report to Congress annually on the number and nature of notifications received in accordance with subsection (e)(8) (relating to theft or loss) and subsection (j) (relating to releases) of a select agent or toxin.

As required by the Act, the Department of Health and Human Services promulgated an interim final rule on December 13, 2002 (67 FR 76885) and published the final rule on March 18, 2005 (70 FR 13294) regarding the possession, use, and transfer of select agents and toxins. All provisions of the final rule supersede those contained in the interim final rule. The final rule became effective on April 18, 2005. As part of that rule, an individual or entity must immediately report any theft, loss, or release of a select agent or toxin and submit a completed Report of Theft, Loss, or Release of Select Agents and Toxins (Form 3) within seven days of the incident.

To comply with the requirement of the Act, the CDC Select Agent Program requests to submit the attached report in coordination with the Select Agent Program at the Department of Agriculture (USDA) to Congress to report the eighty-three (83) reports of Theft, Loss, or Release of a select agent or toxin received by CDC and USDA between February 7, 2003 (the effective date of the interim final rule) and December 31, 2006.

RECOMMENDATION

I recommend that you review and approve the attached report.

DECISION

Approved

Disapproved

Date

MAR - 6 2008

Attachments (2)
Tab A - Transmittal letters
Tab B - Report to Congress

Julie Louise Gerberding, M.D., M.P.H.



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Madam Speaker:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation. The report of notifications received of a theft, loss, or release of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006, is enclosed.

Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Mitch McConnell
Senate Minority Leader
Washington, D.C. 20510

Dear Senator McConnell:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

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Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Steny H. Hoyer
House Majority Leader
Washington, D.C. 20515

Dear Congressman Hoyer:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation. The report of notifications received of a theft, loss, or release of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006, is enclosed.

Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable John Boehner
House Minority Leader
Washington, D.C. 20515

Dear Congressman Boehner:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation. The report of notifications received of a theft, loss, or release of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006, is enclosed.

Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure

The Department of Agriculture
and
The Department of Health and Human Services
Report to Congress
on
Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006

November 2007

**The Department of Agriculture and the Department of Health and Human Services
Report to Congress on Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006**

The Public Health Security and Bioterrorism Preparedness and Response Act (P.L. 107-188) requires the Secretaries of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins (select agents) regulated pursuant to that Act.

Overview

The Select Agent Programs at the Department of Health and Human Services (HHS) and the Department of Agriculture (USDA) received 83 reports¹ of Theft, Loss², or Release³ of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006. As a result of the follow-up investigations conducted by HHS, USDA, and the Federal Bureau of Investigation (FBI) regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- No confirmed losses of a select agent; and
- Five confirmed releases of a select agent.

Nine reports involved an apparent non-compliance with the Select Agent Regulations. Of the 9 reports, 6 reports were referred to the HHS Office of Inspector General (OIG) and 3 reports were referred to the USDA, Animal and Plant Health Inspection Service, Investigative and Enforcement Services (IES) for further investigation and enforcement.

Nine reports did not involve a select agent. For the remaining 74 of the initial 83 reports received by HHS and USDA, there were 28 reports of a possible loss of a select agent and 46 reports of a possible release of a select agent.

Reports of Possible Losses

Of the 74 reports involving select agents, there were 28 reports of a possible loss of a select agent. Of the 28 reports:

- Twelve reports involved a transfer in which the entire shipment of select agents did not occur.

¹ This report does not include reports from the Texas A&M University investigation. The reports will be included in the annual report for 2007.

² A loss is defined as a failure to account for a select agent or toxin.

³ A release is defined as an occupational exposure or release of a select agent or toxin outside of the primary barriers of the biocontainment area.

Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006
Page 2

- Ten reports involved an inventory discrepancy where the entity could not account for vials containing a select agent. Based on the investigations conducted by HHS, FBI, USDA IES, or USDA OIG, the accounting discrepancies were determined to be a result of poor recordkeeping by the entities. Five of the 10 reports involved an apparent non-compliance with the Select Agent Regulations. Two reports were referred to HHS OIG and the other 3 reports were referred to USDA IES for further investigation and enforcement.
- Three reports involved a possible loss where the entity could not account for mice infected with a select agent. Based on the investigation conducted by HHS and the FBI, the mice were believed to have been cannibalized by other mice in the cage or buried under the bedding and autoclaved by mistake by the animal care staff. Two of the 3 reports involved an apparent non-compliance of the Select Agent Regulations and were referred to HHS OIG for further investigation and enforcement.
- Two reports involved a delay in transfer of a select agent. For one report, the delay was due to a hurricane. For the other report, the delay was due to high volume of shipments related to the holiday season.
- One report identified a loss during transit. After the entity reported the loss of select agents in transit during importation into the United States, the FBI tracked the packages to Belgium where the select agents were incinerated.

Reports of Possible Releases

Of the 74 reports involving select agents, there were 46 reports regarding a possible release of a select agent. It is important to note that none of the reported releases were considered by HHS or USDA to be a threat to public, animal, or plant health. Of the 46 reports:

- There were 5 confirmed reports of releases of a select agent. These releases were identified by illnesses in 7 laboratorians that had occurred as a result of working with these materials.
 - Two of these reports involved exposure to Newcastle disease virus (velogenic) and resulted in conjunctivitis.
 - One of these reports involved exposure of 3 laboratorians to a virulent strain of *Francisella tularensis*. This resulted from an error in the identification of the strain, which led the laboratorians to manipulate the strain under Biosafety Level 2 conditions, which in turn failed to protect the workers from possible aerosol exposure.

Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006
Page 3

- Two of the reports involved exposure to *Brucella* that resulted in illness. One of these two reports involved an exposure to a virulent *Brucella melitensis* strain in a diagnostic laboratory. As with the *Francisella tularensis* incident, a significant factor in this release was the incorrect identification of the organism. In this case, prior to its identification as *Brucella*, this strain was handled in conditions that did not protect the worker from potential aerosol exposure. The second report involved the exposure of a laboratorian to *Brucella* in a research laboratory in which the exact incident involving the exposure was not determined.
- In all cases, the individuals involved have recovered from their illnesses.
- Twenty-three reports involved incidents where a possible exposure of the select agent may have occurred and medical treatment was provided as a precaution, but no illnesses or other evidence of infection occurred. Two of the 23 reports involved an apparent non-compliance of the Select Agent Regulations and were referred to HHS OIG for further investigation and enforcement.
- Fourteen reports involved a release outside the primary barrier of containment. However, after the investigation was conducted by HHS and USDA Select Agent Programs, it was determined that an occupational exposure was unlikely.
- Four reports were determined to not be occupational exposures or releases outside the primary barrier of containment after investigations were conducted by the HHS Select Agent Program.

Summary

In summary, the Select Agent Program received 83 reports of Theft, Loss, or Release of a select agent or toxin between February 7, 2003, and December 31, 2006. As a result of the follow-up investigations conducted by HHS, USDA, and the FBI regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- No confirmed losses of a select agent; and
- Five confirmed releases of a select agent.

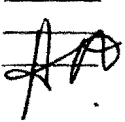


DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
and Prevention (CDC)
Atlanta GA 30333

DEC 4 2007

TO: The Secretary
Through: DS
COS
ES 
FROM: Director
Centers for Disease Control and Prevention

SUBJECT: Report to Congress on Thefts, Losses, or Releases of a Select Agent or Toxin

BACKGROUND

Section 201(a) of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-1088) required the Secretary to report to Congress annually on the number and nature of notifications received in accordance with subsection (c)(8) (relating to theft or loss) and subsection (j) (relating to releases) of a select agent or toxin.

As required by the Act, the Department of Health and Human Services promulgated an interim final rule on December 13, 2002 (67 FR 76885) and published the final rule on March 18, 2005 (70 FR 13294) regarding the possession, use, and transfer of select agents and toxins. All provisions of the final rule supersede those contained in the interim final rule. The final rule became effective on April 18, 2005. As part of that rule, an individual or entity must immediately report any theft, loss, or release of a select agent or toxin and submit a completed Report of Theft, Loss, or Release of Select Agents and Toxins (Form 3) within seven days of the incident.

To comply with the requirement of the Act, the CDC Select Agent Program requests to submit the attached report in coordination with the Select Agent Program at the Department of Agriculture (USDA) to Congress to report the eighty-three (83) reports of Theft, Loss, or Release of a select agent or toxin received by CDC and USDA between February 7, 2003 (the effective date of the interim final rule) and December 31, 2006.

RECOMMENDATION

I recommend that you review and approve the attached report.

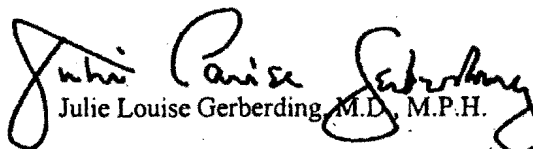

DECISION

Approved _____

Disapproved _____

Date

MAR - 6 2008


Julie Louise Gerberding, M.D., M.P.H.

Attachments (2)
Tab A - Transmittal letters
Tab B - Report to Congress



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

Regulations issued pursuant to the Act require all persons to notify either the Secretary of Health and Human Services or the Secretary of Agriculture in the event of a theft, loss, or release of a listed select agent or toxin. All notifications are investigated by the Department of Health and Human Services, the Department of Agriculture, and/or the Federal Bureau of Investigation. The report of notifications received of a theft, loss, or release of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006, is enclosed.

Your continued support in this critical area of public, animal and plant health, and national security is greatly appreciated.

Sincerely,

Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
Secretary
Department of Health and Human Services

Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Madam Speaker:

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Edward T. Schafer
Secretary
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Enclosure



U.S. Department of Agriculture



U.S. Department of Health and Human Services

MAR - 6 2008

The Honorable Mitch McConnell
Senate Minority Leader
Washington, D.C. 20510

Dear Senator McConnell:

We are pleased to transmit to the Congress the report on Thefts, Losses, or Releases of Select Agents or Toxins as required by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188). Specifically, the Act requires the Secretaries of the Departments of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins regulated pursuant to that Act.

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Edward T. Schafer
Secretary
Department of Agriculture

Michael O. Leavitt
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Department of Health and Human Services

Enclosure

**The Department of Agriculture and the Department of Health and Human Services
Report to Congress on Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006**

The Public Health Security and Bioterrorism Preparedness and Response Act (P.L. 107-188) requires the Secretaries of Health and Human Services and Agriculture to report to the Congress annually on the number and nature of notifications received concerning the theft, loss, or release of biological agents or toxins (select agents) regulated pursuant to that Act.

Overview

The Select Agent Programs at the Department of Health and Human Services (HHS) and the Department of Agriculture (USDA) received 83 reports¹ of Theft, Loss², or Release³ of a select agent or toxin between February 7, 2003, (the effective date of the interim final rule) and December 31, 2006. As a result of the follow-up investigations conducted by HHS, USDA, and the Federal Bureau of Investigation (FBI) regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- No confirmed losses of a select agent; and
- Five confirmed releases of a select agent.

Nine reports involved an apparent non-compliance with the Select Agent Regulations. Of the 9 reports, 6 reports were referred to the HHS Office of Inspector General (OIG) and 3 reports were referred to the USDA, Animal and Plant Health Inspection Service, Investigative and Enforcement Services (IES) for further investigation and enforcement.

Nine reports did not involve a select agent. For the remaining 74 of the initial 83 reports received by HHS and USDA, there were 28 reports of a possible loss of a select agent and 46 reports of a possible release of a select agent.

Reports of Possible Losses

Of the 74 reports involving select agents, there were 28 reports of a possible loss of a select agent. Of the 28 reports:

- Twelve reports involved a transfer in which the entire shipment of select agents did not occur.

¹ This report does not include reports from the Texas A&M University investigation. The reports will be included in the annual report for 2007.

² A loss is defined as a failure to account for a select agent or toxin.

³ A release is defined as an occupational exposure or release of a select agent or toxin outside of the primary barriers of the biocontainment area.

Thefts, Losses, or Releases of Select Agents or Toxins
February 7, 2003, to December 31, 2006
Page 2

- Ten reports involved an inventory discrepancy where the entity could not account for vials containing a select agent. Based on the investigations conducted by HHS, FBI, USDA IES, or USDA OIG, the accounting discrepancies were determined to be a result of poor recordkeeping by the entities. Five of the 10 reports involved an apparent non-compliance with the Select Agent Regulations. Two reports were referred to HHS OIG and the other 3 reports were referred to USDA IES for further investigation and enforcement.
- Three reports involved a possible loss where the entity could not account for mice infected with a select agent. Based on the investigation conducted by HHS and the FBI, the mice were believed to have been cannibalized by other mice in the cage or buried under the bedding and autoclaved by mistake by the animal care staff. Two of the 3 reports involved an apparent non-compliance of the Select Agent Regulations and were referred to HHS OIG for further investigation and enforcement.
- Two reports involved a delay in transfer of a select agent. For one report, the delay was due to a hurricane. For the other report, the delay was due to high volume of shipments related to the holiday season.
- One report identified a loss during transit. After the entity reported the loss of select agents in transit during importation into the United States, the FBI tracked the packages to Belgium where the select agents were incinerated.

Reports of Possible Releases

Of the 74 reports involving select agents, there were 46 reports regarding a possible release of a select agent. It is important to note that none of the reported releases were considered by HHS or USDA to be a threat to public, animal, or plant health. Of the 46 reports:

- There were 5 confirmed reports of releases of a select agent. These releases were identified by illnesses in 7 laboratorians that had occurred as a result of working with these materials.
 - Two of these reports involved exposure to Newcastle disease virus (velogenic) and resulted in conjunctivitis.
 - One of these reports involved exposure of 3 laboratorians to a virulent strain of *Francisella tularensis*. This resulted from an error in the identification of the strain, which led the laboratorians to manipulate the strain under Biosafety Level 2 conditions, which in turn failed to protect the workers from possible aerosol exposure.

Thefts, Losses, or Releases of Select Agents or Toxins

February 7, 2003, to December 31, 2006

Page 3

- Two of the reports involved exposure to *Brucella* that resulted in illness. One of these two reports involved an exposure to a virulent *Brucella melitensis* strain in a diagnostic laboratory. As with the *Francisella tularensis* incident, a significant factor in this release was the incorrect identification of the organism. In this case, prior to its identification as *Brucella*, this strain was handled in conditions that did not protect the worker from potential aerosol exposure. The second report involved the exposure of a laboratorian to *Brucella* in a research laboratory in which the exact incident involving the exposure was not determined.
- In all cases, the individuals involved have recovered from their illnesses.
- Twenty-three reports involved incidents where a possible exposure of the select agent may have occurred and medical treatment was provided as a precaution, but no illnesses or other evidence of infection occurred. Two of the 23 reports involved an apparent non-compliance of the Select Agent Regulations and were referred to HHS OIG for further investigation and enforcement.
- Fourteen reports involved a release outside the primary barrier of containment. However, after the investigation was conducted by HHS and USDA Select Agent Programs, it was determined that an occupational exposure was unlikely.
- Four reports were determined to not be occupational exposures or releases outside the primary barrier of containment after investigations were conducted by the HHS Select Agent Program.

Summary

In summary, the Select Agent Program received 83 reports of Theft, Loss, or Release of a select agent or toxin between February 7, 2003, and December 31, 2006. As a result of the follow-up investigations conducted by HHS, USDA, and the FBI regarding these reports, it was determined that there were:

- No confirmed thefts of a select agent;
- No confirmed losses of a select agent; and
- Five confirmed releases of a select agent.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Bob Goodlatte
Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Goodlatte:

Section 202 of the Specialty Crops Competitiveness Act of 2004 (Public Law 108-465) directed the Department of Agriculture (USDA) to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops. Specifically, USDA is required to report on *"(1) the total number of applications processed to completion; (2) the number of backlog applications processed to completion; (3) the percentage of backlog applications processed to completion; and (4) the number of backlog applications remaining."* The report is enclosed.

USDA's Animal and Plant Health Inspection Service (APHIS) works to facilitate safe agricultural trade. Sanitary (animal health) and phytosanitary (plant health) (SPS) issues are sometimes used inappropriately to restrict or block trade. There are several challenging factors that determine how long it takes to complete work on an export petition, including the number, gravity, and intricacy of issues raised by an export petition, and the willingness of the foreign government to negotiate over a particular request. However, APHIS officials strive to resolve SPS trade barriers by working with their foreign counterparts to eliminate unjustified SPS measures, negotiate science-based import requirements and standards, and intervene to release U.S. shipments held at foreign ports due to SPS-related concerns. APHIS' efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually.

I am sending a similar letter to the Chairman of the House Committee on Agriculture, and the Chairman and Ranking Member of the Senate Committee on Agriculture, Nutrition and Forestry.

Sincerely,

A handwritten signature in black ink, which appears to read "Ed Schafer", is written over a horizontal line.

Edward T. Schafer
Secretary

Enclosure

Specialty Crops Competitiveness Act of 2004, Report to Congress
June 2008

In response to the requirements of Section 202 of the Specialty Crops Competitiveness Act of 2004, the Department of Agriculture (USDA) is transmitting the following information:

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2. The number of backlog applications processed to completion—6 of the export issues resolved in 2007 were backlog issues USDA has been working on for more than a year.
3. The percentage of backlog applications processed to completion—24 percent of backlog export issues were resolved in 2007. This number was obtained by dividing the number of backlog issues resolved in 2007 (6), by the number of backlog export issues that were pending (25).
4. The number of backlog applications remaining—There are 19 export issues remaining that were initiated prior to 2006.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 1 2008

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Peterson:

I would like to take this opportunity to update you on the Department of Agriculture's (USDA) new protocol with the Canadian Food Inspection Service (CFIA) concerning hunter-harvested birds transiting the border during a highly pathogenic avian influenza (HPAI) incident.

As you know, following the confirmation of a strain of HPAI H7N3 at a commercial broiler breeder farm in Saskatchewan Province on September 27, 2007, all unprocessed avian products—including hunter-harvested birds—from Saskatchewan were denied entry into the United States for several days. Due to the limited information that was initially available and the serious risks associated with HPAI, officials with USDA's Animal and Plant Health Inspection Service (APHIS) deemed that a blanket restriction was the most prudent course of action to take. However, after our officials had the opportunity to evaluate data concerning the scope and nature of the outbreak, APHIS rescinded the ban on hunter-harvested birds on October 2, 2007. On January 14, 2008, after reviewing a final report from CFIA demonstrating that the outbreak only occurred at a single premises and that appropriate measures were taken, APHIS removed all remaining restrictions on unprocessed avian products from the province of Saskatchewan.

In response to this situation, the Chief Veterinary Officers of the United States and Canada recently revised the protocol for HPAI incidents. In the event of an HPAI incident in commercial poultry under the revised protocol, hunter-harvested wild birds and wild bird products will be permitted to cross the border, unless there is evidence that wild birds are epidemiologically linked to the outbreak in commercial poultry. However, all live avians and unprocessed avian products from a designated HPAI outbreak zone would continue to be

The Honorable Collin C. Peterson
Page 2

restricted. This decision is consistent with World Organization for Animal Health guidelines. As is customary, hunters will need to show a permit to hunt in Canada in order to bring their game into the United States.

I appreciate your interest in this matter. If you have any questions or need more information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bruce I. Knight". The signature is fluid and cursive, with a large loop at the end.

Bruce I. Knight
Under Secretary
Marketing and Regulatory Programs



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Collin Peterson
Chairman, Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Section 202 of the Specialty Crops Competitiveness Act of 2004 (Public Law 108-465) directed the Department of Agriculture (USDA) to report on progress made in reducing the backlog of applications for exports of U.S. specialty crops. Specifically, USDA is required to report on *"(1) the total number of applications processed to completion; (2) the number of backlog applications processed to completion; (3) the percentage of backlog applications processed to completion; and (4) the number of backlog applications remaining."* The report is enclosed.

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I am sending a similar letter to the Ranking Member of the House Committee on Agriculture, and the Chairman and Ranking Member of the Senate Committee on Agriculture, Nutrition and Forestry.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure

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June 2008

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Tom Harkin
Chairman, Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
328-A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Chambliss:

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

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Washington, D.C. 20515

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Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

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Ranking Member
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

SEP - 1 2009

The Honorable Saxby Chambliss
Ranking Minority Member
Committee on Agriculture, Nutrition and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Senator Chambliss:

As requested by the Food, Conservation, and Energy Act (Farm Bill) of 2008, I am writing to provide a report on the plans developed by the Animal and Plant Health Inspection Service (APHIS) for funding provided under Section 10201 of the Act for Plant Pest and Disease Management and Disaster Prevention. In developing these plans, APHIS sought input from the National Plant Board and State departments of agriculture and consulted its Cooperative Agricultural Pest Survey cooperators, the Specialty Crop Farm Bill Alliance, industry organizations, and other stakeholders. All agree that early pest detection is important in avoiding significant economic and environmental damage. Once a pest becomes established or spreads significantly, the cost to eradicate, suppress, or manage it can be in the millions—not to mention the cost in lost crops and damage to the ecosystem. APHIS and its partners are using the Farm Bill funds to build on existing early detection efforts and develop new strategies to identify pests and diseases that pose threats to U.S. agriculture and ways to mitigate them.

Section 10201 will allow APHIS to bridge the gaps between a myriad of pest detection and surveillance programs and increase the diagnostic capacity for plant pests and diseases. By better integrating and coordinating Federal, State, and industry efforts on this front, APHIS can develop a more comprehensive picture of plant health in the United States based on solid, accurate data. This information will help considerably to facilitate and enhance trade opportunities for U.S. plant producers and nursery growers. APHIS and its cooperators have identified six key areas to concentrate on: 1) enhanced analysis and survey; 2) targeted inspection at vulnerable points in the United States; 3) enhanced pest identification tools and technology; 4) programs to safeguard nursery production; 5) enhanced education and outreach; and, 6) enhanced mitigation capabilities.

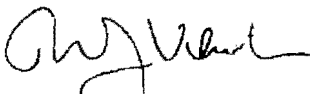
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The Honorable Saxby Chambliss
Page 2

input in developing goals, objectives, strategies, milestones, and timelines. We will continue to seek their feedback, evaluating and adjusting the plan as needed to reach our goals and ensure that available funding is distributed fairly, effectively, and efficiently.

Enclosed is a document describing APHIS' plans for the Section 10201 funds. It outlines the strategies APHIS will use to implement Section 10201 over the 5 years authorized in the Farm Bill and describes specific projects APHIS is conducting in FY 2009. I appreciate the Committee's interest in this matter. Similar letters are being sent to Congressmen Peterson and Lucas and Senator Harkin.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", written over the printed name.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

SEP - 1 2009

Office of the Secretary
Washington, D.C. 20250

The Honorable Collin C. Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As requested by the Food, Conservation, and Energy Act (Farm Bill) of 2008, I am writing to provide a report on the plans developed by the Animal and Plant Health Inspection Service (APHIS) for funding provided under Section 10201 of the Act for Plant Pest and Disease Management and Disaster Prevention. In developing these plans, APHIS sought input from the National Plant Board and State departments of agriculture and consulted its Cooperative Agricultural Pest Survey cooperators, the Specialty Crop Farm Bill Alliance, industry organizations, and other stakeholders. All agree that early pest detection is important in avoiding significant economic and environmental damage. Once a pest becomes established or spreads significantly, the cost to eradicate, suppress, or manage it can be in the millions—not to mention the cost in lost crops and damage to the ecosystem. APHIS and its partners are using the Farm Bill funds to build on existing early detection efforts and develop new strategies to identify pests and diseases that pose threats to U.S. agriculture and ways to mitigate them.

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The Honorable Collin C. Peterson
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Thomas J. Vilsack
Secretary

Enclosure

FOOD, CONSERVATION, AND ENERGY ACT OF 2008
FARM BILL SECTION 10201
PLANT PEST AND DISEASE MANAGEMENT
AND DISASTER PREVENTION

Introduction

The Farm Bill—H.R. 6124 Food, Conservation, and Energy Act of 2008—became law in June 2008. Section 10201 (“Plant Pest and Disease Management and Disaster Prevention”) directs the Secretary of Agriculture to make available Commodity Credit Corporation funds for early plant pest detection and surveillance, for threat identification and mitigation of plant pests and diseases, and for technical assistance in the development and implementation of audit-based certification systems and nursery plant pest risk management systems. The 5-year Farm Bill specifies that these funds be made available incrementally, starting with \$12 million in fiscal year (FY) 2009, \$45 million in FY 2010, and \$50 million in FY 2011 and thereafter. As required by the Farm Bill, the Department of Agriculture’s (USDA) Animal and Plant Health Inspection Service (APHIS) sought input from the National Plant Board and State departments of agriculture. APHIS also consulted its Cooperative Agricultural Pest Survey (CAPS) cooperators, the Specialty Crop Farm Bill Alliance, industry organizations, and other stakeholders.

Now more than ever, early pest detection is important to avert significant economic and environmental damage in our country. Once a pest becomes established or spreads significantly, the cost to eradicate, suppress, or manage it can be in the millions—not to mention the cost in lost crops and damage to the ecosystem. In 1997, for example, it was estimated that introduced invasive species cost taxpayers \$41 billion annually in lost production, prevention, and control expenses. In 1998, the impact due to weeds alone was estimated at about \$15 billion. In 2005, some of the previous estimates were updated to \$34.5 billion due to all invasive plants (cultivated or weedy) and \$59.4 billion in damages caused by microbials (affecting animals and/or plants). However, when a pest or disease is detected early, plant health officials can respond rapidly to eradicate the outbreak before it has a chance to become established or spread to other areas. This results in significant cost savings, as it avoids the high costs of a long-term management program and helps maintain access to international markets for U.S. plants and plant products.

An Enhanced Approach to Pest Detection and Mitigation

From a historical perspective, the pest detection program within APHIS is similar to Farm Bill Section 10201. The program uses a multi-pronged strategy to accomplish its mission of identifying pest threats. This includes developing and deploying scientifically sound survey protocols and pest diagnostics, conducting pest surveys, accurately identifying pests of regulatory significance, and reporting pest survey results in a timely manner. To support and facilitate exports and interstate commerce, the program also maintains nationwide survey results for pests of regulatory significance as a means to provide direct evidence of pest-free areas in the United States.

All of these efforts involve stakeholders, the scientific community, other USDA agencies and Federal entities, State departments of agriculture, universities, and industry partners. In most cases, APHIS establishes formal partnerships with these groups through cooperative agreements administered by the CAPS program. APHIS and its State cooperators carry out surveys for high-risk pests of national and state interest through the CAPS network each year. The National Agricultural Pest Information System is the database that serves as the repository of survey results conducted by the States under cooperative agreements with APHIS and is available to both Federal officials and State cooperators. However, the

current pest detection program cannot fund the diversity of approaches proposed in Section 10201 without impacting the sustainability of CAPS with all 50 States and 3 Territories. To begin, the program does not provide for an adequate and immediately available resource base to implement rapid mitigation of new threats. Section 10201 provides funds—and flexibility in the funding structure—over the next 5 years to support some emergency mitigation activities. Having the necessary resources for rapid mitigation will position APHIS to develop a more proactive approach to plant health protection, solidifying its partnerships with the States and industry, and enabling meaningful advances in our pest detection infrastructure. These funds will not preclude requests for additional funds if necessary to mitigate the most severe new pest incursions, but they will provide much needed flexibility and ready access to funds to assist States in their initial mitigation efforts.

APHIS believes rapid mitigation is critical to averting plant pest-caused “disasters,” and it proposes a significant proportion of Section 10201 funding be used for this effort. Rapid mitigation is essential for eradication and control of a plant pest or disease outbreak in order to prevent economic and or environmental harm, after an outbreak has been detected and verified. Cooperators have told APHIS they would be more willing to report a new pest because they would be more likely to benefit from a “surgical” mitigation that is specific to a small area, is quick, and doesn't cause longer-term, deleterious local or national impacts.

By capitalizing on APHIS' existing pest detection program and surveillance system, the Agency will work to establish an unprecedented level of communication and coordination with the States, industry, and the public. APHIS' State plant health regulatory counterparts and departments of agriculture fully appreciate what it takes to eradicate, suppress, or manage a pest outbreak, as they are our partners in carrying out emergency mitigation programs. While our partners actively support the survey activity to detect pests of national importance, they also want flexibility in determining how to use Federal funds provided through Section 10201 of the 2008 Farm Bill. In particular, the States have expressed the need to use the Farm Bill funds to support their efforts not just to discover new pests as in the current CAPS program but to mitigate pests offshore and pathways of introduction, prepare for the potential introduction of certain pests, and rapidly and effectively respond to introductions when they occur.

Key Strategies

This plan defines the following strategies—organized into six major areas—to integrate and coordinate plant pest and disease management and disaster prevention activities that will be funded by Section 10201 of the 2008 Farm Bill: 1) enhancing plant pest/disease analysis and survey; 2) targeting domestic inspection activities at vulnerable points; 3) enhancing pest identification tools and technology; 4) developing programs to safeguard nursery production; 5) enhancing outreach and education to increase public understanding and support of plant pest and disease eradication and control programs; and 6) enhancing mitigation capabilities. Specific actions and spending figures for each of these six areas are further described below.

Benefits to Small Producers and Distributors

All U.S. producers, small and large, will benefit from an enhanced early detection system that prevents introductions of exotic pests from becoming widespread and requiring costly control measures. Activities conducted under the following four areas will specifically benefit small producers:

Enhance plant pest/disease analysis and survey

Under this strategy, APHIS will fund surveys for high-risk pests such as plum pox virus and *Phytophthora ramorum*. These surveys will provide protection for and help small growers and nursery owners avoid control costs through rapid and thorough detection of pests that threaten their operations.

Safeguard nursery production

Activities included in this strategy include developing science-based best management practices and risk mitigation practices to exclude, contain, and control regulated pests from the nursery production chain and developing and harmonizing audit-based nursery certification programs. These activities will help small producers and distributors mitigate pest risks, reduce operational costs, enhance the value of nursery stock they produce, and facilitate movement of plant material.

Outreach and education

Under this strategy, APHIS will work to engage the public in early detection efforts through, among other things, a formal volunteer program for exotic pest surveillance. Interested small producers and distributors could benefit from the training for volunteers on recognizing and reporting exotic pests.

Enhance mitigation capabilities

Under this strategy, APHIS will provide technical assistance prior to, during, and immediately following the development of a plant health emergency through the development of New Pest Response Guidelines (Action Plans), as well as strengthening rapid mitigation capabilities. Although larger growers can sometimes absorb the cost of quarantine actions and loss of business, smaller growers are often challenged to stay in business after being under quarantine for a season. These new funds will provide for small, quick, and effective mitigation that will reduce disproportional impacts to small growers, releasing them from quarantine quickly and allowing them to get back into production.

Partnership and Collaboration

Many organizations play a crucial role in protecting the Nation's agriculture, environment, and natural resources from plant pests and disease. APHIS' Plant Protection and Quarantine (PPQ) program works closely with several Federal, State, industry, academic, and foreign entities to develop and implement scientifically-sound approaches to pest detection, surveillance, and eradication. APHIS is responsible for coordinating the identification and prioritization of pest threats of national interest, identifying survey protocols, prescribing pest diagnostic procedures, confirming the taxonomic identity of plant pests, administering cooperative agreements to States to carry out pest and disease detection surveys, ensuring the timely recording and reporting of survey results, and coordinating regulatory response to pest and disease outbreaks. Other agencies within USDA that also have a role include:

- Cooperative State Research, Education, and Extension Service (CSREES). CSREES provides outreach to and training for first detectors, oversees the National Plant Diagnostic Network, and conducts diagnostic response exercises for pests of regulatory significance. When a pest cannot be eradicated, CSREES, through its Land Grant University system, may provide research to support long-term control efforts.
- Agricultural Research Service (ARS). ARS conducts research, searches for biological control agents in foreign countries, and coordinates the development of certain high-priority National Plant Disease Recovery preparedness documents in response to HSPD9. ARS also serves as a technical liaison to the Environmental Protection Agency on pesticide issues via their Office of Pest Management Policy.
- U.S. Forest Service (FS). FS manages pests (including survey activity) in national forests, and coordinates similar efforts with the State and private foresters.
- Risk Management Agency (RMA). RMA provides guidance for documenting good farming practices and crop insurance programs.

State departments of agriculture play a critical role by carrying out pest and disease detection surveys as part of the CAPS program. States also carry out specific pest and disease detection and delimiting surveys to support control and eradication programs. States often lead specific regulatory responses to new pests in accordance with APHIS national policy, typically as a joint command with PPQ under the Incident Command System (ICS).

Expanded and enhanced partnerships with plant industries and academia has created new opportunities for information sharing and coordinated pest and disease detection and reporting activities. Collaboration and cooperation, based on well-established partnerships between plant industries, State officials, academia, and PPQ, remains the catalyst for continued success. PPQ's partnerships will be essential to the success of actions identified in this plan, as well as future strategies. In fact, several new opportunities exist or are being developed to work with industry in finding and reporting pest and diseases new to the United States.

- The part of this plan addressing nursery programs is a partnership with several States, national, regional and State organizations, focused on best management practices. It is important to place some responsibility on industry, while providing a reasonable level of Federal oversight that is not unnecessarily burdensome.
- Certain industry organizations have proposed sharing data with APHIS on pests of mutual interest. There is tremendous benefit to enhancing the export certification program in some of these cooperative efforts. For example, when seed labs are accredited and certified, the quality of certain data may be validated. With soybean rust (SBR), industry stakeholders voluntarily entered their disease observations into an electronic system that APHIS had initially funded to respond to the 2004 incursion of SBR into the United States. Industry data were kept separate from other data provided by Federal or State authorities, but provided a complementary and comprehensive view to the total distribution and relevance of SBR findings over the season for the entire United States.

The general public also plays an essential role in protecting U.S. plant and agricultural health. In many respects the public is already involved in pest detection—a number of pests of regulatory significance have been found and reported by members of the public. However, public involvement is more serendipitous than planned. In 2007, the light brown apple moth was reported by a professor in Berkley, California, who found it in his backyard. Asian longhorned beetle was reported by a woman in Massachusetts, who found the pest while hiking. Given the large number of pests and the inherent difficulty of detecting and knowing the significance of any new or exotic plant pest, APHIS can benefit from an increase in the number of “eyes on the ground” to look for unusual plant pests should they be introduced into the United States. There are several challenges to engaging citizens meaningfully in this effort that APHIS will work to overcome—(1) the need to educate the public regarding the pest threats of interest, (2) the need to establish a mechanism to more formally involve the public in PPQ's activities, and (3) the need to provide and communicate to the public the venue for reporting any pests that they find.

This document describes strategies APHIS will pursue as it implements Section 10201 over the next 5 years. It also contains information about specific projects APHIS is conducting in FY 2009 to initiate these strategies.

**IMPLEMENTATION
OF FARM BILL SECTION 10201
FY 2009**

I. ENHANCE ANALYSIS AND SURVEY: \$3,517,514

GOAL: To enhance the gathering and analysis of all available data to efficiently and effectively make informed decisions and to deploy resources to detect pests as early as possible.

This component of the plan will enhance pest detection survey activity in three ways:

1. Identify and target high-risk pest pathways,
2. Fully fund the highest priority pest-specific surveys, and
3. Enhance high-risk surveillance programs through State survey cooperative agreements.

Strategy 1. Identify and target high-risk pest pathways.

Evaluate and mitigate high-risk pathways from ports-of-entry in those States that are high-risk for exotic pests and disease introductions. Provide PPQ staff and stakeholders with detailed, field-level risk analyses for creating targeted surveys. This includes the development or application of online tool(s) that allow APHIS personnel and cooperators to make intelligent, timely choices as to the allocation of material and human resources for the highest risk pests, pathways, and points of entry or distribution. In FY 2009, APHIS will spend \$639,548 on the new plant health information system and \$373,070 on high risk pathway analysis projects.

Strategy 2. Fully fund the highest priority pest-specific surveys.

Fully fund viable/specific local and national detection surveys to mitigate or manage immediate pest threats (i.e., plum pox virus [PPV] in Pennsylvania, New York, and Michigan) and expand survey efforts for high-risk, economically significant pests and diseases (i.e., *Phytophthora ramorum*, false codling moth, and others). Note: Specific/target surveys will change from year to year to meet ever-changing pest and disease risks. In FY 2009, APHIS is spending \$639,548 on PPV surveys and \$159,887 on honeybee pest surveys.

Strategy 3. Enhance high-risk surveillance programs through State survey cooperative agreements.

Implement a targeted high-risk surveillance and mitigation program in the highest-risk States through Farm Bill cooperative agreements. In each State, APHIS will identify highest risk pests and pathways through the risk analysis system described above and from the Offshore Pest Information Program. In FY 2009, APHIS is allocating \$1,705,461 among the highest risk States for these surveys.

II. TARGET DOMESTIC INSPECTION ACTIVITIES: \$1,065,913

GOAL: To target domestic inspection activities at vulnerable points in the safeguarding continuum that result from the movement of products and commodities potentially carrying pests of regulatory significance.

Strategy 1. Promote and expand inland inspections of containers and mail facilities, where possible.

One way to efficiently allocate resources towards this end is to identify commercial facilities that would be "choke points" and increase inspectional efforts at the Hawaii and Puerto Rico mail facilities. Specific

locations would be targeted for inspection in order for States to find prohibited and/or pest-contaminated material and prevent its further distribution.

Strategy 2. Expand the use of canine teams for domestic survey detection activities.

Since 1984, APHIS has trained and utilized canines in agriculture quarantine inspection activities to detect high-risk agriculture items entering our country from foreign nations. APHIS would like to enhance States' efforts to mitigate pests that escape undetected through ports-of-entry by deploying canine teams at strategic locations within the States or at interstate borders and, in some cases, in tactical situations where potentially deliberate introductions of illegal goods have occurred. APHIS is using \$1,065,913 in FY 2009 to train and deploy canine teams in California, one of the highest risk States.

Strategy 3. Develop, initiate, and support States in inspections for Official Control.

As the procedures and strategies for Official Control are developed, facilitate the delivery of a system to enhance States' inspection and surveillance activities as would be required under an official control program.

Strategy 4. Promote increased levels of inspection for regulated articles for interstate movement.

Increase the number and quality of State inspections of facilities under Compliance Agreements to handle regulated articles. Develop audit standards for these Compliance Agreements.

III. ENHANCE PEST IDENTIFICATION AND TECHNOLOGY: \$2,065,181

GOAL: To develop, provide training, and deploy survey procedures and tools that will improve our ability to rapidly detect and accurately identify pests of regulatory significance.

Strategy 1. Improve all aspects of early detection resources, including improving traps/lures and expanding their availability, developing novel approaches to survey for exotic pests, stockpiling supplies for rapid deployment, and developing new diagnostic techniques.

Keys to this strategy include:

Develop and improve traps and lures in terms of efficiency of catching targets (e.g., more specific traps to reduce screening time) and ease of removing targets for identification (e.g., find alternatives for sticky traps for trapping Lepidoptera).

- 1) Employ a system that procures and inventories traps and lures in advance of time needed in the field.
- 2) Develop novel traps, lures, and survey strategies, including detector canines, to more efficiently detect target pests.
- 3) Educate cooperators on the most efficient and effective trap and lure combinations for target pests. Standardize methodology nationally.
- 4) Develop and apply quality control standards to traps and lures used at the field level.
- 5) Design and develop electronic commodity-based identification tools (i.e., pests, diseases, weeds, disorders of a commodity) that complement and provide field detection support for CAPS commodity reference and survey guidelines publications to increase accurate and timely identification of pests.

- 6) Develop state-of-the-art digital image-based identification capability. Based on analysis of need and image resources, design and develop a resource that allows users to filter, sort, group, and resize images to greatly facilitate field identification of reportable and actionable pests by recognition.

In FY 2009, APHIS is spending \$243,028 on a trap/lure module in the plant health information system and \$1,137,836 to purchase traps and lures to support survey efforts.

Strategy 2. Enhance pest screening expertise and taxonomic capacity.

Keys to this strategy include:

- 1) Develop the expertise and capacity to identify a greater variety of plant pests to
 - a. accept and screen a greater volume and variety of survey samples from States,
 - b. train and certify field personnel for detecting specific threatening pests,
 - c. provide screening aids, specimens, and tools for first detectors and cooperating land grant universities, State departments of agriculture, industry, and other Federal and State agencies,
 - d. employ standardized pest identification procedures including procedures for communicating results, and
 - e. oversee increased associated field infrastructure and agreements, thereby providing more timely and accurate identifications for pest detection activities.
- 2) Develop cooperative agreements capitalizing on the taxonomic expertise at other institutions (i.e., land grant universities and State departments of agriculture) to augment national identification needs for surveys and function as regional taxonomic screening centers that accept and process survey samples from neighboring States.
- 3) Develop, validate, and transfer diagnostic methods to cooperators. Accreditation and certification would be necessary to transfer the technology to non-PPQ entities, so that the knowledge, tools, and appropriate authority levels are shared beyond PPQ.

In FY 2009, APHIS is devoting \$79,944 to increasing diagnostic support for high-threat arthropods.

Strategy 3. Increase the deployment of molecular diagnostic tools for specific plant diseases and pest identifications and determinations of pest point of origin by increasing resources for:

- method validations and operational deployments,
- laboratory accreditation,
- hands-on biochemical and molecular diagnostic laboratory training, and
- development of scientific expertise for the performance of molecular diagnostic analysis and confirmation of pest organisms.

In FY 2009, APHIS is using approximately \$604,373 to develop molecular diagnostic tools.

Strategy 4. Develop and implement a comprehensive Traps & Lures (T&L) Management Program that will be held accountable for the timely procurement and delivery of quality survey supplies to PPQ field personnel and State cooperators.

Keys to this strategy include:

- 1) Establish a National T&L Program to oversee and be held accountable for all aspects of the ordering, procurement, quality control and quality assurance, and delivery of survey supplies from the national level, including a National T&L Committee to provide direction and facilitate communications within the survey community.

- 2) Review the funding mechanism for trap and lure supplies and adjust as allowed by regulations. Conduct an audit of the accounting practices used in the program and implement recommendations in order to improve the reliability and efficiency of trap and lure procurements.
- 3) Fund a suitable inventory of traps, lures, and other survey supplies to be stored at the warehouse in Mission, Texas, to guard against shortages during emergencies.
- 4) Develop, implement, and maintain a new Web-based storefront for ordering supplies, maintaining inventory, and tracking orders through shipment. The T&L Program should be user-friendly, flexible, and responsive so that field personnel can procure needed survey supplies in a timely manner and maintain adequate supplies.
- 5) Place or re-assign procurement personnel dedicated to the T&L Program at Moore Air Base in Edinburg, Texas, and Minneapolis, Minnesota. This will strengthen the system and facilitate communications.
- 6) Implement and integrate into the procurement process a quality control and quality assurance program to ensure the use of high-quality, effective materials in the field.

Currently, no Section 10201 funds are being devoted in FY 2009 to this strategy. APHIS-PPQ is currently working on a plan for addressing this strategy.

Strategy 5. Pursue offshore initiatives to optimize early detection programs.

Key components of this strategy include:

- 1) Apply sophisticated pest prioritization methods to analyze, determine, and rank offshore pest threats to target offshore surveillance (i.e., via the Offshore Pest Information Program, OPIP) and to alert Customs and Border Protection to look for the highest risk pests.
- 2) Work with partners to conduct offshore surveys as appropriate. Share distribution and pathway information to enhance the development of appropriate safeguarding strategies at the U.S. border and domestically.
- 3) Develop an expatriate plant inspection program to monitor pests that attack U.S. plant germplasm abroad (similar to New Zealand's project).
- 4) With cooperators, conduct methods development activities on emerging pest threats abroad to develop survey and control technologies, including biocontrol, that may be applied to the United States should they become necessary.

In FY 2009, APHIS has provided \$53,296 for discovery of new biological control agents against the Asian citrus psyllid. However, this activity appears under Goal VI, Enhance Mitigation Capabilities, because of the immediate need to develop tools to mitigate the spread and impact of Asian citrus psyllid in the United States.

IV. SAFEGUARD NURSERY PRODUCTION: \$1,388,174

GOAL I: To develop science-based best management practices (BMPs) and risk mitigation practices to exclude, contain, and control regulated plant pests from the nursery production system.

Strategy 1. Establish and operate a research station in California (National Ornamentals Research Site at Dominican University) to develop BMPs to exclude, contain, and eradicate *Phytophthora ramorum* in a nursery environment.

This strategy is designed to improve the ability of nurseries to exclude, detect and eradicate, and mitigate the spread, of *P. ramorum*, as well as APHIS' ability to regulate nurseries and the movement of nursery stock, and implement effective protocols to eradicate *P. ramorum* in the nursery setting. APHIS is providing \$1,059,926 for the establishment of the experimental nursery within the area regulated for *P. ramorum* in California and an additional \$53,296 to support State oversight of the nursery.

Strategy 2. Expand research scope to study plant pests of quarantine significance that are present in California and threaten other States as well.

GOAL II: To develop and harmonize audit-based Nursery Certification Programs (including the harmonization of different certification programs, audit and inspection training for cooperators, and launching).

Strategy 1. Develop a harmonized and integrated nursery certification program to facilitate exports and the domestic movement of nursery stock in partnership with State regulatory officials.

This strategy includes the greenhouse program, the U.S. Nursery Certification Program, and other accreditation/certification initiatives. The nursery certification program has several components that include providing the cleanest possible environment; isolating the clean materials; and, following systems approaches and BMPs to keep plants healthy, documentation, recordkeeping, audit, and compliance. APHIS proposes to partner with States through a memorandum of understanding to adopt and implement national standards for certification of greenhouses and registered nursery blocks producing nursery stock. Ultimately, the certification programs will be harmonized with North American Plant Protection Organization and International Plant Protection Convention guidelines. In FY 2009, APHIS is using \$70,350 to develop model regulations for a harmonized State-based nursery certification program and \$107,604 to develop national nursery virus certification program pilots in several states.

Strategy 2. Develop and deliver training to cooperators, providing material and technical assistance in developing the quality operational manual for small-scale nurseries.

APHIS proposes to deliver a training module through the Agency's Professional Development Center (PDC) for audit-based certification programs for Federal and other cooperators. This training will be provided at regular intervals and measures will be in place to ensure the accreditation and certification of the trainees. The experimental nursery for *P. ramorum* and certified mother blocks will be used as a classroom for training. In partnership with academic institutions, outreach and education will be provided to nurserymen and growers through media, publications and growers meetings. In addition, through State cooperators, PDC will create technical assistance programs to help small-scale nurseries develop a quality manual enabling them to participate in the certification programs. APHIS is using \$26,648 on training programs in FY 2009.

Strategy 3. Work with all stakeholders and cooperators to launch and support the certification program for the nursery industry.

This initiative includes launching audit-based certification program pilots in select States, developing the training module for audit-based certification programs, and integrating with planned initiatives of the National Clean Plant Network (NCPN) and other clean stock programs, as outlined under Section 10201 of the 2008 Farm Bill. The commodity-based clean plant networks for grape and fruit trees currently provide certified planting materials to the nurseries and growers under State certification programs. APHIS expects that this clean plant program and the need for associated nursery certification will be expanded significantly as resources become available during FY 2010. The ultimate objective is to develop a "value added certified identity" to the planting material for acceptance by trading partners.

Procedures will be in place for audit, non-compliance, and mitigation. APHIS is spending \$70,350 on outreach efforts in FY 2009.

V. CONDUCT EDUCATION AND OUTREACH: \$1,100,023

GOAL I: To increase public understanding, acceptance, and support of plant pest and disease eradication and control efforts.

Strategy 1. Initiate efforts in affected or at-risk areas to systematically engage citizens in public decision-making and consensus-building forums in an effort to include public and stakeholder input when developing regulatory policy and program delivery strategies.

Strategy 2. Enhance ongoing pest/disease information campaigns by creating and maintaining a highly visible, centralized, and coordinated Web site and portal that offers timely, standardized information about plant pests/diseases of regulatory significance.

Strategy 3. Evaluate opportunities in affected or at-risk areas to use social media to support strategic public communications.

In FY 2009, APHIS is spending \$969,981 on outreach programs for forest pests and \$31,977 on outreach regarding laurel wilt, which threatens avocados.

GOAL II: To encourage public and stakeholder participation in pest surveillance and detection activities and instill public confidence in PPQ programs.

Strategy 1. Promote and expand the use of the APHIS PPQ Plant Biosecurity Curriculum in an effort to build an educational foundation for plant protection and biosecurity and regulatory studies in cooperation with educational institutions.

Strategy 2. Develop and implement a formal volunteer program to support the Cooperative Agricultural Pest Survey.

Strategy 3. Develop and promote a single, national mechanism (e.g., hotline and Web site) to simplify and streamline the reporting of suspected pests and diseases and ensure that reports are funneled to the appropriate authorities.

Strategy 4. Conduct outreach to key stakeholder groups (e.g., scientific societies) to reinforce the importance of active reporting of suspected pests and diseases.

In FY 2009, APHIS is using \$98,064 to develop a series of First Detector Training modules appropriate for small farm audiences to be delivered in an extension/continuing education context.

GOAL III: To increase the likelihood that the public will adopt behaviors to help mitigate the introduction or spread of exotic pests/diseases.

Strategy 1. Develop and implement a single, coordinated, national, multi-year public awareness/social marketing initiative to educate the public about the unintended consequences often associated with common behaviors (moving firewood, shipping citrus, traveling internationally, etc.) in an effort to create a sense of personal relevance/responsibility and motivate the public to take steps to minimize the accidental introduction/spread of invasive species/exotic pests and disease.

VI. ENHANCE MITIGATION CAPABILITIES: \$2,863,195

GOAL: To provide an unencumbered mechanism to determine the most suitable mitigation measures and deploy resources quickly to reduce potential economic and environmental damage and further spread of a detected pest of regulatory significance when deemed appropriate.

Section 10201 will help provide flexibility to enhance mitigation capabilities and avert large and often late (biologically speaking) emergency response efforts. The goal is to be able to rapidly respond to new pests when outbreaks are manageable. All six elements of the implementation plan, when conducted in a collaborative environment with stakeholders, will lead to lower-cost, more rapid responses to new pests. Activities such as increasing survey trap densities are an important aspect of rapid mitigation in the case of an exotic fruit fly detection and infestation. This mitigation function is carried out routinely in almost every fiscal year. APHIS carries out mitigation activities on a daily basis, such as implementing immediate trace back and trace forward initiatives when Smuggling Interdiction and Trade Compliance personnel find illegal agriculture products in the marketplace. Rapid mitigation includes the safeguarding, seizure, and destruction of prohibited products and product recalls. APHIS' authority to carry out the range of mitigation activities exists as an inherent part of the consolidated Plant Protection Act. The only reason that the existing basic pest detection program did not carry out a robust agenda of mitigation initiatives was that the program never had adequate funding to support them.

Strategy 1. Build on and improve the current mechanism to assess and decide an appropriate short term course of action to respond quickly to a new detection of a pest of potential regulatory significance.

Strategy 2. Utilize PPQ initial response protocols for the overarching goals of containment, control, or eradication at the onset of plant health emergencies. Promote the use of the ICS as a unified strategy between cooperating agencies in response to plant health emergencies.

Strategy 3. To prepare the Agency and collaborative programs in the use of the ICS for plant health response activities by reaching risk-based target levels of capability with the development of a multi-year training schedule.

Strategy 4. Provide technical assistance prior to, during, and immediately following the development of a plant health emergency through the development of New Pest Response Guidelines for the potential introduction of exotic plant pests. The New Pest Advisory Group (NPAG) works with interested and involved parties, surveys the literature, gathers expert opinion, and makes recommendations that are in the best interest of safeguarding American plant resources. Only the PPQ Deputy Administrator can accept and put the recommendations into effect. NPAG recommendations may be one of the following: collect additional information before a decision can be made to address the new pest; conduct a survey to assess the pest's geographic range, host range, or damage; develop methods to detect, identify, control, or eradicate the pest; recommend no action; recommend an action to eradicate the pest, to quarantine the infected or infested area, to evaluate biological or chemical control for pest management, to prepare and distribute educational information to the public, or to recommend that PPQ refer options and actions to other institutions, such as affected States or industries.

In FY 2009, APHIS is conducting activities to address situations involving a number of pests and diseases and prevent them from developing into full-blown emergencies:

- 1) \$906,026 for survey and suppression of Asian citrus psyllid in Mexico;
- 2) \$751,052 for PPV mitigation in New York, Michigan, and Pennsylvania;
- 3) \$664,064 for fruit fly mitigation in California;
- 4) \$291,562 for control of golden nematode in targeted areas of New York;

- 5) \$170,546 for laurel wilt research focused on protecting avocados;
- 6) \$26,648 for cryopreservation of fruit flies to enhance preparedness; and,
- 7) \$53,296 for discovery of new biological control agents against the Asian citrus psyllid.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
184 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

To address the concerns of the audit, APHIS developed an action plan to improve the Agency's regulation of dog dealers—particularly those who are repeat violators. APHIS proposes to add to its existing enforcement workforce to reduce the current ratio of inspectors to facilities inspected and to increase the number of investigators available to conduct investigations in areas where there is intensive workload. In addition, APHIS will enhance oversight of the inspectors in the field to improve the quality and accuracy of documentation and evidence collected to support downstream enforcement efforts. APHIS will also increase enforcement oversight for evaluating investigations for legal sufficiency, determining appropriate enforcement actions, preparing enforcement actions and referrals to USDA's Office of the General Counsel, and processing investigative subpoenas. Lastly, APHIS will review proposed legislation to determine potential modifications for regulating the Internet sale of dogs.

The APHIS action plan addresses the issues identified by the OIG and should significantly increase compliance with both the AWA and those regulations associated with dog dealers and breeders. The Agency also has established a set of performance measures that will provide a mechanism to evaluate the action plan's effectiveness. In addition, APHIS will aggressively

The Honorable Herbert Kohl


Page 2

pursue the strengthening of regulations to ensure the welfare of dogs in the care of regulated entities.

To begin this effort, APHIS proposes to use the Secretary's 7 percent interchange authority provided in the Department of Agriculture Organic Act of 1944 to shift \$4 million within existing fiscal year (FY) 2010 appropriated funding resources from its Avian Influenza program to the Animal Welfare and Animal and Plant Health Regulatory Enforcement (APHRE) programs. Animal Welfare will receive \$2.5 million and APHRE will receive \$1.5 million. Consistent with our FY 2011 budget request, we believe we can sustain a reduction in the Avian Influenza program because we now have a better understanding of how the virus spreads and the actual risk it poses, which is substantially less than originally believed. As avian influenza issues globally and domestically have diminished, APHIS is able to reduce its resources for adequately addressing this disease.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to Senator Brownback, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Tom Vilsack', with a stylized flourish at the end.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2368 Rayburn House Office Building
Washington, D.C. 20515-1001

Dear Congressman Kingston:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

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The Honorable Jack Kingston

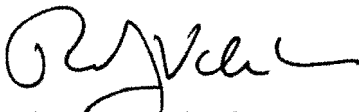
Page 2

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If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to Senators Kohl and Brownback and Congresswoman DeLauro.

Sincerely,

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 17 2010

The Honorable Sam Farr
U.S. House of Representatives
1261 Longworth House Office Building
Washington, D.C. 20515-0517

Dear Congressman Farr:

It is my understanding that you are working on legislation that would expand the U.S. Department of Agriculture's (USDA) authorities under the Animal Welfare Act (AWA). There are two provisions in particular that would help USDA improve enforcement: (1) authority to regulate dogs sold via the Internet as outlined by USDA's Inspector General, and (2) the inclusion of user fees for certain enforcement activities under the AWA.

As you know, the AWA was enacted in 1966 and requires that minimum standards of care and treatment be provided for certain animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. However, the Act exempts entities selling a high volume of animals at retail, which raises animal health and humane treatment concerns. Of particular concern is the loophole for entities that sell large volumes of dogs via the Internet. As you move forward in crafting this legislation, I recognize the importance of addressing the exemption associated with high volume retail sales of dogs, via the Internet or through other means.

If enacted, these necessary changes to the AWA would require additional resources to carry out enforcement activities. One way to ensure the increased costs of this legislation are addressed as well as ensure current and future animal welfare challenges are met is to incorporate a user fee mechanism into the legislative proposal.

I appreciate your attention to these matters and look forward to working with you on your legislation upon its introduction. A similar letter is being sent to Senator Durbin.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is written over the printed name and title.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

MAR 18 2010

The Honorable Dave Loebsack
U.S. House of Representatives
1221 Longworth House Office Building
Washington, D.C. 20515-1502

Dear Congressman Loebsack:

The U.S. Department of Agriculture's (USDA) Agricultural Research Service (ARS) is partnering with the Animal and Plant Health Inspection Service (APHIS) in holding a dedication ceremony for the newly constructed facilities at the National Centers for Animal Health (NCAH), in Ames, Iowa, on April 19, 2010, at 10:30 a.m. It is our pleasure to invite you to attend the event and deliver remarks at this ceremony.

NCAH consists of ARS' National Animal Disease Center (NADC) and APHIS' Center for Veterinary Biologics and National Veterinary Services Laboratories. It is the largest Federal animal disease center in the United States, with scientists conducting research and diagnostics and certifying veterinary products to solve animal health and food safety problems affecting livestock and poultry producers. In 2000, ARS and APHIS began the planning and construction of facilities for the new NCAH at Ames, USDA's largest-ever capital improvement project, with an estimated cost of \$462 million. The multi-phase facility complex, completed in late 2009, totals approximately one million square feet. NCAH is one of the world's most advanced biocontainment and biosecurity centers with biosafety-level 3 facilities for infectious disease studies on large animals. We appreciate the support Congress has provided to USDA over the years for completion of this project. Accordingly, we would be honored to have you participate in the ceremony.

Besides yourself, other invited speakers include Senators Tom Harkin and Charles E. Grassley and Congressmen Bruce Braley, Leonard L. Boswell, Tom Latham, Steve King, as well as several State and local government officials. Additionally, invited representatives from USDA include Secretary Thomas J. Vilsack, Under Secretary for Marketing and Regulatory Programs Edward M. Avalos, and Acting Under Secretary for Research, Education and Economics Dr. Molly Jahn. We anticipate the presence of approximately 400 attendees as well as diverse media outlets.

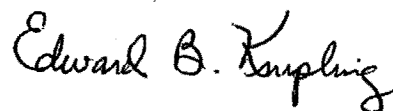
The Honorable Dave Loebsack

Page 2

Following the dedication ceremony, our staff will conduct tours of the facilities for dignitaries such as yourself. We hope you will be able to join us in Ames on April 19, 2010, for this important event. Please respond by contacting Ms. Stacy Carlson, NADC, at 515-663-7255 or Stacey.Carlson@ars.usda.gov.

We are sending a similar letter of invitation to the other Members of Congress mentioned previously.

Sincerely,



Edward B. Knipling
Administrator
Agricultural Research Service



Cindy J. Smith
Administrator
Animal and Plant Health
Inspection Service



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

March 9, 2010

The Honorable Blanche L. Lincoln
Chairwoman
Committee on Agriculture, Nutrition and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Chairwoman Lincoln:

I appreciate the dialogue we had at my confirmation hearing on September 30, 2009, including the opportunity to discuss the U.S. Department of Agriculture's (USDA) biotechnology regulatory program. During that hearing, several questions were raised with respect to the length of time it takes for USDA to make a determination on petitions for biotechnology products. I recognize that the time it takes to complete these petitions is greater today than in years past. I would like to update you on the challenges we face in responding to these petitions for deregulation, as well as how we are addressing these challenges. I am confident that with the plans we have laid out, the petition process at USDA will become more timely and efficient.

Under the Coordinated Framework for Regulation of Biotechnology in the United States, USDA's Animal and Plant Health Inspection Service (APHIS) works cooperatively with the U.S. Food and Drug Administration and the U.S. Environmental Protection Agency to ensure that the development, testing, and use of the products of biotechnology occur in a manner that is safe for plant and animal health, human health, and the environment. APHIS' Biotechnology Regulatory Services (BRS) enforces the Plant Protection Act (PPA) with respect to biotechnology, by regulating the importation, interstate movement, and field testing of genetically engineered (GE) organisms that may pose a risk to plant health.

After a GE plant has been field-tested extensively and the developer can show that it does not pose a plant pest risk, the developer may file a petition for deregulation. The developer must submit extensive information about the plant's biology and field test results. After conducting a plant pest risk assessment, an Environmental Assessment, or an Environmental Impact Statement and seeking public comment, APHIS approves a petition for deregulation if it reaches the conclusion that the GE plant does not pose a plant pest risk.

The Honorable Blanche L. Lincoln
Page 2

As you indicated, the length of time that it takes to complete the petition process now takes longer than it did in the past, for a number of reasons. First, the program's workload has increased in the last few years, and staffing levels have not kept pace. Second, APHIS has been subject to several lawsuits challenging its compliance with the requirements of the National Environmental Policy Act (NEPA), which have necessitated more extensive environmental analysis for each petition. Third, there has been a significant increase in the number of issues raised in public comments, as well as the complexity of those comments; therefore, comments now require much more time for evaluating and responding.

APHIS is currently reviewing 19 petitions for non-regulated status for GE plants. Historically, the Agency has reviewed just four to five petitions per year. Last year alone, APHIS received 11 new petitions. This unprecedented volume of petitions has greatly impacted the timeliness of the decision-making process. Along with the number of petitions, the steadily increasing number of permit and notification applications for field trials and other programmatic activities—such as updating and developing new guidance and processes and making revisions to the biotechnology regulations—have also affected the speed of decisions.

With these challenges in mind, I have directed APHIS to increase the efficiency and effectiveness of the petition process. I recently approved a reorganization of BRS staff in APHIS that is designed to improve performance. Among other things, we have established a new NEPA team that will be devoted to preparing high quality and defensible environmental documents to inform our regulatory decisions. In addition, to supplement in-house staff resources, we have begun awarding contracts to assist us with the preparation of analytical documents and the evaluation of public comments on published documents.

We have also announced the creation of a pilot program that would shift some of the burden for the preparation of environmental analyses to third-party contractors under the direction of APHIS. This approach, which is authorized by the Council on Environmental Quality regulations, is widely used throughout the Federal Government. It has the potential to free up Agency resources, that would otherwise be unavailable, to work on regulatory approvals. Further, it should speed the preparation of these documents and lead to quicker decisions.

The President's Fiscal Year 2011 Budget Request includes a major funding increase of nearly \$5.8 million for BRS, which would allow APHIS to hire additional staff to keep up with the increased workload. I hope that Congress will support this needed increase.

In addition to these steps, I have also instructed APHIS to conduct a detailed business process analysis to identify and implement additional efficiency improvements within its standard procedures. As part of my continued efforts to keep you informed of our progress in this important program area, I and my staff would be happy to brief you on the findings of this analysis, as well as steps we may take in response.

The Honorable Blanche L. Lincoln
Page 3

Notwithstanding the challenges the Agency faces in evaluating petitions for biotechnology products, we will continue to look for ways to improve this process and meet the needs of our stakeholders. I appreciate the opportunity to further discuss USDA's plans, and look forward to continuing to work with you in the future. I am sending a similar letter to Senator Chambliss.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward M. Avalos", written in a cursive style.

Edward M. Avalos
Under Secretary
Marketing and Regulatory Programs



United States Department of Agriculture

MAR 18 2010

The Honorable Tom Latham
U.S. House of Representatives
2217 Rayburn House Office Building
Washington, D.C. 20515-1504

Dear Congressman Latham:

The U.S. Department of Agriculture's (USDA) Agricultural Research Service (ARS) is partnering with the Animal and Plant Health Inspection Service (APHIS) in holding a dedication ceremony for the newly constructed facilities at the National Centers for Animal Health (NCAH), in Ames, Iowa, on April 19, 2010, at 10:30 a.m. It is our pleasure to invite you to attend the event and deliver remarks at this ceremony.

On July 3, 2007, you participated in a similar dedication ceremony at Ames for the Large Animal High Containment Building (#9). We are now ready to dedicate and celebrate the completion of the entire new facility complex.

NCAH consists of ARS' National Animal Disease Center (NADC) and APHIS' Center for Veterinary Biologics and National Veterinary Services Laboratories. It is the largest Federal animal disease center in the United States, with scientists conducting research and diagnostics and certifying veterinary products to solve animal health and food safety problems affecting livestock and poultry producers. In 2000, ARS and APHIS began the planning and construction of facilities for the new NCAH at Ames, USDA's largest-ever capital improvement project, with an estimated cost of \$462 million. The multi-phase facility complex, completed in late 2009, totals approximately one million square feet. NCAH is one of the world's most advanced biocontainment and biosecurity centers with biosafety-level 3 facilities for infectious disease studies on large animals. We appreciate the support Congress has provided to USDA over the years for completion of this project. Accordingly, we would be honored to have you participate in the ceremony.

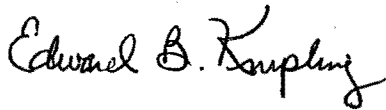
Besides yourself, other invited speakers include Senators Tom Harkin and Charles E. Grassley and Congressmen Bruce Braley, Dave Loebsack, Leonard L. Boswell, Steve King, as well as several State and local government officials. Additionally, invited representatives from USDA include Secretary Thomas J. Vilsack, Under Secretary for Marketing and Regulatory Programs Edward M. Avalos, and Acting Under Secretary for Research, Education and Economics Dr. Molly Jahn. We anticipate the presence of approximately 400 attendees as well as diverse media outlets.

The Honorable Tom Latham
Page 2


Following the dedication ceremony, our staff will conduct tours of the facilities for dignitaries such as yourself. We hope you will be able to join us in Ames on April 19, 2010, for this important event. Please respond by contacting Ms. Stacy Carlson, NADC, at 515-663-7255 or Stacey.Carlson@ars.usda.gov.

We are sending a similar letter of invitation to the other Members of Congress mentioned previously.

Sincerely,



Edward B. Knipling
Administrator
Agricultural Research Service



Cindy J. Smith
Administrator
Animal and Plant Health
Inspection Service



United States Department of Agriculture

**Office of the Secretary
Washington, D.C. 20250**

MAR 09 2010

The Honorable Mike McIntyre
U.S. House of Representatives
2437 Rayburn House Office Building
Washington, D.C. 20515-3307

Dear Congressman McIntyre:

Thank you for your February 3, 2010, letter regarding the U.S. Department of Agriculture's (USDA) biotechnology regulatory program. I understand your concern that the length of time it takes for USDA to make a determination on petitions for biotechnology products is greater today than in years past. I would like to update you on the challenges we face in responding to these petitions for deregulation, as well as how we are addressing these challenges. I am confident that with the plans we have laid out, the petition process at USDA will become more timely and efficient.

Under the Coordinated Framework for Regulation of Biotechnology in the United States, USDA's Animal and Plant Health Inspection Service (APHIS) works cooperatively with the U.S. Food and Drug Administration and the U.S. Environmental Protection Agency to ensure that the development, testing, and use of the products of biotechnology occur in a manner that is safe for plant and animal health, human health, and the environment. APHIS' Biotechnology Regulatory Services (BRS) enforces the Plant Protection Act (PPA) with respect to biotechnology, by regulating the importation, interstate movement, and field testing of genetically engineered (GE) organisms that may pose a risk to plant health.

After a GE plant has been field-tested extensively and the developer can show that it does not pose a plant pest risk, the developer may file a petition for deregulation. The developer must submit extensive information about the plant's biology and field test results. After conducting a plant pest risk assessment, an Environmental Assessment, or an Environmental Impact Statement and seeking public comment, APHIS approves a petition for deregulation if it reaches the conclusion that the GE plant does not pose a plant pest risk.

As you indicated, the length of time that it takes to complete the petition process now takes longer than it did in the past, for a number of reasons. First, the program's workload has increased in the last few years, and staffing levels have not kept pace. Second, APHIS has been subject to several lawsuits challenging its compliance with the requirements of the National Environmental Policy Act (NEPA), which have necessitated more extensive

environmental analysis for each petition. Third, there has been a significant increase in the number of issues raised in public comments, as well as the complexity of those comments; therefore, comments now require much more time for evaluating and responding.

APHIS is currently reviewing 19 petitions for non-regulated status for GE plants. Historically, the Agency has reviewed just four to five petitions per year. Last year alone, APHIS received 11 new petitions. This unprecedented volume of petitions has greatly impacted the timeliness of the decision-making process. Along with the number of petitions, the steadily increasing number of permit and notification applications for field trials and other programmatic activities—such as updating and developing new guidance and processes and making revisions to the biotechnology regulations—have also affected the speed of decisions.

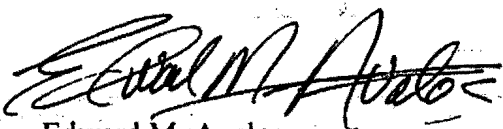
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We have also announced the creation of a pilot program that would shift some of the burden for the preparation of environmental analyses to third-party contractors under the direction of APHIS. This approach, which is authorized by the Council on Environmental Quality regulations, is widely used throughout the Federal Government. It has the potential to free up Agency resources, that would otherwise be unavailable, to work on regulatory approvals. Further, it should speed the preparation of these documents and lead to quicker decisions.

The President's Fiscal Year 2011 Budget Request includes a major funding increase of nearly \$5.8 million for BRS, which would allow APHIS to hire additional staff to keep up with the increased workload. I hope that Congress will support this needed increase. In addition to these steps, I have also instructed APHIS to conduct a detailed business process analysis to identify and implement additional efficiency improvements within its standard procedures.

Notwithstanding the challenges the Agency faces in evaluating petitions for biotechnology products, we will continue to look for ways to improve this process and meet the needs of our stakeholders. I am sending a similar letter to Congressman Conaway.

Sincerely,



Edward M. Avalos
Under Secretary
Marketing and Regulatory Programs



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 17 2010

The Honorable Richard J. Durbin
United States Senate
309 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Durbin:

It is my understanding that you are working on legislation that would expand the U.S. Department of Agriculture's (USDA) authorities under the Animal Welfare Act (AWA). There are two provisions in particular that would help USDA improve enforcement: (1) authority to regulate dogs sold via the Internet as outlined by USDA's Inspector General, and (2) the inclusion of user fees for certain enforcement activities under the AWA.

As you know, the AWA was enacted in 1966 and requires that minimum standards of care and treatment be provided for certain animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. However, the Act exempts entities selling a high volume of animals at retail, which raises animal health and humane treatment concerns. Of particular concern is the loophole for entities that sell large volumes of dogs via the Internet. As you move forward in crafting this legislation, I recognize the importance of addressing the exemption associated with high volume retail sales of dogs, via the Internet or through other means.

If enacted, these necessary changes to the AWA would require additional resources to carry out enforcement activities. One way to ensure the increased costs of this legislation are addressed as well as ensure current and future animal welfare challenges are met is to incorporate a user fee mechanism into the legislative proposal.

I appreciate your attention to these matters and look forward to working with you on your legislation upon its introduction. A similar letter is being sent to Congressman Farr.

Sincerely,

A handwritten signature in dark ink, appearing to read "Tom Vilsack", is written over the printed name.

Thomas L. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

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The Honorable Rosa DeLauro

Page 2

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To begin this effort, APHIS proposes to use the Secretary's 7 percent interchange authority provided in the Department of Agriculture Organic Act of 1944 to shift \$4 million within existing fiscal year (FY) 2010 appropriated funding resources from its Avian Influenza program to the Animal Welfare and Animal and Plant Health Regulatory Enforcement (APHRE) programs. Animal Welfare will receive \$2.5 million and APHRE will receive \$1.5 million. Consistent with our FY 2011 budget request, we believe we can sustain a reduction in the Avian Influenza program because we now have a better understanding of how the virus spreads and the actual risk it poses, which is substantially less than originally believed. As avian influenza issues globally and domestically have diminished, APHIS is able to reduce its resources for adequately addressing this disease.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to Senators Kohl and Brownback and Congressman Kingston.

Sincerely,

A handwritten signature in dark ink, appearing to read "Thomas J. Vilsack", with a stylized, flowing script.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 09 2010

The Honorable K. Michael Conaway
U.S. House of Representative
1527 Longworth House Office Building
Washington, D.C. 20515-4311

Dear Congressman Conaway:

Thank you for your February 3, 2010, letter regarding the U.S. Department of Agriculture's (USDA) biotechnology regulatory program. I understand your concern that the length of time it takes for USDA to make a determination on petitions for biotechnology products is greater today than in years past. I would like to update you on the challenges we face in responding to these petitions for deregulation, as well as how we are addressing these challenges. I am confident that with the plans we have laid out, the petition process at USDA will become more timely and efficient.

Under the Coordinated Framework for Regulation of Biotechnology in the United States, USDA's Animal and Plant Health Inspection Service (APHIS) works cooperatively with the U.S. Food and Drug Administration and the U.S. Environmental Protection Agency to ensure that the development, testing, and use of the products of biotechnology occur in a manner that is safe for plant and animal health, human health, and the environment. APHIS' Biotechnology Regulatory Services (BRS) enforces the Plant Protection Act (PPA) with respect to biotechnology, by regulating the importation, interstate movement, and field testing of genetically engineered (GE) organisms that may pose a risk to plant health.

After a GE plant has been field-tested extensively and the developer can show that it does not pose a plant pest risk, the developer may file a petition for deregulation. The developer must submit extensive information about the plant's biology and field test results. After conducting a plant pest risk assessment, an Environmental Assessment, or an Environmental Impact Statement and seeking public comment, APHIS approves a petition for deregulation if it reaches the conclusion that the GE plant does not pose a plant pest risk.

As you indicated, the length of time that it takes to complete the petition process now takes longer than it did in the past, for a number of reasons. First, the program's workload has increased in the last few years, and staffing levels have not kept pace. Second, APHIS has been subject to several lawsuits challenging its compliance with the requirements of the National Environmental Policy Act (NEPA), which have necessitated more extensive

The Honorable K. Michael Conaway
Page 2

environmental analysis for each petition. Third, there has been a significant increase in the number of issues raised in public comments, as well as the complexity of those comments; therefore, comments now require much more time for evaluating and responding.

APHIS is currently reviewing 19 petitions for non-regulated status for GE plants. Historically, the Agency has reviewed just four to five petitions per year. Last year alone, APHIS received 11 new petitions. This unprecedented volume of petitions has greatly impacted the timeliness of the decision-making process. Along with the number of petitions, the steadily increasing number of permit and notification applications for field trials and other programmatic activities—such as updating and developing new guidance and processes and making revisions to the biotechnology regulations—have also affected the speed of decisions.

With these challenges in mind, I have directed APHIS to increase the efficiency and effectiveness of the petition process. I recently approved a reorganization of BRS staff in APHIS that is designed to improve performance. Among other things, we have established a new NEPA team that will be devoted to preparing high quality and defensible environmental documents to inform our regulatory decisions. In addition, to supplement in-house staff resources, we have begun awarding contracts to assist us with the preparation of analytical documents and the evaluation of public comments on published documents.

We have also announced the creation of a pilot program that would shift some of the burden for the preparation of environmental analyses to third-party contractors under the direction of APHIS. This approach, which is authorized by the Council on Environmental Quality regulations, is widely used throughout the Federal Government. It has the potential to free up Agency resources, that would otherwise be unavailable, to work on regulatory approvals. Further, it should speed the preparation of these documents and lead to quicker decisions.

The President's Fiscal Year 2011 Budget Request includes a major funding increase of nearly \$5.8 million for BRS, which would allow APHIS to hire additional staff to keep up with the increased workload. I hope that Congress will support this needed increase. In addition to these steps, I have also instructed APHIS to conduct a detailed business process analysis to identify and implement additional efficiency improvements within its standard procedures.

Notwithstanding the challenges the Agency faces in evaluating petitions for biotechnology products, we will continue to look for ways to improve this process and meet the needs of our stakeholders. I am sending a similar letter to Congressman McIntyre.

Sincerely,



Edward M. Avalos
Under Secretary
Marketing and Regulatory Programs



United States Department of Agriculture

**Office of the Secretary
Washington, D.C. 20250**

March 9, 2010

**The Honorable Saxby Chambliss
Ranking Minority Member
Committee on Agriculture, Nutrition and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000**

Dear Senator Chambliss:

I appreciate the dialogue we had at my confirmation hearing on September 30, 2009, including the opportunity to discuss the U.S. Department of Agriculture's (USDA) biotechnology regulatory program. During that hearing, several questions were raised with respect to the length of time it takes for USDA to make a determination on petitions for biotechnology products. I recognize that the time it takes to complete these petitions is greater today than in years past. I would like to update you on the challenges we face in responding to these petitions for deregulation, as well as how we are addressing these challenges. I am confident that with the plans we have laid out, the petition process at USDA will become more timely and efficient.

Under the Coordinated Framework for Regulation of Biotechnology in the United States, USDA's Animal and Plant Health Inspection Service (APHIS) works cooperatively with the U.S. Food and Drug Administration and the U.S. Environmental Protection Agency to ensure that the development, testing, and use of the products of biotechnology occur in a manner that is safe for plant and animal health, human health, and the environment. APHIS' Biotechnology Regulatory Services (BRS) enforces the Plant Protection Act (PPA) with respect to biotechnology, by regulating the importation, interstate movement, and field testing of genetically engineered (GE) organisms that may pose a risk to plant health.

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As you indicated, the length of time that it takes to complete the petition process now takes longer than it did in the past, for a number of reasons. First, the program's workload has increased in the last few years, and staffing levels have not kept pace. Second, APHIS has been subject to several lawsuits challenging its compliance with the requirements of the National Environmental Policy Act (NEPA), which have necessitated more extensive environmental analysis for each petition. Third, there has been a significant increase in the number of issues raised in public comments, as well as the complexity of those comments; therefore, comments now require much more time for evaluating and responding.

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The President's Fiscal Year 2011 Budget Request includes a major funding increase of nearly \$5.8 million for BRS, which would allow APHIS to hire additional staff to keep up with the increased workload. I hope that Congress will support this needed increase.

In addition to these steps, I have also instructed APHIS to conduct a detailed business process analysis to identify and implement additional efficiency improvements within its standard procedures. As part of my continued efforts to keep you informed of our progress in this important program area, I and my staff would be happy to brief you on the findings of this analysis, as well as steps we may take in response.

The Honorable Saxby Chambliss
Page 3

Notwithstanding the challenges the Agency faces in evaluating petitions for biotechnology products, we will continue to look for ways to improve this process and meet the needs of our stakeholders. I appreciate the opportunity to further discuss USDA's plans, and look forward to continuing to work with you in the future. I am sending a similar letter to Senator Lincoln.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward M. Avalos", written in a cursive style.

Edward M. Avalos
Under Secretary
Marketing and Regulatory Programs



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Sam Brownback
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

To address the concerns of the audit, APHIS developed an action plan to improve the Agency's regulation of dog dealers—particularly those who are repeat violators. APHIS proposes to add to its existing enforcement workforce to reduce the current ratio of inspectors to facilities inspected and to increase the number of investigators available to conduct investigations in areas where there is intensive workload. In addition, APHIS will enhance oversight of the inspectors in the field to improve the quality and accuracy of documentation and evidence collected to support downstream enforcement efforts. APHIS will also increase enforcement oversight for evaluating investigations for legal sufficiency, determining appropriate enforcement actions, preparing enforcement actions and referrals to USDA's Office of the General Counsel, and processing investigative subpoenas. Lastly, APHIS will review proposed legislation to determine potential modifications for regulating the Internet sale of dogs.

The APHIS action plan addresses the issues identified by the OIG and should significantly increase compliance with both the AWA and those regulations associated with dog dealers and breeders. The Agency also has established a set of performance measures that will provide a mechanism to evaluate the action plan's effectiveness. In addition, APHIS will aggressively

The Honorable Sam Brownback

Page 2

pursue the strengthening of regulations to ensure the welfare of dogs in the care of regulated entities.

To begin this effort, APHIS proposes to use the Secretary's 7 percent interchange authority provided in the Department of Agriculture Organic Act of 1944 to shift \$4 million within existing fiscal year (FY) 2010 appropriated funding resources from its Avian Influenza program to the Animal Welfare and Animal and Plant Health Regulatory Enforcement (APHRE) programs. Animal Welfare will receive \$2.5 million and APHRE will receive \$1.5 million. Consistent with our FY 2011 budget request, we believe we can sustain a reduction in the Avian Influenza program because we now have a better understanding of how the virus spreads and the actual risk it poses, which is substantially less than originally believed. As avian influenza issues globally and domestically have diminished, APHIS is able to reduce its resources for adequately addressing this disease.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to Senator Kohl, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", written in a cursive style.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

MAR 18 2010

The Honorable Bruce Braley
U.S. House of Representatives
1019 Longworth House Office Building
Washington, D.C. 20515-1501

Dear Congressman Braley:

The U.S. Department of Agriculture's (USDA) Agricultural Research Service (ARS) is partnering with the Animal and Plant Health Inspection Service (APHIS) in holding a dedication ceremony for the newly constructed facilities at the National Centers for Animal Health (NCAH), in Ames, Iowa, on April 19, 2010, at 10:30 a.m. It is our pleasure to invite you to attend the event and deliver remarks at this ceremony.

NCAH consists of ARS' National Animal Disease Center (NADC) and APHIS' Center for Veterinary Biologics and National Veterinary Services Laboratories. It is the largest Federal animal disease center in the United States, with scientists conducting research and diagnostics and certifying veterinary products to solve animal health and food safety problems affecting livestock and poultry producers. In 2000, ARS and APHIS began the planning and construction of facilities for the new NCAH at Ames, USDA's largest-ever capital improvement project, with an estimated cost of \$462 million. The multi-phase facility complex, completed in late 2009, totals approximately one million square feet. NCAH is one of the world's most advanced biocontainment and biosecurity centers with biosafety-level 3 facilities for infectious disease studies on large animals. We appreciate the support Congress has provided to USDA over the years for completion of this project. Accordingly, we would be honored to have you participate in the ceremony.

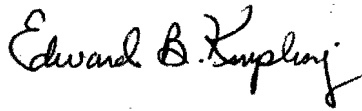
Besides yourself, other invited speakers include Senators Tom Harkin and Charles E. Grassley and Congressmen Dave Loebsack, Leonard L. Boswell, Tom Latham, Steve King, as well as several State and local government officials. Additionally, invited representatives from USDA include Secretary Thomas J. Vilsack, Under Secretary for Marketing and Regulatory Programs Edward M. Avalos, and Acting Under Secretary for Research, Education and Economics Dr. Molly Jahn. We anticipate the presence of approximately 400 attendees as well as diverse media outlets.

The Honorable Bruce Braley
Page 2

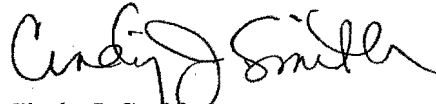
Following the dedication ceremony, our staff will conduct tours of the facilities for dignitaries such as yourself. We hope you will be able to join us in Ames on April 19, 2010, for this important event. Please respond by contacting Ms. Stacy Carlson, NADC, at 515-663-7255 or Stacey.Carlson@ars.usda.gov.

We are sending a similar letter of invitation to the other Members of Congress mentioned previously.

Sincerely,



Edward B. Knipling
Administrator
Agricultural Research Service



Cindy J. Smith
Administrator
Animal and Plant Health
Inspection Service



United States Department of Agriculture

MAR 18 2010

The Honorable Leonard L. Boswell
U.S. House of Representatives
1427 Longworth House Office Building
Washington, D.C. 20515-1503

Dear Congressman Boswell:

The U.S. Department of Agriculture's (USDA) Agricultural Research Service (ARS) is partnering with the Animal and Plant Health Inspection Service (APHIS) in holding a dedication ceremony for the newly constructed facilities at the National Centers for Animal Health (NCAH), in Ames, Iowa, on April 19, 2010, at 10:30 a.m. It is our pleasure to invite you to attend the event and deliver remarks at this ceremony.

On July 3, 2007, you participated in a similar dedication ceremony at Ames for the Large Animal High Containment Building (#9). We are now ready to dedicate and celebrate the completion of the entire new facility complex.

NCAH consists of ARS' National Animal Disease Center (NADC) and APHIS' Center for Veterinary Biologics and National Veterinary Services Laboratories. It is the largest Federal animal disease center in the United States, with scientists conducting research and diagnostics and certifying veterinary products to solve animal health and food safety problems affecting livestock and poultry producers. In 2000, ARS and APHIS began the planning and construction of facilities for the new NCAH at Ames, USDA's largest-ever capital improvement project, with an estimated cost of \$462 million. The multi-phase facility complex, completed in late 2009, totals approximately one million square feet. NCAH is one of the world's most advanced biocontainment and biosecurity centers with biosafety-level 3 facilities for infectious disease studies on large animals. We appreciate the support Congress has provided to USDA over the years for completion of this project. Accordingly, we would be honored to have you participate in the ceremony.

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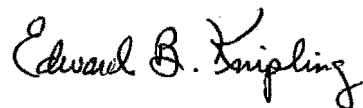
The Honorable Leonard L. Boswell

Page 2

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Sincerely,



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Administrator
Agricultural Research Service



Cindy J. Smith
Administrator
Animal and Plant Health
Inspection Service



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

House Report 110-258 requests a report on how funds have been spent on the highly pathogenic avian influenza (HPAI) effort. We are pleased to submit the enclosed report on activities taken by the Animal and Plant Health Inspection Service (APHIS) to protect against introduction of HPAI into the United States.

As the lead technical agency for animal health within the integrated U.S. Government response to HPAI worldwide, APHIS implemented a comprehensive program of activities that is directly aligned to the three pillars of the international efforts included in the National Strategy for Pandemic Influenza: Preparedness and Communication; Surveillance and Detection; and Response and Containment.

In addition, APHIS developed a domestic surveillance plan for the H5N1 strain of avian influenza. The plan addresses surveillance requirements in poultry, wildlife, and live bird marketing. The APHIS plan addresses these needs in three operational areas: Domestic Bird Surveillance and Diagnostics; Wildlife Surveillance and Diagnostics; and Emergency Preparedness and Communication.

APHIS has been working closely with States and other Federal agencies in a coordinated effort to ensure that ample surveillance for the H5N1 strain is in place. This would allow for early detection should the virus enter the United States. Our coordinated effort is part of a larger National Strategy for Pandemic Influenza, which includes low pathogenic avian influenza efforts.

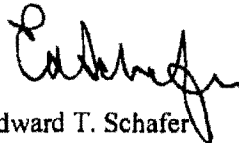
A specific National domestic program goal is to prevent and control low pathogenic H5 and H7 avian influenza in the U.S. commercial broiler, layer, and turkey industries, in the live bird marketing system, and to monitor for its presence in the wild. Control of the H5 and H7 strains helps to preserve international trade in poultry and poultry products, since both can exist

The Honorable Rosa DeLauro
Page 2

as low pathogenic strains with potential to mutate into a highly pathogenic form. In addition, controlling the virus reduces the likelihood of it becoming a zoonotic agent, thereby protecting human health.

We hope you find the enclosed report useful. We appreciate your interest in the program and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in dark ink, appearing to read 'E. Schafer', with a stylized, flowing script.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Herb Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

House Report 110-258 requests a report on how funds have been spent on the highly pathogenic avian influenza (HPAI) effort. We are pleased to submit the enclosed report on activities taken by the Animal and Plant Health Inspection Service (APHIS) to protect against introduction of HPAI into the United States.

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APHIS has been working closely with States and other Federal agencies in a coordinated effort to ensure that ample surveillance for the H5N1 strain is in place. This would allow for early detection should the virus enter the United States. Our coordinated effort is part of a larger National Strategy for Pandemic Influenza, which includes low pathogenic avian influenza efforts.

A specific National domestic program goal is to prevent and control low pathogenic H5 and H7 avian influenza in the U.S. commercial broiler, layer, and turkey industries, in the live bird marketing system, and to monitor for its presence in the wild. Control of the H5 and H7 strains helps to preserve international trade in poultry and poultry products, since both can exist

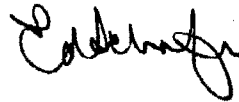
The Honorable Herb Kohl

Page 2

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We hope you find the enclosed report useful. We appreciate your interest in the program and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Senator Bennett, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

Dear Congressman Kingston:

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A specific National domestic program goal is to prevent and control low pathogenic H5 and H7 avian influenza in the U.S. commercial broiler, layer, and turkey industries, in the live bird marketing system, and to monitor for its presence in the wild. Control of the H5 and H7 strains helps to preserve international trade in poultry and poultry products, since both can exist

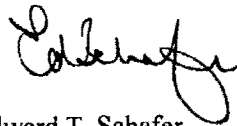
The Honorable Jack Kingston

Page 2

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Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Senator Bennett:

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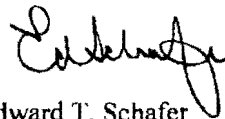
The Honorable Robert F. Bennett

Page 2

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Sincerely,

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Edward T. Schafer
Secretary

Enclosure

U.S. Department of Agriculture Highly Pathogenic Avian Influenza Spending Report

The National Strategy for Pandemic Influenza (National Strategy) designates the Department of Agriculture (USDA) as the lead technical agency for animal health elements of the U.S. effort to combat highly pathogenic avian influenza (HPAI) worldwide. Accordingly, USDA assumes primary responsibility to implement U.S. international technical assistance and emergency rapid response missions to prevent, detect, and contain HPAI among animal populations in countries with high risk or cases of the virus. USDA is also responsible for enhancing our domestic capacity to rapidly detect and effectively respond to a disease outbreak. USDA efforts focus on controlling the spread of HPAI and reducing its effects on both the economy and animal health.

The Department is pleased to report on the Animal and Plant Health Inspection Service's (APHIS) efforts to protect against an introduction of HPAI.

DOMESTIC EFFORTS

To prevent the accidental or intentional introduction of HPAI into the United States and ensure preparedness in the event of an outbreak, APHIS has taken actions in three areas: domestic bird surveillance and diagnostics; wildlife surveillance and diagnostics; and emergency preparedness and communication.

Domestic Bird Surveillance and Diagnostics:

There are four areas of concentration in domestic bird surveillance: live bird marketing system (LBMS); upland game; commercial through the National Poultry Improvement Plan (NPIP); and commercial outside of the LBMS and NPIP. APHIS entered into cooperative agreements with States previously enrolled in the NPIP and LBMS throughout FY 2006 and 2007. The agreements allow for increased surveillance, sampling, laboratory testing, and outreach. In 2006 and 2007, APHIS increased the overall number of States with agreements for LBMS by 10, NPIP by 19, and upland bird by 37. This raised the total number of States with HPAI agreements for LBMS to 39, NPIP to 44, and upland game bird to 37.

With respect to diagnostics, APHIS' National Veterinary Services Laboratories (NVSL) continues to provide support to approved laboratories that process samples submitted from the HPAI surveillance program. To meet the demand for reagent production with increased sample submission, NVSL has developed and contracted out the production of the avian influenza (AI) agar gel immunodiffusion (AGID) test reagents that are used to test for the presence of AI in a bird sample. NVSL established a contract to supply APHIS with 10,000 sets of AI AGID reagents. The contract provides 50 percent of the increased reagent demand related to increased sample submissions. Production of this reagent will provide for the remaining reagent demand. APHIS has also purchased supplies and equipment necessary for the increased on-site reagent production. This included purchase of four laboratory trailers that will allow surge capacity reagent production in the event of an AI outbreak. NVSL will use two trailers to grow additional

birds to the size/age required for inoculation, one trailer to provide laboratory space for reagent production, and one trailer for chicken inoculation and serum harvest for antisera production.

Anti-Smuggling and Regulatory Enforcement. The APHIS Smuggling Interdiction and Trade Compliance (SITC) unit conducts risk-management and anti-smuggling activities to prevent the unlawful entry and distribution of prohibited agricultural commodities and products harboring harmful diseases. The program has enhanced activities to further safeguard against HPAI, including hiring personnel to increase surveillance at ports of entry. For example, the unit produced an inspection of domestic markets that are likely to have avian-related products imported illegally. The inspections allow the program to form a baseline of how much poultry product is entering through ports of entry. SITC now targets likely shippers and importers of prohibited products and conducted large scale inspection operations at ports of entry.

SITC continues to work closely with the Department of Homeland Security's Customs and Border Protection (CBP) at the ports to identify shipments for closer examination. In FY 2006, SITC provided CBP officers with specific information that resulted in the seizure of 360,000 pounds of prohibited poultry products smuggled from Asia. During this same time period, SITC directly seized an additional 112,000 pounds of poultry products that had entered into the U.S. commerce. Through collaborative multi-agency and inter-departmental efforts, APHIS has gained a better understanding of the roles of other agencies tasked with preventing an AI introduction into the United States. This understanding has led to a significant increase in communication and coordination between APHIS and partner agencies.

The APHIS Investigative and Enforcement Services (IES) unit continues to provide support to APHIS programs, CBP, and State Departments of Agriculture to prevent the introduction and spread of HPAI through illegal transportation. As a result of the enhanced governmentwide efforts related to HPAI, IES hired investigators to address the increased number of case referrals. Since 2006, IES has conducted over 2,000 port-related investigations that could have potential HPAI implications. IES also initiated "Operation Egg Bay" to intercept and mitigate the disease threat posed from illegally imported poultry hatchling eggs. This operation has produced investigations involving 84 individuals, 31 States, and 125 shipments. IES has also conducted a number of surveillance operations of varying length and intensity to detect the illegal interstate movement of poultry and poultry products. As a result of working with partner organizations, APHIS discovered important information on smuggling pathways for poultry and poultry products, and gained valuable insight to various trends and practices relating to live bird markets.

Wildlife Surveillance and Diagnostics:

APHIS' Wildlife Services (WS) division continues to lead interagency efforts to detect HPAI in wild birds. The initial efforts were divided into two phases. The first phase addressed early detection activities in Alaska, and in particular, coastal areas that had the most potential for contact among Asian and North American birds. The second phase addressed subsequent HPAI detection activities in four major North American flyways. The plan for wild bird surveillance contains several interrelated components including: investigation of deaths or sickness;

sampling of live-captured birds; deployment of sentinel species; environmental sampling; and sampling hunter-harvested birds.

APHIS is collaborating with other Federal agencies and State officials to conduct surveillance for HPAI in migratory birds and cross-train personnel to improve surveillance strategies. As of September 2007, APHIS has tested over 109,000 wild birds and 60,000 environmental samples. The Department of the Interior and others have tested approximately 30,000 wild birds in the same period of time.

The current year's plan is to collect and analyze 50,000 wild birds and test 25,000 environmental samples through a targeted surveillance approach, sampling high-risk species. The targeted approach leads to cost efficiency by collecting smaller sample sizes while maintaining integrity of the science-based approach. Detailed information can be found in Wildlife Services' *Implementation Plan for HPAI Surveillance in Wild Migratory Birds in the United States* available at www.usda.gov/documents/wildbirdstrategicplanpdf.pdf.

Surveillance is conducted in all four major North American flyways (Pacific, Central, Mississippi, and Atlantic), all 50 States, Guam, Puerto Rico, and foreign countries (Cuba, Mexico, Canada, Russia, China, and Greenland). Diagnostic testing of all wild bird samples collected in the United States is conducted through 45 National Animal Health Laboratory Network (NAHLN) laboratories, and environmental samples are tested at Wildlife Services National Wildlife Research Center in Fort Collins, Colorado. Confirmatory testing of all samples is conducted at the NVSL in Ames, Iowa. In June 2007, APHIS hosted six training workshops to review current activities and better plan for fall sampling of migratory birds. Over 180 participants from State wildlife agencies, NAHLN laboratories, and APHIS attended the workshops, which improved communication among partners and increased efficiency regarding HPAI surveillance.

APHIS has implemented a reporting system to answer calls and questions from the public regarding dead or sick wild birds. The toll-free number is 866-4 USDAWS and has been published on the APHIS website to support public inquiries and help expedite calls. Calls are tracked through an online system to monitor any potential increases in dead or sick bird reports.

To support wild bird surveillance, a protocol and decision tree has been developed to triage reports of dead or sick birds. This protocol is a step-by-step guide to determine the best option (sampling or disposal). APHIS WS has partnered with many State wildlife agencies to help direct calls to the most appropriate agency participant. The primary knowledge gained through wildlife surveillance was that HPAI does not currently exist in the wild bird population in the United States. Additional knowledge regarding the circulation of pathogenic avian influenza viruses was gained through the analysis of all H5 and H7 subtypes. This knowledge has increased effectiveness in addressing domestic risk of the low pathogenic virus strain.

Emergency Preparedness and Communication:

National Veterinary Stockpile (NVS), Other Preparedness Activities, and Data Modeling and Analysis. Immediate deployment of the supplies necessary to contain, control, and eradicate an outbreak is the most effective way to halt the spread of the disease. APHIS is working to ensure that systematic measures are in place to quickly contain HPAI and deploy critical veterinary supplies from the NVS within 24 hours.

NVS currently has 140 million doses of AI vaccine to protect older birds (75 million doses protect against the H5 strain and 65 million protect against the H7 strain); guaranteed access for the purchase of 500 million doses of AI vaccine to protect birds up to 7 days old; and personal protective equipment (PPE) to protect 310 responders for 10 days in a high-risk environment. The agency is working to expand the NVS to include PPE to protect 3,000 responders for 40 days.

An example of APHIS coordination and industry support for depopulation, decontamination, and disposal services include an April 2007 West Virginia outbreak of low pathogenic AI in turkeys. APHIS was able to successfully deliver necessary supplies and services to the incident within 24 hours. This incident presented a unique opportunity for APHIS and two of its partners, the State of North Carolina and University of Delaware, to utilize fire foam as a mass depopulation tool. The incident enabled the partners to collect valuable information and live field experience with fire foam. The information and experience will be used to further refine the use of fire foam as a rapid mass depopulation method in poultry houses.

APHIS is expanding its tabletop exercise program with States, and in October 2007 the agency conducted an operational deployment exercise to test Iowa's ability to request, receive, store, stage, manage, process, deliver, and return to APHIS a training package of products within the specified 24-hour time frame. Three previous tabletop exercises have been run in Georgia, Iowa, and North Carolina. Lessons learned are documented in after-action reports. The NVS uses lessons learned to improve operations and processes, and is making changes identified in the after-action reports. An additional exercise for California was scheduled for March 17 - 20, 2008 with the possibility of additional states participating.

APHIS conducts ongoing stakeholder outreach to inform State, local, and other Federal officials of their role in requesting, receiving, storing, staging, managing, and distributing NVS resources. NVS officials frequently brief stakeholders at conferences and meetings and have established guidelines outlining best practice actions for State officials. An NVS page will be added to APHIS' Animal Health Emergency Management Internet site located at www.aphis.usda.gov/animal_health/emergency_management/. This page will allow the NVS to make these guidelines and other detailed information available to stakeholders online.

APHIS is enhancing its incident command teams by providing National Incident Management System training for the 300 and 400 levels, the highest levels of command training. The outcome of this training will be more effective incident management leading to more efficient operations during emergency events. APHIS had two cooperative agreements for training

sessions; one was with the Oklahoma Department of Agriculture and the other with the Foreign Agricultural Service.

The National Animal Health Emergency Response Corps (NAHERC) enables APHIS to have a focused outreach and recruitment strategy to create a highly proficient and skilled population to draw from during a possible AI outbreak. APHIS hired a contractor to perform recruitment of veterinarians, animal health technicians, and veterinary students who are available for deployment in an animal disease outbreak. Brochures for the recruitment effort have been completed and printed and are used in recruitment activities at animal health conferences and events. Additionally, the contractor has strengthened the application process, which is now formalized on the USAJobs website. A tutorial for applicants is posted on the website and provides step-by-step instructions to help users complete online applications. Thus far, 457 applications for NAHERC have been received through www.usajobs.gov.

The North American Animal Disease Spread Model has been modeled so that HPAI scenarios can be generated. APHIS has entered into an agreement with Lawrence Livermore National Laboratory to develop the disease spread scenarios through this model. These scenarios allow APHIS to determine more definitive economic impacts to decisions which will yield a more efficient and effective use of resources. APHIS will upgrade its Emergency Management Response System (EMRS), which is a component of the model that will provide HPAI threat information directly into the system. EMRS is a web-based Lotus Notes application designed to automate many of the tasks routinely associated with animal disease investigations and animal disease and disaster-related emergencies. This system has a wide range of capabilities, including routine reporting of foreign animal disease investigations; state-specific disease outbreaks; surveillance and control programs; classic national animal health emergency responses; and natural disasters involving animals.

Education and Outreach. APHIS planned an outreach and education campaign as part of an overall HPAI preparedness and response program. This program builds upon and expands the current "Biosecurity for Birds" campaign. Specifically, the campaign expanded to target backyard poultry and pet bird owners, wildlife-related groups, veterinarians, zoos, and the general public throughout the United States. The campaign also promoted best practices in both the LBMS and backyard flock owners in addition to its educational efforts of the U.S. commercial poultry industry.

APHIS has coordinated with other agencies to ensure effective and non-duplicative outreach efforts. As a result of a partnership, National Future Farmers of America (FFA) Organization members distributed "Biosecurity for Birds" materials at county and State fairs throughout the year. APHIS also partnered with the Emergency and Community Health Outreach of Minneapolis, Minnesota, to produce a television program in English and six other languages on AI and biosecurity practices. APHIS will continue to provide this 10 minute program to public television channels and other educational outlets. APHIS also produced various materials in multiple languages. One of the materials, a biosecurity calendar, won an award from the National Association of Government Communicators in the category of "superior government

communication products and their producers." This effort has led to consistent information regarding AI, thereby reducing the risk of a large scale outbreak of HPAI in the United States.

APHIS has taken action to prevent the accidental or intentional introduction of HPAI into the United States and ensure preparedness in the event of an outbreak. By assisting in efforts abroad to combat and contain the virus, APHIS reduces opportunities for the virus to further spread among susceptible animals and to mutate. Although thorough in its approach to date, APHIS will continue to refine efforts to reduce the chances of AI introduction through its international effort and work in conjunction with other Federal partners under the National Strategy.

INTERNATIONAL EFFORTS

APHIS' prominence in the National Strategy reflects that the most efficient approach to safeguarding animal and public health is aggressive control of the H5N1 strain of HPAI at its current source: infected poultry in affected countries. By combating and containing the virus among these infected birds, APHIS is reducing opportunities for the virus to further spread among susceptible animals and/or mutate into a virus with pandemic potential. Additionally, controlling the spread of the virus in affected countries reduces the threat of a domestic introduction of H5N1.

As the lead technical agency for animal health, APHIS implemented a comprehensive program of activities directly aligned to the three pillars of the international efforts included in the National Strategy: preparedness and communication; surveillance and detection; and response and containment. APHIS' major activities under the three pillars include: assisting partner countries manage and communicate AI risk; cooperating with international animal health officials to strengthen their surveillance; and preparing for global pandemic with our global partners.

Preparedness and Communication. APHIS continues to assist partner countries to effectively manage and communicate AI risk within the context of internationally accepted guidelines and recommendations for risk analysis. APHIS assists public and private stakeholders to communicate accurate information to consumers about AI risks.

APHIS collaborated with the international animal health standard setting body to implement the Performance, Vision, and Strategy (PVS) tool in high focus countries. The PVS tool identifies gaps between international standards and the quality level of the veterinary service in countries. This assists in the ability to determine their capability to deal with a pandemic. To improve this ability, APHIS delivered short-term technical advisers to countries to assist with establishing an incident command structure, and with animal health aspects of their national HPAI response plans. APHIS also conducted educational workshops and provided short-term technical advisers on biosecurity standards at live bird markets abroad. APHIS has undertaken collaborative research on animal vaccines and has disseminated information on vaccines and their potential applications to reduce HPAI with other countries.

APHIS has established offices and personnel in China, Laos, Cambodia, Thailand, and Indonesia. These offices are dedicated exclusively to HPAI activities and, wherever possible, the offices are co-located with the U.S. Department of Health and Human Services Centers for Disease Control and Prevention offices. APHIS facilitated a series of regional courses on HPAI epidemiology and conducted an Asia Pacific Economic Cooperation seminar on options to design and implement farmer compensation programs and risk communication campaigns to support animal disease prevention, detection, and eradication efforts. APHIS sent materials such as PPE and special packing boxes to its overseas offices to safely collect and transport suspect HPAI samples to laboratories for diagnosis. In addition, APHIS provided HPAI literature to various U.S. embassies. APHIS will continue to perform its role of providing knowledge and support to assist other countries in their handling of AI activities.

Surveillance and Detection. APHIS cooperates with partner countries' animal health officials to strengthen their capacities for surveillance techniques, specimen collection and handling practices, and performance of internationally accepted diagnostic techniques to accurately confirm or refute suspected cases of AI in a timely manner.

Constant vigilance is the key to combating HPAI and preventing a pandemic. APHIS is supporting efforts to improve laboratory diagnosis and early warning networks in more than 40 countries. APHIS is working with its partners to expand on-the-ground surveillance capacity and improve knowledge about the movement and changes in H5N1 on a global scale. This includes support for improving national and regional laboratories to ensure that countries are able to quickly and correctly confirm the presence of the H5N1 strain. APHIS provided funding to the World Health Organization to strengthen its Global Outbreak Alert and Response Network to support international surveillance and response. The Global Avian Influenza Network for Surveillance project objective is to share information, increase the availability of scientific information for detection and containment, and track changes in virus isolates.

Response and Containment. APHIS and its partners are prepared to augment international response in an attempt to slow and contain global spread. APHIS seeks to improve priority countries' capacity to take coordinated effective action to prevent HPAI incursions and, where outbreaks occur, contain HPAI at its site of origin or limit its spread.

APHIS' international effort to contain and mitigate the effects of an outbreak of pandemic influenza beyond our borders is a central component of its strategy. APHIS has developed protocols and trained personnel to support an international effort to contain the pandemic in its earliest stage, including the deployment of medical countermeasures such as antiviral medications. APHIS procured and pre-positioned overseas stockpiles of PPE, decontamination kits, and antiviral medications to complement global efforts to contain pandemic outbreaks. APHIS has pre-positioned a stockpile of antiviral medications in Asia that is available to the international community for pandemic response. At this time our Federal and State stockpiles contain enough antiviral medications to treat 50 million people.

In addition, APHIS has achieved significant accomplishments and results regarding a variety of HPAI issues in wild, migratory birds. These issues include developing wild bird surveillance

Highly Pathogenic Avian Influenza Spending Report

Page 8

plans; conducting workshops on bird capture, identification and sampling; epidemiology; data management and diagnostics activities; and conducting in-country surveillance. For example, APHIS collaborated with the Wildlife Trust Alliance to implement the entire Mexican surveillance system for early detection. Wild, migratory birds were sampled at 26 different wetland sites. The collection of the subsequent 4,500 samples from 50 species improved the North American surveillance system and added protection to the United States should the virus become established or detected in South and Central America. APHIS is bolstering surveillance in the Central Flyway in response to a request from the Central Flyway Council. Additional surveillance agreements in Russia and Greenland have also helped trace virus movements and provide a more robust early detection system. The Russian, Danish, and Canadian projects protect against the virus being moved around the North Pole. These surveillance efforts coupled with surveillance in China have moved APHIS to the forefront of international wildlife disease management.

APHIS will continue to strengthen its efforts to protect against the introduction of HPAI in both the domestic and international arenas.

Highly Pathogenic Avian Influenza		
(Millions of Dollars)		
Activity	FY 2006 Supplemental	FY 2007 Obligations
Domestic bird surveillance and diagnostics	24.21	9.11
Wildlife surveillance and diagnostics	16.98	12.18
Emergency preparedness and communication	21.91	9.18
International capacity building	17.18	7.43
Total	80.28	37.90



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

The Joint Explanatory Statement accompanying the Fiscal Year 2008 Consolidated Appropriations Act directed the Animal and Plant Health Inspection Service (APHIS) to provide \$333,900 for a cooperative agreement with the Lake Gaston Weed Control Council (LGWCC) and \$37,100 for the cooperative agreement with the Tri-Country (Smith Mountain) Lake Administrative Commission for hydrilla control efforts. In addition, a report on the status of these activities was requested. The report is enclosed.

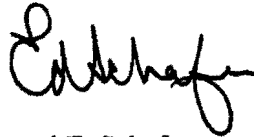
For many years, APHIS has been working with Lake Gaston stakeholders and the LGWCC to develop and implement a management plan to address the factors that allowed the formation and spread of hydrilla. The goal of this effort is to reduce hydrilla populations at Lake Gaston and Smith Mountain Lake to manageable levels through an effective and environmentally responsible combination of biocontrol agents, herbicides, and revegetation strategies. According to APHIS, eradication is not likely due to the size of Lake Gaston and the extent of the infestation. Program activities consist primarily of lake surveys, and applied research to test biocontrol agents and alternate herbicide options.

This year's hydrilla program in Lake Gaston and Smith Mountain Lake will not yield results until late summer. Therefore, we would like to update you on the situation as of today, and then, following completion of our collaborative efforts this summer, with a report discussing the results of this year's activities.

The Honorable Rosa DeLauro
Page 2

We appreciate your interest in the program, and would be pleased to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, DC 20510-6026

Dear Senator Bennett:

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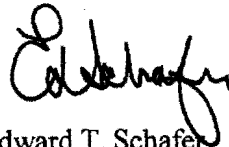
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20515-6016

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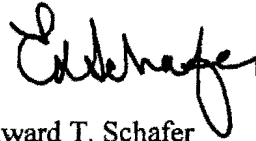
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The Honorable Herbert Kohl
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-1001

Dear Congressman Kingston:

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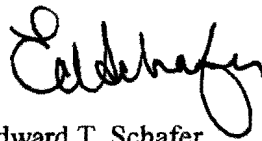
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The Honorable Jack Kingston
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Edward T. Schafer
Secretary

Enclosure

**Department of Agriculture
Animal and Plant Health Inspection Service
Report on Hydrilla in Lake Gaston
May 2008**

Background

For many years, the Animal and Plant Health Inspection Service (APHIS) has been working with Lake Gaston stakeholders and the Lake Gaston Weed Control Council (LGWCC) to develop and implement an integrated vegetation management plan to address the factors that allowed the formation and spread of the lake's invasive plant infestations. The Lake Gaston Stakeholders Board includes the North Carolina Wildlife Resources Commission, North Carolina Division of Environmental Health, North Carolina Division of Water Resources, North Carolina State University, Virginia Department of Game and Inland Fisheries, U.S. Army Corps of Engineers, Dominion Power (which owns the lake), and the Lake Gaston Homeowners Association. APHIS' work with these groups has included extensive discussions, presentations, and reports on various weed control strategies. APHIS, the Stakeholders Board, and the Weed Council maintain regular contact to share information. The goal of this effort is to reduce hydrilla populations at Lake Gaston and Smith Mountain Lake to manageable levels through an effective and environmentally responsible combination of biocontrol agents, herbicides, and revegetation strategies. Eradication is not likely due to the size of Lake Gaston and the extent of the infestation. Program activities consist primarily of lake surveys, and applied research to test biocontrol agents and alternate herbicide options.

Program Status

Most of this program's efforts in recent years have been aimed at providing accurate and timely vegetation surveys, and developing strategies to enhance the hydrilla management technologies now in use. One such strategy involves studying monoecious hydrilla, the biotype of hydrilla found at Lake Gaston, to learn how to predict the plant's response to our current management efforts. For the most part, herbicide trials have been successful at controlling hydrilla. However, we remain concerned about the effect of these herbicides on non-target species, the cost of these herbicides, and the possibility that hydrilla may develop a resistance. Therefore, the program continues to pursue alternate herbicides, as well as biocontrol options, and revegetation efforts. In biocontrol trials, we plan to continue releasing hydrilla flies on Lake Gaston in hopes that they will become established in the lake and consume the hydrilla leaves. Although the fly releases in 2007 did not result in much leaf damage or adult flies observed, this effort may yet succeed since a similar project in the 1990's continued for five years before the flies became established. Since 1995, grass carp have been stocked periodically in Lake Gaston. These fish can provide excellent control in certain situations, but are not specific to hydrilla and are inappropriate for most rivers and natural lakes where submerged native vegetation is a valuable component of the

ecosystem. As a result, the program is re-evaluating its use of grass carp, given the absence of strong evidence that this control method would be effective in this situation.

Part of this program's approach to ecosystem management in Lake Gaston includes the introduction of native aquatic plants to replace nuisance species that have been removed. Therefore, the program is evaluating several native aquatic plant species as candidates for establishment in the lake, as well as techniques to enhance our establishment efforts. Most of these species appear to be suitable for large-scale restoration efforts, with the strongest candidates being Illinois pondweed, American pondweed, coontail, northern and southern wild celery, and fragrant water lily. Once we determine which species would be most effective at managing hydrilla, we can mass produce them at a modified greenhouse at the Caledonia Prison Farm in Halifax County, North Carolina, to have them available for our restoration efforts.

Implementing the Lake Gaston Aquatic Vegetation Management Plan beginning in 2006 has clearly improved hydrilla management at Lake Gaston. Although complete eradication is not likely, this comprehensive, integrated plan will enable us to maintain hydrilla populations at low levels and prevent it from becoming a nuisance to local residents. Our survey work thus far has enabled us to document a decrease in hydrilla populations at Lake Gaston as of fall 2007.

In January 2008, shortly after the passage of the FY 2008 Omnibus Appropriations Act, APHIS contacted the Lake Gaston Weed Board and the Smith Mountain Lake (SML) Administrative Commission to determine how best to use the funds provided for FY 2008. Although these entities have not yet determined how to use all of these funds, one activity that they will pursue is a "whole-lake" survey in Lake Gaston and a survey at SML. These surveys are necessary based on hydrilla detections in each lake in 2007, as they provide data to both target and determine the successes of our efforts.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 20 2007

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

Dear Congressman Kingston:

As requested by House Report 110-258 accompanying the Fiscal Year 2008 Agriculture Appropriations Bill, enclosed is the status of the actions taken by the Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) toward reaching management decisions on all outstanding issues related to four audit reports prepared by the Office of Inspector General (OIG). The four audit reports are: Animal and Plant Health Inspection Service Controls Over Issuance of Genetically Engineered Organism Release Permits (Report No.: 50601-8-TE); Animal and Plant Health Inspection Service Animal Care Program Inspection and Enforcement Activities (Report No.: 33002-03-SF); Animal and Plant Health Inspection Service Wildlife Services Aircraft Acquisition (Report No.: 33099-1-KC-REDACTED); and the Animal and Plant Health Inspection Service Safeguards to Prevent Entry of Prohibited Pests and Diseases Into the United States (Report No.: 33601-3-CH).

Management decisions have been reached and the process closed on all of the recommendations in the four reports mentioned above, except for one. The report, Animal and Plant Health Inspection Service Safeguards to Prevent Entry of Prohibited Pests and Diseases Into the United States, has one recommendation on which a management decision has not yet been reached. The recommendation reads as follows:

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The Honorable Jack Kingston
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We appreciate the Committee's consideration of this matter. We are sending similar letters to Congresswoman DeLauro and Senators Kohl and Bennett.

Sincerely,

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Charles F. Conner
Acting Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 20 2007

The Honorable Rosa L. DeLauro
Chairwoman, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

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Acting Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 20 2007

The Honorable Herbert H. Kohl
Chairman, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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Acting Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 20 2007

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture,
Rural Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

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APHIS published an interim rule in the *Federal Register* on August 25, 2006, amending its regulations to remove the exemption from AQI user fees for commercial conveyances—including trucks transiting Canada while traveling between Alaska and the continental United States—and international air passengers entering the United States from Canada. This rule took effect for commercial trucks on June 1, 2007. Historically, APHIS performed limited inspections along the Canadian border. However, starting in the 1990s, APHIS' inspection data showed an increasing number of interceptions at the U.S.-Canada border of prohibited materials that originated outside of Canada and that presented risks to U.S. agricultural production. APHIS determined that it was necessary to expand agricultural inspection operations at the border, and because the AQI program is a full-cost recovery program, it was necessary to collect user fees at the border to do so. The Department of Homeland Security's Customs and Border Protection (CBP) now conducts agricultural inspection activities at U.S. ports of entry, and APHIS transfers AQI funding to CBP to cover these inspections.

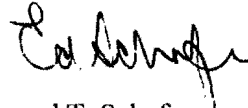
We recognize your concern about the effects of this rule on commercial trucking companies that transit non-stop through Canada from Alaska. However, after careful consideration and review of the issue, we do not believe that we should implement an exemption for these entities. We believe that developing an exemption system for these entities would be unfair to the many other individuals and entities that would continue paying the fee even though they may present only slightly greater pest and disease risks.

The Honorable Rosa DeLauro
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We recognize your concerns about this matter and appreciate the Committee's interest. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

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Edward T. Schafer
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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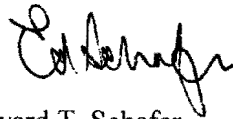
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APR 21 2008

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Committee on Appropriations
United States Senate
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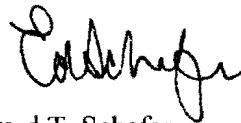
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-1001

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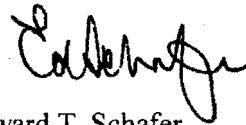
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 22 2008

The Honorable Robert F. Bennett
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, DC 20510-6026

Dear Senator Bennett:

As requested by House Report 110-258 accompanying the Fiscal Year 2008 Agriculture Appropriations Bill, enclosed is the Department of Agriculture's Animal and Plant Health Inspection Service's (APHIS) plan on how resources available in 2008 will be spent and where activities will be conducted for the Emerald Ash Borer (EAB) program.

APHIS' objectives for the EAB program in 2008 include expanding survey efforts with the use of a newly developed trap, continuing regulatory enforcement activities to prevent further spread of the pest, enhancing control activities by further developing a biological control initiative and the use of other new techniques, and efforts to educate target audiences about the program. Plans for each component are discussed in the enclosure.

We appreciate the Committee's interest in the EAB program. We are sending similar letters to Senator Kohl, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure

**Department of Agriculture
Animal and Plant Health Inspection Service
2008 Report on Emerald Ash Borer Program**

As requested by House Report 110-258, the following is the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service's (APHIS) plan on how resources available in 2008 will be spent and where activities will be conducted for the Emerald Ash Borer (EAB) program.

EAB is an exotic pest of ash trees in the United States. It was first found in July 2002 in southeast Michigan. The pest is indigenous to Asia and is known to occur in China, Korea, Japan, Mongolia, the Russian Far East, and Taiwan. EAB is now considered established in urban and forested ecosystems throughout areas of Michigan, Indiana, Illinois, Ohio, Pennsylvania, Maryland, and Ontario, Canada. It was also recently detected in West Virginia for the first time. EAB is well suited for climatic conditions in North America and has the potential to destroy entire stands of ash.

In general, APHIS is the lead Federal agency responsible for national plant and animal health including disease prevention and pest detection, control, and eradication. APHIS works with stakeholders to implement unique and unified programs at all levels. Under the Plant Protection Act of 2000 (7 USC sec. 8301), APHIS has sole authority over the regulation and control of pests and diseases of regulatory significance. In general, the Pest Detection program cooperates with State departments of agriculture, other Federal agencies (such as USDA's Forest Service and the Department of the Interior's Bureau of Land Management), and numerous universities to prioritize projects and conduct surveys.

APHIS' objectives for the EAB program in 2008 include expanding survey efforts with the use of a newly developed trap, continuing regulatory enforcement activities to prevent additional spread of the pest, enhancing control activities by further developing a biological control initiative and the use of other new techniques, and efforts to educate target audiences about the program. Plans for each component are discussed below.

The program has worked to improve EAB survey methods since the discovery of the pest in 2002. Surveys were originally based on the presence of visual symptoms (exit holes, bark cracks, branches sprouting on the trunk of the tree, woodpecker feeding sites, etc.) to determine presence or absence of EAB. The next development involved the use of detection trees, which had been stressed to release volatile chemicals attractive to the beetle and thus act as traps. However, both of these methods are labor intensive and relatively expensive. Accordingly, the program worked to develop a trap and lure, which will allow APHIS and cooperators to implement for the first time in Fiscal Year (FY) 2008, a survey based on attractant-baited traps. These traps offer several advantages over the other methods, including cost, uniformity of sampling unit, safety, fewer logistical problems, and more precision in sampling.

In FY 2008, the EAB program will obligate \$11.275 million on survey activities. The program is conducting a survey using the new traps to determine whether additional pockets of infestation may exist undetected outside the known infested areas. The survey will target high-risk sites and establishments in non-infested States where potentially infested articles such as nursery stock, ash logs, and firewood may have been moved a long distance from the generally infested area either prior to regulation or in violation of current regulations. The priority of the survey activities is conducting a grid-based delimiting survey within a 100-mile band of the last known EAB positive find to better define the leading edge and identify areas to provide support for mitigation activities to reduce the impact and spread. This delimiting survey will take place in the States of Illinois, Indiana, Iowa, Kentucky, Maryland, Michigan, New York, Ohio, Pennsylvania, West Virginia, and Wisconsin.

Specifically for EAB, APHIS regulates the movement of host materials, such as firewood, ash nursery stock, and timber, among other things, out of quarantined areas to prevent artificial spread of the pest. In addition to routine monitoring activities and issuance of permits in regulated or partially regulated States (including Michigan, Ohio, Indiana, Illinois, Maryland, Pennsylvania, and West Virginia), the program evaluates potential pathways for EAB to spread on an ongoing basis and determines how to address them. Examples of these efforts are assessments of rail lines, farm auctions, and ferry travel conducted to identify movement of regulated articles. They help the program allocate regulatory resources based on risk, and they are shared with other States and stakeholders for their use in determining the risk approaching them and targeting areas for survey. In FY 2008, the program is spending approximately \$6.8 million on regulatory activities.

Regulatory monitoring also helps to identify potential violations of the EAB quarantine regulations that may lead to additional pest spread. In FY 2008, the program completed two national recalls to help mitigate the risks associated with two quarantine violations. The first recall was related to ash nursery stock moved from Illinois, which is under Federal quarantine for EAB, to a nursery in Missouri, which shipped the ash nursery stock to customers in 33 States. The second recall was for the illegal distribution of planter boxes comprised of ash slab wood by two companies. All States, with the exception of Vermont, were affected by the recall.

EAB control activities generally target isolated infestations that are discovered outside quarantined areas and determined, through delimiting surveys, to be relatively small and separate from the larger infestation. Three sites are undergoing eradication efforts in FY 2008: a site in La Salle County, Illinois; and two small sites in Prince George's County, Maryland. Eradication activities are expected to be complete this spring, and the program will conduct extensive surveys to validate the success of eradication efforts. The program has approximately \$3.6 million available for control activities in FY 2008.

The program is continuing to move toward implementing a new biological control initiative in with the goal of establishing reproducing populations of several parasitoid

wasps to reduce EAB populations enough to allow ash trees to develop resistance to attack. Studies suggest that once the parasitic wasps are established, populations of EAB will decrease and ash trees will be able to survive attacks from a smaller amount of EAB. Currently, the program is evaluating whether three initial wasp species released last fall from interim biocontrol facilities in Michigan (reared at the U.S. Forest Service lab in East Lansing) and in Massachusetts (reared at the Center for Plant Health Science Technology in Otis) survived winter temperatures and if the wasps were able to establish a reproducing population to parasitize EAB populations. Based on promising preliminary results, the program is establishing an EAB Biocontrol Rearing Facility in Brighton, Michigan. APHIS and the U.S. Forest Service will cooperate to oversee the mass rearing and release of the parasitic wasps to help control EAB populations. The 2008 releases will start in Michigan and then to other States as determined by program needs and production capabilities. Larger scale operations including mass releases are expected for program year 2009. The program will spend approximately \$2 million to move toward fall implementation of the biological control initiative.

The program continues to look for new ways to control and prevent the spread of EAB. In FY 2008, the program is evaluating current and new chemical treatments, as well as the trap and lure design to defend against the presence of EAB. The program is also conducting methods development studies at four sites (Mackinaw County, Michigan; Fayetteville County, West Virginia; Fulton County, Ohio; and Henry County, Ohio) to evaluate additional methods to slow the spread of EAB. Approximately \$3.4 million will be spent on methods development.

The program also works to ensure that the regulatory community and the public are aware of the risks posed by EAB, the quarantine regulations to prevent its spread, and what they can do to help prevent EAB spread. To support outreach efforts, the program is working on an initiative to hold public awareness events at various sports venues.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 23 2008

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, DC 20515-1001

Dear Congressman Kingston:

As requested by House Report 110-258 accompanying the Fiscal Year 2008 Agriculture Appropriations Bill, enclosed is the Department of Agriculture's Animal and Plant Health Inspection Service's (APHIS) plan on how resources available in 2008 will be spent and where activities will be conducted for the Emerald Ash Borer (EAB) program.

APHIS' objectives for the EAB program in 2008 include expanding survey efforts with the use of a newly developed trap, continuing regulatory enforcement activities to prevent further spread of the pest, enhancing control activities by further developing a biological control initiative and the use of other new techniques, and efforts to educate target audiences about the program. Plans for each component are discussed in the enclosure.

We appreciate the Committee's interest in the EAB program. We are sending similar letters to Congresswoman DeLauro, and Senators Kohl and Bennett.

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Edward T. Schafer
Secretary

Enclosure

**Department of Agriculture
Animal and Plant Health Inspection Service
2008 Report on Emerald Ash Borer Program**

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In general, APHIS is the lead Federal agency responsible for national plant and animal health including disease prevention and pest detection, control, and eradication. APHIS works with stakeholders to implement unique and unified programs at all levels. Under the Plant Protection Act of 2000 (7 USC sec. 8301), APHIS has sole authority over the regulation and control of pests and diseases of regulatory significance. In general, the Pest Detection program cooperates with State departments of agriculture, other Federal agencies (such as USDA's Forest Service and the Department of the Interior's Bureau of Land Management), and numerous universities to prioritize projects and conduct surveys.

APHIS' objectives for the EAB program in 2008 include expanding survey efforts with the use of a newly developed trap, continuing regulatory enforcement activities to prevent additional spread of the pest, enhancing control activities by further developing a biological control initiative and the use of other new techniques, and efforts to educate target audiences about the program. Plans for each component are discussed below.

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In FY 2008, the EAB program will obligate \$11.275 million on survey activities. The program is conducting a survey using the new traps to determine whether additional pockets of infestation may exist undetected outside the known infested areas. The survey will target high-risk sites and establishments in non-infested States where potentially infested articles such as nursery stock, ash logs, and firewood may have been moved a long distance from the generally infested area either prior to regulation or in violation of current regulations. The priority of the survey activities is conducting a grid-based delimiting survey within a 100-mile band of the last known EAB positive find to better define the leading edge and identify areas to provide support for mitigation activities to reduce the impact and spread. This delimiting survey will take place in the States of Illinois, Indiana, Iowa, Kentucky, Maryland, Michigan, New York, Ohio, Pennsylvania, West Virginia, and Wisconsin.

Specifically for EAB, APHIS regulates the movement of host materials, such as firewood, ash nursery stock, and timber, among other things, out of quarantined areas to prevent artificial spread of the pest. In addition to routine monitoring activities and issuance of permits in regulated or partially regulated States (including Michigan, Ohio, Indiana, Illinois, Maryland, Pennsylvania, and West Virginia), the program evaluates potential pathways for EAB to spread on an ongoing basis and determines how to address them. Examples of these efforts are assessments of rail lines, farm auctions, and ferry travel conducted to identify movement of regulated articles. They help the program allocate regulatory resources based on risk, and they are shared with other States and stakeholders for their use in determining the risk approaching them and targeting areas for survey. In FY 2008, the program is spending approximately \$6.8 million on regulatory activities.

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 23 2008

The Honorable Herbert Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, DC 20515-6016

Dear Mr. Chairman:

As requested by House Report 110-258 accompanying the Fiscal Year 2008 Agriculture Appropriations Bill, enclosed is the Department of Agriculture's Animal and Plant Health Inspection Service's (APHIS) plan on how resources available in 2008 will be spent and where activities will be conducted for the Emerald Ash Borer (EAB) program.

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Animal and Plant Health Inspection Service
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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 23 2008

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Chairwoman
Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, DC 20515-6016

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United States Department of Agriculture

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MAR 27 2008

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Chairwoman, Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
United States House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

As requested by the House Report 110-258 accompanying the Fiscal Year 2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the United States Department of Agriculture is submitting two documents regarding the Animal and Plant Health Inspection Service (APHIS): *A Comprehensive Report on International Activities* and *A Five Year International Strategic Plan*.

We appreciate your interest in APHIS' international activities. I am sending similar letters to Congressman Kingston and Senators Kohl and Bennett.

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Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-1001

Dear Congressman Kingston:

As requested by the House Report 110-258 accompanying the Fiscal Year 2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the United States Department of Agriculture is submitting two documents regarding the Animal and Plant Health Inspection Service (APHIS): *A Comprehensive Report on International Activities* and *A Five Year International Strategic Plan*.

We appreciate your interest in APHIS' international activities. I am sending similar letters to Congresswoman DeLauro and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, which appears to read "E. Schafel", is positioned above the typed name of the Secretary.

Edward T. Schafel
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 27 2008

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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Edward T. Schafer
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 27 2008

The Honorable Robert F. Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-6026

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Edward T. Schafer
Secretary

**United States Department of Agriculture
Animal and Plant Health Inspection Service**

**A 5-Year
International Strategic Plan**

February 2008

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1. Introduction

The United States Department of Agriculture's (USDA) Animal and Plant Health Inspection Service's (APHIS) international activities are an increasingly important component of the Agency's overall strategy to protect U.S. agricultural and natural resources from foreign pest and disease threats. These threats include the spread of transboundary animal diseases, emerging zoonotic diseases that pose public health threats, and invasive terrestrial and aquatic plant and animal species.

Safeguarding U.S. resources in today's increasingly interconnected world of trade, travel, and communications requires integrated strategies and international cooperation. To manage agricultural threats at their points of origin, APHIS positions technical experts in key overseas locations to work with foreign governments to monitor and respond to pest and disease risks, prevent pests and diseases from spreading to the United States, and promote safe science-based trade.

This Strategic Plan describes APHIS' priorities and strategies for its international activities for 2008 through 2013. This strategic plan describes APHIS' priorities and strategies for its international activities for 2008 through 2013. It complements APHIS' Strategic Plan, which is available on line at http://www.aphis.usda.gov/about_aphis/strategic_plan.shtml (and discussed below in Section 2 regarding APHIS' mission). Both plans support USDA's Strategic Plan (for 2005 to 2010), which is available at <http://www.ocfo.usda.gov/usdasp/sp2005/sp2005.pdf>. The priorities outlined in the APHIS international plan support the following USDA strategic goals and objectives:

- **Strategic Goal 1:** Enhance International Competitiveness of American Agriculture: particularly Objective 1.3: Improved Sanitary And Phytosanitary (SPS) System To Facilitate Agricultural Trade
- **Strategic Goal 4:** Enhance Protection and Safety of the Nation's Agriculture and Food Supply: particularly Objective 4.2: Reduce The Number And Severity Of Agricultural Pest And Disease Outbreaks

To support USDA's Goal 1, APHIS helps resolve SPS trade barriers by working with foreign counterparts to eliminate unjustified SPS measures; negotiate science-based import requirements and standards; and intervene to release U.S. shipments held at foreign ports due to SPS related concerns. The Agency's efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually. To monitor our progress, APHIS tracks the value of facilitated trade and markets expanded, retained, and newly opened and facilitate trade.

To support USDA's Goal 4, APHIS carries out activities such as controlling and eradicating pests and diseases, monitoring and responding to highly pathogenic avian influenza, monitoring offshore pests and diseases, pre-clearing foreign commodities, and providing capacity building and technical assistance. To monitor our progress, APHIS tracks the number of foreign animal disease incidents in the United States.

2. Mission

APHIS' core mission is to protect the health and value of U.S. agricultural, natural, and other resources. APHIS' vision is to:

"Build and maintain a world-class system that safeguards the health of animals, plants, and ecosystems in the United States and fosters safe agricultural trade worldwide, resulting in abundant and affordable agricultural products for U.S. consumers and the rest of the world."

The Agency's overall Strategic Plan for 2007 to 2012 establishes four mission priorities:

1. Strengthening our safeguarding system domestically and in other countries;
2. Strengthening emergency response preparedness;
3. Facilitating safe agricultural trade through international standard-setting and effective management of sanitary (animal health) and phytosanitary (plant health) issues (SPS); and,
4. Enhancing the well-being of animals covered by the Animal Welfare Act and the Horse Protection Act.

Most of APHIS' international activities specifically support the first and third priorities. First, to strengthen the U.S. safeguarding system, the Agency will work with other countries on key pest and disease control projects, including activities to identify and reduce highly pathogenic avian influenza (HPAI) threats overseas. The Agency will also continue its preclearance activities, control and eradication programs for screwworms and fruit flies, and other international surveillance and control programs. Second, to facilitate safe agricultural trade, the Agency will work with other countries to establish practical, science-based global standards to ensure safe and fair trade conditions, assist other countries in implementing risk reduction activities; and, develop and implement strategies to remove unjustified SPS barriers to U.S. agricultural exports. In short, the Agency will continue to conduct safeguarding work in other countries, resolve SPS trade barriers, and work with standard-setting organizations.

3. Challenges

World Trade and Travel – Global trends, particularly international trade, continue to challenge and pressure animal and plant protection services around the world, including APHIS. Agricultural imports into the United States over the past 15 years have increased significantly. This growing trade volume and increased passenger travel puts significant demands on inspection of cargo and baggage at U.S. ports of entry. Border controls by themselves do not adequately protect U.S. agriculture against foreign plant pests and diseases. The APHIS Strategic Plan calls for an increased focus on managing pest and disease risks at their points of origin. This offshore strategy is fully consistent with the U.S. Government's efforts to improve import safety for consumer goods. Furthermore, recent expansion of commerce with developing countries in Africa, Asia, and Latin America poses significant new threats with regard to exotic diseases, plant pests, and invasive species because these countries' regulatory infrastructures are often minimal.

Emerging and Threatening Diseases and Pests – The outbreak of a virulent strain of HPAI is a recent example of a high-profile emergent zoonotic risk that has required considerable focus and international leadership by the United States. However, other transboundary animal diseases and plant pest risks also require vigilance and strategic preparedness. These include foot-and-mouth disease in Latin America, classical swine fever in the Caribbean, fruit flies in Central America, and screwworm in Central and South America. APHIS must be prepared to respond to new diseases and pests while protecting the United States from already identified threats.

Unjustified SPS Trade Barriers – Agricultural trade barriers continue to be significant constraints in accessing markets in Asia, Europe, Latin America, and the Middle East. While APHIS has made great progress in regaining markets lost because of bovine spongiform encephalopathy (BSE) and in improving trading partners' requirements related to avian influenza, problems are likely to continue to occur when new diseases or pests emerge. APHIS is committed to regaining lost markets for the full range of commodities affected by BSE as well as markets for other commodities facing unjustified agricultural trade restrictions. This requires substantial technical dialogue with a wide range of countries and taking an active role in developing and applying international animal and plant health standards in trade.

Free Trade Agreements – Historic numbers of bilateral free trade agreements and expanding outlets for U.S. grain, horticultural, and livestock products require effective responses by APHIS. USDA's Foreign Agricultural Service (FAS) plans to intensify enforcement of U.S. trade access requirements under the new trade treaties, including rights under SPS agreements. FAS relies extensively on APHIS expertise and regulatory authority to evaluate foreign SPS measures around the world, enforce U.S. SPS trade rights, and resolve SPS trade barrier issues.

New Issues Impacting Trade – Over the next 5 years, APHIS will see growth in issues such as biosecurity, plant health, animal welfare, biotechnology, and aquatic species regulation. These will create additional hurdles for U.S. agricultural exports. Because of APHIS' responsibilities for biotechnology regulation, animal care, and other on-farm regulatory issues, effectively overcoming these obstacles requires the Agency's technical engagement and strategic response. For example, many countries are following the lead of the European Union in requiring that livestock products meet on-farm production requirements. The U.S. meat safety system, by contrast, focuses on the slaughterhouse and has little or no on-farm regulation. These developments require close vigilance and involvement.

Biotechnology Exports – The United States is a primary exporter of agricultural biotechnology commodities. Barriers to such exports arise due to concerns about product safety, asynchronous approvals of specific products between the United States and importing countries, or public perception or consumer preferences unrelated to product safety. FAS is the primary USDA agency working to resolve these barriers, but APHIS plays a crucial role by providing FAS with technical and regulatory expertise.

Developing Countries – Developed countries are mature markets for U.S. exports, meaning that they have only limited potential for future growth. The markets with the greatest growth potential for U.S. agricultural exports are developing countries. At the same time, these countries want to increase their own exports to the United States, but their plant and animal health infrastructures are, in general, weak. Therefore, APHIS must develop working relationships with counterparts in these countries to demonstrate that U.S. agricultural products are safe and implement risk mitigations that allow safe imports from these countries. APHIS' strategy is to work with these developing countries to build sound regulatory infrastructures for detecting and responding to pest and disease risks and ensure safe trade.

4. Strategy

Over the next five years, APHIS will implement the following international SPS trade management and safeguarding strategies:

4.1. Safeguarding Animal and Plant Health

For APHIS to achieve its mission, a fundamental goal is to strengthen its safeguarding system domestically and in other countries. APHIS' strategy is to work with other countries to reduce risk at foreign points of origin and prevent pest and disease threats from approaching our borders. APHIS' international cooperative programs eradicate and/or control specific exotic pests and diseases that pose a clear, immediate risk of introduction into the United States. In the next five years APHIS will focus on strengthening its detection and management efforts abroad by conducting pest and disease surveillance and detection, collecting information to identify and assess risks, conducting threat assessments, mitigating risks, and accrediting other countries' systems. In addition, APHIS is working overseas to build capacity for detecting emerging diseases and pest threats and preventing their spread to the United States.

4.1.1. Cooperative Control and Eradication

APHIS has an active role in a number of animal and plant pest and disease control or eradication programs worldwide. These pests and diseases pose a significant threat to U.S. agriculture.

a. Mediterranean Fruit Fly

APHIS will continue working closely with Mexico and Guatemala to halt the northward spread of Mediterranean fruit fly (Medfly) from Central America into southern Mexico and to maintain a barrier zone along the Mexico-Guatemala border. This barrier is critical for preventing the natural spread of the Medfly through Mexico and into the United States. APHIS will maintain the barrier by conducting three significant activities: detection, regulation of movement, and—to eliminate known infestations—pest control. Together, these activities work to maintain the barrier and prevent the northward spread of Medfly populations.

b. Mexican Fruit Fly

APHIS will continue working closely with Mexico on the joint Mexican fruit fly (Mexfly) control program in northern Mexico to reduce the risk of Mexfly introductions in California and Texas. Like the Medfly program, the Mexfly program will utilize three significant activities to prevent the fly from spreading to the United States: detection, regulation of movement, and pest control.

c. Screwworm

APHIS will continue to maintain the screwworm barrier in Panama by utilizing the sterile insect technique and surveillance in Panama and South America to keep screwworms from becoming reestablished and spreading northward. The new sterile insect plant in Panama is close to the barrier zone and will be fully operational by January 2009, resulting in significant cost savings for the Agency. APHIS will also work with counterparts in the Caribbean and South America to further garner international support and funding to help keep its plant in Tuxtla Gutierrez, Mexico operable as a backup facility and provide sterile insects to other regions on a cost-recovery basis. For example, APHIS is meeting with Jamaica officials to negotiate a plan to continue screwworm eradication on the island.

d. Classical Swine Fever

APHIS will continue to work closely with the Dominican Republic and Haiti to control Classical Swine Fever (CSF) and other transboundary animal diseases to prevent their spread to the United States. The Agency will continue the pre-departure inspection program—aimed at intercepting prohibited risk materials—for passengers traveling from the Dominican Republic to the United States. APHIS will also provide technical assistance and advice to its counterparts in the Dominican Republic and Haiti to survey, test, and reduce the prevalence and risk of CSF in their territories.

e. Foot and Mouth Disease

APHIS will continue working closely with Panama and Colombia to maintain a Foot and Mouth Disease (FMD) quarantine barrier at the Isthmus of Panama to prevent this highly contagious animal disease risk from moving northward through Central America and Mexico into the United States. APHIS will also provide technical guidance to governments in South America and international organizations to revitalize efforts to eradicate FMD from the continent.

f. Tropical Bont Tick

APHIS will continue assisting governments in the Caribbean to develop their own technical capacity to monitor and respond to Tropical Bont Tick (TBT). The Agency will partner with regional and international health organizations and governments—such as the Inter-American Institute for Cooperation in Agriculture, the Government of France, and the United Nations Food and Agriculture Organization (FAO)—to build a local field force of veterinary epidemiologists

to: monitor animal diseases and disease syndromes; provide rapid laboratory capacity and diagnosis of diseases; assess and prioritize veterinary infrastructure; and develop animal disease emergency response and management infrastructure in the region.

4.1.2. HPAI and other Transboundary Diseases and Pests

APHIS will work with foreign governments and international organizations to prevent the introduction of HPAI to the United States and the emergence of a human pandemic influenza. APHIS will also work to broaden the veterinary infrastructures in Asia and other high-risk regions to monitor and detect other emerging zoonotic and transboundary animal diseases. The Agency will continue to focus on:

- Monitoring current sources of human HPAI infections—i.e., infected bird populations overseas—and supporting sustainable national veterinary infrastructures and capabilities in HPAI-affected countries through activities such as training and capacity building in disease monitoring and surveillance;
- Supporting HPAI efforts in South East Asia and the Crisis Management Center and other relevant units at the FAO in Rome, as well as field-based HPAI efforts;
- Enhancing APHIS' ability to detect and address new or emerging foreign animal diseases or pests by developing new methods and approaches to new or emerging risk pathways to the United States;
- Working collaboratively with Mexico to address cattle fever ticks and bovine tuberculosis; and
- Seeking mechanisms that will give APHIS the flexibility to shift resources to respond to emerging transboundary animal and plant health issues.

4.1.3. Offshore Pest and Disease Surveillance

APHIS will strengthen its capabilities to monitor, report, and respond to emerging pest and disease threats at their points of origin. These capabilities provide an early warning system. The Agency will collect information on emerging or changing pests and disease threats and conditions overseas in a central database at headquarters for analysis, planning, and possible safeguarding actions. The Agency will continue developing and refining the Offshore Pest Information Program by evaluating the offshore pest and disease information-gathering activities to be sure they are efficient and effective and by developing better practical guidance, procedures, goals, and reporting requirements.

4.1.4. Pre-clearance

APHIS will continue to pre-inspect and treat commodities shipped to the United States for pests and diseases to ensure pest-free commodities, reduce pressures of inspections at U.S. ports of entry, and prevent the introduction of invasive species into the United States. The Agency will continue to establish and administer agricultural commodity pre-clearance programs for high-risk commodities from certain countries and continue to make use of irradiation as a risk-mitigation tool for fruits and vegetables. The Agency will seek to increase efficiency, reduce costs, and

strengthen auditing and quality controls procedures. APHIS will also establish a Pre-clearance Task Force to evaluate the current program and identify improvement options such as training pre-clearance inspectors and developing an accreditation system to reduce Agency oversight costs.

4.1.5. Capacity Building and Technical Assistance

APHIS will coordinate technical assistance and training to developing countries to strengthen their regulatory capacity to detect and address pests and diseases in their own regions, thereby reducing risks of transboundary pests and diseases spreading to the United States via trade. In doing so, the Agency will strengthen relationships with counterparts in these countries and will coordinate closely with other U.S. Government agencies—such as FAS, the U.S. Agency for International Development, the Department of State, and the U.S. Trade Representative—to design and implement programs that achieve APHIS' safeguarding objectives while supporting broader U.S. interests and objectives overseas. These efforts include pest and disease surveillance and detection, collecting information to identify and assess risks, conducting threat assessments, mitigating risks, and accrediting other countries' systems (such as those for certifying and issuing permits for moving products, including those coming to the United States).

Within 5 years, APHIS will establish a specialized headquarters staff to coordinate international regulatory development projects that promote safe trade with developing countries and to manage the visits of foreign agricultural officials who come to learn about U.S. safeguarding system; undertake specific projects that strengthen overseas pest and disease detection and control in around the world; and establish procedures and norms for assessing requests and evaluating the impact of these efforts and projects.

4.2. SPS Trade Management

APHIS' goal is to promote the smooth and safe movement of agricultural commodities into and from the United States, based on science and international standards, and to resolve SPS barrier issues, including access problems at foreign ports of entry that hinder or block U.S. agricultural trade. Over the next five years, the Agency will undertake the following SPS trade management strategies:

Coordination of SPS Trade Issues – APHIS will resolve SPS trade issues through improved internal coordination, strategic focus, and integration of resources. APHIS will improve coordination within the Agency on the identification of and sustained focus on strategically important SPS issues; establish biannual strategy sessions to develop action plans for each of the export issues considered strategically significant for agriculture; and establish a regional bureau structure to direct and coordinate the Agency's overseas SPS trade activities and strategies.

Collaboration with other Federal Agencies – APHIS will support FAS' international trade agenda and goals in the SPS trade area without blurring APHIS' regulatory mission or compromising the Agency's safeguarding and regulatory responsibilities. APHIS will manage and operate a process for setting joint, consensus based priorities with respect to export and

import issues; promote APHIS and FAS staff coordination and strategy development; evaluate the current communication protocols between APHIS and FAS and make recommendations for improvement; institute regular APHIS-FAS meetings to monitor issues on the USDA's SPS Priority List; and work together with FAS to set priorities and procedures for capacity building and training projects in 2008.

International Standards – APHIS will work through the World Animal Health Organization and the International Plant Protection Convention to develop and promote science-based positions in those and other international and regional venues. APHIS will also promote the increased use of international standards in trade, including in the resolution of SPS trade conflicts and differences; position APHIS experts in international standard-setting organizations; and, increase interaction with regional health organizations that have policy-level influence on SPS regulatory measures and practices in their regions.

International Regulatory Harmonization – APHIS will actively monitor and respond to emerging international regulatory policy issues that impact trade, such as regulatory differences with regard to biotechnology, animal welfare, or disease traceability. The Agency will also establish an interagency team to evaluate the potential trade impact of the new policy; work with industry to identify specific responses; coordinate alliances with like-minded countries to present alternatives; and work closely with biotechnology experts to train and prepare APHIS attachés to represent the United States on regulatory biotechnology issues.

5. Management and Administrative Priorities

The recent weakening of the U.S. dollar and inflation in foreign countries has made operating overseas more expensive than it was 10 years ago. Because of the dollar's devaluation, APHIS' Medfly program in Guatemala, which received its first annual appropriation in FY 2003, has experienced a 6 percent reduction in spending power. Similarly, the APHIS office in Thailand, which opened in 2006, has experienced a 14 percent reduction in spending power. Without additional funds, APHIS' international programs will have to cut expenditures by reducing operations. Overall, this would reduce protection to U.S. agriculture and facilitation of safe agricultural trade.

In FY 2009, APHIS requests to merge resources currently under two line items—portions of the Foreign Animal Disease/FMD and the Trade Issues Resolution and Management programs—into a single line item called Overseas Technical and Trade Operations. Since the same staff is conducting operations for these two programs, formally merging resources will simplify administration of the programs and eliminate any misperception that we have two separate staffs working on separate programs.

APHIS is required to pay its share of the State Department's Capital Security Cost Sharing Program, part of a \$16 billion Federal effort to construct 150 new embassies over a 12-year period.

Given the increasing cost of operating overseas, APHIS will build a more cost-effective international operation by:

- Reexamining the distribution of overseas posts to focus on the highest-risk sources and pathways, increasing its use of limited-term appointments to conduct overseas mission and work, and working closely with domestic APHIS programs and other agencies to set internally consistent priorities and integrated strategies;
- Exploring and implementing streamlining strategies for the overseas administrative support structure and service;
- Developing and implementing other strategies for enhanced collaboration and maximum integration of its overseas operations with domestic programs;
- Enhancing communication and connectivity to ensure effective, rapid, and reliable transmission of urgent pest, disease, and SPS trade information between headquarters and overseas offices; and
- Enhancing additional program monitoring and reporting systems to ensure the availability of routine and reliable indicators of program progress, feedback, and impact.

6. Conclusion: The Next 5 Years

Globalization and changes in international trade have increased the risk of pest and disease spread. APHIS' safeguarding strategy includes both controlling pest and disease risks at U.S. borders and an increased emphasis on working overseas to detect and prevent the spread of pests and diseases at the point of origin. At the same time, the Agency must place experts overseas in an advantageous position to assist U.S. agricultural exporters in meeting foreign regulatory requirements and to resolve technical barriers that unfairly limit or block access for foreign markets.

Looking ahead, APHIS will focus on the following international strategic themes over the next 5 years:

- Enhanced safeguarding through development of foreign regulatory infrastructures that strengthen the capacity of developing countries to detect and respond to pest and disease risks, prevent their spread, and keep the commercial trade pathway safe;
- Enhanced SPS trade coordination and strategies between APHIS and other agencies for resolving SPS trade barriers and supporting, protecting, and expanding U.S. agricultural trade on a safe, scientific basis;
- Expansion of preclearance programs to ensure safe trade, especially in developing regions where new pest and disease threats need to be managed to protect the trade pathways and prevent the spread of transboundary pest and diseases to the United States;
- Enhanced international surveillance and monitoring systems to provide early warning of foreign pest and disease events that might develop into larger threats to the United States;
- Flexible monitoring and response systems overseas to manage a broad range of zoonotic and transboundary animal disease risks, building on the current focus on HPAI; and,
- Cost-effective administrative systems for deploying experts abroad and positioning talented personnel for Agency missions overseas.

**United States Department of Agriculture
Animal and Plant Health Inspection Service**

**A Comprehensive Report on International
Activities**

February 2008

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1. Introduction

This report provides background to the United States Department of Agriculture's (USDA) Animal and Plant Health Inspection Service's (APHIS) international strategic plan and describes the Agency's overseas activities, including locations, resources, and impact to U.S. agriculture.

APHIS' mission is to protect U.S. agriculture and natural resources by preventing harmful invasive pests and diseases from entering the United States and from spreading. Globalization and changes in international trade and the movement of people have increased the risk of pest and disease spread. The Agency's safeguarding strategy includes controlling pest and disease risks at U.S. borders as well as working overseas to detect and prevent the spread of pests and diseases at their points of origin.

APHIS' international activities help the Agency reduce the risk of threats to U.S. agriculture and facilitate safe agricultural trade. The Agency has technical personnel positioned in 53 locations in 44 countries, with a total of 261 employees—208 overseas and 53 at headquarters—dedicated to work on international activities. Of the overseas employees, 57 are U.S. direct hires (Foreign Service Officers and civil service employees) and 151 are foreign local hires (known as Foreign Service Nationals). APHIS' overseas employees conduct a combination of program activities involving safeguarding, trade, technical assistance, and representational functions.

Safeguarding activities include:

- control and eradication of priority animal diseases and plant pests
- pest and disease monitoring and reporting
- technical assistance programs to create sustainable local infrastructure to monitor and manage regional pest and disease issues; and,
- commodity preclearance (i.e., pre-inspecting/certifying U.S.-bound shipments at their points of origin).

APHIS also works to facilitate safe agricultural trade. Sanitary (animal health) and phytosanitary (plant health) (SPS) issues are sometimes used inappropriately to restrict or block trade. APHIS officials strive to resolve these trade barriers by working with their foreign counterparts to eliminate unjustified SPS measures; negotiate science-based import requirements and standards; and, intervene to release U.S. shipments held at foreign ports due to SPS-related concerns. APHIS' efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually.

In Fiscal Year (FY) 2007, APHIS' \$846.23 million appropriation included \$87.089 million to conduct international activities. The bulk of this funding—62 percent—supports two major cooperative programs targeting screwworm and fruit flies in Mexico and Central America. These and other safeguarding activities help the Agency reduce the risk of threats to U.S. agriculture and facilitate safe agricultural trade. APHIS also used \$5.391 million in user fees and

\$1.183 million in reimbursable agreements and trust funds to carry out other Agency activities overseas. In total, APHIS' international activities operated on a budget of \$93.663 million in FY 2007. This budget included personnel costs, security, equipment, and utilities.

APHIS' overseas activities strengthen the Agency's capacity to respond to international health threats in a timely and strategic manner. The impact and results of these programs are demonstrated by: the halt of the spread of high-risk pests from Mexico, Central America, and the Caribbean to the United States; the number and significance of seizures of illegal risk material; the number of trade barriers eliminated and the value of trade protected and expanded; the reduced prevalence of certain key pests and diseases in these areas; the safe importation of pre-cleared horticultural products; and, the successful provision of training and technical assistance to regulatory officials in developing countries. In sum, these international activities help the Agency accomplish its protection goals of keeping pests and diseases out, building a safe global trade system, and enhancing U.S. influence and leadership on international agricultural health issues.

2. Agency Mission

APHIS' overall mission is to "protect the health and value of U.S. agricultural, natural and other resources" from harmful pests and diseases. APHIS' 2007 Strategic Plan sets four mission priorities:

1. Strengthening our safeguarding system domestically and in other countries;
2. Strengthening emergency response preparedness;
3. Facilitating safe agricultural trade through international standard-setting and effective management of SPS issues; and,
4. Enhancing the well-being of animals covered by the Animal Welfare Act and the Horse Protection Act.

APHIS' international work relates primarily to the first and third priorities. The Agency works with foreign governments to prevent the spread of pests and diseases; monitor and respond to exotic pest and disease threats; and facilitate safe trade on the basis of science, international standards, and various safeguarding programs.

3. International Activities and their Impact

APHIS organizes its international activities into two areas: animal and plant health to safeguard U.S. agriculture and sanitary and phytosanitary management to facilitate safe agricultural trade.

3.1. Safeguarding Animal and Plant Health

With the continued growth of trade and travel, inspection of cargo and baggage at U.S. ports of entry needs to be combined with other safeguarding activities to fully protect U.S. agricultural resources. The Agency has expanded its off-shore strategy, as recommended by recent U.S. stakeholder reviews and calls for increased focus on managing pest and disease risks off-shore and at the point of origin. To safeguard animal and plant health, APHIS carries out activities such as controlling and eradicating pests and diseases, monitoring and responding to highly pathogenic avian influenza, monitoring offshore pests and diseases, pre-clearing foreign commodities, and providing capacity building and technical assistance.

3.1.1. Cooperative Control and Eradication

APHIS works with foreign countries to control or eradicate animal and plant diseases and pests that pose a risk of becoming established in the United States and causing severe damage to U.S. agriculture. This includes diseases and pests such as Mediterranean fruit flies, Mexican fruit flies, Screwworms, Classical Swine Fever, Foot and Mouth Disease, Tropical Bont Tick, Pink Hibiscus Mealybug, among others.

a. Mediterranean Fruit Fly

Mediterranean fruit fly (Medfly), one of the most destructive plant pest threats to U.S. agriculture, has a wide host range that includes commercially important crops such as citrus and stone fruits. In 2000, the value of these two fruit crops alone was nearly \$5 billion. The adult female Medflies damage fruit by piercing the skin and inserting a fertile egg that hatches into larvae and eats the pulp of the fruit as the larvae matures.

APHIS works closely with the Mexican and Guatemalan governments to prevent the northward spread of the Medfly from Central America into southern Mexico and maintain a barrier zone along the Mexico-Guatemala border. This barrier is critical for preventing the natural spread of the Medfly through Mexico and into the United States.

The program, also known as Moscamed, has three components: detection, movement regulation, and pest control. The detection component maintains over 30,000 fly traps throughout the strategic areas of Guatemala and Mexico. These traps locate and delimit infestations of Medflies. The regulatory component includes roadside inspection stations where personnel inspect cars, trucks and passengers for potentially infested Medfly host material, and seize prohibited fruits and vegetables. The control component eliminates known infestations by ground and aerial applications of organic pesticides, removal of infested fruits from the field, and use of the sterile insect technique. Pioneered in the 1950s, this technique involves sterilizing large numbers of male flies and dispersing them over infested areas to mate with native female flies, thus preventing reproduction. Moscamed produces nearly 2 billion sterile Medflies every week and releases them into areas identified by the survey activities. Moscamed also produces and ships sterile pupae to the United States to support fruit fly programs in California and Florida.

Although Moscamed has successfully maintained the barrier zone for more than 25 years, it is becoming much more expensive and complex to maintain. In FY 2007, the program experienced the largest number ever of Medfly outbreaks in southern Mexico in the Medfly-free section of the barrier zone. According to several expert panel reviews, it is becoming more expensive and difficult to maintain the barrier because of economic, social, and environmental changes within the program's barrier operations zones. Because of environmental concerns, the program had to switch to an organic pesticide that is much more expensive than the one previously used. Because many of the local indigenous groups living in the project area do not allow entry by local government or Moscamed personnel, the program must rely more on release of sterile

Medflies as a preventive strategy, which is more expensive. In the past ten years, areas in Mexico and Guatemala have been opened up to agriculture and to new towns. This development has eliminated a natural Medfly-free barrier to northward expansion of the pest, and Moscamed must spend many of its resources for control activities in this area.

If not eradicated or controlled, Medflies could heavily infest the United States and cause significant crop loss. APHIS estimates the cost of eradicating a future Medfly introduction from the cost of eradicating past outbreaks. The nine outbreaks that occurred in Florida and California between 1997 and 2007 (resulting from smuggling/passenger pathways, rather than from geographical spread) cost an average of \$7 million to eradicate, with the most expensive costing \$27 million. These estimates do not include additional outlays incurred by growers for the post-harvest treatments required to ship host fruit to domestic and international markets, the cost of additional use of chemicals, losses in crop value due to quarantine restrictions, or the financial impact of foreign trade restrictions. A 1989 study estimated the full annual cost of a Medfly establishment in the United States (taking into account field damages due to Medfly, costs of field control efforts, foreign market losses, and post harvest treatments) at over \$2.1 billion. Accordingly, APHIS and its cooperators will continue working to maintain the barrier against this devastating pest in Mexico and Central America.

b. Mexican Fruit Fly

The Mexican fruit fly (Mexfly) attacks a wide variety of fruits, including apples, apricots, avocados, grapefruit, mangos, oranges, peaches, pears, and plums. Similar to Medflies, the adult female Mexflies damage fruit by piercing the skin and inserting a fertile egg that hatches into larvae and eats the pulp of the fruit as the larvae matures.

APHIS works closely with Mexico on controlling Mexflies in northern Mexico adjacent to high-risk areas along the U.S. border. The primary goal of this cooperative program is to reduce the risk of Mexfly introductions into California and Texas, the two States most at risk. By keeping Mexfly out of California and Texas, the program also prevents the fly from spreading to other States; Arizona, Florida, Georgia, and Louisiana have climates favorable to the Medfly and abundances of its preferred host crops. For all 6 States, the total value of 14 Mexfly-susceptible commodities is estimated at \$3.3 billion.

Like Moscamed, the cooperative Mexfly program utilizes active surveillance and sterile insect techniques to manage and control this pest risk. APHIS hires local trappers to conduct surveillance activities and run about 2,000 traps over 400 square miles. The Agency releases approximately 140 million sterile Mexflies each week in the Texas Lower Rio Grande Valley and 20 million sterile Mexflies each week on Mexico's side of the border. The Agency produces the sterile pupae in Mission, Texas, and the Government of Mexico provides land and building space for an emergence center and staging area, where the sterile pupae mature into adult sterile Mexflies. In addition to conducting Mexfly operations in the Lower Rio Grande area, each week APHIS releases 16 million sterile Mexflies—produced at a facility in Tapachula, Mexico—over the Mexican border city of Tijuana to protect the fruit production areas of neighboring California. APHIS also provides technical assistance to its Mexican counterparts to establish and maintain Mexfly free areas in the Mexican States of Baja California, Chihuahua, Sinaloa, and Sonora, thereby further reducing the risk of Mexfly-infested products entering the United States as well as creating a protective buffer zone beyond the U.S.-Mexico border.

If not eradicated or controlled, Mexflies could heavily infest the United States and cause significant crop loss. Since 1983, APHIS has eradicated 16 outbreaks of Mexflies (likely related to products illegally brought into the United States from Mexico) in California with an average cost of \$2.7 million. These estimates do not include additional costs incurred by growers for post-harvest treatments that would be required for the shipment of fresh fruit hosts to domestic and international markets, additional chemical usage, loss in crop value due to quarantine restrictions, or the impact of foreign countries closing their markets to various U.S. fruit and vegetable exports considered Mexfly hosts. The full annual loss to producers and exporters from a widespread and uncontrolled Mexfly infestation ranges between \$888 million and \$928 million.

c. Screwworm

Screwworms are costly and destructive parasites that feed on healthy, living animal tissue or fluid of all warm-blooded animals, including human beings. APHIS' Screwworm program had its origin in the southern United States, where the livestock industry suffered great losses due to the damage caused in screwworm-infested cattle up until the mid-twentieth century. The United States successfully eradicated this costly and destructive parasite in the 1960s, but its reintroduction could have a major economic impact on the U.S. livestock industry. APHIS works with its counterparts in Mexico and Central America to prevent this pest from reentering the United States.

Through cooperative programs first with Mexico and then with other Central American countries, APHIS has eradicated screwworm up to the narrowest point in Panama, also known as the Darien Gap, and established a permanent barrier at the border of Colombia and Panama. To maintain this barrier, APHIS and its foreign government counterparts work together to produce and release sterile flies, conduct field inspections, and conduct monitoring and surveillance activities.

APHIS and its cooperative partners utilize the sterile insect technique where the Agency sterilizes large numbers of male flies and disperses them over infested areas to mate with native female flies, thus preventing reproduction. The cooperative program transports sterile flies from the production facility in Tuxtla Gutierrez, Mexico for release in Panama and Colombia. The program releases approximately 27 million flies per week to maintain the barrier at the Darien Gap. Officials declared Panama technically free of screwworm on July 12, 2006. However, Agency officials detected 7 cases of screwworm in Panama in FY 2007. The cases were located in the Panamanian Province of Darien in the program's control area, which is forested area and largely uninhabited. There was no northward spread from the control area, and there were no cases registered in other Central American countries.

Due to the distance between production and dispersal, the program built a sterile fly production facility in Panama in July 2006. This facility began limited operations in August 2007, and plans to be fully operational by January 2009. The Mexico facility will provide surge capacity in case of an extensive outbreak. The program maintains the screwworm barrier in Panama by the weekly release of sterile screwworms in the Darien gap and approximately 20 miles into Colombia. In addition, veterinarians and field inspectors conduct surveillance activities and respond to any screwworm cases found.

The cooperative screwworm program in Central America has successfully established and maintained a protective buffer zone, effectively preventing the northward spread of screwworms into the United States. During the 1960's, screwworm infestations in the United States were common and livestock losses exceeded an estimated \$250 million per year. APHIS estimates that if screwworms re-infested and spread in the United States today, livestock losses would exceed \$844 million per year.

d. Classical Swine Fever

Classical swine fever (CSF), also known as hog cholera, is a highly contagious viral disease of swine. APHIS eradicated CSF from the United States in 1978 after a 16-year partnership with industry and State governments. CSF broke out several years ago on the island of Hispaniola, which includes the Dominican Republic (DR) and Haiti.

APHIS efforts to control CSF and mitigate the risk to the United States include establishing a pre-departure inspection program for passengers leaving the DR by ferry or plane to Puerto Rico and other U.S. locations. The passenger pre-inspection program, staffed by DR government employees, intercepts agriculture products, which could contain CSF and other organisms and transboundary animal diseases such as Foot and Mouth Disease. APHIS measures the success of this program not only by the amount of prohibited material seized in the DR but by a reduction in the amount of quarantine material seized during inspections at U.S. ports of entry. In 2007, the passenger inspection program in the DR cleared 1,998,011 passengers at 5 international airports throughout the country and 104,988 passengers at the ferry terminal in Santo Domingo. The program intercepted approximately 233,000 pounds of high risk animal products and seized 158,862 plant lots. The pre-departure passenger inspection program continues to be effective in mitigating the amount of prohibited animal and plant material from entering the United States.

In addition to pre-departure activities, APHIS supports CSF eradication on Hispaniola. APHIS officials report significant progress in the DR. From 2005-2007, the DR reported 15, 16, and 4 outbreaks, respectively. Haiti is one of the least developed and least stable countries in the Western Hemisphere and remains problematic. A current emphasis is the creation of a buffer zone between the two countries so that the DR is less likely to be reinfected.

e. Foot and Mouth Disease

USDA eradicated foot-and-mouth disease (FMD), a highly contagious and devastating foreign animal disease, from the United States in 1929. However, its presence in South America continues to pose a significant threat to the U.S. livestock industry. The Agency monitors FMD around the world and supports control programs for the disease in South America to reduce the risk to the United States.

The 2001 FMD outbreak in the United Kingdom (UK) illustrates the economic significance of this particular foreign animal disease. This outbreak cost the British economy approximately \$35 billion in quarantine, eradication, disposal, lost markets, and other associated costs. According to a study by the University of California at Davis, an FMD introduction in the United States on the scale of the 2001 UK outbreak could cost \$6 to \$14 billion.

FMD has long been present in South America and there remains a risk of the disease making its way up through Central America and Mexico into the United States. Because of this threat, APHIS works cooperatively with Panama and Colombia to establish a quarantine barrier at the Isthmus of Panama. The eradication of FMD from South America has become a hemispheric and international priority. Therefore, APHIS also partners with the Pan-American Foot and Mouth Disease Center of the Pan-American Health Organization; Inter-American Institute for Cooperation on Agriculture; the Food and Agriculture Organization; World Organization for Animal Health; and, other South American countries (Bolivia, Ecuador, and Venezuela) to support FMD eradication. In March 2004, the Houston Declaration issued by the Hemispheric FMD Conference—a meeting that brought together agriculture ministers, chief veterinary officers, and similar high-level officials—renewed South America's efforts to eradicate FMD. In addition, the U.S. State Department recently encouraged South American countries in the effort to revitalize FMD eradication efforts for the final push to eliminate the disease from the Western Hemisphere.

APHIS' partnership with South American countries has made significant progress over the past 30 years toward FMD eradication. The World Animal Health Organization considers Chile and Uruguay free of the disease; Brazil, Argentina, and Colombia nearly free; Bolivia with free zones; and Peru under review for proposed free areas. Continued support from international organizations, industry-led organizations, countries involved, and APHIS will be necessary to make the concerted effort needed for hemispheric FMD eradication.

f. Tropical Bont Tick

Tropical Bont Tick (TBT) is a pest of cattle and other animals as well as a vector for Heartwater, an infectious disease of ruminants and important foreign animal disease threat. Climatic and ecological conditions in the southern United States are favorable for the establishment of TBT. APHIS works with international organizations in several Caribbean countries to monitor for and control this pest. APHIS efforts are intended to prevent the introduction of the pest into the United States.

APHIS does not believe that eradicating TBT from the Caribbean is a practical goal; therefore, the Agency and other cooperators in the region are shifting the focus of TBT efforts to monitoring and surveillance. The Agency provides technical assistance to Caribbean nations in building infrastructure to detect and address risks associated with TBT and other emerging animal diseases. In addition, APHIS is working with the same Caribbean nations to promote timely reporting of disease detections or their vectors to the international community, which is important to prevent their spread to the United States and other islands.

APHIS is initiating a new partnership with regional and international health organizations, the Government of France, and the Food and Agriculture Organization. The intent is to build a local field force of veterinary epidemiologists and paraepidemiologists to monitor animal diseases and disease syndromes; provide rapid laboratory access and diagnosis of diseases; assess and prioritize veterinary infrastructure; and, develop animal disease emergency response and management infrastructure in the region.

g. Pink Hibiscus Mealybug

Pink hibiscus mealybug is an example of a plant pest threat that APHIS successfully indentified offshore and worked to mitigate before it reached the United States. This pest attacks more than 200 plant hosts, including hibiscus, citrus, sugar cane, plums, peanuts, grapes, maize, chrysanthemums, cotton, and several types of beans including soybeans. After the pink hibiscus mealybug appeared in the Caribbean in the 1990s, APHIS—anticipating the pest's spread to the U.S. mainland—worked closely with Caribbean countries to provide technical assistance involving field tests and releases of different biological control agents. Through these field experiments, APHIS, USDA's Agricultural Research Service, and various universities found a biological control solution. Since then, APHIS has detected this pest in California and Florida but the biological control efforts developed in the Caribbean have greatly reduced its impact on agricultural production.

3.1.2. Highly Pathogenic Avian Influenza

Highly Pathogenic Avian Influenza (HPAI) is a recognized threat to poultry and has the potential to cause disease in humans at a scale yet to be determined. APHIS advances USDA's goal to prevent the introduction of HPAI to the United States, facilitate trade, and mitigate the emergence of human pandemic influenza. Studies show the link between human cases to the victims' direct exposure to infected birds. Therefore, APHIS' directs international efforts against HPAI at the current source of human infections, the infected bird populations overseas.

Effective control of HPAI involves sustainable and reliable disease control along with protecting human health through public information, disease surveillance, and emergency preparation. APHIS' major objectives are to:

- Establish sustainable veterinary infrastructures in at-risk countries and provide training and seminars in disease monitoring and surveillance, biosecurity, epidemiology, diagnostics, vaccination, depopulation, live bird market management, risk communication, and wildlife surveillance;
- Determine the role of wild birds in HPAI transmission and levels of infection by conducting cooperative wild bird surveillance and sampling in China, Mexico, and other countries and providing surveillance workshops in Laos and Cambodia;
- Respond to countries experiencing cases of HPAI through the Crisis Management Centre within the Food and Agricultural Organization of the United Nations in Rome, where the Agency has deployed 3 technical experts and provides other technical experts as part of rapid response teams; and,
- Reduce risk of animal to human transmission in endemic and at-risk South East Asia countries by opening offices and deploying personnel in Burma, Cambodia, Indonesia, Laos, and Thailand, to directly and substantially participate in HPAI eradication, control, and prevention activities.

Since 2005, at least 58 countries have confirmed incidences of HPAI. Most outbreaks have occurred among wild birds and backyard poultry in Asian and African countries with inadequate animal health infrastructure. APHIS has increased technical assistance efforts to contain the spread of HPAI. APHIS has trained over 1,000 veterinarians, poultry workers, and government officials from 138 countries in lab diagnostics, epidemiology, live bird markets, vaccination, and surveillance, and has sponsored or participated in numerous HPAI unilateral and multilateral symposia and workshops. The majority of participants and courses focused on the hardest hit areas of Asia and Africa. As this virus spread to North and West Africa in 2007, APHIS officials in our Dakar, Senegal and Cairo, Egypt offices dedicated themselves nearly full-time to HPAI issues and activities. As part of an integrated U.S. government response, APHIS assists countries impacted by the disease and trains veterinarians from HPAI affected and at-risk countries on testing protocols and advises on surveillance and vaccination programs and contingency planning.

It is unlikely that the international agricultural and human health community will eradicate HPAI from currently infected countries in the near future. A sustained international priority is necessary to improve the capabilities for timely detection, control, and eradication of the virus on a global basis. The virus may continue to explosively spread and infect new countries without this initiative.

3.1.3. Offshore Pest and Disease Surveillance

Animal and plant pest and disease situations are biological phenomena and so regularly and unexpectedly change. APHIS must be ready to respond to emerging animal and plant threats. The Agency must collect accurate and early information about pests and diseases in foreign countries for effective and timely response. APHIS established the Offshore Pest Information Program (OPIP) to collect, report, assess, and communicate information on significant animal and plant pests and diseases in other countries to enhance the Agency's preparedness and ability to reduce the risk of introducing these organisms into the United States.

OPIP utilizes a network of APHIS officials overseas to conduct searches of local or regional multi-media open sources and to work with foreign officials and researchers to collect and report relevant information. The Agency registers users for a web-based, secure interface known as the Offshore Pest Information System to exchange information. Since January 2006, OPIP has produced more than 600 reports resulting in actions, including but not limited to changes to regulations; notifications to the U.S. Customs and Border Patrol and Agency officials at U.S. ports of entry to modify existing entry procedures or to enhance inspection vigilance; changes to domestic survey programs to enhance focus on identified pests and diseases; and, updates to plant and animal health risk assessments used to support import decisions. Ultimately, OPIP provides APHIS officials and decision makers with relevant and timely information needed to assess risks; to make changes to procedures or regulations in order to protect U.S. agriculture; and to pre-empt undue disruptions to trade.

3.1.4. Pre-clearance

APHIS manages overseas agricultural commodity pre-clearance programs to mitigate the risk of introducing exotic plant pests and diseases into the United States. These pre-clearance activities are a requirement for entry of certain high-risk commodities. Generally, APHIS officials supervise local inspectors during pre-clearance inspections and post-harvest quarantine treatments (e.g., irradiation, hot-water, vapor, or other treatment) in foreign countries in accordance with phytosanitary procedures specified by the Agency. APHIS has designed these procedures to identify and mitigate pest risks through actions taken in the country of origin and prevent non-treated or infected commodities from reaching the United States. These activities are paid for by the exporters through trust fund accounts designed specifically for this purpose.

Currently, there are pre-clearance programs in 26 countries. One of the largest is in Chile, which pre-clears a total of 155 different commodities. In 2006, this allowed the safe shipment of horticultural goods with a value of over \$1.5 billion. APHIS also supervises the treatment of mangoes in 11 countries. Other major examples of pre-clearance activities include flower bulbs and perennials from the Netherlands, citrus from Spain, sand pears from Korea, and citrus and deciduous fruit from South Africa. Besides protecting the United States from animal and plant pest and disease risks, these pre-clearance programs provide American consumers with a variety of fresh fruits and vegetables, as well as create safe trade-economic growth opportunities for developing countries in Central and South America, Caribbean, Africa, and Asia. APHIS has reported no outbreaks of pests or diseases tracing back to pre-cleared commodities. See Table 1 in the Appendix for additional information on pre-clearance activities.

3.1.5. Capacity Building and Technical Assistance

APHIS' international and domestic staffs provide international assistance and capacity building in animal and plant health infrastructure to developing countries. APHIS has a strategic interest in providing this assistance to these countries to improve their regulatory infrastructure and technical expertise. Doing so increases the likelihood that any agricultural and food exports to the United States meet U.S. standards and do not introduce foreign pests or diseases.

APHIS most often provides technical assistance in cooperation with other U.S. Government agencies, including USDA's Foreign Agricultural Service, the U.S. Agency for International Development (USAID), the Department of State, and the U.S. Trade Representative, assuring that our capacity building efforts fit into larger foreign policy goals. In this context, international capacity building is one means of achieving our safeguarding objectives while also supporting the United States' interests abroad. During an 18-month period in FY 2005 and 2006, APHIS employees participated in at more than 289 activities related to international technical and regulatory capacity building. Those activities involved technical assistance and training programs worldwide.

The International Technical and Regulatory Capacity Building staff (ITRCB) tracks our capacity building efforts, measure results, and set priorities to achieve our overall strategic objectives. The ITRCB is responsible for assuring that capacity building activities consider wider U.S. interests, availability of support from other organizations, the needs of the recipient country, their ability to follow through, and the impact on other priorities and responsibilities. As part of these efforts, APHIS provides trainings such as foreign animal disease surveillance, epidemiology, emergency preparedness and response (e.g. foot-and-mouth disease and avian influenza); export and import regulations, health certification, and pest and disease risk and pathway analyses; biotechnology regulatory procedures and processes; national animal and plant health infrastructures and delivery of services; sanitary and phytosanitary regulations development; wildlife control techniques and diagnostics; regulation of veterinary vaccines, diagnostic test kits, and laboratory procedures; livestock identification techniques and procedures; and pest-free area assessments.

One of the most significant recent examples is our support of the Africa Growth and Opportunity Act (AGOA). The goal of AGOA is to strengthen Africa's safeguarding capacity and facilitate African exports to the United States and elsewhere. USDA and USAID have jointly developed a 5-year program to strengthen Africa's plant health infrastructure. Other activities that have occurred under the auspices of AGOA include recognition of disease-free regions in Namibia (especially for FMD) and beginning the certification process to allow beef imports from Namibia; rapidly developing alternative treatments to assure continued market access for South Africa following detections of quarantine pests in agricultural shipments; resolving critical food aid issues that inhibited grain from reaching hunger-stricken areas; providing training in risk analysis; and developing plant pest survey and detection protocols.

Another important facet of capacity building is hosting foreign officials interested in learning about APHIS activities. Activities include formal training courses and consultations or meetings where foreign officials gain a better understanding of the ways APHIS controls pests and diseases, regulates trade, and protects its borders from invasive species. These initiatives have long-term impacts on our ability to work with foreign counterparts in advancement of U.S. objectives with individual countries and international organizations. The APHIS International Visitors Center hosted nearly 600 individuals from 49 countries in 2007. This is nearly six times more than the previous year, reflecting the interest of foreign regulatory officials in understanding and working with our quarantine system.

3.2. Sanitary and Phytosanitary Trade Management

APHIS officials help resolve sanitary and phytosanitary (SPS) trade barriers by working with foreign counterparts to eliminate unjustified SPS measures; negotiate science-based import requirements and standards; and intervene to release U.S. shipments held at foreign ports due to SPS related concerns. APHIS' efforts are key to protecting and expanding U.S. access to foreign markets worth millions of dollars in agricultural trade annually.

Because of its technical expertise and regulatory authority, APHIS plays an important role in resolving these technical trade issues, on the basis of science and international standards, and facilitating safe and fair agricultural trade. APHIS' personnel play an active and ongoing role in intervening to negotiate the release of U.S. shipments held in foreign ports due to animal or plant health concerns or barriers.

In just a single quarter—the fourth quarter of FY 2007—APHIS accomplished the following in its trade facilitation efforts:

U.S. agricultural shipments released—APHIS overseas officials intervened to release individual shipments of U.S. commodities detained at foreign ports because of an SPS or health certification problem. APHIS successfully obtained the release of 69 individual shipments, worth more than \$16 million. See Table 2 in the Appendix for additional information on shipments released.

Markets retained—Foreign regulatory requirements or a change in the pest or disease status in the United States can jeopardize existing export markets. To retain access to export markets in these situations, APHIS negotiates new import conditions or protocols, provides information about U.S. pest or disease control programs, and presents scientific information. APHIS efforts resulted in the retention of 5 export markets, worth more than \$9 million in total. See Table 3 in the Appendix for additional information on markets retained.

Markets expanded—APHIS is continually seeking to improve the conditions for U.S. agricultural exports. This can involve eliminating certain testing requirements, expanding the area eligible to export a commodity, or modifying treatment requirements. APHIS negotiations resulted in expanded access for 10 commodities worth more than \$11 million annually. See Table 4 in the Appendix for additional information on markets expanded.

New market access—APHIS assists the Foreign Agricultural Service by engaging trade partners to obtain access to markets that were not previously open to U.S. exports. This involves negotiating new import conditions with the importing country. APHIS opened 8 new markets worth an estimated \$895,000 annually. See Table 5 in the Appendix for additional information on new market access.

4. Funding*

APHIS receives funds through appropriations, user fees, and agreements to support international activities. In FY 2007, these sources provided the Agency with \$93.663 million to conduct activities overseas. Of this total, APHIS spent \$88.869 million and plans to carryover the remaining portion into FY 2008.

4.1. Appropriated Funds

In FY 2007, the U.S. Congress appropriated APHIS \$846.23 million. Of that amount, the Agency had approximately \$87.089 million available to conduct international activities, about ten percent of the Agency's total appropriations. The table lists the line items supporting the Agency's international activities. They are annual appropriations, with the exception of no-year authority included in the entire Fruit Fly Exclusion and Detection and Highly Pathogenic Avian Influenza line items and 25 percent of the Screwworm line item.

APHIS uses the majority of these appropriated funds to support fruit fly and screwworm eradication and control programs in Mexico and Central America. The Agency uses the rest of the funds for key safeguarding and trade functions throughout the world. APHIS also receives funding from the governments of Mexico, Panama, and Guatemala to support the fruit fly and screwworm programs. For the screwworm program, Mexico and Panama contributed \$1.75 and \$1.1 million, respectively. For the fruit fly program, Guatemala and Mexico each contributed \$1 million. The Foot and Mouth Disease/ Foreign Animal Diseases and Trade Issues Resolution and Management line items support our safeguarding and trade activities. Additionally, APHIS spends small portions of other line items in Mexico and the Caribbean to support domestic

* The discussion of funds in this report does not include the use of emergency funds.

programs such as Boll Weevil and Pest Detection. APHIS uses the Physical and Operational Security line item to pay for its share of the State Department's Capital Security Cost-Sharing Program, which is our share of a \$16 billion Federal effort to construct 150 new embassies over a 12-year period. Federal agencies in U.S. overseas diplomatic facilities pay a share based on their number of overseas staff.

Appropriated Funds Available for International Activities FY 2007		
Line Item	Dollars	Purpose
Foot and Mouth Disease/ Foreign Animal Diseases	8,695,000	Detect and control outbreaks of foreign animal diseases throughout the world by participating in cooperative animal disease surveillance, control, and eradication programs.
Fruit Fly Exclusion and Detection*	26,544,000	Work with Guatemala and Mexico to eradicate Mediterranean fruit flies and prevent movement north of Chiapas, Mexico and to eradicate Mexican fruit flies near the U.S.-Mexico border.
Highly Pathogenic Avian Influenza*	9,176,000	Carry out international capacity building activities throughout the world to prevent, detect, and eradicate avian influenza.
Physical Security*	3,487,000	Contribute to the Capital Security Cost Sharing program to construct 150 new embassies. Department of State calculates our contribution based on the number of overseas staff.
Screwworm	27,753,000	Prevent infestation of screwworm flies in the United States by working with Mexico, Panama, and other Central American countries.
Trade Issues Resolution and Management*	11,010,000	Resolve and manage trade issues by negotiating trade regulations and free trade agreements, setting international standards, providing technical assistance, and facilitating capacity building activities.
Tropical Bont Tick	424,000	Support surveillance and control activities in the Caribbean.
Total	\$87,089,000	

* APHIS splits these line items between domestic and international programs. This table only shows the international program.

4.2. User Fees

Congress authorizes APHIS to collect and spend Agricultural Quarantine and Inspection (AQI) User Fees to conduct an agricultural inspection program for international passengers and cargo, now operated jointly with the Department of Homeland Security's Customs and Border Protection. APHIS uses a small portion of these funds to conduct pre-departure inspections of U.S.-bound passenger baggage from the Dominican Republic (as discussed in the section on classical swine fever) and in Mexico and to conduct risk analyses overseas. In FY 2007, the Agency spent \$5.391 million in user fees for overseas activities.

4.3. Agreements

APHIS receives funds to support its international activities from other Federal agencies (reimbursable funds) and foreign agricultural producers (trust funds). In FY 2007, APHIS received \$433,000 in reimbursable funds from other agencies that use our resources, facilities, or staff experts. APHIS also utilized trust funds of about \$750,000 from overseas producers for APHIS' work to pre-clear commodities for export to the United States.

5. Personnel and Locations

APHIS has 129 U.S. direct hire positions supporting international activities at headquarters (53) and overseas (57), which include civil service, Foreign Service and U.S. contractor appointments. In addition, APHIS has a total of 151 Foreign Service Nationals (local hires) working in offices overseas.

The bulk of APHIS' international staff has and continues to be devoted to the screwworm and Medfly eradication and control programs in Mexico and Central America. The Agency's remaining international staff works in programs such as foot-and-mouth disease (FMD) eradication in South America, pre-clearance activities around the world, trade facilitation, capacity building, and global pest and disease surveillance.

APHIS has offices in 53 overseas locations in 44 countries. Some countries, such as Mexico and Brazil, have multiple APHIS offices to manage various safeguarding programs. In addition, APHIS has experts positioned in key international organizations, such as the Food and Agriculture Organization (FAO) in Rome, Italy, and the International Organization for Animal Health (OIE) in Paris, France. The three APHIS employees at FAO focus on international activities related to highly pathogenic avian influenza. Our employee at the OIE focuses on the animal health international standard setting program.

Table 6 in the appendix shows the current number of personnel and the activities of APHIS offices, along with expenditures in each country as of October 2007.

6. Conclusion

APHIS' safeguarding strategy in a global context includes both inspection and exclusion activities at U.S. borders as well as overseas collaboration with foreign governments on programs to monitor and respond to potentially harmful invasive species and prevent their spread to the United States. This report lays out the foundation that is currently in place. APHIS has deployed resources around the world in strategic locations. However, these locations may play a different role as time goes on. For example, an office working on highly pathogenic avian influenza may have a new purpose when a new threatening disease emerges. APHIS has developed a 5-year international strategic plan that discusses possible challenges that may pose a threat to U.S. agriculture, strategy on how to deal with the challenges, and prioritization on action plans.

Appendix

Table 1: Pre-Clearing Exports

Value of U.S.-Bound Exports Cleared (2006-2007 Production and Shipping Season)		
Region	Country	Dollars
South America	Argentina	\$56,666,000
	Brazil	17,000,000
	Chile	1,500,000,000
	Ecuador	27,000,000
	Peru	43,700,000
North America	Mexico	718,000,000
Central America	Costa Rica	2,760,000
	Guatemala	27,000,000
	Nicaragua	4,440,000
	Jamaica	702,000
	Haiti	1,500,000
	Dominican Republic	11,000
Europe and Middle East	Netherlands/Turkey	166,500,000
	Belgium	684,000
	Israel	Undetermined
	Great Britain and Ireland	3,630,000
	Spain	70,000,000
Asia and Pacific	New Zealand	75,000,000
	Japan	507,000
	Korea	28,800,000
	Philippines	113,000
Africa	South Africa	76,350,000
Total		\$2,820,363,000

Table 2: Facilitating Trade

Value of U.S. Agricultural Exports Released (Fourth Quarter of FY 2007)		
Country	Commodity	Value
China	Hides and skins	\$160,000
	Seafood	3,000
Japan	Timothy hay	17,847
Korea	Bovine semen	45,000
	Corn	88,760
	Pet food	620,000
	Porcine serum	288
Mexico	Apricots	30,000
	Bovine semen	11,000
	Pears and peaches	50,000
Singapore	Pet food	9,000
Spain	Wheat	10,200,000
	Amaranth grain	26,000
Taiwan	Animal feed additives	27,152
	Apples	38,528
	Avian vaccines	9,145
	Blueberries	18,000
	Celery	5,120
	Cherries	47,880
	Corn	88,697
	Fetal bovine serum	269,928
	Fish feed	23,655
	Logs	1,760,776
	Melons	77,850
	Nectarines	67,615
	Oranges	21,373
	Peaches	94,247
	Peaches/nectarines	12,152
	Pet food	261,823
	Plums	50,064
	Potatoes	37,665
	Soybeans	1,071,211
	Vegetables	7,024
	White oak logs	6,923
Venezuela	Corn oil	1,728,900
Total		\$16,986,623

Table 3: Retaining Export Markets

Not all market values have been calculated and are listed as undetermined.

Value of Export Markets Retained (Fourth Quarter of FY 2007)		
Country	Commodity	Value
Mexico	Poultry meal and yellow grease	\$3,000
	Bovine semen	9,000,000
Panama	Bovine embryos	Undetermined
	Bovine semen	300,000
Uruguay	Live horses	90,000
Total		\$9,393,000

Table 4: Expanding Export Markets

Not all market values have been calculated and are listed as undetermined.

Value of Export Markets Expanded (Fourth Quarter FY 2007)		
Country	Commodity	Value
Costa Rica	Swine and swine semen	\$200,000
Hong Kong	Poultry meat	215,000
Japan	Poultry and poultry products	300,000
Mexico	Processed eggs for animal feed	240,000
	Stone-fruit for processing	4,500,000
	Poultry and poultry products	500,000
	Dairy cattle	700,000
Russia	Poultry and poultry meat	Undetermined
Turkey	Pet food	4,500,000
South Africa	Swine semen	Undetermined
Total		\$11,155,000

Table 5: Accessing New Markets

Not all market values have been calculated and are listed as undetermined.

Value of New Markets (Fourth Quarter FY 2007)		
Country	Commodity	Value
Albania	Bovine semen	\$75,000
Bolivia	Poultry genetics	Undetermined
Costa Rica	Live cattle	20,000
European Union	Captive bred parrots	Undetermined
Guatemala	Poultry and feather meal	Undetermined
Nicaragua	Equine semen	Undetermined
Panama	Live cattle	300,000
Turkey	Live cattle	500,000
Total		\$895,000

Table 6: Overseas Locations and Resources

This table shows how APHIS deployed resources for international activities and where activities took place in FY 2007. The data does not include emergency funds such as avian influenza supplemental.

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
Africa (6)						
EGYPT- Cairo	1	3	\$459,649	✓	✓	Covers nearby countries with developing agricultural infrastructures and those desiring to increase their international trade opportunities; provides technical assistance for U.S. agricultural interests abroad; and seeks additional access for U.S. exports.
GHANA- Accra	0	0	\$140,285	✓	✓	Assists USAID with capacity building projects in Africa.
SENEGAL- Dakar	1	1	\$618,017	✓	✓	Assists in releasing U.S. agricultural shipments; supports the African Growth and Opportunity Act initiative; coordinates pest risk assessments in Africa; and provides trade assistance to USDA's Foreign Agricultural Services.
SOUTH AFRICA- Cape Town and Pretoria	2	4	\$830,196	✓	✓	Assists governments and private exporters/importers with agricultural trade in sub-Saharan Africa and conducts safeguarding and pre-clearance activities.
UGANDA- Kampala	0	0	\$141,925	✓	✓	Assists USAID with capacity building projects in Africa.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
Asia (12)						
BURMA- Rangoon	0	1	\$36,291	✓		Set up in 2007 as part of USDA's international response to avian influenza and works with community animal health workers and non-profit organizations.
CAMBODIA- Khan Daun Penh	0	1	\$26,052	✓		Set up in 2007 as part of USDA's international response to avian influenza and works with local governments, community animal health workers, and non-profit organizations on avian influenza.
CHINA- Beijing	2	3	\$666,681	✓	✓	Works with U.S. embassies and host government officials in China, Hong Kong, Macau, and Mongolia to ensure the release of U.S.-origin agricultural commodities at Chinese ports of entry and coordinates with counterparts on animal and plant pests and diseases of concern.
INDIA- Delhi	0	0	\$50,000		✓	Set up in 2007 to conduct pre-clearance activities.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
INDONESIA- Jakarta	1	2	\$230,361	✓		Set up in 2006 as part of USDA's international response to HPAI to coordinate our HPAI activities; works with local governments, animal health workers, and non-profit organizations; and partners with U.S. universities and institutions on HPAI research and training.
JAPAN- Tokyo	2	3	\$1,066,720	✓	✓	Addresses plant and animal health issues in regard to trade; seeks additional access and market expansion for U.S. products; pre-clears Unshu oranges and Aomori apples; advises 16 Asian countries on agriculture health issues, and serves as liaison in Asia with Asia-Pacific Economic Cooperation, OIE, and FAO.
LAOS- Vientiane	0	1	\$18,355	✓		Set up in 2007 as part of USDA's international response to HPAI and works with local governments, community animal health workers, and non-profit organizations on HPAI.
PHILIPPINES- Manila	1	3	\$201,569		✓	Covers a total of 13 countries in the Pacific; administers pre-clearance activities in New Zealand, Australia, the Philippines, Singapore, and Thailand; addresses SPS trade problems to ensure U.S. agricultural exports are accessible to foreign countries.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
SOUTH KOREA- Seoul	1	2	\$489,619		✓	Works with counterparts in eight countries on inspection and treatment of plant commodities; addresses and resolves SPS trade-related issues; seeks new market access and expanding and retaining existing markets; and facilitates the release of U.S. shipments detained at ports.
TAIWAN- Taipei	1	1	\$430,379	✓	✓	Works within the American Institute of Taiwan to improve trade relations with Taiwan and works on HPAI in northeast Asia.
THAILAND- Bangkok	2	3	\$328,598	✓		Set up in 2006 as part of USDA's international response to HPAI and serves as the regional hub for APHIS' HPAI activities and works with FAO, OIE, and WTO offices to coordinate responses to HPAI.
Europe (5)						
AUSTRIA- Vienna	2	1	\$613,341		✓	Manages trade issues for Russia, non-EU Eastern European countries, and the Commonwealth of Independent States; negotiates access for U.S. commodities; explains SPS aspects of entry into U.S. markets and advances international standards.

Table 6: Overseas Locations and Resources – Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
BELGIUM- Brussels	2	2	\$1,173,456	✓	✓	Advocates international recognition of scientifically-based agricultural health standards with counterparts in the European Union and continues science-based interchange with the WTO-recognized technical reference authorities for animal health, plant health, and food safety, all of which are located in Europe.
FRANCE- Paris	1	0	\$260,785	✓	✓	Works with the OIE, the preeminent international standard-setting body for trade in animals and animal products to advance U.S. interests in animal health, animal welfare, food safety, and wildlife management.
ITALY- Rome	3	0	\$2,931,479	✓		Works with FAO's Crisis Management Center, the hub for animal health global, responses and provides expertise in global animal health crises such as HPAI.
NETHERLANDS- The Hague	1	2	\$134,720		✓	Works on preclearance programs for flower bulbs in the Netherlands, Belgium, England, Ireland, Israel, Scotland, and Turkey.
South America (11)						
ARGENTINA- Buenos Aires	1	3	\$230,258		✓	Works on preclearance programs and assists local governments, companies, and private exporters/importers with technical issues relating to agricultural trade with the United States.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
BOLIVIA- Santa Cruz	1	2	\$775,019	✓		Provides expertise on animal health issues—chiefly, foot and mouth disease eradication and works on plant health and technical and regulatory capacity-building.
BRAZIL- Brasília and Sao Paulo	3	5	\$1,298,385	✓	✓	Conducts animal and plant health safeguarding activities; pre-clearance of agricultural products; and provides SPS assistance to FAS.
CHILE- Santiago	2	22	\$1,730,259		✓	Conducts pre-clearance of agricultural products and assists governments, companies, and private exporters/importers with technical issues relating to agricultural trade.
COLOMBIA- Bogota	1	12	\$1,208,085	✓	✓	Provides assistance and expertise regarding foot and mouth disease eradication, trade issues, pest risk analysis, and health crises.
ECUADOR- Quito	0	1	\$39,097		✓	Assists governments, companies, and private exporters/importers with agricultural trade issues.
PARAGUAY- Asunción	0	0	\$315,486	✓		Assists Inter-American Institute for Cooperation on Agriculture with safeguarding projects.
PERU- Lima	0	1	\$82,638	✓	✓	Works on U.S. animal and plant health issues and interests and conducts pre-clearance of mangoes and asparagus.
URUGUAY- Montevideo	0	2	\$181,064	✓		Provides expertise on plant and animal health issues in Uruguay and Paraguay.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
VENEZUELA- Caracas	0	1	\$103,513	✓		Supports local authorities on FMD and other foreign animal disease issues.
Central America (6)						
BELIZE- Belmopan	0	1	\$121,338	✓	✓	Supervises Medfly trapping; oversees pre-clearance activities; and works on plant health, HPAI surveillance, safeguarding, and trade.
COSTA RICA- San Jose	1	4	\$879,226	✓	✓	Works with the Inter-American Institute for Cooperation for Agriculture (IICA) regarding agricultural trade throughout the hemisphere to allow access of U.S. commodities throughout the Americas; works on prevention of FMD and other foreign animal diseases; and conducts mango pre-clearance activities.
GUATEMALA- Guatemala City	3	10	\$19,577,407	✓	✓	Serves as headquarters for Medfly eradication in Central America; conducts surveillance and monitoring activities and maintenance of sterile insect production facilities; conducts animal health surveillance and training to local officials; negotiates protocols for the import of U.S. products; and facilitates the release of detained U.S. agricultural shipments.
HONDURAS- Tegucigalpa	0	1	\$820,884	✓		Works on prevention of FMD and other foreign animal diseases and conducts plant health surveillance and capacity building for HPAI.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
NICARAGUA- Managua	1	1	\$664,398	✓	✓	Works on prevention of FMD and other foreign animal diseases; conducts plant health surveillance and capacity building for HPAI; and conducts mango pre-clearance.
PANAMA- Panama City	7	5	\$11,321,303	✓		Manages the screwworm facility in Panama and an animal health diagnostic laboratory. See detailed discussion of APHIS' screwworm program in section c.
Caribbean (5)						
DOMINICAN REPUBLIC- Santo Domingo	2	6	\$3,057,236	✓		Works on Tropical Bont Tick surveillance, conducts safeguarding activities such as plant health, classical swine fever, and HPAI.
HAITI- Port-au-Prince	1	11	\$720,466	✓	✓	Conducts year-round mango preclearance; facilitates capacity-building workshops on HPAI; and assists in coordination efforts of classical swine fever eradication.
JAMAICA- Kingston and Montego Bay	1	4	\$182,037	✓	✓	Conducts year-round preclearance of 31 commodities and facilitates capacity-building workshops on HPAI.
TRINIDAD- Port-of-Spain	0	1	\$6,293	✓		Set up in late 2007 to assist country officials with safeguarding activities.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
North America (8)						
CANADA- Ottawa	1	1	\$309,440	✓	✓	Works on trade resolutions and prevention efforts of FMD and other foreign animal diseases.
MEXICO- Mexico City (safeguarding), Tapachula (Medfly), Tuxtla Gutierrez (screwworm production),Guadalajara (mango pre-clearance), Uruapan (avocado pre-clearance), Reynosa (Mexfly), and Tijuana (Mexfly and safeguarding)	8	23	\$15,004,552	✓	✓	These offices manage a large and diverse animal and plant health portfolio including: SPS trade issues; cooperative pest/disease surveillance, diagnostics and eradication programs; and, large preclearance inspection programs (valued at \$750 million) for mangoes, citrus, and avocados. Because of Mexico's proximity to the United States and the risk of pests or diseases crossing the border, APHIS works with its Mexican counterparts to mitigate the migration and establishment of plant pests such as exotic fruit flies, boll weevil, pink bollworm, hydrilla and animal diseases such as tuberculosis, brucellosis, cattle tick fever, avian influenza, exotic Newcastle disease, and wildlife-vectored rabies. APHIS also provides technical support at a diagnostic reference laboratory in Mexico City that identifies animal diseases and a sterile screwworm production facility.

Table 6: Overseas Locations and Resources - Continued

Locations (53)	Number of Employees		FY 2007	Activities at a Glance		Description of Activities
	U.S. Hire	Local		Safeguarding	Trade	
Headquarters						
UNITED STATES- DC Area	53	0	\$19,294,497	✓	✓	Supports overseas activities throughout 53 locations in 44 countries by providing management and administrative support, coordinating trade negotiations, and working with other Federal agencies on global coordinated efforts.
Grand Total	110	151	\$88,968,801			



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since fiscal year 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Rosa DeLauro
Page 2

The annual lease cost for the current facilities in Orlando is \$400,000. However, the program has outgrown the facility and there is no room to expand on the existing property. Accordingly, APHIS must relocate the program. APHIS ultimately chose Newnan, Georgia, as the site of the new facility for three reasons.

The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Congressman Kingston and Senators Kohl and Brownback, as well as Members from the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since fiscal year 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Jack Kingston
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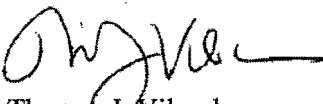
The annual lease cost for the current facilities in Orlando is \$400,000. However, the program has outgrown the facility and there is no room to expand on the existing property. Accordingly, APHIS must relocate the program. APHIS ultimately chose Newnan, Georgia, as the site of the new facility for three reasons.

The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Congresswoman DeLauro and Senators Kohl and Brownback, as well as Members from the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since fiscal year 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Herbert Kohl

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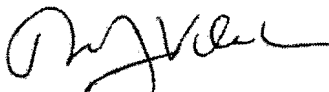
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The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Senator Brownback, Congresswoman DeLauro, and Congressman Kingston, as well as Members from affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Sam Brownback
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Sam Brownback

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The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Senator Kohl, Congresswoman DeLauro, and Congressman Kingston, as well as Members from the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Bill Nelson
United States Senate
716 Senate Hart Office Building
Washington, DC 20510

Dear Senator Nelson:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since fiscal 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Bill Nelson

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If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to the Subcommittees on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies of the Committees on Appropriations, U.S. House of Representatives and United States Senate, as well as other Members from the affected districts.

Sincerely,



Thomas L. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Mel Martinez
United States Senate
356 Russell Senate Office Building
Washington, DC 20510

Dear Senator Martinez:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Mel Martinez
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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Corrine Brown
U.S. House of Representatives
2336 Rayburn House Office Building
Washington, D.C. 20515-0903

Dear Congresswoman Brown:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Corrine Brown

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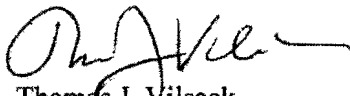
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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Ginny Brown-Waite
U.S. House of Representatives
414 Cannon House Office Building
Washington, D.C. 20515-0905

Dear Congresswoman Brown-Waite:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Ginny Brown-Waite
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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Alan Grayson
U.S. House of Representatives
1605 Longworth House Office Building
Washington, D.C. 20515-0908

Dear Congressman Grayson:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Alan Grayson

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

The Honorable Bill Posey
U.S. House of Representatives
132 Cannon House Office Building
Washington, D.C. 20515-0915

Dear Congressman Posey:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Bill Posey
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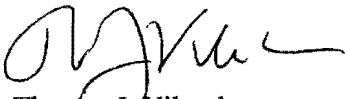
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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Suzanne Kosmas
U.S. House of Representatives
238 Cannon House Office Building
Washington, D.C. 20515-0924

Dear Congresswoman Kosmas:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

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The Honorable Suzanne Kosmas
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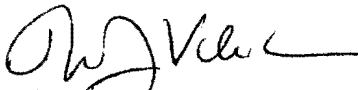
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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

Honorable Saxby Chambliss
United States Senate
416 Russell Senate Office Building
Washington, D.C. 20510-1005

Dear Senator Chambliss:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

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The Honorable Saxby Chambliss
Page 2

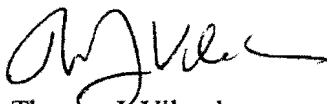
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The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 3 0 2009

Honorable Johnny Isakson
United States Senate
120 Russell Senate Office Building
Washington, D.C. 20510-1004

Dear Senator Isakson:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

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Honorable Johnny Isakson

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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Jim Marshall
U.S. House of Representatives
504 Cannon House Office Building
Washington, D.C. 20515-1008

Dear Congressman Marshall:

I am writing to inform you about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

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The Honorable Jim Marshall
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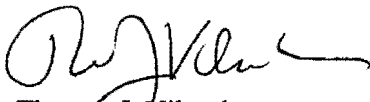
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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Phil Gingrey
U.S. House of Representatives
119 Cannon House Office Building
Washington, D.C. 20515-1011

Dear Congressman Gingrey:

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The Honorable Phil Gingrey

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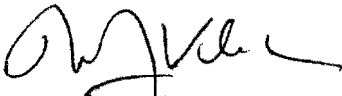
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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

Reports accompanying the FY 2008 Consolidated Appropriations Act request a report that examines the effectiveness of current regulatory and inspection efforts for *Phytophthora ramorum* (*P. ramorum*); the risk from infected plant material; and the risk posed by the importation and interstate movement of *P. ramorum* host plants. In response to this request, we are pleased to submit the enclosed report.

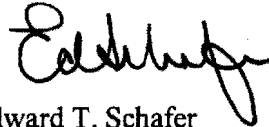
P. ramorum is a highly infectious plant disease that causes Sudden Oak Death (SOD) and threatens 117 trees, shrubs, and plants. It was first detected in the United States in 1995 but did not widely impact the U.S. nursery industry until 2003, when it was detected in nurseries in California, Oregon, and Washington. *P. ramorum* has dramatically affected ecosystems and the landscape of California's coast. It has spread to forested areas of California and Oregon and has been detected in hundreds of U.S. nurseries.

Since FY 2002, the Animal and Plant Health Inspection Service (APHIS) has conducted a regulatory and control program to prevent the artificial (human-assisted) spread of *P. ramorum* from infested areas and reduce the infection level in nurseries. To achieve these goals, the Agency works with officials in California, Oregon, and Washington to establish quarantines, and require nursery inspections before host plants may be shipped interstate. These activities minimize the artificial spread of *P. ramorum* through nursery shipments while allowing healthy plants to move. To date there is no evidence of any disease caused by *P. ramorum* being established outside of the quarantine area as a result of artificial movement. This program has protected the nation's landscape and has safeguarded several industries from enormous potential losses.

The Honorable Rosa DeLauro
Page 2

We appreciate the Committee's interest in this program and stand ready to provide you and your staff with any additional information and briefings you may want. We are sending identical letters to Congressman Kingston, and Senators Kohl and Bennett.

Sincerely,

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Herb Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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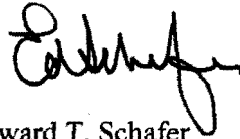
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The Honorable Herb Kohl

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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

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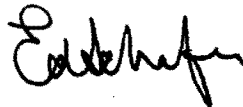
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The Honorable Jack Kingston
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Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Robert Bennett
Ranking Member, Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510

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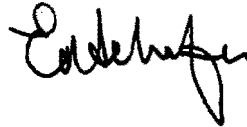
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Edward T. Schafer
Secretary

Enclosure

U.S. Department of Agriculture
Animal and Plant Health Inspection Service
2008 Report on the Status of the *Phytophthora ramorum* Program

P. ramorum is a highly infectious plant disease that causes Sudden Oak Death (SOD) and threatens 117 tree, shrub, and plant species. It was first detected in the United States in 1995 in Marin County, California, but did not widely impact the U.S. nursery industry until 2003. Nevertheless, this pathogen has dramatically affected ecosystems and the landscape along California's coast. It has spread within forests of California and Oregon, and to hundreds of U.S. nurseries. No pathogen has ever spread across so many plant species so quickly. Detection can be difficult, and no practical control measures are known. Once a plant is infected, it must be either burned or double-bagged, and buried. Currently, *P. ramorum* is well established in 14 California counties and also exists in southwest Oregon (Curry County). While *P. ramorum* has not been found in Washington's forest and urban landscapes, it has been found in the State's nurseries.

The Animal and Plant Health Inspection Service (APHIS) conducts a regulatory and control program to prevent the artificial (human-assisted) spread of *P. ramorum* from infested areas and reduce the infection level in nurseries. To achieve these goals, the Agency establishes quarantines and requires nursery inspections before host plants may be shipped interstate. These activities minimize the artificial spread of *P. ramorum* through nursery shipments, the most likely means of transporting the pathogen, while still allowing healthy plants to move. To date, no evidence of any disease caused by *P. ramorum* has been found established outside the quarantine area as a result of artificial movement. This program is designed to eventually eliminate *P. ramorum* from production nurseries. When the pathogen is found in a nursery, the program promptly suspends shipments, intensively surveys the nurseries and vicinity, and investigates the origin and destination of the infected material. Through these efforts, this program protects the nation's landscape and safeguards several industries – primarily forest, horticultural and small fruit agricultural industries – from enormous potential losses.

In 2003, USDA's Forest Service (FS) conducted an assessment on the risk of *P. ramorum* spread in forests. Similarly, APHIS conducted an assessment in 2004 on the risk of *P. ramorum* spread in nurseries. Both assessments found a high risk for spread and the greatest risk for establishment in the eastern States notably through the Appalachians. This risk level is based on *P. ramorum*'s ability to reproduce well and disperse naturally and artificially. In addition, no effective eradication techniques are known. The FS found a high risk for *P. ramorum* establishment in the wild since it was found outside its native distribution area. The FS also cited high reproduction potential due to the number of ports of entry or major destinations that provide a suitable climate and abundant host material. In addition, the FS rated economic risk as high since the disease attacks valuable products, causes tree death, and increases costs for production, mitigation, and regulatory compliance. Environmental risk was also rated as high, based on ecological disruption and biodiversity reduction. Both assessments included risk maps to guide their surveys. These maps indicated that vast numbers of potentially infested shipments were shipped nationwide in 2003 and 2004. However, surveys in eastern States have not

detected any *P. ramorum* infestations outside of nurseries. When the pathogen has been detected in nurseries, APHIS and States have destroyed all plants linked to SOD in affected nurseries, and have instituted quarantines to require nursery inspections before host plants could be sold.

In APHIS' study, the disease level was found to be minimized by pesticides and to have a low infection frequency in the summer. In January 2008, APHIS analyzed several measures to prevent *P. ramorum* and the risk posed by importing and shipping host plants. Several biological factors, including host range and symptom variety, affect the risk of introduction and establishment. This study found a high risk of climate-host interaction since most eastern States have many hosts in suitable climates. The host range was rated as high risk based on the disease's virulence and host's volume. The study also found a high risk of dispersal, since the hosts are abundant and susceptible. Also, the environmental risk was rated as high, since the disease can spread naturally or artificially to areas conducive to establishment. The risk potential for all pathways was rated as high because the pathogen occurs in forests and in regulated articles, and because few effective treatments exist.

APHIS addresses these risks by enforcing quarantines in affected areas, updating the host list as necessary, and amending survey protocols in high-risk situations. In addition, APHIS may conduct follow-up activities to ensure that all instances of *P. ramorum* are detected and addressed promptly. Communication and coordination are vital as well. APHIS communicates regularly with other governmental entities and industry groups involved in the program. In addition, the Agency is working with industry to enforce uniform compliance agreements and implement best management practices (BMPs). Toward this end, APHIS is working to establish a standing science panel to quickly address issues as they arise. In addition, APHIS is developing enhanced diagnostic tools for use by State and university laboratories. For example, APHIS has been developing a field diagnostic test for *P. ramorum* that should be available for use on regulatory samples by the 2009 testing season. This new technology will enable the program to quickly and accurately identify the pathogen in the field.

In November 2007, APHIS conducted a risk analysis to assess the risks of importing *P. ramorum* host plants, and the risks of moving the pathogen domestically through these hosts. This analysis found a high risk associated with both the importation and domestic movement of hosts and host products from infested areas without specified growing, inspection, and certification requirements. APHIS reached this conclusion since *P. ramorum* hosts are widely distributed, abundant, and susceptible. In addition, the pathogen has more than one disease cycle per growing season, infections may remain undetected for years, and there is demonstrated long distance dispersal through trade as well as likely long distance dispersal by natural means. APHIS' analysis identified several major pathways that facilitate the movement of *P. ramorum*, and rated the overall risk potential for all pathways as high. The study noted considerable challenges in devitalizing *P. ramorum* because it occurs in forests and regulated articles, treatment options are limited, and the efficacy of these treatments is limited. Pathway mitigation measures include chemical, physical, and cultural and biological treatments.

To address these risks, APHIS carries out phytosanitary measures to restrict the movement of host plant materials from the European Union. APHIS requires that host plant materials be accompanied by a phytosanitary certificate affirming the origin from a nursery that is tested annually and found free of *P. ramorum*, and that the plants are found free of the pathogen before export. In addition to APHIS' measures, the national plant protection organization (NPPO) of the exporting nation conducts annual surveys of nurseries exporting these materials to ensure that those nurseries are free of *P. ramorum*. Further, the NPPO inspects all host material shipments to the United States, and samples test plants bearing *P. ramorum* symptoms.

Domestically, APHIS has established regulations requiring nurseries in quarantined areas to be tested annually for *P. ramorum* symptoms. These regulations also require inspections before interstate movement. In addition, nurseries in regulated areas of California, Oregon and Washington State must have annual and pre-shipment inspections of host materials before interstate shipment. If the pathogen is detected during any inspection process, APHIS will immediately initiate control efforts. Currently, APHIS is promulgating a rule to enable fall inspections of at-risk nurseries in California, Oregon, and Washington. These nurseries are now inspected only in the spring. The additional inspections will enhance APHIS' capability to rapidly detect and address infested nurseries, and prevent shipments of infected plants. The rule also would lift inspection requirements for nurseries in those States that do not carry host materials. This aspect of the rule would reduce shipment delays, and would enable the Agency to conduct additional inspections where they are most needed.

In addition to regulatory efforts, APHIS is promoting a systems approach to *P. ramorum* management in the three States. Under this approach, at-risk nurseries would adopt BMPs, clean stock programs, or pest-free production areas to preclude or prevent *P. ramorum* establishment in nurseries. APHIS is encouraging nurseries to inspect all incoming stock, monitor nearby host plants for *P. ramorum* symptoms in the spring and summer, and avoid exposing host plants to irrigation and standing water. If nurseries follow these and other practices and comply with State and Federal regulations, they can assure that only high quality healthy plants are shipped. In Oregon, a coalition of the Oregon Department of Agriculture, Oregon State University, and the Oregon Association of Nurseries is conducting a pilot "Grower Assisted Inspection Program" (GAIP). APHIS is supporting the development of this promising program. The GAIP consists of on-line training and a training certification program for growers, BMPs with monitoring to reduce all *Phytophthora* species from nursery production, documentation of efforts and results, and an audit system to validate compliance. Although the California Department of Food and Agriculture has not adopted a complete systems approach, they are establishing a pilot program to evaluate BMPs at select nurseries. This effort is designed to inform nurseries of measures that should reduce the risk of *P. ramorum* introduction and establishment in their nurseries. Washington State has developed training for nursery employees that should mitigate the risk. APHIS would eventually like to harmonize the BMPs used by each of the three States.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 17 2010

The Honorable Sam Farr
U.S. House of Representatives
1261 Longworth House Office Building
Washington, D.C. 20515-0517

Dear Congressman Farr:

It is my understanding that you are working on legislation that would expand the U.S. Department of Agriculture's (USDA) authorities under the Animal Welfare Act (AWA). There are two provisions in particular that would help USDA improve enforcement: (1) authority to regulate dogs sold via the Internet as outlined by USDA's Inspector General, and (2) the inclusion of user fees for certain enforcement activities under the AWA.

As you know, the AWA was enacted in 1966 and requires that minimum standards of care and treatment be provided for certain animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. However, the Act exempts entities selling a high volume of animals at retail, which raises animal health and humane treatment concerns. Of particular concern is the loophole for entities that sell large volumes of dogs via the Internet. As you move forward in crafting this legislation, I recognize the importance of addressing the exemption associated with high volume retail sales of dogs, via the Internet or through other means.

If enacted, these necessary changes to the AWA would require additional resources to carry out enforcement activities. One way to ensure the increased costs of this legislation are addressed as well as ensure current and future animal welfare challenges are met is to incorporate a user fee mechanism into the legislative proposal.

I appreciate your attention to these matters and look forward to working with you on your legislation upon its introduction. A similar letter is being sent to Senator Durbin.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", written over the printed name and title.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 17 2010

The Honorable Richard J. Durbin
United States Senate
309 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Durbin:

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Thomas I. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 17 2009

The Honorable Rosa L. DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

As requested, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) has conducted a feasibility study on the construction of a multi-species fruit fly rearing facility in the State of Hawaii. I am writing to provide a copy of the report, which was developed along with a program of requirements for the facility. If constructed, the new facility would sit on the site of APHIS' existing, but defunct, fruit fly facility in Waimanalo, Hawaii, which would need to be demolished. APHIS closed down the Waimanalo facility in 2002 due to a variety of structural and technical problems (described in the accompanying report). The feasibility study includes an estimate of the full construction and operational costs of a new multi-species fruit fly rearing facility and describes cooperative fruit fly activities conducted with California and Hawaii.

We note that the 2010 Agriculture Appropriations Act (P.L. 111-80) provides \$2.6 million for such a facility, including funds for demolition. We appreciate the Committee's interest in this matter and would be happy to answer any questions concerning the demolition of the Waimanalo facility and the feasibility study for a new facility. The program of requirements is also available upon request.

A similar letter is being sent to Congressman Kingston, Chairman Kohl, and Senator Brownback.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is written over a horizontal line.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 17 2009

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

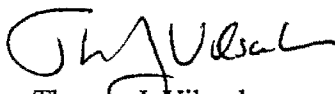
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A similar letter is being sent to Chairwoman DeLauro, Chairman Kohl, and Senator Brownback.

Sincerely,


Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 17 2009

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

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A similar letter is being sent to Senator Brownback, Chairwoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 17 2009

The Honorable Sam Brownback
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

As requested, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) has conducted a feasibility study on the construction of a multi-species fruit fly rearing facility in the State of Hawaii. I am writing to provide a copy of the report, which was developed along with a program of requirements for the facility. If constructed, the new facility would sit on the site of APHIS' existing, but defunct, fruit fly facility in Waimanalo, Hawaii, which would need to be demolished. APHIS closed down the Waimanalo facility in 2002 due to a variety of structural and technical problems (described in the accompanying report). The feasibility study includes an estimate of the full construction and operational costs of a new multi-species fruit fly rearing facility and describes cooperative fruit fly activities conducted with California and Hawaii.

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Sincerely,

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Thomas J. Vilsack
Secretary

Enclosure

U.S. Department of Agriculture
Animal and Plant Health Inspection Service

**Feasibility Report on the Construction of a Multi-Species Fruit Fly Facility
in the State of Hawaii**

Executive Summary

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) and Agricultural Research Service (ARS), the California Department of Food and Agriculture (CDFA), the Hawaii Department of Agriculture (HDOA), and the University of Hawaii at Manoa (UH-M) in collaborative efforts, joined to determine the feasibility of the construction of a multi-species fruit fly facility in the State of Hawaii. This effort was prompted by concerns over the state of APHIS' existing fruit fly facility in Hawaii and threats posed by fruit fly species for which no sterile insect technology currently exists. Specifically, the Senate Appropriations Committee directed APHIS to prepare this feasibility report. The study resulted in the following two findings:

1. The most feasible option for the current APHIS building in Waimanalo, Hawaii, is for it to be demolished.
2. The construction of a multi-species fruit fly facility in Hawaii would cost an estimated \$35 million in 2011 dollars (including approximately \$1.9 million to demolish the existing building). Operational costs, including utilities and materials are estimated to be \$4 million per year.

These estimates were developed prior to the enactment of the 2010 Agriculture Appropriations Act (P.L. 111-80). The President's FY2010 Budget did not request funds for the demolition or construction of this facility.

Background

Senate Report 109-266 accompanying the FY 2007 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and related Agencies directed APHIS to submit a feasibility report on the construction of a multi-species fruit fly rearing facility in the State of Hawaii. The Committee noted that while APHIS and several State cooperators conduct sterile fruit fly activities to control damage caused by the Mediterranean fruit fly, agricultural production in Hawaii is threatened by other fruit fly species for which there are no sterile insect programs. The report was to include an estimate of the full construction and operational costs of a new facility and describe any agreements with the State of Hawaii on joint operational cost-sharing arrangements, as well as activities conducted jointly with the Hawaii Department of Agriculture and the California Department of Food and Agriculture regarding multi-species fruit fly control.

To assist in completing the feasibility study and developing the cost estimate, APHIS commissioned a program of requirements for a new facility with space for sterile fly production and technology development. APHIS, ARS, CDFA, HDOA, and UH-M worked together to evaluate strategic needs for the facility and potential insect control programs in the Pacific Basin. The group proposed a campus-style center on USDA-leased property at the UH-M Agricultural Experiment Station in Waimanalo, Hawaii. UH-M currently leases the land on which the proposed facility would be built (this is the same land where our existing defunct facility sits) to APHIS at a reduced rate of \$1.00/yr. There is a possibility of future cost sharing opportunities if

the facility were built and became operational. At this time, the CDFA and HDOA did not offer any cost share toward the proposed new fruit fly facility in Hawaii.

History of Fruit Fly Production in Hawaii

The Mediterranean fruit fly has been present in Hawaii since 1912. Because it is the only State with established populations of this species, Hawaii was favored as a low-risk site for production of sterile flies for SIT programs in the continental United States. CDFA has operated various Mediterranean fruit fly production operations in Hawaii since the 1970s. APHIS produced Mediterranean fruit fly at the Hawaii Fruit Fly Production Facility (HFFPF) in Waimanalo from 1989 through 2002. During this time, there were significant technological advances that increased SIT efficacy, compelling new strain implementation and modifications to production facilities.

The HFFPF was initially designed in response to incursions of Mediterranean fruit fly in California and was constructed to be used only to produce sterile Mediterranean fruit fly for emergency programs in California. The production capacity was approximately 300 million sterile pupae per week throughout the operational period. The facility was designed to operate in emergency stand-by mode; however, full production characterized the normal operations after the supposed two-year eradication program evolved into a continuous preventive release program. The HFFPF structure was negatively impacted by the continuous production cycle that did not allow for timely preventative maintenance. General deterioration in the structure resulted from operating conditions characterized by high humidity, heavy water use, airborne food particles, acidic conditions, and demanding temperature requirements. Mold contamination in the ventilation system resulted from the harsh operating conditions and the presence of insulation on the internal surfaces of ducts. Mechanical systems exposed to sea air deteriorated rapidly. Disposal of process water and solid waste also contributed to decreased operational efficiency.

The Mediterranean fruit fly strain initially reared at HFFPF was a standard strain with both male and female pupae production. This standard strain, Hi-Lab, was in culture for more than 40 years until its replacement with the more competitive Maui-93 standard strain in 1996. An international expert panel reviewed the HFFPF and CDFA programs in 1998 and recommended implementation of the state-of-the-art, male-only strain, temperature-sensitive lethal (*ts/l*), by both facilities. This recommendation was based on scientific data demonstrating a four-fold increase in field effectiveness and significant savings in production costs with the male-only strain. The expert panel identified building and operational deficiencies and recommended the renovation of CDFA (Phase I) and HFFPF (Phase II) to accommodate *ts/l* production. Both facilities required extensive structural and mechanical modifications to support the strict temperature requirements of the *ts/l* strain.

Phase I of *ts/l* implementation began when the CDFA facility closed for renovation in 1999. During this process, the interior of the existing building was completely demolished prior to reconfiguration. The renovations were completed in 2001. CDFA began production of *ts/l* in 2001 and currently has a capacity of 200 million sterile male pupae per week. CDFA pupae are irradiated at the HFFPF in Cs¹³⁷ irradiators. HFFPF ceased production in 2002 because there was no longer a demand for the standard strain and potential health hazards from environmental mold were present (Table 1). The California PRP program currently receives sterile *ts/l* males from the CDFA Fruit Fly Facility in Hawaii and the APHIS facility in Guatemala.

Planning for Phase II *ts/* implementation at the HFFPF began in 1999. Three options were proposed for the HFFPF: 1) renovation; 2) expansion; and 3) replacement. Financing options focused on “loans for energy” programs through the U.S. Department of Energy and public utility companies. An expert consultant was hired to develop each proposal, considering the production capacity, operational costs and efficiencies, and long-term sustainability of the infrastructure. Several structural, environmental, and operational inspections were conducted to ascertain the optimal course of action (Table 1). Replacement of the mold contaminated ductwork, replacement of the inefficient ventilation system, water conservation, and process automation were key factors in realizing the energy savings in renovation and expansion options. Projected expenditures for each option were developed and the final analysis determined that replacement of the HFFPF building was the most cost-effective strategy. The inflexible nature of and sloping floors in the HFFPF structure were given as the primary reasons that renovation or repurposing of the structure was cost-prohibitive (Table 1, 2005).

A master site plan for APHIS and the UH-M Waimanalo Agricultural Experiment Station functions at the Waimanalo site was developed in 2004. A conceptual design for a new Mediterranean fruit fly production facility, water treatment facility, and warehouse was presented. The core building was a sustainable production facility, with energy efficient, reliable infrastructure to maximize water reclamation, and improve operational efficiency. The estimated cost of the 45,000 ft² building was \$28 million and the production capacity was 300 million sterile Mediterranean fruit fly *ts/* males per week. Funding for this facility was not available at that time, and the project was halted pending completion of the APHIS Fruit Fly Strategic Plan.

Strategic Planning

The APHIS Fruit Fly Strategic Plan 2006-2010 recognized that secure sources of sterile Mediterranean fruit fly are critical to APHIS. The plan also identified the need for development of new control strategies for *Bactrocera* species (such as Oriental and melon fruit fly—species that are established in Hawaii and outbreaks of which occur in California). Public comments on potential sites for fruit fly production facilities or potential sources of sterile flies were solicited through the *Federal Register* (Vol. 71, No. 231, Docket No. APHIS-2006-0126). Criteria for potential sites included the:

- risk of establishment of fruit fly species at the production site,
- availability and reliability of transportation routes from production sites to California and Florida emergence facilities,
- construction costs and timeline, and
- suitability of the site and existing facilities to implementation of new technologies.

Comments from stakeholders and the general public supported the construction of facility/facilities with the capacity to produce several species of fruit flies, including *Bactrocera*, the Mediterranean fruit fly and the Mexican fruit fly (*Anastrepha ludens*). Hawaii was recommended as the location for *Bactrocera* and Mediterranean fruit fly production. There is no current capacity for *Bactrocera* production in the United States, and Hawaii is the only State with established populations of target species, the oriental fruit fly and melon fly. Given these recommendations from our stakeholders and previous building inspections, APHIS initiated a cooperative study to determine the feasibility of replacing the current HFFPF building in Hawaii.

APHIS, ARS, CDFA, HDOA, and UH-M worked together to evaluate these issues and consider potential needs for insect control programs in the Pacific Basin. This group proposed a campus-style center on USDA-leased property at the UH-M Agricultural Experiment Station in Waimanalo, Hawaii, to replace the HFFPF. If constructed, the facility would include space for functions such as fruit fly production and technology development, insect quarantine and biological control, and supporting research. Because the APHIS-supported Mediterranean fruit fly production facility in Guatemala has a production capability of 3 billion sterile pupae per week, the group determined that another facility for ongoing sterile fly production was not necessary. The new facility would provide back-up capacity for emergency situations. A preliminary program of requirements (POR) was completed by the alliance members in 2008. The conceptual design is a flexible, multi-functional, shared main building for *Bactrocera* technology development, emergency Mediterranean fruit fly production capacity, program-specific methods development activities, and administrative operations. This building could function independently or in conjunction with CDFA production activities. The conceptual design has supporting infrastructure to operate two rearing modules each with the capacity to produce 30 million sterile male *ts/* Mediterranean fruit fly pupae per week or 6 million *Bactrocera* pupae. The design retains the flexibility to produce one or two species simultaneously. The building will need to resist excessive deterioration resulting from climate and weather factors. The POR cost estimate is \$35 million including design, construction, design and construction contingencies; bid and construction phase services; and a \$1.9 million estimate for the cost of demolishing the current building. Annual operating costs for the facility would be approximately \$4 million.

Conclusions

APHIS has completed a study to determine the feasibility of replacing the HFFPF in Waimanalo, Hawaii. Numerous professional evaluations and inspections of the building were conducted (Table 1) to determine the proper course of action: renovation, expansion, or replacement. Projected expenditures for each option were developed, and the final analysis determined that demolishing the existing HFFPF building was the most cost-effective, long-term strategy. A variety of evaluations confirmed that demolition of the current structure is warranted because of the mold contamination, general deterioration of the structure and mechanical systems, and the inflexible nature of the building. Replacing this facility with a multispecies fruit fly rearing facility would cost approximately \$35 million with annual operating expenses estimated at \$4 million. These estimates were developed prior to the enactment of the FY 2010 Agriculture Appropriations Act (P.L. 111-80), which provides \$2.6 million for such a facility, including funds for demolition.

These estimates were developed prior to the enactment of the 2010 Agriculture Appropriations Act (P.L. 111-80), which provided \$2.6 million for such a facility. The conceptual design developed for this report is a multi-functional, shared building for *Bactrocera* technology development, emergency Mediterranean fruit fly production capacity, program-specific research, and administrative operations. Program functions would be conducted jointly by APHIS, ARS, CDFA, HDOA, and UH-M.

Table 1. Record of structural, environmental, and operational inspections of APHIS Hawaii Fruit Fly Production Facility in Waimanalo, Hawaii.

DATE	FACILITY INSPECTION RESULTS
2001	<p>Vanderweil Facility Advisors, LLC (VFA) physical plant assessment</p> <ul style="list-style-type: none"> ▪ HFFPF in poor condition ▪ Physical plant and functionality impaired ▪ Estimated \$9.3 million to complete required repairs ▪ Did not identify environmental mold as an issue
2001	<p>U.S. Public Health Service inspection</p> <ul style="list-style-type: none"> ▪ Environmental mold contamination measured ▪ HFFPF ventilation system with interior insulation, badly contaminated ▪ Employee health and safety concerns ▪ Ventilation system requires immediate correction
2002	<p>Communications Resource Inc. security assessment</p> <ul style="list-style-type: none"> ▪ Security issues identified at HFFPF ▪ Estimated cost to correct concerns was \$3.9 million ▪ Recommended 24 hour per day armed guard service to secure irradiators
2002	<p>U.S. Public Health Service inspection</p> <ul style="list-style-type: none"> ▪ Identification of mold species ▪ Mold species are a serious health and safety issue ▪ Recommended immediate closure of specific rooms to limit mold exposure ▪ Recommended removal of staff from HFFPF as soon as possible
2003	<p>Hawaiian Electric Company (HECO) assessment</p> <ul style="list-style-type: none"> ▪ Energy audit ▪ Conceptual design and master plan HFFPF renovation and expansion ▪ Mechanical and electrical upgrades estimated at \$4.8 million ▪ Did not include mold remediation
2005	<p>STV, Inc. structural evaluation</p> <ul style="list-style-type: none"> ▪ Assess feasibility of 'repurposing' the HFFPF building ▪ Support structure does not allow movement of walls to accommodate warehousing function ▪ Floors and foundation replacement required to accommodate forklift use in warehouse space ▪ Renovation must address structural code deficiencies ▪ Recommended demolition and replacement as most cost-effective option
2006	<p>U.S. Public Health Service inspection</p> <ul style="list-style-type: none"> ▪ Mold contamination in HFFPF remains a serious health and safety issue ▪ Remove staff from building as soon as possible ▪ Turn-off ventilation system immediately



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Sam Brownback
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

To address the concerns of the audit, APHIS developed an action plan to improve the Agency's regulation of dog dealers—particularly those who are repeat violators. APHIS proposes to add to its existing enforcement workforce to reduce the current ratio of inspectors to facilities inspected and to increase the number of investigators available to conduct investigations in areas where there is intensive workload. In addition, APHIS will enhance oversight of the inspectors in the field to improve the quality and accuracy of documentation and evidence collected to support downstream enforcement efforts. APHIS will also increase enforcement oversight for evaluating investigations for legal sufficiency, determining appropriate enforcement actions, preparing enforcement actions and referrals to USDA's Office of the General Counsel, and processing investigative subpoenas. Lastly, APHIS will review proposed legislation to determine potential modifications for regulating the Internet sale of dogs.

The APHIS action plan addresses the issues identified by the OIG and should significantly increase compliance with both the AWA and those regulations associated with dog dealers and breeders. The Agency also has established a set of performance measures that will provide a mechanism to evaluate the action plan's effectiveness. In addition, APHIS will aggressively

The Honorable Sam Brownback
Page 2

pursue the strengthening of regulations to ensure the welfare of dogs in the care of regulated entities.

To begin this effort, APHIS proposes to use the Secretary's 7 percent interchange authority provided in the Department of Agriculture Organic Act of 1944 to shift \$4 million within existing fiscal year (FY) 2010 appropriated funding resources from its Avian Influenza program to the Animal Welfare and Animal and Plant Health Regulatory Enforcement (APHRE) programs. Animal Welfare will receive \$2.5 million and APHRE will receive \$1.5 million. Consistent with our FY 2011 budget request, we believe we can sustain a reduction in the Avian Influenza program because we now have a better understanding of how the virus spreads and the actual risk it poses, which is substantially less than originally believed. As avian influenza issues globally and domestically have diminished, APHIS is able to reduce its resources for adequately addressing this disease.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to Senator Kohl, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", written in a cursive style.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
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Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

To address the concerns of the audit, APHIS developed an action plan to improve the Agency's regulation of dog dealers—particularly those who are repeat violators. APHIS proposes to add to its existing enforcement workforce to reduce the current ratio of inspectors to facilities inspected and to increase the number of investigators available to conduct investigations in areas where there is intensive workload. In addition, APHIS will enhance oversight of the inspectors in the field to improve the quality and accuracy of documentation and evidence collected to support downstream enforcement efforts. APHIS will also increase enforcement oversight for evaluating investigations for legal sufficiency, determining appropriate enforcement actions, preparing enforcement actions and referrals to USDA's Office of the General Counsel, and processing investigative subpoenas. Lastly, APHIS will review proposed legislation to determine potential modifications for regulating the Internet sale of dogs.

The APHIS action plan addresses the issues identified by the OIG and should significantly increase compliance with both the AWA and those regulations associated with dog dealers and breeders. The Agency also has established a set of performance measures that will provide a mechanism to evaluate the action plan's effectiveness. In addition, APHIS will aggressively

pursue the strengthening of regulations to ensure the welfare of dogs in the care of regulated entities.

To begin this effort, APHIS proposes to use the Secretary's 7 percent interchange authority provided in the Department of Agriculture Organic Act of 1944 to shift \$4 million within existing fiscal year (FY) 2010 appropriated funding resources from its Avian Influenza program to the Animal Welfare and Animal and Plant Health Regulatory Enforcement (APHRE) programs. Animal Welfare will receive \$2.5 million and APHRE will receive \$1.5 million. Consistent with our FY 2011 budget request, we believe we can sustain a reduction in the Avian Influenza program because we now have a better understanding of how the virus spreads and the actual risk it poses, which is substantially less than originally believed. As avian influenza issues globally and domestically have diminished, APHIS is able to reduce its resources for adequately addressing this disease.

If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to Senators Kohl and Brownback and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", with a stylized flourish at the end.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2368 Rayburn House Office Building
Washington, D.C. 20515-1001

Dear Congressman Kingston:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

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The Honorable Jack Kingston
Page 2

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

May 17, 2010

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
184 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) enforces the Animal Welfare Act (AWA), which requires that minimum standards of care and treatment be provided for warm-blooded animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. USDA's Office of the Inspector General (OIG) recently conducted a review of APHIS' inspections of the AWA specific to problematic dog dealers—those who have committed repeat and serious violations. Their conclusions suggest that APHIS should shift its compliance efforts from an education focus for problematic dog dealers to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs.

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The Honorable Herbert Kohl
Page 2

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If you have any questions about this matter, please do not hesitate to contact me. I am sending a similar letter to Senator Brownback, Congresswoman DeLauro, and Congressman Kingston.

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Thomas I. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Congressman Kingston and Senators Kohl and Brownback, as well as members of the affected districts.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", written over a horizontal line.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Jack Kingston
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Kingston:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Chairwoman DeLauro, Chairman Kohl, and Senator Brownback, as well as members of the affected districts.

Sincerely,

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Herbert Kohl
Chairman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, DC 20515-6016

Dear Mr. Chairman:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Senator Brownback, Chairwoman DeLauro, and Congressman Kingston, as well as members of the affected districts.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is positioned above the printed name of the Secretary.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Sam Brownback
Ranking Member, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Brownback:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Chairman Kohl, Chairwoman DeLauro, and Congressman Kingston, as well as members of the affected districts.

Sincerely,

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Richard Burr
United States Senate
217 Russell Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Burr:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Chairwoman DeLauro, Congressman Kingston and Senators Kohl and Brownback, as well as members of the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Kay R. Hagan
United States Senate
521 Dirksen Senate Office Building
Washington, D.C. 20510-4403

Dear Senator Hagan:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

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Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Heath Shuler
United States House of Representatives
422 Cannon House Office Building
Washington, D.C. 20515-4403

Dear Congressman Shuler:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

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Sincerely,

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable G.K. Butterfield
United States House of Representatives
413 Cannon House Office Building
Washington, D.C. 20515-4403

Dear Congressman Butterfield:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

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Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 30 2009

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

I am writing to inform the Subcommittee about the relocation of the Animal and Plant Health Inspection Service (APHIS) National Detector Dog Training Center (NDDTC) from Orlando, Florida, to Newnan, Georgia. This relocation is expected to occur in April 2009.

In October 1997, APHIS merged three regional detector dog training centers that had been operating in Miami, Florida, New York, New York, and San Francisco, California, to form a National Detector Dog Training Center in Orlando, Florida. The mission of this Center has been to operate a center of excellence to train detector dog teams to protect American agriculture. APHIS-trained detector dogs work with inspectors from the Department of Homeland Security (DHS) at international airports and border crossings to check baggage and cargo entering the United States. In addition, they make public appearances to highlight the potential threats posed by pests and diseases harbored in fruits, plants, and meats inadvertently introduced through international travel.

The NDDTC in Orlando currently leases and occupies 7,800 square feet, and includes kennels for 30 dogs, five quarantine runs, postal and passenger training areas, and classrooms. Since fiscal year 2002, the NDDTC has dramatically expanded its staff and operations to meet the need for additional detector dog teams at DHS, which began a concerted effort several years ago to increase staffing levels for agricultural inspections. The Center has also begun training dog teams for State departments of agriculture and foreign ministries of agriculture. Given the dramatic increase in requests for canine training at State and international levels, the commensurate need to train DHS agricultural specialist canine handlers, and APHIS' exploration of the use of canines for domestic pest detection efforts, the NDDTC has had to lease three additional facilities in Orlando.

The Honorable Rosa DeLauro

Page 2

The annual lease cost for the current facilities in Orlando is \$400,000. However, the program has outgrown the facility and there is no room to expand on the existing property. Accordingly, APHIS must relocate the program. APHIS ultimately chose Newnan, Georgia, as the site of the new facility for three reasons.

The first reason is cost savings. The Agency considered other areas in Orlando, but the bids came in at approximately \$2.6 million per year with a three percent annual increase. The 20-year cost of the lease would be \$71 million. The relocation to Newnan will cost approximately \$1 million in one-time costs (primarily for employee relocation), plus \$2 million per year in lease costs for the first 5 years. The lease costs will increase to \$2.2 million in years 6-10, \$2.4 million in years 11-15, and \$2.7 million in years 16-20. The 20-year cost of this lease would be only \$46.5 million, resulting in a \$24.5 million savings in lease costs over the 20-year period. In addition, Newnan, 40 miles southwest of Atlanta, has a lower cost of living than Orlando. The second reason is proximity to a busy international airport. Newnan's proximity to Atlanta International Airport will provide the program with more "on-the-job" training opportunities for new canine teams, given that the Atlanta airport has more than twice the amount of international traffic than Orlando. The third reason is consolidation of facilities. Relocating the Center to Newnan will also enable APHIS to consolidate its expanded operations of the NDDTC under a single compound, reducing the total number of leases and providing more opportunities for efficient operations in general.

Regarding the impact on personnel, the NDDTC includes a staff of 15 employees plus one vacancy. Of the 15 employees, 13 or 14 will relocate to Georgia, while one or two will remain in the Orlando area. We are pursuing alternative employment in the Orlando area for the displaced employees through APHIS' Career Transition Assistance Program (CTAP). CTAP provides these employees with preferential consideration when they apply for job vacancies within the U.S. Department of Agriculture in their local commuting area.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Congressman Kingston and Senators Kohl and Brownback, as well as Members from the affected districts.

Sincerely,



Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 17 2010

The Honorable Sam Farr
U.S. House of Representatives
1261 Longworth House Office Building
Washington, D.C. 20515-0517

Dear Congressman Farr:

It is my understanding that you are working on legislation that would expand the U.S. Department of Agriculture's (USDA) authorities under the Animal Welfare Act (AWA). There are two provisions in particular that would help USDA improve enforcement: (1) authority to regulate dogs sold via the Internet as outlined by USDA's Inspector General, and (2) the inclusion of user fees for certain enforcement activities under the AWA.

As you know, the AWA was enacted in 1966 and requires that minimum standards of care and treatment be provided for certain animals bred for commercial sale, used in research, transported commercially, or exhibited to the public. However, the Act exempts entities selling a high volume of animals at retail, which raises animal health and humane treatment concerns. Of particular concern is the loophole for entities that sell large volumes of dogs via the Internet. As you move forward in crafting this legislation, I recognize the importance of addressing the exemption associated with high volume retail sales of dogs, via the Internet or through other means.

If enacted, these necessary changes to the AWA would require additional resources to carry out enforcement activities. One way to ensure the increased costs of this legislation are addressed as well as ensure current and future animal welfare challenges are met is to incorporate a user fee mechanism into the legislative proposal.

I appreciate your attention to these matters and look forward to working with you on your legislation upon its introduction. A similar letter is being sent to Senator Durbin.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is written over a circular stamp.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 26 2010

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

I am writing to inform the Subcommittee about the closure of the Animal and Plant Health Inspection Service's (APHIS) Plant Protection and Quarantine office in Asheville, North Carolina.

APHIS' Plant Protection and Quarantine program has five work stations in North Carolina, located in Raleigh, Goldsboro, Charlotte, Wilmington, and Asheville. The Asheville office has one employee focused on pest detection and export certification activities. Last year, the program conducted a staffing review of its North Carolina operations and found a growing demand for its services in the eastern part of the State and reduction of work in the western part. Specifically, the results of the staffing review indicated that the workload in Asheville does not support the need for a full-time position in the area. Additional employees are needed in the eastern part of the State to issue phytosanitary certificates for export shipments, conduct pest detection activities, and monitor compliance agreements with businesses that deal with items regulated by APHIS. Accordingly, APHIS is closing its Asheville office, and the remaining offices will shift operations to cover the area previously covered by the Asheville employee. APHIS offered a directed reassignment to the affected employee in Asheville, who has accepted the offer. The employee will be performing similar work at the same pay grade and in the same position as previously, and APHIS will pay full relocation costs. While APHIS will incur relocation costs, the Agency will save approximately \$14,000 in lease and utility costs on an annual basis by closing the Asheville office.

If you have any questions about this matter, please do not hesitate to contact me. A similar letter is being sent to Congressman Kingston and Senators Kohl and Brownback, as well as members of the affected districts.

Sincerely,

A handwritten signature in black ink, which appears to read "Tom Vilsack", is written over a horizontal line.

Thomas J. Vilsack
Secretary



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

NOV 17 2009

The Honorable Rosa L. DeLauro
Chairwoman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

As requested, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) has conducted a feasibility study on the construction of a multi-species fruit fly rearing facility in the State of Hawaii. I am writing to provide a copy of the report, which was developed along with a program of requirements for the facility. If constructed, the new facility would sit on the site of APHIS' existing, but defunct, fruit fly facility in Waimanalo, Hawaii, which would need to be demolished. APHIS closed down the Waimanalo facility in 2002 due to a variety of structural and technical problems (described in the accompanying report). The feasibility study includes an estimate of the full construction and operational costs of a new multi-species fruit fly rearing facility and describes cooperative fruit fly activities conducted with California and Hawaii.

We note that the 2010 Agriculture Appropriations Act (P.L. 111-80) provides \$2.6 million for such a facility, including funds for demolition. We appreciate the Committee's interest in this matter and would be happy to answer any questions concerning the demolition of the Waimanalo facility and the feasibility study for a new facility. The program of requirements is also available upon request.

A similar letter is being sent to Congressman Kingston, Chairman Kohl, and Senator Brownback.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", is written over the typed name of the Secretary.

Thomas J. Vilsack
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

OCT 02 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515

Dear Madam Chairwoman:

Reports accompanying the FY 2008 Consolidated Appropriations Act request a report that examines the effectiveness of current regulatory and inspection efforts for *Phytophthora ramorum* (*P. ramorum*); the risk from infected plant material; and the risk posed by the importation and interstate movement of *P. ramorum* host plants. In response to this request, we are pleased to submit the enclosed report.

P. ramorum is a highly infectious plant disease that causes Sudden Oak Death (SOD) and threatens 117 trees, shrubs, and plants. It was first detected in the United States in 1995 but did not widely impact the U.S. nursery industry until 2003, when it was detected in nurseries in California, Oregon, and Washington. *P. ramorum* has dramatically affected ecosystems and the landscape of California's coast. It has spread to forested areas of California and Oregon and has been detected in hundreds of U.S. nurseries.

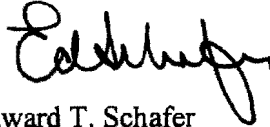
Since FY 2002, the Animal and Plant Health Inspection Service (APHIS) has conducted a regulatory and control program to prevent the artificial (human-assisted) spread of *P. ramorum* from infested areas and reduce the infection level in nurseries. To achieve these goals, the Agency works with officials in California, Oregon, and Washington to establish quarantines, and require nursery inspections before host plants may be shipped interstate. These activities minimize the artificial spread of *P. ramorum* through nursery shipments while allowing healthy plants to move. To date there is no evidence of any disease caused by *P. ramorum* being established outside of the quarantine area as a result of artificial movement. This program has protected the nation's landscape and has safeguarded several industries from enormous potential losses.

The Honorable Rosa DeLauro

Page 2

We appreciate the Committee's interest in this program and stand ready to provide you and your staff with any additional information and briefings you may want. We are sending identical letters to Congressman Kingston, and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Schafer", with a stylized flourish at the end.

Edward T. Schafer
Secretary

Enclosure

U.S. Department of Agriculture
Animal and Plant Health Inspection Service
2008 Report on the Status of the *Phytophthora ramorum* Program

P. ramorum is a highly infectious plant disease that causes Sudden Oak Death (SOD) and threatens 117 tree, shrub, and plant species. It was first detected in the United States in 1995 in Marin County, California, but did not widely impact the U.S. nursery industry until 2003. Nevertheless, this pathogen has dramatically affected ecosystems and the landscape along California's coast. It has spread within forests of California and Oregon, and to hundreds of U.S. nurseries. No pathogen has ever spread across so many plant species so quickly. Detection can be difficult, and no practical control measures are known. Once a plant is infected, it must be either burned or double-bagged, and buried. Currently, *P. ramorum* is well established in 14 California counties and also exists in southwest Oregon (Curry County). While *P. ramorum* has not been found in Washington's forest and urban landscapes, it has been found in the State's nurseries.

The Animal and Plant Health Inspection Service (APHIS) conducts a regulatory and control program to prevent the artificial (human-assisted) spread of *P. ramorum* from infested areas and reduce the infection level in nurseries. To achieve these goals, the Agency establishes quarantines and requires nursery inspections before host plants may be shipped interstate. These activities minimize the artificial spread of *P. ramorum* through nursery shipments, the most likely means of transporting the pathogen, while still allowing healthy plants to move. To date, no evidence of any disease caused by *P. ramorum* has been found established outside the quarantine area as a result of artificial movement. This program is designed to eventually eliminate *P. ramorum* from production nurseries. When the pathogen is found in a nursery, the program promptly suspends shipments, intensively surveys the nurseries and vicinity, and investigates the origin and destination of the infected material. Through these efforts, this program protects the nation's landscape and safeguards several industries – primarily forest, horticultural and small fruit agricultural industries – from enormous potential losses.

In 2003, USDA's Forest Service (FS) conducted an assessment on the risk of *P. ramorum* spread in forests. Similarly, APHIS conducted an assessment in 2004 on the risk of *P. ramorum* spread in nurseries. Both assessments found a high risk for spread and the greatest risk for establishment in the eastern States notably through the Appalachians. This risk level is based on *P. ramorum*'s ability to reproduce well and disperse naturally and artificially. In addition, no effective eradication techniques are known. The FS found a high risk for *P. ramorum* establishment in the wild since it was found outside its native distribution area. The FS also cited high reproduction potential due to the number of ports of entry or major destinations that provide a suitable climate and abundant host material. In addition, the FS rated economic risk as high since the disease attacks valuable products, causes tree death, and increases costs for production, mitigation, and regulatory compliance. Environmental risk was also rated as high, based on ecological disruption and biodiversity reduction. Both assessments included risk maps to guide their surveys. These maps indicated that vast numbers of potentially infested shipments were shipped nationwide in 2003 and 2004. However, surveys in eastern States have not

detected any *P. ramorum* infestations outside of nurseries. When the pathogen has been detected in nurseries, APHIS and States have destroyed all plants linked to SOD in affected nurseries, and have instituted quarantines to require nursery inspections before host plants could be sold.

In APHIS' study, the disease level was found to be minimized by pesticides and to have a low infection frequency in the summer. In January 2008, APHIS analyzed several measures to prevent *P. ramorum* and the risk posed by importing and shipping host plants. Several biological factors, including host range and symptom variety, affect the risk of introduction and establishment. This study found a high risk of climate-host interaction since most eastern States have many hosts in suitable climates. The host range was rated as high risk based on the disease's virulence and host's volume. The study also found a high risk of dispersal, since the hosts are abundant and susceptible. Also, the environmental risk was rated as high, since the disease can spread naturally or artificially to areas conducive to establishment. The risk potential for all pathways was rated as high because the pathogen occurs in forests and in regulated articles, and because few effective treatments exist.

APHIS addresses these risks by enforcing quarantines in affected areas, updating the host list as necessary, and amending survey protocols in high-risk situations. In addition, APHIS may conduct follow-up activities to ensure that all instances of *P. ramorum* are detected and addressed promptly. Communication and coordination are vital as well. APHIS communicates regularly with other governmental entities and industry groups involved in the program. In addition, the Agency is working with industry to enforce uniform compliance agreements and implement best management practices (BMPs). Toward this end, APHIS is working to establish a standing science panel to quickly address issues as they arise. In addition, APHIS is developing enhanced diagnostic tools for use by State and university laboratories. For example, APHIS has been developing a field diagnostic test for *P. ramorum* that should be available for use on regulatory samples by the 2009 testing season. This new technology will enable the program to quickly and accurately identify the pathogen in the field.

In November 2007, APHIS conducted a risk analysis to assess the risks of importing *P. ramorum* host plants, and the risks of moving the pathogen domestically through these hosts. This analysis found a high risk associated with both the importation and domestic movement of hosts and host products from infested areas without specified growing, inspection, and certification requirements. APHIS reached this conclusion since *P. ramorum* hosts are widely distributed, abundant, and susceptible. In addition, the pathogen has more than one disease cycle per growing season, infections may remain undetected for years, and there is demonstrated long distance dispersal through trade as well as likely long distance dispersal by natural means. APHIS' analysis identified several major pathways that facilitate the movement of *P. ramorum*, and rated the overall risk potential for all pathways as high. The study noted considerable challenges in devitalizing *P. ramorum* because it occurs in forests and regulated articles, treatment options are limited, and the efficacy of these treatments is limited. Pathway mitigation measures include chemical, physical, and cultural and biological treatments.

To address these risks, APHIS carries out phytosanitary measures to restrict the movement of host plant materials from the European Union. APHIS requires that host plant materials be accompanied by a phytosanitary certificate affirming the origin from a nursery that is tested annually and found free of *P. ramorum*, and that the plants are found free of the pathogen before export. In addition to APHIS' measures, the national plant protection organization (NPPO) of the exporting nation conducts annual surveys of nurseries exporting these materials to ensure that those nurseries are free of *P. ramorum*. Further, the NPPO inspects all host material shipments to the United States, and samples test plants bearing *P. ramorum* symptoms.

Domestically, APHIS has established regulations requiring nurseries in quarantined areas to be tested annually for *P. ramorum* symptoms. These regulations also require inspections before interstate movement. In addition, nurseries in regulated areas of California, Oregon and Washington State must have annual and pre-shipment inspections of host materials before interstate shipment. If the pathogen is detected during any inspection process, APHIS will immediately initiate control efforts. Currently, APHIS is promulgating a rule to enable fall inspections of at-risk nurseries in California, Oregon, and Washington. These nurseries are now inspected only in the spring. The additional inspections will enhance APHIS' capability to rapidly detect and address infested nurseries, and prevent shipments of infected plants. The rule also would lift inspection requirements for nurseries in those States that do not carry host materials. This aspect of the rule would reduce shipment delays, and would enable the Agency to conduct additional inspections where they are most needed.

In addition to regulatory efforts, APHIS is promoting a systems approach to *P. ramorum* management in the three States. Under this approach, at-risk nurseries would adopt BMPs, clean stock programs, or pest-free production areas to preclude or prevent *P. ramorum* establishment in nurseries. APHIS is encouraging nurseries to inspect all incoming stock, monitor nearby host plants for *P. ramorum* symptoms in the spring and summer, and avoid exposing host plants to irrigation and standing water. If nurseries follow these and other practices and comply with State and Federal regulations, they can assure that only high quality healthy plants are shipped. In Oregon, a coalition of the Oregon Department of Agriculture, Oregon State University, and the Oregon Association of Nurseries is conducting a pilot "Grower Assisted Inspection Program" (GAIP). APHIS is supporting the development of this promising program. The GAIP consists of on-line training and a training certification program for growers, BMPs with monitoring to reduce all *Phytophthora* species from nursery production, documentation of efforts and results, and an audit system to validate compliance. Although the California Department of Food and Agriculture has not adopted a complete systems approach, they are establishing a pilot program to evaluate BMPs at select nurseries. This effort is designed to inform nurseries of measures that should reduce the risk of *P. ramorum* introduction and establishment in their nurseries. Washington State has developed training for nursery employees that should mitigate the risk. APHIS would eventually like to harmonize the BMPs used by each of the three States.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUL 07 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

The Joint Explanatory Statement accompanying the Fiscal Year 2008 Consolidated Appropriations Act directed the Animal and Plant Health Inspection Service (APHIS) to provide \$333,900 for a cooperative agreement with the Lake Gaston Weed Control Council (LGWCC) and \$37,100 for the cooperative agreement with the Tri-Country (Smith Mountain) Lake Administrative Commission for hydrilla control efforts. In addition, a report on the status of these activities was requested. The report is enclosed.

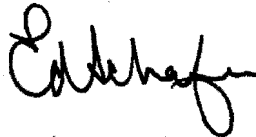
For many years, APHIS has been working with Lake Gaston stakeholders and the LGWCC to develop and implement a management plan to address the factors that allowed the formation and spread of hydrilla. The goal of this effort is to reduce hydrilla populations at Lake Gaston and Smith Mountain Lake to manageable levels through an effective and environmentally responsible combination of biocontrol agents, herbicides, and revegetation strategies. According to APHIS, eradication is not likely due to the size of Lake Gaston and the extent of the infestation. Program activities consist primarily of lake surveys, and applied research to test biocontrol agents and alternate herbicide options.

This year's hydrilla program in Lake Gaston and Smith Mountain Lake will not yield results until late summer. Therefore, we would like to update you on the situation as of today, and then, following completion of our collaborative efforts this summer, with a report discussing the results of this year's activities.

The Honorable Rosa DeLauro
Page 2

We appreciate your interest in the program, and would be pleased to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Schafer', written in a cursive style.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 23 2008

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, DC 20515-1001

Dear Congressman Kingston:

As requested by House Report 110-258 accompanying the Fiscal Year 2008 Agriculture Appropriations Bill, enclosed is the Department of Agriculture's Animal and Plant Health Inspection Service's (APHIS) plan on how resources available in 2008 will be spent and where activities will be conducted for the Emerald Ash Borer (EAB) program.

APHIS' objectives for the EAB program in 2008 include expanding survey efforts with the use of a newly developed trap, continuing regulatory enforcement activities to prevent further spread of the pest, enhancing control activities by further developing a biological control initiative and the use of other new techniques, and efforts to educate target audiences about the program. Plans for each component are discussed in the enclosure.

We appreciate the Committee's interest in the EAB program. We are sending similar letters to Congresswoman DeLauro, and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in dark ink, appearing to read "E. Schafer", is written over the typed name of the Secretary.

Edward T. Schafer
Secretary

Enclosure

**Department of Agriculture
Animal and Plant Health Inspection Service
2008 Report on Emerald Ash Borer Program**

As requested by House Report 110-258, the following is the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service's (APHIS) plan on how resources available in 2008 will be spent and where activities will be conducted for the Emerald Ash Borer (EAB) program.

EAB is an exotic pest of ash trees in the United States. It was first found in July 2002 in southeast Michigan. The pest is indigenous to Asia and is known to occur in China, Korea, Japan, Mongolia, the Russian Far East, and Taiwan. EAB is now considered established in urban and forested ecosystems throughout areas of Michigan, Indiana, Illinois, Ohio, Pennsylvania, Maryland, and Ontario, Canada. It was also recently detected in West Virginia for the first time. EAB is well suited for climatic conditions in North America and has the potential to destroy entire stands of ash.

In general, APHIS is the lead Federal agency responsible for national plant and animal health including disease prevention and pest detection, control, and eradication. APHIS works with stakeholders to implement unique and unified programs at all levels. Under the Plant Protection Act of 2000 (7 USC sec. 8301), APHIS has sole authority over the regulation and control of pests and diseases of regulatory significance. In general, the Pest Detection program cooperates with State departments of agriculture, other Federal agencies (such as USDA's Forest Service and the Department of the Interior's Bureau of Land Management), and numerous universities to prioritize projects and conduct surveys.

APHIS' objectives for the EAB program in 2008 include expanding survey efforts with the use of a newly developed trap, continuing regulatory enforcement activities to prevent additional spread of the pest, enhancing control activities by further developing a biological control initiative and the use of other new techniques, and efforts to educate target audiences about the program. Plans for each component are discussed below.

The program has worked to improve EAB survey methods since the discovery of the pest in 2002. Surveys were originally based on the presence of visual symptoms (exit holes, bark cracks, branches sprouting on the trunk of the tree, woodpecker feeding sites, etc.) to determine presence or absence of EAB. The next development involved the use of detection trees, which had been stressed to release volatile chemicals attractive to the beetle and thus act as traps. However, both of these methods are labor intensive and relatively expensive. Accordingly, the program worked to develop a trap and lure, which will allow APHIS and cooperators to implement for the first time in Fiscal Year (FY) 2008, a survey based on attractant-baited traps. These traps offer several advantages over the other methods, including cost, uniformity of sampling unit, safety, fewer logistical problems, and more precision in sampling.

In FY 2008, the EAB program will obligate \$11.275 million on survey activities. The program is conducting a survey using the new traps to determine whether additional pockets of infestation may exist undetected outside the known infested areas. The survey will target high-risk sites and establishments in non-infested States where potentially infested articles such as nursery stock, ash logs, and firewood may have been moved a long distance from the generally infested area either prior to regulation or in violation of current regulations. The priority of the survey activities is conducting a grid-based delimiting survey within a 100-mile band of the last known EAB positive find to better define the leading edge and identify areas to provide support for mitigation activities to reduce the impact and spread. This delimiting survey will take place in the States of Illinois, Indiana, Iowa, Kentucky, Maryland, Michigan, New York, Ohio, Pennsylvania, West Virginia, and Wisconsin.

Specifically for EAB, APHIS regulates the movement of host materials, such as firewood, ash nursery stock, and timber, among other things, out of quarantined areas to prevent artificial spread of the pest. In addition to routine monitoring activities and issuance of permits in regulated or partially regulated States (including Michigan, Ohio, Indiana, Illinois, Maryland, Pennsylvania, and West Virginia), the program evaluates potential pathways for EAB to spread on an ongoing basis and determines how to address them. Examples of these efforts are assessments of rail lines, farm auctions, and ferry travel conducted to identify movement of regulated articles. They help the program allocate regulatory resources based on risk, and they are shared with other States and stakeholders for their use in determining the risk approaching them and targeting areas for survey. In FY 2008, the program is spending approximately \$6.8 million on regulatory activities.

Regulatory monitoring also helps to identify potential violations of the EAB quarantine regulations that may lead to additional pest spread. In FY 2008, the program completed two national recalls to help mitigate the risks associated with two quarantine violations. The first recall was related to ash nursery stock moved from Illinois, which is under Federal quarantine for EAB, to a nursery in Missouri, which shipped the ash nursery stock to customers in 33 States. The second recall was for the illegal distribution of planter boxes comprised of ash slab wood by two companies. All States, with the exception of Vermont, were affected by the recall.

EAB control activities generally target isolated infestations that are discovered outside quarantined areas and determined, through delimiting surveys, to be relatively small and separate from the larger infestation. Three sites are undergoing eradication efforts in FY 2008: a site in La Salle County, Illinois; and two small sites in Prince George's County, Maryland. Eradication activities are expected to be complete this spring, and the program will conduct extensive surveys to validate the success of eradication efforts. The program has approximately \$3.6 million available for control activities in FY 2008.

The program is continuing to move toward implementing a new biological control initiative in with the goal of establishing reproducing populations of several parasitoid

wasps to reduce EAB populations enough to allow ash trees to develop resistance to attack. Studies suggest that once the parasitic wasps are established, populations of EAB will decrease and ash trees will be able to survive attacks from a smaller amount of EAB. Currently, the program is evaluating whether three initial wasp species released last fall from interim biocontrol facilities in Michigan (reared at the U.S. Forest Service lab in East Lansing) and in Massachusetts (reared at the Center for Plant Health Science Technology in Otis) survived winter temperatures and if the wasps were able to establish a reproducing population to parasitize EAB populations. Based on promising preliminary results, the program is establishing an EAB Biocontrol Rearing Facility in Brighton, Michigan. APHIS and the U.S. Forest Service will cooperate to oversee the mass rearing and release of the parasitic wasps to help control EAB populations. The 2008 releases will start in Michigan and then to other States as determined by program needs and production capabilities. Larger scale operations including mass releases are expected for program year 2009. The program will spend approximately \$2 million to move toward fall implementation of the biological control initiative.

The program continues to look for new ways to control and prevent the spread of EAB. In FY 2008, the program is evaluating current and new chemical treatments, as well as the trap and lure design to defend against the presence of EAB. The program is also conducting methods development studies at four sites (Mackinaw County, Michigan; Fayetteville County, West Virginia; Fulton County, Ohio; and Henry County, Ohio) to evaluate additional methods to slow the spread of EAB. Approximately \$3.4 million will be spent on methods development.

The program also works to ensure that the regulatory community and the public are aware of the risks posed by EAB, the quarantine regulations to prevent its spread, and what they can do to help prevent EAB spread. To support outreach efforts, the program is working on an initiative to hold public awareness events at various sports venues.

Potentially, these events would be hosted by major and minor league baseball clubs, as ash is commonly used to make baseball bats. In addition, the program will continue radio spots, billboards, and print and media advertisements. The program is also updating its DVD, *The Green Menace*, to educate the public in or near areas recently affected by EAB. This DVD will explain the need for surveys and control work, and how public cooperation will help contain the spread of the pest. The DVD will also explain how residents can be proactive on ash tree treatments or the removal of trees, depending on the health of particular trees. The program will spend approximately \$3.4 million on public outreach.

Also included with outreach efforts are activities targeted at specific cooperators. For example, to support regulatory and survey efforts with State and tribal cooperators, the EAB program conducts clinics to educate employees and others on survey techniques and regulatory requirements. Two EAB clinics are planned in FY 2008. The first clinic will be held in Pennsylvania and will bring in Native American tribal representatives and Bureau of Indian Affairs liaisons from the area surrounding the current EAB quarantine. Native American tribes in Wisconsin, Minnesota, and New York State are uniquely

impacted by this pest as the centuries old practice of black ash basket making depends on a continuous supply of black ash stands native to the northeastern United States. EAB has destroyed large tracts of black ash in the infested area. Through this EAB clinic, the program hopes to provide Native American groups the tools they need to be proactive about EAB and to foster collaboration in survey and regulatory initiatives on Native American-owned land. The second EAB clinic will include members of a multi-State partnership in the Great Plains for a group of State forestry, university, and natural resource professionals, from four States: Kansas; Nebraska; North Dakota; and South Dakota. This group will engage in a regional initiative to prepare for possible EAB infestations.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAY 23 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

House Report 110-258 requests a report on how funds have been spent on the highly pathogenic avian influenza (HPAI) effort. We are pleased to submit the enclosed report on activities taken by the Animal and Plant Health Inspection Service (APHIS) to protect against introduction of HPAI into the United States.

As the lead technical agency for animal health within the integrated U.S. Government response to HPAI worldwide, APHIS implemented a comprehensive program of activities that is directly aligned to the three pillars of the international efforts included in the National Strategy for Pandemic Influenza: Preparedness and Communication; Surveillance and Detection; and Response and Containment.

In addition, APHIS developed a domestic surveillance plan for the H5N1 strain of avian influenza. The plan addresses surveillance requirements in poultry, wildlife, and live bird marketing. The APHIS plan addresses these needs in three operational areas: Domestic Bird Surveillance and Diagnostics; Wildlife Surveillance and Diagnostics; and Emergency Preparedness and Communication.

APHIS has been working closely with States and other Federal agencies in a coordinated effort to ensure that ample surveillance for the H5N1 strain is in place. This would allow for early detection should the virus enter the United States. Our coordinated effort is part of a larger National Strategy for Pandemic Influenza, which includes low pathogenic avian influenza efforts.

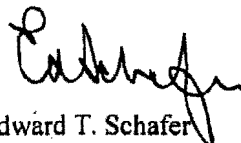
A specific National domestic program goal is to prevent and control low pathogenic H5 and H7 avian influenza in the U.S. commercial broiler, layer, and turkey industries, in the live bird marketing system, and to monitor for its presence in the wild. Control of the H5 and H7 strains helps to preserve international trade in poultry and poultry products, since both can exist

The Honorable Rosa DeLauro
Page 2

as low pathogenic strains with potential to mutate into a highly pathogenic form. In addition, controlling the virus reduces the likelihood of it becoming a zoonotic agent, thereby protecting human health.

We hope you find the enclosed report useful. We appreciate your interest in the program and stand ready to provide you and your staff with any additional information and briefings you may require. Similar letters are being sent to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in dark ink, appearing to read 'E. Schafer', with a stylized flourish at the end.

Edward T. Schafer
Secretary

Enclosure



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

APR 21 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

As requested by Senate Report 110-134 accompanying the FY2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the Animal and Plant Health Inspection Service (APHIS) is providing an update on the Agricultural Quarantine Inspection (AQI) user-fee requirements for commercial trucks transiting non-stop through Canada between Alaska and the continental United States.

APHIS published an interim rule in the *Federal Register* on August 25, 2006, amending its regulations to remove the exemption from AQI user fees for commercial conveyances—including trucks transiting Canada while traveling between Alaska and the continental United States—and international air passengers entering the United States from Canada. This rule took effect for commercial trucks on June 1, 2007. Historically, APHIS performed limited inspections along the Canadian border. However, starting in the 1990s, APHIS' inspection data showed an increasing number of interceptions at the U.S.-Canada border of prohibited materials that originated outside of Canada and that presented risks to U.S. agricultural production. APHIS determined that it was necessary to expand agricultural inspection operations at the border, and because the AQI program is a full-cost recovery program, it was necessary to collect user fees at the border to do so. The Department of Homeland Security's Customs and Border Protection (CBP) now conducts agricultural inspection activities at U.S. ports of entry, and APHIS transfers AQI funding to CBP to cover these inspections.

We recognize your concern about the effects of this rule on commercial trucking companies that transit non-stop through Canada from Alaska. However, after careful consideration and review of the issue, we do not believe that we should implement an exemption for these entities. We believe that developing an exemption system for these entities would be unfair to the many other individuals and entities that would continue paying the fee even though they may present only slightly greater pest and disease risks.



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 27 2008

The Honorable Rosa DeLauro
Chairwoman, Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives
2362-A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairwoman:

As requested by the House Report 110-258 accompanying the Fiscal Year 2008 Appropriations Bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, the United States Department of Agriculture is submitting two documents regarding the Animal and Plant Health Inspection Service (APHIS): *A Comprehensive Report on International Activities* and *A Five Year International Strategic Plan*.

We appreciate your interest in APHIS' international activities. I am sending similar letters to Congressman Kingston and Senators Kohl and Bennett.

Sincerely,

A handwritten signature in black ink, which appears to read "Ed Schafer", is positioned above the printed name of the Secretary.

Edward T. Schafer
Secretary



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



JUL 13 2010

Subject: Log No. 10-00022

This letter responds to your Freedom of Information Act (FOIA)¹ request to the Department of Agriculture's (USDA) FOIA coordinator. Your request was forwarded to the Office of Inspector General (OIG) on December 7, 2009, for our direct response to you.

You requested reports produced for Congress during the past three years that are not posted on a public Federal website.

We are releasing 23 pages of responsive records. Pursuant to FOIA, certain information has been redacted as it is exempt from release. Specifically, in accordance with 5 U.S.C. § 552(b)(6), the names, and identifying information of individuals were withheld because release of this information could reasonably be expected to constitute an unwarranted invasion of privacy. Further, proprietary or confidential financial information was redacted pursuant to 5 U.S.C. § 552(b)(4).

We have enclosed a brief explanation of the FOIA exemptions.

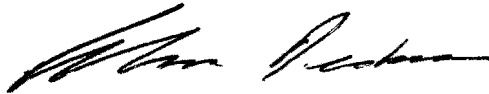
You have the right to appeal the decision by OIG to withhold information by writing to the Inspector General, U.S. Department of Agriculture, 1400 Independence Avenue SW., Whitten Building, Suite 441-E, Washington, D.C. 20250-2308. Your appeal must be received within 45 days from the date of this letter. The outside of the envelope should be clearly marked "FOIA APPEAL."

¹ 5 U.S.C. § 552.

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For information about OIG, please refer to our Web site at www.usda.gov/oig. Should you have any questions concerning this correspondence, please feel free to contact our FOIA staff at (202) 720-5677.

Sincerely,

A handwritten signature in black ink, appearing to read "Alison Decker", written in a cursive style.

Alison Decker
Assistant Counsel

Enclosures: Exemptions list/documents

FOIA EXEMPTIONS

Exemption 2 (5 U.S.C. § 552(b)(2)): permits agencies to withhold documents which relate “solely to the internal personnel rules and practices of an agency.”

Exemption 3 (5 U.S.C. § 552(b)(3)): incorporates the disclosure prohibitions that are contained in various other federal statutes. Broadly phrased so as to simply cover information “specifically exempted from disclosure by statute.”

Exemption 4 (5 U.S.C. § 552(b)(4)): allows Federal agencies the discretion to withhold “... trade secrets and commercial or financial information obtained from a person [that is] privileged or confidential...” the release of which could be competitively harmful to the submitter of the information; which could impair the government’s ability to obtain similar necessary information in a purely voluntary manner in the future; and, which could affect other governmental interests, such as program effectiveness and compliance.

Exemption 5 (5 U.S.C. § 552(b)(5)): allows the agency the discretion to withhold “...inter-agency or intra-agency memorandums or letters which would not be available by law to a party other than an agency in litigation with the agency.” The purpose of this exemption is to protect the deliberative process by encouraging a frank exchange of views. In addition, this exemption protects from disclosure attorney-work product and attorney-client materials.

Exemption 6 (5 U.S.C. § 552(b)(6)): allows Federal agencies the discretion to withhold information the disclosure of which would “...constitute a clearly unwarranted invasion...” of individual privacy and might adversely affect the individual and his/her family.

Exemption 7 (5 U.S.C. § 552(b)(7)): protects from disclosure “records or information compiled for law enforcement purposes, but only to the extent that the production of such law enforcement records or information

(A) could reasonably be expected to interfere with enforcement proceedings,

(B) would deprive a person of a right to a fair trial or an impartial adjudication,

(C) could reasonably be expected to constitute an unwarranted invasion of personal privacy,

(D) could reasonably be expected to disclose the identity of a confidential source, including a State, local, or foreign agency or authority or any private institution which furnished information on a confidential basis, and, in the case of a record or information compiled by a criminal law enforcement authority in the course of a criminal investigation, or by an agency conducting a lawful national security intelligence investigation, information furnished by a confidential source, would disclose techniques and procedures for law enforcement investigations or prosecutions, or

(E) would disclose guidelines for law enforcement investigations or prosecutions if such disclosure could reasonably be expected to risk circumvention of the law, or

(F) could reasonably be expected to endanger the life or physical safety of any individual.”

Exemption 8 (5 U.S.C. § 552(b)(8)): protects matters that are “contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions.”

Exemption 9 (5 U.S.C. § 552(b)(9)): covers geological and geophysical information and data, including maps, concerning wells.



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



March 8, 2010

The Honorable Tom Coburn
United States Senate
172 Russell Senate Office Building
Washington, D.C. 20510-3604

Dear Senator Coburn:

On January 14, 2009, you requested that the Office of Inspector General (OIG) review matters pertaining to Agriprocessors, Inc., a meat company based in Postville, Iowa. In that letter, you expressed several concerns about Agriprocessors and its receipt of approximately **£ 64 J** in loan and grant funds from the Department of Agriculture (USDA) to build a sewage treatment plant that would allegedly serve only the company and not the residents of Postville. We notified you in an April 22, 2009, letter that we would review your concerns involving Agriprocessors, Inc. This correspondence represents the results of our inquiry.

In your January 14, 2009, letter, you expressed concerns that focused on the following section of the 2004 Consolidated Appropriations Act.¹

“Notwithstanding any other provision of law, the City of Postville, Iowa, shall be eligible to receive a water and waste disposal grant under section 306(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926(a)) in an amount that is equal to not more than 75 percent of the total cost of providing water and sewer service in the city.”

As a result of this section of the Act, the Rural Utilities Service (RUS), an agency within the USDA Rural Development mission area, approved approximately **£ 64 J** of Government assistance to the city of Postville to build a sewage treatment plant. The wastewater treatment system was used for the sole and exclusive purpose of treating Agriprocessors' wastewater and was built on property owned by Agriprocessors. This company had a record of noncompliance with water-quality regulations and filed for bankruptcy in 2008. The USDA funding included a \$3.3 million grant and a **£ 64 J**. The funding was made available through RUS' Water and Waste Program, which is designed to help small towns improve water and sewage systems for their residents.

¹ Title VII—General Provisions, Section 785, Water and Waste Disposal Grant to the City of Postville, Iowa.

Our audit personnel discussed your concerns with RUS National and Iowa State office officials and reviewed program regulations and other documentation provided by RUS regarding the USDA funding. The following summarizes the results of our inquiry.

- RUS National office officials stated they were not aware of other sewage treatment projects where the sole purpose of the Water and Waste Program funds was to assist the operations of a private business (e.g., Agriprocessors).
- In the absence of Appropriations Act's provision, the company, Agriprocessors, would not have been an eligible applicant for a water and waste loan or grant.
- RUS officials explained that the agency's files included no waivers from any regulations, policies, or procedures to meet the language of Section 785. However, we found that not all RUS instructions were followed. Specifically, agency officials did not conduct an economic viability assessment on Agriprocessors and did not approve the construction plans and specifications for the Agriprocessors project.
- From the information RUS officials were able to provide, our audit personnel could not determine if the project was subjected to competitive bidding.
- Since the loan and grant were made to the city of Postville, the city is responsible for these financial obligations. The loan payments to RUS are current, with the next installment due in June 2010.

Should you have any questions or require additional information, please do not hesitate to call me at (202) 720-8001, or have a member of your staff call Mr. Gil H. Harden, Acting Assistant Inspector General for Audit, at (202) 720-6945.

Sincerely,

/signed/

Phyllis K. Fong
Inspector General



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



May 12, 2010

The Honorable Darrell E. Issa
Ranking Member
Committee on Oversight
and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

Dear Congressman Issa:

Thank you for your March 24, 2010, letter requesting an update of the report provided last year on recommendations made to the Department of Agriculture (USDA) by the Office of Inspector General (OIG). Your letter also requested that we identify the number of recommendations implemented since our last report and the three open and unimplemented recommendations that our office considers to be most important. We appreciate your office granting us an extension to provide the Committee our response. The following information is in response to your request.

In our April 6, 2009, update provided to the Committee, OIG reported 516 recommendations pending final action. As of April 24, 2010 (the date of our analysis), USDA agencies have implemented (i.e., achieved final action on) 252 of those recommendations—almost 50 percent—with an estimated agreed amount of over \$88 million.¹

From January 1, 2001, through March 31, 2010, there have been 4,017 recommendations made in 709 audit reports issued by USDA OIG. As of April 24, 2010, approximately 3,326 (82.8 percent) of OIG's recommendations have been implemented. In response to your request, we are providing summary information for 691 open recommendations²—regardless of the mandatory reporting timeframes³—that have not been resolved or have not been implemented by USDA agencies.

The enclosed summary—by year of audit issuance—denotes the number of unresolved and unimplemented recommendations and the recommendations' potential monetary benefits, with overall totals shown in the last two columns. As of the date of our analysis, there were 94 unresolved (no management decision) and 597 unimplemented (no final action taken) audit

¹ This figure was based on the agreed to amount at time of achievement of management decision. Actual cost savings is reported by the Office of the Chief Financial Officer in its annual *Performance and Accountability Report*.

² Even though not in the requested parameters (calendar years 2001-2010 to date), we have included for reference those recommendations (49 in total) still pending final action in audits released prior to calendar year 2001.

³ The Inspector General Act, as amended, requires OIG to track and semi-annually report to Congress those audit reports where management decision has not been reached (agreement as to the specific corrective actions to be taken on recommendations made) within 180 days of report issuance. The USDA Office of the Chief Financial Officer tracks and annually reports to Congress the status of final action (implementation of agreed-upon actions) on OIG's audit recommendations.

recommendations with an estimated total potential benefit of over \$751 million. Due to the mission of USDA and the programs administered by the Department, a significant number of our recommendations do not present immediate monetary effects; but the impact of these recommendations, once implemented, is immeasurable in terms of safety, security, and public health. Please also note that this information is a snapshot per se of recommendations currently open—audit recommendations are being resolved, final actions are being taken, and new recommendations are being made on a continuing basis—so comparison to other analyses will vary depending on how and when the information is presented.

As to identifying what USDA OIG considers to be the most important open and unimplemented recommendations, we are providing, as an enclosure, information for recommendations contained in the following three audits:

Pending Final Action

- Rehabilitation of Flood Control Dams (10601-1-At)

Pending Management Decision

- Crop Loss and Quality Adjustments for Aflatoxin Infected Corn (05601-15-Te)
- Conservation Security Program (10601-4-KC)

As your office is aware, OIG staff work with agency representatives to resolve audit recommendations to the level where agency officials agree that actions will be taken, preferably within the mandated 6 months of report issuance. Once agreement is reached between OIG and the action office, the USDA Office of the Chief Financial Officer (OCFO) tracks the implementation of agreed-upon actions until final action is achieved. On April 30, 2010, OCFO transmitted a memorandum to all USDA agencies tasking those with unimplemented recommendations to establish a goal to close any “late”⁴ audits by June 30, 2010. If you or your staff require additional information as to how OCFO tracks open audit recommendations to final action, please contact Acting Chief Financial Officer Jon Holladay or a member of his staff at 202-720-5539.

In your letter, you also solicited our opinion about improving the Inspector General Act of 1978. Our comments were included in the April 2, 2010, response provided by Inspector General J. Anthony Ogden, Chair of the Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). We believe the CIGIE recommendations, if enacted, would benefit the operation of USDA OIG.

With the approval of your staff, we are sharing a copy of this reply with other congressional and USDA entities interested in this topic.

⁴ Mandatory date for final action to be taken is 1 year from the date of final audit resolution (achievement of management decision).

The Honorable Darrell Issa
Page 3

We appreciate the opportunity to respond to your request. Should you require additional information, please call me at (202) 720-8001. If you have any questions concerning the division of responsibilities between OIG and OCFO in achieving and tracking management decision and final action on audit recommendations, please have a member of your staff call Mr. Gil H. Harden, Assistant Inspector General for Audit, at (202) 720-6945.

Sincerely,

/signed/

Phyllis K. Fong
Inspector General

2 Enclosures

cc: (with enclosures)
The Honorable Edolphus Towns
Chairman, Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Charles E. Grassley
Ranking Member, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510-6200

The Honorable Thomas A. Coburn
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental
Affairs
United States Senate
Senate Russell Building 172
Washington, D.C. 20510

The Honorable Tom Vilsack
Secretary of Agriculture

Mr. Jon Holladay
Acting Chief Financial Officer
Department of Agriculture

ENCLOSURE

USDA – OFFICE OF INSPECTOR GENERAL

Open and unimplemented recommendations

(as of May 3, 2010)

Identify what your office considers to be the **three most important** open and unimplemented recommendations.

Audit Number	Title	Release Date	Rec. No.	Estimate Cost Savings
Open Recommendations (pending achievement of management decision)				
05601-15-Te	Crop Loss and Quality Adjustments for Aflatoxin Infected Corn	09/30/08	01	\$15,951,016 QC
<p>The Risk Management Agency(RMA) provides crop insurance to producers who may have suffered economic losses due to aflatoxin infecting their corn harvests. In adjusting the loss claims, we found that the approved insurance providers (AIP) accepted extremely low estimated values for the infected corn. We found that producers received far more than the values reported on their loss claims. Therefore, we recommended that RMA recover the improper payments totaling approximately \$15.9 million from the AIPs. RMA agreed with the finding and recommendation, but is in the process of issuing administrative findings to recover the amount. The questioned costs affected 2,000 loss claims.</p>				
10601-4-KC	Conservation Security Program	06/25/09	06, 08, 09, 16, 17, 18, 19, 21, 23	\$4,895,958 QC and FPTBU
<p>The Natural Resources Conservation Service (NRCS) under the Conservation Security Program provided financial assistance to landowners/producers to support ongoing good conservation stewardship on their agricultural lands. We found that NRCS approved participants who were ineligible or made errors in determining eligible practices and/or payments. NRCS agreed with the monetary exceptions, but is still in the process of properly establishing the questioned costs against the participants.</p>				
Unimplemented Recommendations (pending completion of final action)				
10601-1-At	Rehabilitation of Flood Control Dams	08/25/09	06, 10, 11	\$15,208,001 FPTBU
<p>Congress authorized this program for the rehabilitation of aging dams and appropriated funding to NRCS because of "the threats to public safety posted by the aging system of flood control structures" and, thereby, ensure the safety of the public. Because of NRCS' inadequate strategy to implement the program and lack of regulatory authority, we found that NRCS expended funds for assessment of less hazardous dams, for assessment and rehabilitation plans where the dam owners did not implement their plans, and for the rehabilitation of less hazardous dams, before ensuring that all high hazard dams were completed. NRCS agreed with the recommendations, but is still in the process of implementing the recommended management corrective actions.</p>				

Legend

QC – Questioned costs

FPTBU – Funds to be put to better use

ENCLOSURE

OPEN RECOMMENDATIONS by Year of Audit Release (Jan 1 2001 through Mar 31 2010)

SEE EDIT NOTE

as of 04/24/10

U.S. DEPARTMENT OF AGRICULTURE (prepared by the Office of Inspector General - Audit)

This analysis denotes ALL OPEN recommendations reported for this timeframe (regardless of mandatory resolution within 6 months or final action taken within 1 year)

YEAR OF AUDIT RELEASE	NUMBER OF RECOMMENDATIONS MADE	NUMBER OF RECOMMENDATIONS UNRESOLVED (No Mgmt Decision) (OIG)	POTENTIAL BENEFIT FOR RECOMMENDATIONS AWAITING MANAGEMENT DECISION (see footnote 1)	NUMBER OF RECOMMENDATIONS PENDING FINAL ACTION (OCFO) (see footnote 2)	POTENTIAL BENEFIT FROM RECOMMENDATIONS AWAITING FINAL ACTION (see footnote 3)	TOTAL NUMBER OF OPEN RECOMMENDATIONS (UNRESOLVED / PENDING FINAL ACTION)	TOTAL POTENTIAL BENEFIT FROM UNRESOLVED / OPEN RECOMMENDATIONS
Prior to 2001	SEE EDIT NOTE	0	\$0	49	\$11,369,302	49	\$11,369,302
2001	612	0	\$0	8	\$1,416,726	8	\$1,416,726
2002	540	3	\$0	8	\$34,336	11	\$34,336
2003	486	3	\$0	32	\$3,356,631	35	\$3,356,631
2004	616	1	\$0	42	\$39,281	43	\$39,281
2005	423	0	\$0	58	\$332,230,831	58	\$332,230,831
2006	393	0	\$0	41	\$20,282	41	\$20,282
2007	284	3	\$415,710	54	\$3,895,865	57	\$4,311,575
2008	302	6	\$15,951,016	106	\$118,805,344	112	\$134,756,360
2009	281	62	\$224,557,185	138	\$10,366,816	200	\$234,924,001
2010	80	16	\$16,761,958	61	\$11,800,000	77	\$28,561,958
TOTALS	4017	94	\$257,685,869	597	\$493,335,414	691	\$751,021,283

Footnote 1 Potential monies for recovery or funds to be put to better used based on audit findings and recommendations at time of report issuance.**Footnote 2** Amounts reported also include 126 recommendations where management decision has been achieved, but one or more recommendations remain open in the audit so final management decision is still pending. Tracking/reporting by OCFO begins once "final" management decision is reached on an audit.**Footnote 3** Agreed-upon monies to be collected by agencies at the time of management decision; does not reflect interest or excess amounts which may be collected.**Edit Note** 2010 data includes timeframe of January 1 - March 31, 2010 (For reference we have added those recommendations pending final action prior to 2001 -- *not in requested parameters*)**REFERENCES**

Mandatory date for resolution is 6-months from report issuance

Mandatory date for final action is 1 year from resolution (management decision)

From: YOUNG, ROBERT
Sent: Wednesday, December 17, 2008 4:02 PM
To: [b6]
Cc: [] TIGHE, KATHLEEN
Subject: Re: New Oversight Committee Request: Respond by Dec. 31
Attachments: USDA-OIG closeout request - Waxman.doc

[b6]

Attached is the information requested concerning open audit recommendations. OIG is providing the portion of the information for which we have responsibility and data. It is our understanding that the CFO's office will provide the remaining requested information. If you have any questions please call me at [b6]

Bob

USDA – OFFICE OF INSPECTOR GENERAL

Open Recommendation, by Year (January 2001 through December 2008)
(data current as of December 15, 2008)

In response to your e-mail request dated December 15, 2008, the Department of Agriculture's (USDA) Office of Inspector General (OIG) has prepared a chart summarizing open recommendations – by year – for calendar years 2001 through 2008 (to date). As discussed, this chart includes open recommendations up to the point of achievement of management decision. The Office of the Chief Financial Officer (OCFO) will be providing a similar chart denoting open recommendations that have achieved management decision but actions have not yet been completed by the agency for OCFO to consider the recommendations fully implemented.

The Inspector General Act of 1978, as amended, requires OIG to track and semi-annually report to Congress those audit reports where management decision (agreement by agency officials) has not been reached within 180 days of report issuance. After management decision has been achieved, the USDA OCFO then tracks and annually reports to Congress the status of actions being taken by USDA agencies on OIG audit recommendations—with emphasis on those audits where implementation of agreed-upon actions has not been completed by the agencies within 1 year of management decision.

In our initial response provided in February 2008, as of January 11, 2008, there were 3,353 recommendations made in 583 audit reports issued by USDA OIG from January 1, 2001, through December 31, 2007. At that time, OIG reported that 128 recommendations were pending management decision and 604 were awaiting final action (total 732 recommendations) on audit reports released during that period.

As of December 15, 2008, OIG's records reflect the following which now includes calendar year 2008 (to date as of December 15, 2008):

- 653 audit reports issued (492 contain recommendations, 161 were issued with no recommendations made)
- 3,610 recommendations made
- 55 recommendations made (1.5%) are pending achievement of management decision; of those 55, 34 have not achieved management decision within the legislatively mandated 180 days of report issuance.

The chart you requested for the breakout by calendar year is shown on the following page.

USDA – OFFICE OF INSPECTOR GENERAL Open Recommendation by Year (January 2001 through December 2008) (data current as of December 15, 2008)			
Calendar Year	Number of Recommendations	Number of Recommendations Still Open (see footnote 1)	Potential Monetary Benefit from Open Recommendations (see footnote 2)
2001	612	0	\$0
2002	540	4	\$1,536,060
2003	486	4	\$0
2004	616	3	\$164,000
2005	423	1	\$0
2006	393	0	\$0
2007	283	9	\$2,628,653
2008	257	34	\$17,485,725
TOTAL	3610	55	\$21,814,438
Footnote 1	Open Recommendations shown are for those pending achievement of management decision (i.e., agreement between OIG and the agency that actions will be taken to implement the recommendations. OCFO will be reporting on those recommendations that have achieved management decision but are pending final actions being completed by the agency.		
Footnote 2	The amount shown is based on monetary values at report issuance. Once management decision is achieved, the monetary value may be adjusted to (1) include additional monies identified for collection or (2) reflect reductions in monies collected due to agreements that recoveries were post audit justified or waived. The monetary values at management decision are tracked by OCFO until final actions are completed.		

Three Open Recommendations with the Largest Potential Monetary Benefit

Please provide a brief description of the three open recommendations with the greatest potential monetary benefit (cost savings, funds put to better use, new revenue, etc.)

1. In consultation with the Office of the General Counsel, the Rural Business-Cooperative Service should take action to reduce the amount of the loss payments made to the lenders by the value of the missing collateral and the value of the accounts receivable. Audit Report No. 34601-3-At, (Rec. No 1) \$1,536,060 in funds to be put to better use, *Lender Servicing of Business and Industry Guaranteed Loans*, issued January 28, 2002. (NOTE: We have not yet achieved management decision on this recommendation; the legislatively mandated 6-month deadline for management decision on this audit was July 27, 2002.)
2. For crop years 2000 through 2002, collect program payments subject to payment limitation for each year for which the Farm Service Agency determines the producers adopted a scheme or device to evade payment limitation, and for the subsequent year. Audit Report No. 03099-181-Te, (Rec. No. 2) \$1,432,622 in questioned costs, *Payment Limitation Review in Louisiana*, issued May 8, 2008. (NOTE: We have not yet achieved management decision on this recommendation; the legislatively mandated 6-month deadline for management decision on this audit was November 4, 2008.)

3. [Risk Management Agency] Issue administrative findings to recover the improper payments resulting from the approximately \$15,951,016 in crop year 2005 Aflatoxin-infected corn claims for Texas that were calculated using market values of \$.25 or less per bushel. Audit Report No. 05601-15-Te, (Rec. No. 1) \$15,951,016 in questioned costs, *Crop Loss and Quality Adjustments for Aflatoxin Infested Corn*, issued September 30, 2008. (NOTE: We have not yet achieved management decision on this recommendation; the legislatively mandated 6-month deadline for management decision on this audit is March 29, 2009.)



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



February 21, 2008

The Honorable Henry A. Waxman
Chairman, Committee on Oversight
and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

Dear Mr. Chairman:

In response to your December 7, 2007, letter, requesting the status of recommendations made by the Department of Agriculture's (USDA) Office of Inspector General (OIG), from January 1, 2001, to the present, we have compiled the enclosed information concerning those recommendations that either have not been agreed to or acted on by agency officials. On January 30, 2008, OIG requested—and was provided by the Committee—an extension until February 22 to submit this information. This extension was required due to the volume of information being collected to respond to the Committee's request.

The Inspector General Act of 1978, as amended, requires OIG to track and semi-annually report to Congress those audit reports where management decision (agreement by agency officials) has not been reached within 180 days of report issuance. After management decision has been achieved, the USDA Office of the Chief Financial Officer (OCFO) then tracks and annually reports to Congress the status of actions being taken by USDA agencies on OIG audit recommendations—with emphasis on those audits where implementation of agreed-upon actions has not been completed by the agencies within 1 year of management decision.

There were 3,354 recommendations made in 583 audit reports issued by USDA OIG from January 1, 2001, through December 31, 2007. To date, approximately 2,600 (78 percent) of OIG's recommendations have been implemented. For this report, we are providing the detailed information requested by the Committee for recommendations that have not reached management decision within 180 days of report release and on recommendations that have not been implemented within 1 year of the management decision date. These recommendations are being reported in three categories.

- Audits with recommendations that have not yet achieved management decision within 6 months of issuance (i.e., pending management decision)—shown under section A.
- Audits with recommendations that achieved management decision, but final action has not been implemented within 1 year of the management decision date (i.e., pending final action)—shown under section B.

The Honorable Henry A. Waxman
Page 2

- Audits with recommendations where the reporting agency has requested final action determinations from OCFO (i.e., pending acceptance of final action)—shown under section C.

As of January 11, 2008 (the date of our report), there were 397 unresolved (no management decision) or unimplemented audit recommendations. These recommendations were included in 111 separate audit reports. Of the 397 recommendations, 361 were agreed to by agency managers, but corrective action had not been implemented within the agreed-to timeframe (within 1 year) and 36 involved recommendations where management decision had not been achieved within 180 days of audit issuance.

Should you have questions, please call me at (202) 720-8001, or have a member of your staff call Mr. Robert W. Young, Assistant Inspector General for Audit, at (202) 720-6945.

Sincerely,

/signed/

Phyllis K. Fong
Inspector General

Enclosure

cc:
The Honorable Tom Davis
Ranking Member
Committee on Oversight
and Government Reform
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL

STATUS OF RECOMMENDATIONS NOT IMPLEMENTED
FOR AUDITS ISSUED
JANUARY 1, 2001, THROUGH DECEMBER 31, 2007
As of January 11, 2008



A request for information from the
House Committee on Oversight and Government Reform

Introduction and Methodology

Pursuant to the request of the Committee on Oversight and Government Reform, dated December 7, 2007, the Department of Agriculture (USDA), Office of Inspector General (OIG), is submitting a report on audit recommendations made to USDA agencies for audits issued from January 1, 2001, through December 31, 2007, that have not been implemented as of January 11, 2008.

The Inspector General Act Amendments of 1988 require OIG to track and semi-annually report to Congress those audit reports where management decision has not been reached (agreement as to the specific corrective actions to be taken on recommendations made) within 180 days of report issuance. The USDA Office of the Chief Financial Officer (OCFO) tracks and annually reports to Congress the status of final action (implementation of agreed-upon actions) on OIG's audit recommendations.

As of January 11, 2008, there were 732 recommendations pending management decision (128) or final action (604) on audit reports released between January 2001 and December 2007. For this report, we are providing the detailed information requested by the Committee for 36 recommendations that have not reached management decision within 180 days of report release and on 361 recommendations that remain open 1 or more years past the management decision date (final action not yet achieved). Of the 361 recommendations that have reached management decision but have not yet been implemented, 39 are considered by the reporting agency to have achieved final action, but are pending review by OCFO officials to determine if actions taken are adequate to close the recommendation.

This report has been divided into three sections.

- **Section A**, Audits With Recommendations That Have Not Yet Achieved Management Decision Within 6 Months of Issuance (i.e., Pending Management Decision)
- **Section B**, Audits With Recommendations that Achieved Management Decision, But Final Action Has Not Been Implemented Within 1 Year of the Management Decision Date (i.e., Pending Final Action)
- **Section C**, Audits With Recommendations Where Reporting Agency Has Requested Final Action Determinations from OCFO (i.e., Pending Acceptance of Final Action)

Each section contains a summary of the audits being reported. Each audit being reported contains specific information requested by the Committee on the status of the recommendations not yet implemented. This includes:

- (a) A short summary of the recommendation.
- (b) The status of the recommendation, including whether or not USDA agreed with the recommendation and an explanation for the delay in the recommendation's implementation.
- (c) An estimate of costs savings available from implementing the recommendation.
- (d) A description of any non-monetary benefits from implementing the recommendation.
- (e) A short summary of the pertinent OIG audit and its objectives.
- (f) The key findings of the OIG audit.
- (g) The OIG report number and issue date.

We have reported the audits within the mission areas and agencies of the Department. However, some audit reports contain recommendations for one or more agencies. These specific reports have been footnoted to show other agency involvement.

In addition, the Committee had requested—under item (b) above—that the report was to include whether the USDA agency agreed with the cited recommendation. Unless noted otherwise, the agency concurred with the recommendation at the time management decision was achieved.

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MISSION AREA / AGENCY	Pending Management Decision	Pending Final Action	Final Action Requested – Pending OCFO Determination
SECTION BEGINS ON PAGE	1	51	259
Farm and Foreign Agricultural Service	5	59	262
Farm Service Agency	6	60	263
Commodity Credit Corporation	None to report	71	269
Foreign Agricultural Service	14	77	None to report
Risk Management Agency	17	81	None to report
Food, Nutrition, and Consumer Services		92	271
Food and Nutrition Service	None to report	93	272
Marketing and Regulatory Programs		100	274
Animal and Plant Health Inspection Service	None to report	101	275
Food Safety	26	121	277
Food Safety and Inspection Service	27	122	278
Research, Education, and Extension Service		138	
Agricultural Research Service		139	
Cooperative State Research, Education, and Extension Service	None to report	147	None to report
Rural Development	31	150	
Rural Development	None to report	151	
Rural Utilities Service (includes Rural Telephone Bank)	33	None to report	
Rural Business – Cooperative Service	34	155	
Rural Housing Service	36	168	None to report
Natural Resources and Environment		177	
Forest Service		178	
Natural Resources Conservation Service	None to report	217	None to report
Civil Rights	41	224	
Office of Adjudication and Compliance (formerly Civil Rights)	42	225	None to report
Departmental Administration		227	
Office of Human Capital Management		228	
Office of Procurement and Property Management		230	
Office of Safety and Security	None to report	234	None to report
Office of the Chief Information Officer	45	237	None to report
Multi-Agency Audits	46	240	None to report
Appendix A – Listing of all unimplemented recommendations being reported			283
Appendix B– Acronyms used in this document			293

FOOTNOTE: There were no unimplemented recommendations to report for the USDA offices not listed above.

SECTION A

**Audits With Recommendations That Have Not
Yet Achieved Management Decision
Within 6 Months of Issuance**

STATUS OF UNIMPLEMENTED RECOMMENDATIONS
For Audits Issued January 1, 2001, through December 31, 2007
AUDITS WITH RECOMMENDATIONS PENDING MANAGEMENT DECISION
(No management decision reached within 180 days of audit release)
NMD Over 180 days as reflected in ARGOS download dated 01/15/08

Action Agency	Assign Nbr	Title	Released Date	Rec Nbr	Monetary Code	Released Amt
RBS	346010003AT	LENDER SERVICING OF B&I GUARANTEED LOANS	01/28/02	1	5	\$1,536,060
RMA	050990014KC	MONITORING OF RMA'S IMPLEMENTATION OF MANUAL 14 REVIEWS/QUALITY CONTROL REVIEW SYSTEM	03/15/02	1		
RMA				3		
RMA				4		
FSIS	246010002KC	FSIS OVERSIGHT OF CONAGRA RECALL	09/30/03	20		
MULTI (RMA/FSA)	500990012KC	USDA - IMPLEMENTATION OF AGRICULTURAL RISK PROTECTION ACT	09/30/03	1		
MULTI (RMA/FSA)				2		
RMA				4		
FSA	500990013KC	HOMELAND SECURITY ISSUES FOR USDA GRAIN AND COMMODITIES INVENTORIES	02/23/04	1		
FSA				3		
FSA				4		
FSA				5		
FSA				6		
FSA				7		
FSA				8		
FSA				9		
FSA				10		
FSA				11		
FSA				12		
RHS	040990143CH	AUDIT OF LITTLE EGYPT PROJECT OPERATIONS, CAIRO, ILLINOIS	09/30/04	1	1	\$164,000
FSIS	246010005AT	HACCP - COMPLIANCE BY VERY SMALL PLANTS	06/24/05	14		
RBS	340990007TE	REQUEST AUDIT OF B&I GUARANTEED LOAN IN ARKANSAS	09/29/05	4		
RUS	096010004TE	BROADBAND GRANT AND LOAN PROGRAMS	09/30/05	10	1	\$30,377,069
RHS	040990341AT	SINGLE-FAMILY HOUSING, BORROWER INCOME VERIFICATION PROCEDURES	08/14/06	3		
FAS	076010001HY	TRADE PROMOTION OPERATIONS	02/22/07	5		
MULTI	505010008FM	INFORMATION TECHNOLOGY - LOST OR STOLEN ITEMS	02/27/07	1		

SECTION A

PENDING MANAGEMENT DECISION

Action Agency	Assign Nbr	Title	Released Date	Rec Nbr	Monetary Code	Released Amt
		CONTAINING SENSITIVE INFORMATION				
CIO				4		
RMA	050990027AT	EVALUATION OF RMA INDEMNITY PAYMENTS FOR 2004 FLORIDA HURRICANES	03/26/07	1	1	\$415,710
FAS	506010012AT	IMPLEMENTATION OF TRADE TITLE OF 2002 FARM BILL AND PRESIDENT'S MANAGEMENT AGENDA	03/28/07	2		
FAS				3		
FAS				4		
FAS				5		
FAS				6		
RHS	046010015CH	CONTROLS OVER SINGLE-FAMILY HOUSING FUNDS PROVIDED FOR HURRICANE RELIEF EFFORTS	03/30/07	4		
RHS				5	5	\$320,152
OCR	606010004HY	REVIEW OF USDA EMPLOYEE CIVIL RIGHTS COMPLAINTS	05/14/07	2		
	16 AUDITS	TOTAL RECOMMENDATIONS REPORTED		36		\$32,812,991

Legends and Notes

General Per OCFO – audits that have not yet achieved complete management decision are not listed in its report. Tracking/reporting begins once complete management decision is achieved.

General Titles are based on those identified in ARGOS and may vary from the actual titles used in the released OIG audit

Monetary Codes

Codes 1-3 Questioned Costs and Loans
 Codes 4-7 Funds to be Put to Better Use
 Codes 8 Identified Accounting Classification Errors

Status Code

NMD Recommendation has not achieved management decision with 180 days of release
 Pending Agencies are currently taking actions to implement recommendations
 Closure Agencies have implemented recommendations and are requesting final action from OCFO

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FARM AND FOREIGN AGRICULTURAL SERVICES

(includes)

**FARM SERVICE AGENCY
COMMODITY CREDIT CORPORATION (under FSA)
FOREIGN AGRICULTURAL SERVICE
RISK MANAGEMENT AGENCY**

FARM SERVICE AGENCY (FSA)

AUDITS RELEASED BUT RECOMMENDATIONS HAVE NOT YET ACHIEVED MANAGEMENT DECISION
WITHIN 6 MONTHS OF ISSUANCE

Audit Number (g):	500990013KC
Audit Title:	Homeland Security Issues for USDA Grain and Commodities Inventories
Release Date (g):	02/23/04
Number of Recommendations:	12
Summary of the Audit Objectives (e):	Determine if USDA developed and implemented actions adequate to minimize risks of destruction, contamination, and adulteration of USDA agricultural commodity inventories (hereinafter referred to as "USDA agricultural commodities"), including bulk grains, oilseeds, rice, and processed commodities.
Key Findings (f) :	The vulnerability of USDA agricultural commodities to threats and attacks has been neither properly determined nor adequately addressed.
Number of Recommendations Not Yet Resolved:	11
Recommendation Number:	1
Action Agency:	FSA
(a) Summary of unimplemented recommendation	In collaboration with USDA's Homeland Security Office, (HSO) develop food safety and security strategies for commodity operations and related programs and activities.
(b) Status of unimplemented recommendation	<p>FSA generally agreed with the recommendation and discussed with USDA's HSO the audit report and actions that FSA should pursue. The USDA HSO directed FSA to conduct a risk assessment under the supervision of the USDA HSO.</p> <p>FSA planned to conduct its homeland security risk assessment for commodity operations by December 2004, and to use the results of the completed risk assessment to formulate corrective actions for the 11 open recommendations in the report. However, completion of the risk assessment was delayed when OMB denied apportionment for FSA to hire a contractor to guide the agency through the risk assessment.</p> <p>In August 2006, FSA reported that, due to the lack of funding to hire a contractor, FSA determined to conduct the required assessment with the assistance of other Departmental agency personnel trained in facilitating risk assessments. In 2007, FSA participated in three Strategic Partnership Protection Agroterrorism (SPPA) facility risk assessments covering export and country elevators and food warehouses. FSA will use the results of those risk assessments in responding to the audit recommendations and expects to complete its reply to the audit recommendations no later than March 2008.</p>
(c) Estimated cost savings if implemented	Not applicable
(d) Description of non-monetary benefits if implemented	Assurance that USDA has mitigating strategies for potential threats or contamination of USDA agricultural commodities.

SECTION A

PENDING MANAGEMENT DECISION

Audit Number (g):	500990013KC
Recommendation Number:	3
Action Agency:	FSA
(a) Summary of unimplemented recommendation	Incorporate homeland security and safety issues into the agency's Commodity Operations' mission statement, policies, and procedures.
(b) Status of unimplemented recommendation	<p>FSA generally agreed with the recommendation and planned to formulate appropriate corrective action for the recommendation using the results of its homeland security risk assessment for commodity operations. However, completion of the risk assessment was delayed until 2007. (See also Recommendation 1.)</p> <p>FSA will use the results of the 2007 risk assessment(s) in responding to the audit recommendation and expects to complete its reply to the audit recommendation no later than March 2008.</p>
(c) Estimated cost savings if implemented	Not applicable
(d) Description of non-monetary benefits if implemented	Assurance that Commodity Operations gives attention to the safety and security of USDA agricultural commodities in carrying out its various activities relating to the warehousing, acquisition, handling, storage, processing, and disposal of agricultural commodities.
Recommendation Number:	4
Action Agency:	FSA
(a) Summary of unimplemented recommendation	Develop and implement homeland security action plans and tactical procedures for Commodity Operations. This should be accomplished with active participation of all effected stakeholders to the extent practicable.
(b) Status of unimplemented recommendation	<p>FSA generally agreed with the recommendation and planned to formulate appropriate corrective action for the recommendation using the results of its homeland security risk assessment for commodity operations. However, completion of the risk assessment was delayed until 2007. (See also Recommendation 1.)</p> <p>FSA will use the results of the 2007 risk assessment(s) in responding to the audit recommendation and expects to complete its reply to the audit recommendation no later than March 2008.</p>
(c) Estimated cost savings if implemented	Not applicable
(d) Description of non-monetary benefits if implemented	Assurance that Commodity Operations has in place procedures, developed in conjunction with effected stakeholders to the extent practicable, to safeguard USDA agricultural commodities.
Recommendation Number:	5
Action Agency:	FSA
(a) Summary of unimplemented recommendation	In collaboration with FDA and the USDA HSO, implement measures to manage and protect USDA agricultural commodities.