

U.S. Department of Agriculture
Office of Inspector General
Northeast Region
Audit Report

Food and Nutrition Service's
Fiscal Year 2000
Financial Statements
Alexandria, Virginia



Report No.
27401-20-Hy
February 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: February 1, 2001

SUBJECT: Food and Nutrition Service's Financial Statements for
Fiscal Year 2000

TO: George A. Braley
Acting Administrator
Food and Nutrition Service

This report presents the results of our audit of Food and Nutrition Service's (FNS) Principal Statements and Required Supplementary Stewardship Information for the fiscal year (FY) ended September 30, 2000. The report contains an unqualified opinion on the FY 2000 statements and the results of our assessment of FNS' internal control structure and compliance with laws and regulations.

The corrective actions taken or planned in FNS' responses to the recommendations in this report are sufficient for management decision. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us during the audit.

/S/

ROGER C. VIADERO
Inspector General

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE FOOD AND NUTRITION SERVICE'S FISCAL YEAR 2000 FINANCIAL STATEMENTS ALEXANDRIA, VIRGINIA

AUDIT NO. 27401-20-Hy

PURPOSE

We have audited the accompanying Principal Statements (hereinafter referred to as financial statements) and Required Supplementary Stewardship Information of the Food and Nutrition Service (FNS), as of September 30, 2000. These financial statements are the responsibility of FNS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit objectives were to determine whether: (1) FNS' financial statements present fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP), the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations; (2) FNS has an internal control structure that provides reasonable assurance of achieving its internal control objectives; (3) FNS complied with laws and regulations for those transactions and events that could have a material effect on the financial statements; and (4) the information and manner of its presentation in the Overview and Supplemental Information sections was materially consistent with the information in the financial statements.

We conducted our work at the FNS National Office in Alexandria, Virginia and 4 of the 7 FNS regional offices; the Benefit Redemption Systems Branch in Minneapolis, Minnesota; and 2 of 12 Federal Reserve Banks.

The principal FNS programs are the Food Stamp Program (FSP), Child Nutrition Programs (CNP), and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Congress appropriated FNS over \$35 billion for fiscal year (FY) 2000, almost 49 percent of the total U.S. Department of Agriculture budget.

RESULTS IN BRIEF

In our opinion, the financial statements referred to above, including the accompanying notes, present fairly in all material respects, in

conformity with GAAP, the assets, liabilities, and net position as of September 30, 2000 of FNS; as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended. As discussed in Notes 1D and 3, the largest component of non-Federal accounts receivable consists of food stamp recipient claims. States establish claims against households to recover overissued food stamp benefits and report to FNS on this activity. State systems have been determined to be unreliable; accordingly, FNS does not know the balance of the gross accounts receivable, nor does it know the related bad debt (uncollectible receivables) expense. The Federal Accounting Standards Advisory Board (FASAB) permits Federal entities to estimate its accounts receivable and FNS has developed an estimate of about \$1.1 billion based upon its quality control system (which projects overissuances). Related bad debts are anticipated to be a significant portion of this amount but cannot be reasonably quantified. As a result, this expense is not separately reported on the Statement of Net Cost but is included in the cost of the FSP.

Several material internal control weaknesses warrant corrective action, as discussed in our Report on FNS' Internal Control Structure.

FNS has not corrected its internal control weakness related to food stamp recipient claims (gross accounts receivable, non-Federal) although corrective actions have been initiated. The FSP accounts receivable accounting and reporting weakness has been reported in FNS' financial statements audit reports since FY 1991. Information available to FNS shows that 23 States have claims systems that can report accurate, complete, and supportable information. An additional 27 States have corrective action plans in place to address reported deficiencies. All corrective action plans are expected to be implemented by September 2001. During FY 2000, FNS misstated its reliance on the reliability of State reported claims establishment data in its FY 1999 Annual Program Performance report, which is required by the Government Performance and Results Act of 1993. FNS needs to develop appropriate controls to ensure that information reported in external reports is consistent with known weaknesses.

- Federal and Non-Federal costs and liabilities were misclassified in FNS' accounting system because incorrect budget object class codes were used to record transactions. FNS needs to strengthen internal controls to ensure adequate data validation. Over 3,700 accounting adjustments totaling over \$51 million had to be made to properly classify costs and payables on the financial statements. Additionally, FNS made accounting adjustments to obligations totaling almost \$46 million to ensure that future expenses will be applied to the correct line item on the Statement of Net Cost.
- Unliquidated obligations by fiscal year of appropriation are misstated on FY 2000 reports to the U.S. Department of the Treasury (Treasury) and Office of Management and Budget (OMB). FNS does not have an automated system in place to provide appropriate fiscal year integrity for reporting the redemption of food stamp benefits delivered via electronic benefits transfer (EBT) systems. This

condition was reported in prior financial statements audits. FNS performs a manual calculation to account for EBT redemptions in the proper fiscal year. However, FNS' calculation did not include all accounting adjustments reported by EBT processors and other errors were made. Although a supervisory review was performed and some of the errors were identified, FNS did not ensure corrections were made. FSP unliquidated obligations reported on external reports for FY 2000 were overstated by more than \$26 million and understated the four preceding fiscal years by the same amount.

- FNS regulations require States to expunge FSP benefits from recipient accounts when the FSP household does not access the benefits after a period of one year, unless a waiver is approved for a shorter duration. FNS has not established adequate controls to evaluate the reasonableness of State reported data. FNS has not monitored and, therefore, cannot explain why expunged data reported by 22 States in FY 1999 and 15 States in FY 2000, was inconsistent with historical trends. We identified over \$13.2 million (net) in questionable expungement data reported by States that could misstate the FSP obligation balance.
- FNS incorrectly calculated the accounts payable writedown for WIC for FY 2000. Net adjustments totaling over \$19.7 million made by FNS during the WIC closeout process were not included in the accounts payable model. Sufficient followup was not performed to ensure errors identified during supervisory review were corrected in the model. Therefore, FNS had to make adjustments to seven line items on the Balance Sheet and Statements of Net Cost, Changes in Net Position, and Financing.
- FNS has systems on its networks that have potentially serious security vulnerabilities that could impact FNS operations. These vulnerabilities, if left uncorrected, could jeopardize the security of FNS' networks and its critical and sensitive data, including financial data.
- User identification and password security, as well as FNS' process for authorizing continuing access to financial accounting and payment systems, are not always effectively managed to ensure individual accountability. Although our audits have not detected unauthorized access, FNS' security processes and controls may not prevent or detect unauthorized individuals from accessing, modifying, or destroying sensitive financial and program information.
- EBT processors can adjust previously submitted issuance information in the Account Management Agent (AMA) system without State knowledge or approval because of a system design flaw. As a result, the processors can gain access to a larger amount of Federal funds than authorized by the States. In FY 1997, our audit report on the AMA system recommended that FNS amend the AMA system design to prohibit the entry of issuance adjustments for previously entered dates. FNS officials stated that this enhancement would not be implemented until

January 2001. In response to our prior financial statements audit report, beginning in FY 1999, FNS directed States to perform, on a daily basis, a reconciliation of State issuance data to EBT processor and AMA data. However, this reconciliation does not prevent unauthorized adjustments from being posted to AMA; but it would identify the adjustments after the fact. Also, to further exacerbate this control weakness, FNS policy allows an excessive amount of time (90 days) for EBT processors to report corrections to issuance data. EBT technology provides the capability to make corrections within 30 days.

- State procedures for reviewing access to EBT systems need strengthening. We have reported this problem in prior audit reports issued since 1996. FNS' corrective actions to address this problem have not been effective. State EBT systems are an integral part of FNS' control structure to record, process, summarize, and report both program and financial data that is material to FNS' financial statements. Although our audits did not detect any unauthorized access to the EBT systems, the systems are vulnerable to misuse because unauthorized access may not be prevented or detected.
- FNS needs to develop and implement procedures to review EBT processor SAS 70 examination reports to determine if they meet regulatory requirements and ensure timely resolution of identified control weaknesses. A SAS 70 examination enables auditors of service organizations to issue a report on controls that may effect a user organization. FNS uses commercial EBT service organizations to record, process, summarize, and report both program and financial data for the FSP that is material to FNS' financial statements. Without audit/review and resolution procedures, there is reduced assurance that EBT processors are correcting deficiencies in their control structure that may impact the reporting of reliable FSP data. Also, there is a risk that potential material fraudulent activity may not be prevented or detected.

Our Report on Compliance with Laws and Regulations contains one instance of noncompliance with other laws and regulations.

- FNS has not completed corrective actions to bring its FSP debt collection offset program into compliance with the Debt Collection Improvement Act (DCIA). We reported, in our FY 1999 financial statements audit, that FNS had not always effectively pursued all FSP recipient claims debt through the Treasury Offset Program (TOP). FNS was in noncompliance with DCIA because it had not developed or implemented alternative procedures for pursuing this debt when Treasury's requirement for the use of an Internal Revenue Service (IRS) address (maintained for tax purposes) for due-process notification was eliminated. Also, FNS was not referring delinquent FSP retailer debt for offset. FNS has several pilot projects planned to determine how it can assist States in pursuing offset of debt when FSP recipient addresses do not match IRS records. FNS will implement referral of retailer debt to TOP effective March 2001.

KEY RECOMMENDATIONS

FNS made progress in strengthening its internal control structure in FY 2000, to provide a financial management system that contains sufficient discipline, effective internal controls,

and reliable data. However, FNS needs to continue these efforts and complete the following actions. Recommendations to improve computer security, as well as identified control weaknesses in the reporting of EBT data, have been made in other audit reports. Therefore, OIG will not make additional recommendations at this time.

- Develop controls and procedures that will provide a consistent and accurate representation of the reliability of FSP claims data reported by States.
- Establish controls to ensure accounting transactions are properly classified and that errors detected by supervisory review are corrected.
- Establish a followup process to ensure that data errors are corrected when determining the appropriate fiscal year of FSP redemption and correct errors on external reports to Treasury and OMB.
- Expedite the development and implementation of procedures to review SAS 70 reports for compliance with regulatory requirements and that identified weaknesses are timely resolved by EBT processors.

AGENCY POSITION

FNS officials agreed with the findings and recommendations contained in this report.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
PURPOSE	i
RESULTS IN BRIEF	i
KEY RECOMMENDATIONS	v
AGENCY POSITION	v
REPORT OF THE OFFICE OF INSPECTOR GENERAL	1
REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE	3
FINDINGS AND RECOMMENDATIONS	7
CHAPTER 1	7
CONTROL WEAKNESS RELATED TO ACCOUNTS RECEIVABLE, FOOD STAMP RECIPIENT CLAIMS, CONTINUE TO EXIST	7
FINDING NO. 1	7
RECOMMENDATION NO. 1	9
RECOMMENDATION NO. 2	9
CHAPTER 2	10
FEDERAL AND NON-FEDERAL COSTS AND LIABILITIES WERE MISCLASSIFIED DUE TO USE OF INCORRECT BUDGET OBJECT CLASS CODES	10
FINDING NO. 2	10
RECOMMENDATION NO. 3	11
RECOMMENDATION NO. 4	12
RECOMMENDATION NO. 5	12
RECOMMENDATION NO. 6	12
CHAPTER 3	13
UNLIQUIDATED OBLIGATIONS BY FISCAL YEAR ARE MISSTATED ON EXTERNAL REPORTS TO TREASURY AND OMB	13
FINDING NO. 3	13
RECOMMENDATION NO. 7	14
RECOMMENDATION NO. 8	15

RECOMMENDATION NO. 9	15
CHAPTER 4	16
CONTROLS OVER STATE REPORTED EXPUNGEMENT DATA NEED IMPROVEMENT	16
FINDING NO. 4	16
CHAPTER 5	18
INCORRECT GRANT CLOSEOUT DATA USED IN ACCOUNTS PAYABLE MODEL TO WRITEDOWN FY 2000 PAYABLES.....	18
FINDING NO. 5	18
RECOMMENDATION NO. 10.....	19
CHAPTER 6	20
IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY SECURITY AND CONTROLS.....	20
FINDING NO. 6	20
FINDING NO. 7	21
CHAPTER 7	23
CONTROLS IN THE AMA SYSTEM DO NOT PREVENT UNAUTHORIZED ADJUSTMENTS TO STATE FSP ISSUANCE DATA.....	23
FINDING NO. 8	23
CHAPTER 8	25
STATE PROCEDURES FOR REVIEWING EBT SYSTEM ACCESS NEED STRENGTHENING.....	25
FINDING NO. 9	25
CHAPTER 9	27
SAS 70 RESOLUTION PROCEDURES NEED TO BE ESTABLISHED.....	27
FINDING NO. 10.....	27
RECOMMENDATION NO. 11.....	28
RECOMMENDATION NO. 12.....	28
REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS.....	30
FINDINGS AND RECOMMENDATIONS.....	32
CHAPTER 10.....	32
FOOD STAMP PROGRAM DEBT NOT ALWAYS PURSUED IN COMPLIANCE WITH THE DEBT COLLECTION IMPROVEMENT ACT	32

FINDING NO. 11	32
ABBREVIATIONS	35

TABLE OF CONTENTS

**FOOD AND NUTRITION SERVICES'S FISCAL YEAR 2000
FINANCIAL STATEMENTS (Prepared by FNS)**

MANAGEMENT DISCUSSION AND ANALYSIS FOR FISCAL YEAR 2000.....	1
THE AGENCY'S MISSION AND ORGANIZATIONAL STRUCTURE.....	1
FNS' PERFORMANCE GOALS AND RESULTS	2
FOOD STAMP PROGRAM	4
CHILD NUTRITION PROGRAMS.....	10
THE SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN.....	13
COMMODITY ASSISTANCE PROGRAMS	15
THE FNS WORKFORCE.....	15
FINANCIAL STATEMENTS	16
SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE.....	16
SUPPLEMENTAL INFORMATION FOR FISCAL YEAR 2000 OPERATIONS	21
INTRODUCTION	21
FOOD STAMP PROGRAM.....	21
CHILD NUTRITION PROGRAMS.....	23
SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN	28
COMMODITY ASSISTANCE PROGRAMS	30
BALANCE SHEET	32
STATEMENT OF NET COST.....	33
STATEMENT OF CHANGES IN NET POSITION.....	34
STATEMENT OF FINANCING.....	35
STATEMENT OF BUDGETARY RESOURCES.....	36
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	37
NOTE 2 – FUND BALANCES WITH TREASURY.....	41

NOTE 3 – ACCOUNTS RECEIVABLE.....	43
NOTE 4 – OTHER ASSETS.....	43
NOTE 5 – GENERAL PROPERTY, PLANT, AND EQUIPMENT.....	44
NOTE 6 – ACCOUNTS PAYABLE.....	44
NOTE 7 – OTHER LIABILITIES.....	44
NOTE 8 – LEASE LIABILITIES.....	45
NOTE 9 – UNEXPENDED APPROPRIATIONS.....	46
NOTE 10 – CONTINGENCIES AND COMMITMENTS.....	46
NOTE 11 – SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST.....	47
NOTE 12 – EARNED REVENUES.....	50
NOTE 13 – TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION.....	51
NOTE 14 – DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION.....	52
NOTE 15 – DISCLOSURES RELATED TO STATEMENT OF BUDGETARY RESOURCES.....	52
NOTE 16 – DISCLOSURES NOT RELATED TO A SPECIFIC STATEMENT.....	54
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION.....	55
REQUIRED SUPPLEMENTARY INFORMATION.....	56



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: George A. Braley
Acting Administrator
Food and Nutrition Service

We have audited the accompanying Principal Statements (Balance Sheet; and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing; hereinafter referred to as financial statements) and Required Supplementary Stewardship Information of the Food and Nutrition Service (FNS), an agency within the U.S. Department of Agriculture (USDA), as of and for the year ended September 30, 2000. These financial statements are the responsibility of FNS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements; and other OMB bulletins applicable to the period under audit. 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, including the accompanying notes, present fairly in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position as of September 30, 2000; as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended.

Our audit was conducted for the purpose of forming an opinion on FNS' financial statements taken as a whole. The information in the Overview and Supplemental

Information sections are not a required part of the financial statements but are supplementary information required by OMB Bulletin 97-01, as amended, Form and Content of Agency Financial Statements. We have applied certain limited procedures regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Notes 1D and 3, the largest component of non-Federal accounts receivable consists of food stamp recipient claims. States establish claims against households to recover overissued food stamp benefits and report to FNS on this activity. State systems have been determined to be unreliable; accordingly, FNS does not know the balance of the gross accounts receivable, nor does it know the related bad debt (uncollectible receivables) expense. The Federal Accounting Standards Advisory Board (FASAB) permits Federal entities to estimate its accounts receivable and FNS has developed an estimate of about \$1.1 billion based upon its quality control system (which projects overissuances.) Related bad debts are anticipated to be a significant portion of this amount but cannot be reasonably quantified. As a result, this expense is not separately reported on the Statement of Net Cost, but is included in the cost of the FSP.

We have also issued a report on FNS' internal controls, which cites 10 reportable internal control weaknesses, and a report on FNS' compliance with laws and regulations, which cites 1 instance of noncompliance with laws and regulations.

This report is intended solely for the information of the management of FNS, USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

/S/

ROGER C. VIADERO
Inspector General

January 19, 2001



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

We have audited the Principal Statements (hereinafter referred to as financial statements) and Required Supplementary Stewardship Information of the Food and Nutrition Service (FNS) as of and for the year ended September 30, 2000, and have issued our report thereon, dated January 19, 2001. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements; and other OMB bulletins applicable to the period under audit.

In planning and performing our audit, we considered FNS' internal control over financial reporting by obtaining an understanding of the agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, therefore, we do not provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of FNS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. One objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. The other objective is that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the agency's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In its fiscal year (FY) 2000 Federal Managers' Financial Integrity Act (FMFIA) report, FNS reported that its management controls provided reasonable assurance that its control objectives had been met except for certain continuing material weaknesses. Significant management weaknesses reported included: (1) The need for more intensive on-site review of administrative costs claimed for reimbursement by State agencies administering the Food Stamp Program (FSP) and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); (2) the need for more detailed guidance and more intensive oversight from FNS of the State agencies administering the WIC program in the area of food delivery systems management; (3) the participation by authorized retailers in illegal transactions involving the exchange of food stamps for cash, drugs, weapons, or other felony-level ineligible items; (4) the need for strengthened FNS procedures for establishing, recording, adjusting, collecting, and reporting on FSP recipient claims; (5) the overissuance of program benefits by State agencies administering the FSP at a rate exceeding established tolerances; (6) the need to strengthen the management and monitoring of weaknesses in the Child and Adult Care Food Program; (7) the need to increase oversight of State automated systems development; (8) FNS' inability to adequately measure and assess program performance, and to develop and test potential program changes to address emerging problems; and (9) a potential problem with the integrity of determinations of household eligibility for free and reduced-price meals in the National School Lunch and Breakfast Programs.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

- Grants and Transfers - is composed of FSP coupons and electronic benefits transfer (EBT) issuance, and letter of credit (LOC) drawdown activity for all other programs including Child Nutrition Programs (CNP), WIC, and FSP administrative costs. Grants consists of methods and records established to identify, assemble, classify, and record transactions used by FNS personnel to report the grant operating program expenses and unliquidated obligations.
- Commodities - includes transactions related to the planning, ordering, purchasing, storing, delivering, monitoring, and funding of commodities.
- Budget Execution and Funds Control - consists of policies and procedures associated with the receipt of annual appropriations, the distribution of funds to allowance holders, the commitment and obligation during spending actions, and issuance of budgetary reports to OMB and the U.S. Department of the Treasury (Treasury).
- Fund Balance with Treasury - consists of the aggregate amount of FNS' accounts with Treasury for which FNS is authorized to make expenditures and pay liabilities. This category consists of policies and procedures associated with establishing, recording, and maintaining the amount of disbursements and collections.

- Accounts Receivable - consists of policies and procedures associated with establishing, recording, collecting, and maintaining records of food stamp claims.
- Accounts Payable - consists of policies and procedures associated with establishing, recording, and maintaining unliquidated balances at year-end.
- Food Stamp Issuance/Redemption - consists of policies and procedures associated with the printing, shipping, issuing, and accounting for unissued food stamp coupons. This category also encompasses the redemption of food stamp benefits at retailers, the accounting for this by FNS, and the application of the redemption amount to FNS' account at Treasury.
- Integrity of Agency Financial Management System (AFMS) Data - includes policies and procedures to ensure the accuracy and reliability of FNS' financial information such as transaction testing, comparing FNS' financial data to external reports, and the testing of closed accounts.
- Federal Managers' Financial Integrity Act - consists of policies and procedures which require agencies to establish internal accounting and administrative controls in accordance with standards established by the Comptroller General.
- Compliance with Laws and Regulations - includes compliance with laws and regulations for transactions and events that may have a material effect on the financial statements.
- Financial Reporting - includes policies and procedures associated with the culmination of financial transactions that have been summarized and posted to the general ledger and aggregated in the five financial statements.
- Performance Measures – consists of policies and procedures associated with recording and accounting for data supporting reported performance measures to permit reliable and complete performance information.

For each of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation. We assessed control risk and performed tests of FNS' internal control structure.

In making our risk assessment, we considered FNS' FMFIA report as well as our prior and current audit efforts and other independent auditor reports on financial matters and internal accounting control policies and procedures. We agree with FNS' FMFIA conclusions of general compliance with Section 2, Management Accountability and Control, and Section 4, Financial Management Systems.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Matters involving the internal control and its operation that we consider to be reportable conditions are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	CONTROL WEAKNESS RELATED TO ACCOUNTS RECEIVABLE, FOOD STAMP RECIPIENT CLAIMS, CONTINUE TO EXIST
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FINDING NO. 1

FNS has not corrected its internal control weakness related to food stamp recipient claims (gross accounts receivable, non-Federal) although corrective actions have been initiated. The weakness, as reported in FNS' FY 2000 Federal Managers' Financial Integrity Act (FMFIA) report, indicates that agency procedures for establishing, recording, adjusting, collecting, and reporting on claims need strengthening and program funds are lost when claims are not established timely and vigorously pursued. The status of corrective actions and FNS' reliance on State systems to report complete and accurate data, however, is not reported consistently in its internal claims status report, the FY 2000 FMFIA report, and the FY 1999 Annual Program Performance Report (Performance Report). Also, FNS is not using all available data to monitor and report the status of State corrective actions. As a result, adequate State claims systems and processes are not in place to ensure that Federal funds spent in violation of FSP regulations are recovered and returned to the program to improve program operations. Also, FNS cannot report complete, accurate, and supportable gross accounts receivable, non-Federal, data. The FSP accounts receivable accounting and reporting weakness has been reported in FNS' financial statements audit reports since FY 1991.

The Federal Accounting Standards Advisory Board permits Federal entities to estimate accounts receivable. In FY 1998, the Office of Inspector General (OIG) and FNS resolved the opinion qualification for gross accounts receivable, non-Federal. FNS disclosed in a footnote to the financial statements the magnitude of invalid food stamp recipient payments and its impact on reported program expenditures, including that bad debt expense cannot be reasonably quantified. Both the U.S. General Accounting Office and the OMB accepted this approach. However, material financial and compliance control weaknesses continue to exist.

In response to prior audit recommendations, between FYs 1997 and 1999, FNS completed reviews, or States performed a self-assessment, of State claims systems (Guam and Arizona have not yet been reviewed in one or more claims management areas). For each State where the reviews determined that the claims systems were deficient and could not report reliable data, a corrective action plan was developed. FNS regional offices monitor, and periodically report to the national office, the status of State

corrective actions. FNS has established September 2001 as the deadline for implementation of all corrective action plans.

FNS' latest claims status report, as of June 2000, reported that 24 States representing 46 percent of the FSP issuance have been identified with claims systems that can report accurate, complete, and supportable information. Although FNS has identified claims reporting as a weakness in its annual FMFIA reports, FNS reported contradictory information in its FY 1999 Performance Report. In accordance with the Government Performance and Results Act of 1993, FNS issued its Annual Program Performance Report in March 2000. Goal 1 of the plan, Enhanced Food and Nutrition Security for Low-Income Americans had 10 performance goals; one of which related to claims collections. In the Performance Report, FNS reported the source of its performance data as follows: "The claims establishment and collection data is taken from reports (FNS-209 Reports) submitted to FNS by States quarterly, and subject to review for consistency by FNS. *The agency has good confidence in the quality and reliability of this data.*" (Emphasis added.) We disagree that the data reported on the FNS-209 is reliable, complete, and supportable.

We also found that FNS did not use all available data to monitor and report the status of State corrective actions. For example, the information for Florida reported by the FNS regional office was based on a review conducted in 1997 and did not include the conditions reported in an audit conducted by the State of Florida. This State audit report, dated February 4, 2000, disclosed deficiencies in the State system that directly impacted the accuracy and validity of the FNS-209 report. Also, eight 1998 State Single Audit reports had findings related to the States' inability to reconcile the FNS-209 report or computer systems maintaining the claims accounting system. Although the Single Audit report for Hawaii reported deficiencies in the State claims system, FNS reported that Hawaii had a valid FNS-209 system and did not identify any problems (this conclusion was based on a self-assessment completed by the State in October 1998).

Using all information available to FNS, we determined that 23 State agencies representing 45 percent of the FSP issuance have been identified with claim systems that can report accurate, complete, and supportable information. FNS also reported that 27 States have corrective action plans in place to address reported deficiencies.

In response to our prior audit recommendations, FNS issued regulations¹ to improve claims management in the FSP, while providing State agencies with increased flexibility in its efforts to increase claims collections. The rule incorporates Federal debt management regulations and statutory revisions into recipient claims management and provides State agencies with additional tools to facilitate the establishment, collection, and disposition of recipient claims. The rule is expected to provide the guidance States need to implement claims systems that provide accurate, complete, and supportable information.

¹ Title 7 Code of Federal Regulations, Parts 272 And 273, dated July 6, 2000.

FNS needs to continue to monitor and validate State implementation of corrective action plans. Also, FNS needs to use all available information to monitor and report the status of State corrective actions in its internal and external reports.

FNS agreed to strengthen its monitoring and reporting of single audit findings relating to State claims systems. FNS also agreed that all reports involving the FNS-209, beginning with the Performance Report due March 2001, will be consistent with financial reporting and FMFIA control weaknesses.

RECOMMENDATION NO. 1

Develop procedures to ensure that all available information is considered in monitoring and reporting the progress of States in correcting deficiencies in State claims systems.

RECOMMENDATION NO. 2

Develop controls to provide consistent and accurate information in internal and external reports. Ensure that FNS' reliance on State claims systems to provide reliable data is reported in the FY 2000 Annual Program Performance Report, due March 2001, consistent with management's representations for financial reporting, as well as FMFIA control weaknesses.

CHAPTER 2**FEDERAL AND NON-FEDERAL COSTS AND LIABILITIES WERE MISCLASSIFIED DUE TO USE OF INCORRECT BUDGET OBJECT CLASS CODES****FINDING NO. 2**

Federal and Non-Federal costs and liabilities were misclassified in the Agency Financial Management System (AFMS) because incorrect budget object class codes were used

to record transactions. Also, three transactions for about \$1.55 million had not been properly classified as Federal payables and recorded in the appropriate general ledger account. The budget object class code was not validated during data reconciliation or second party review processes. Second party review was impaired because neither the transaction input form nor output report (daily posting) contained a field documenting the budget object class code. Also, there is a lack of proper separation of duties because the same individual codes, inputs, reconciles, and validates data relating to contract obligations and expenditures. As a result, over 3,700 accounting adjustments totaling over \$51 million² had to be made to properly classify costs and payables on FNS' financial statements. Additionally, FNS made accounting adjustments to obligations totaling almost \$46 million to ensure that future expenses will be applied to the correct line items on the Statement of Net Cost.

Federal agencies are required to comply with the standards in OMB Bulletin A-11, dated July 2000, to provide Congress a realistic cost estimate for each program. OMB A-11 details the budget classification codes that are to be used to properly classify costs and provide support for accomplishment of plans for management improvement in the areas of integrity and controls, cash management, financial systems, and financial reporting. Proper classification of costs is necessary to provide a fair presentation in agency budget requests and on agency financial statements.

OMB Bulletin 97-01, Form and Content of Agency Financial Statements, as amended, requires the reconciliation of transactions occurring between two different Federal agencies to enable the preparation of the consolidated financial statements at the departmental, as well as the governmental level. The Department of Treasury's Financial Management Service Financial Standards and Reporting procedures, dated September 29, 2000, state that for elimination purposes, each agency is responsible for establishing an internal control structure for its financial transactions including initiating, executing, recording, reconciling, and reporting procedures.

FNS' accounting system is structured to identify transactions with other Federal agencies through vendor and subobject class code classification. In FY 1999, FNS also established a general ledger account for Federal payables to facilitate the identification of Federal

² This amount is conservative because the transactions would affect multiple accounts.

trading partners. AFMS procedure 206, AFMS Data Entry, dated February 1997, requires that adequate internal controls be established that would reasonably ensure correct data is entered into AFMS. AFMS 206 also requires that a supervisor or designated official review the AFMS 960, Report of Daily Postings. The Accounting Division also performs a quarterly reconciliation of the AFMS 208, Report on Contract/Purchase Order Obligations with data recorded in AFMS. This reconciliation, however, does not include validation of the budget object class code classification.

As part of our control testing, we statistically sampled Operating Program Expenses. We found that an expense for a service contract was incorrectly assigned a budget object class code that designated it as a cost associated with a grant. This error would cause the cost to be reported on the Non-Federal, Grants and Transfers, line item on the Statement of Net Cost, rather than on the Other Program (i.e., service) Cost(s) line item.

Through data analysis software, we expanded our testing and identified transactions coded as a grant cost but lacking a program grant identifier. We also found that Federal costs were misclassified as Non-Federal costs due to errors in budget object class codes. These costs were misclassified because the original obligating document had been improperly coded. Three transactions totaling about \$1.55 million were also not identified as Federal payables because FNS had not recorded them in the general ledger account established to facilitate the identification of Federal trading partners. These Federal payables were incorrectly classified as non-Federal transactions. As a result, FNS had to make accounting adjustments totaling over \$51 million to properly classify costs and liabilities on the Statement of Net Cost and Balance Sheet. Also, obligations totaling almost \$46 million were adjusted to ensure that future expenses will be applied to the correct line items on the Statement of Net Cost. We reviewed FNS' support for its accounting adjustments and confirmed that the budget object class codes were corrected.

We determined that FNS lacked adequate internal controls to ensure the accuracy of budget object classifications. Input forms and output reports did not contain a data field to facilitate second party review and data accuracy. Separation of duties and second party review were not adequate because the same individual codes, inputs, validates, and reconciles accounting data relating to contract obligations and expenditures. Accounting personnel assumed all costs and obligations were associated with grants.

FNS has agreed to take the necessary action to strengthen its accounting controls over the assignment of budget object classification codes. FNS agreed to establish appropriate control procedures by June 2001. FNS has also revised the Transaction Input Form and Report of Daily Postings to include budget object class codes.

RECOMMENDATION NO. 3

Assign proper separation of duties when coding, inputting, reconciling, and validating data.

RECOMMENDATION NO. 4

Update procedures to establish a process for validating the budget object class codes.

RECOMMENDATION NO. 5

Revise the AFMS Transaction Input Form and AFMS 960, Report of Daily Postings, to include a budget object class code.

RECOMMENDATION NO. 6

Revise the AFMS 208 Report and require, as part of the AFMS 208 quarterly review, the analysis of the assigned budget object class code.

CHAPTER 3	UNLIQUIDATED OBLIGATIONS BY FISCAL YEAR ARE MISSTATED ON EXTERNAL REPORTS TO TREASURY AND OMB
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FINDING NO. 3

Unliquidated FSP obligations by fiscal year of appropriation are misstated on FY 2000 external reports to the Treasury and OMB. FNS does not have an automated system in

place that provides appropriate fiscal year integrity for reporting the redemption of FSP benefits delivered via EBT systems. We reported this control weakness in our prior FNS financial statements audits. Based on prior audit recommendations, FNS performs a manual calculation to account for EBT redemptions in the proper fiscal year. However, in FY 2000, FNS' calculation did not include all of the accounting adjustments reported by EBT processors to the AMA system. It also included inaccurate data from AMA system reports and math errors. In addition, FNS management did not perform sufficient followup to ensure that errors identified during management review were timely corrected. In FY 2000, FNS adjusted EBT redemptions by fiscal year of obligation by more than \$100.2 million on its external reports to Treasury and OMB. However, because of missing and inaccurate accounting data, these external reports overstated the FY 2000 FSP unliquidated obligation balance by more than \$26 million and understated the four preceding fiscal years by a total of the same amount.

We reported in Audit No. 27099-04-Hy, Implementation of the Account Management Agent System, dated September 1997, the AMA system provided inaccurate budgetary accounting because FNS developed inadequate design requirements for the system. The AMA system can, however, provide FNS with an automated funds control capability; benefit issuance and redemptions can be tracked by fiscal year of issuance.

As designed, the AMA system allows prior fiscal year funds to be used for current year expenditures; which is a violation of Federal appropriation law. As a result, beginning in FY 1997, FNS began recording a yearend accounting adjustment to properly account for FSP redemptions by fiscal year. In response to our prior audit, FNS stated that changes to existing States' EBT systems and the Federal Reserve Bank (FRB) operated AMA system would be too costly. Instead, FNS would propose language in its appropriation bill that would permit the agency to fully liquidate prior year's FSP obligations before charging expenditures in the current year. In FY 1999, FNS was unsuccessful in incorporating language in the Food Stamp Act to exempt it from being required to record EBT FSP benefit costs against the year of obligation. During FY 2000, FNS performed a cost-benefit analysis, as recommended by OIG, to determine the cost and feasibility of implementing States' EBT and AMA system enhancements. FNS determined that it would cost approximately \$120 million to upgrade the existing EBT systems (OIG has not evaluated the basis for this estimate). Therefore, in the FY 2002 budget request, FNS requested either approval to make FSP funds no-year funds, thereby, eliminating the need

to perform the fiscal year integrity calculation, or additional funding to implement enhancements in States' EBT systems and the AMA system.

Through FY 2000, FNS used a manual monthly activity report prepared by the FRB from AMA system data to perform the fiscal year integrity calculation. The monthly activity report contained monthly issuance, redemptions, returns—coupons, returns—other, and expungements. However, until FY 2000, this report did not contain adjustments, such as refunds made by the EBT processor or other manual overrides made by the FRB, to correct reporting discrepancies. The FRB provides this information to FNS through the AMA/AFMS interface. FNS, however, did not use these accounting adjustments in its fiscal year integrity calculation for FY 1999. We also identified questionable negative monthly obligation balances that were the result, in part, of not including the refunds made by EBT processors in the calculation. FNS staff indicated that they researched why these negative balances occurred, however, they did not include the refunds in the fiscal year integrity calculation. We could not obtain an explanation for this omission. These refund amounts totaled over \$26.3 million in FY 1999.

In addition to the missing accounting adjustments noted above, we identified other errors in transferring AMA system data to the fiscal year integrity calculation and math errors. We found no evidence of supervisory review. FNS management stated that a supervisory review of the fiscal year integrity calculation was performed and they identified errors but failed to perform sufficient followup to ensure that all corrections were made prior to processing the reports to Treasury and OMB.

FNS has advised that the deadline for submitting revised FY 2000 reports to Treasury and OMB has passed. Therefore, FNS needs to correct its errors in prior fiscal year ending obligated and unobligated balances when preparing its 2001 external reports. During FY 2000, the FRB developed an automated report containing all AMA system activity, including accounting adjustments. Therefore, the errors noted in FY 2000 should be minimized in future years.

FNS agreed to strengthen controls over the supervisory review process to ensure that errors are detected and timely corrected. FNS will also correct the errors noted for FY 2000 and report accurate information in its FY 2001 external reports to Treasury and OMB.

RECOMMENDATION NO. 7

Implement procedures to ensure that data used in the fiscal year integrity calculation is complete and consistent with the data recorded in the AMA system.

RECOMMENDATION NO. 8

Perform and document supervisory review of the fiscal year integrity calculation and ensure errors are corrected.

RECOMMENDATION NO. 9

Revise the FY 2000 fiscal year integrity ending balances to ensure that external reports to OMB and Treasury for FY 2001 are accurate.

FINDING NO. 4

FNS has not established adequate controls to evaluate the reasonableness of State reported data on FSP benefits that are no longer eligible for use by recipients (expunged benefits). In FYs 1999 and 2000, States reported to FNS almost \$61.7 million and \$98 million, respectively, in expunged FSP benefits. Based on historical data, FNS has determined that approximately one percent of all FSP benefits are not redeemed. In FYs 1999 and 2000, we identified \$2.5 million and \$10.7 million, respectively, in expunged data that was inconsistent with historical trends. FNS does not review State reported expungement data for reasonableness. Expungement data reduces obligations recorded in FNS' accounting system. If expungement data is not properly reported, FSP obligations could be misstated. As a result, the FSP obligation balance in AFMS, as of September 30, 2000, could be misstated by more than \$13.2 million.

FNS regulations³ require States to expunge benefits that are not accessed by the household after a period of one year unless a waiver is approved for a shorter duration. Based on historical data, we expected reported expungement amounts in the current year to fall into the range of one-half to one and one-half percent of total FSP benefits issued in the prior year. Using this percentage range, we compared FY 1999 FSP benefit issuance data to FY 2000 expunged benefit data⁴ and identified several States that reported an unreasonable amount of expunged benefits or reported no expunged benefits. Included in this assessment were all States that issued FSP benefits in FY 2000, including one State that we did not expect to expunge FSP benefits because its EBT system had not operated for at least one year.

For the FY 1999 reporting period, we identified questionable data reported by 22 States that was not consistent with historical trends (2 did not report any expunged data, 10 reported less than the historical trend, and 10 reported more). For FY 2000, our analysis identified 15 States that reported questionable data (1 did not report any expunged benefits, 8 reported less than historical trends, and 6 reported more). Of the 15 States reporting questionable data in FY 2000, 9 were also identified as reporting questionable data in FY 1999. FNS could not explain this anomaly.

³ 7 CFR Part 274.12(f)(7)(ii), January 1, 1996.

⁴ For FY 1999, we compared FY 1998 FSP issuance data to FY 1999 expungement data.

OIG reported this condition in Audit No. 27099-11-Hy, EBT System National Oversight, dated January 2001. OIG recommended that FNS implement a system to review reported expungement data for reasonableness. FNS concurred with our recommendation and has begun to develop internal procedures for systematic review of reported expungement data. Therefore, OIG is not making any additional recommendations.

CHAPTER 5	INCORRECT GRANT CLOSEOUT DATA USED IN ACCOUNTS PAYABLE MODEL TO WRITEDOWN FY 2000 PAYABLES
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FINDING NO. 5

FNS incorrectly calculated the accounts payable writedown for WIC for FY 2000. Net adjustments totaling \$19,742,992 made by FNS during the WIC closeout process were not

included in the accounts payable model. Management did not perform sufficient followup to ensure that errors identified during supervisory review were corrected in the model. As a result, FNS had to make adjustments to seven line items on the Balance Sheet and Statements of Net Cost, Changes in Net Position, and Financing.

FNS issues grants to States for food assistance programs that include the Child Nutrition Programs, WIC, Administrative Costs for the Food Stamp Program, Commodity Assistance Programs, and Food Donations Program. States submit monthly expenditure reports to FNS. At fiscal year end, States report program funds (obligations) estimated to be expended for the current grant. The grant expenditure closeout process, performed at FNS Regional Offices, does not occur until 3 to 9 months after the end of the fiscal year, depending on the type of grant. Because FNS does not know the exact amount of funding needed by its grantees until the grant closeout process is completed, it uses a statistical model to estimate accounts payable for current year grant obligations, for financial statement purposes. The model adjusts the current period accounts payable amount based upon the historical relationship between obligations at the end of the fiscal year and the actual obligations reported through the closeout process. These adjustments are made using an account specific factor. The account specific factor for each program is an average of the difference between actual and estimated obligations divided by estimated obligations, for the five most recent years (FY 1995 to FY 1999).

We validated the information used to support the FY 1999 account specific factor to prior year closeout information and identified a difference of \$19,742,992 in the amount reported in the accounts payable model and the Statement of Accounts for WIC. After researching the difference, FNS determined it inadvertently used the wrong closeout amount in the accounts payable model.

FNS acknowledged an error was made, recalculated the account specific factor for FY 1999, and recomputed the WIC accounts payable writedown amount for FY 2000. The recalculation resulted in an increase in the WIC writedown amount of \$4,024,715, which resulted in a decrease to the Accounts Payable, Non-Federal line item.

Although this error has an immaterial impact on the Accounts Payable, Non-Federal line item on the Balance Sheet, it did materially impact line items on the Statement of Changes

in Net Position and Statement of Financing [Increase (Decrease) in Unexpended Appropriations and Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period, respectively]. Footnotes (1E, 6, 9, 11, 13, and 14) to the financial statements related to the accounts payable writedown were also impacted by this error. We recommended, and FNS made, adjustments to the financial statements and the related footnotes. During FY 2000, FNS wrote down its accounts payable by over \$313 million for financial statements presentation.

In response to our recommendation, FNS agreed to revise its grant closeout procedures by FY2001.

RECOMMENDATION NO. 10

Develop procedures to ensure regional office closeout data included in the accounts payable model is properly validated.

Our audit of FNS' security over information technology (IT) resources has disclosed potentially serious security vulnerabilities and inadequate controls over access to FNS' computer network and systems. These weaknesses indicate a need for a stronger IT security program. As technology has enhanced the ability to share information it has also made it more vulnerable to unlawful and destructive penetration and disruptions. We believe, unless corrective actions are timely implemented, FNS is at risk that financial and program data may be compromised.

FINDING NO. 6**VULNERABILITY TESTS
DISCLOSED NUMEROUS SECURITY
WEAKNESSES ON SYSTEMS IN
FNS' NETWORK**

FNS has systems on its network that have potentially serious security vulnerabilities that could impact FNS operations. FNS has not secured its network effectively by ensuring that the operating systems⁵ on its network are free from known security vulnerabilities. These vulnerabilities, if left uncorrected, could jeopardize the security of FNS' network and its critical and sensitive data, including financial data.

To conduct our assessment of FNS' network, at 4 selected locations, we used a commercial off-the-shelf software product, which is designed to identify vulnerabilities associated with various operating systems. The software is able to perform over 800⁶ tests for security vulnerabilities on systems that use Transmission Control Protocol/Internet Protocol.

The assessments revealed 982 vulnerabilities: 27 high⁷; 243 medium; and 712 low. The high and medium risk vulnerabilities, if left uncorrected, could allow unauthorized users access to FNS' network and possibly FNS' critical and sensitive data. The significant number of low vulnerabilities can be an indicator of poor system administration.

During our scan of FNS' systems in its headquarters office, a component of its firewall was not functioning and was down for 3 weeks, leaving only router filtering to protect its network. FNS officials took immediate action to correct the problem with the firewall and

⁵ (e.g. UNIX and Windows NT).

⁶ During our vulnerability scans, we periodically updated our software to include additional discovered vulnerabilities. Not all scans conducted may have checked for the more than 800 vulnerabilities that were known at the time of this report.

⁷ High risk vulnerabilities are those, which provide unauthorized access to the computer, and possibly the network of computers. Medium risk vulnerabilities are those that provide access to sensitive network data that may lead to the exploitation of higher risk vulnerabilities. Low risk vulnerabilities are those that provide access to network data that might be sensitive, but is less likely to lead to higher-risk exploitation.

has advised us they are taking aggressive action to correct the vulnerabilities we identified. FNS is also in the process of replacing some of its servers and, therefore, some of the identified vulnerabilities may be corrected.

Detailed below are a few examples of the high-risk vulnerabilities we disclosed during our scans of FNS' systems.

- One system was accessible using the inherently insecure File Transfer Protocol. On this system, a default account name could be used to gain access to the system using this protocol. An attacker could use this vulnerability to place a virus or other malicious software that could be executed by a more privileged user.
- A user account on one system had no password assigned to it, leaving it accessible by anyone. Depending on the access privileges on this user account, an attacker could use this vulnerability to access this and other computers on the network.
- One server that was found to have website capabilities also had one or more potentially vulnerable scripts. These scripts could be exploited to allow an attacker to execute malicious commands on that server.

OIG will recommend in Audit No. 27099-18-Hy, FNS Security of Information Technology Resources, that FNS take immediate action to eliminate the high and medium risk vulnerabilities found on its systems, obtain vulnerability scanning software and conduct scans periodically at FNS headquarters and all field locations where servers are maintained. Therefore, no additional recommendations are being made.

FINDING NO. 7

USER ID'S AND PASSWORD MANAGEMENT CONTROLS ARE NOT ADEQUATE IN THREE FNS SYSTEMS

User identification (ID) and password security, as well as FNS' process for authorizing continuing access to financial accounting and payment systems, are not always effectively managed to ensure individual accountability. This occurred because FNS did not always implement appropriate password security measures or effective procedures for assessing the continuing need for system access. As a result, unauthorized individuals could obtain

access to FNS and Treasury systems and modify or destroy sensitive financial and program information. Our audits to date, however, have not disclosed unauthorized access or misuse of FNS data.

Active management of user IDs and passwords is a critical control that provides reasonable assurance that users having a need for system access are properly identified and authorized. These controls should include requirements that IDs uniquely identify

users, passwords are periodically changed, and passwords contain a range of alphanumeric characters.⁸ Agencies should also establish a periodic review to ensure users have a continuing need for system access.⁹ We noted the following weaknesses relating to user IDs and password management.

- Security password features have not been implemented in two key FNS systems.
- User ID password file for the contractor developed portion of one FNS system is not encrypted.
- Information Technology Division (the FNS division that has oversight of system access) is not always promptly notified when an employee with mainframe access separates from the agency.
- Financial management system managers did not always timely determine that individuals with user IDs had a need for continuing access to AFMS.
- Treasury issues shared IDs and passwords for its system applications and they have not been changed in several years for one system. Treasury is aware of these security issues and plans to issue unique IDs and passwords with implementation of GOALS II.
- Three mission critical systems do not monitor inactive users.

OIG will recommend in our report, FNS Security of Information Technology Resources, Audit No. 27099-18-Hy, that FNS implement procedures to address these deficiencies. FNS officials have advised us that, for one system, new user IDs have been established and they are in the process of implementing procedures for monitoring inactive users. Therefore, OIG is not making any additional recommendations.

⁸ FNS Handbook 701, Section 302, paragraphs B and F; FNS Handbook 702, Section 104; USDA Departmental Manual 3140-1.1, Appendix D, Section 5, 6a, and 6b; National Institute of Standards and Technology (NIST), Practice, 3.11.2.

⁹ FNS Handbook 701, Section 302, paragraph G; NIST Practice 3.5.2, NIST Guide for Developing Security Plans.

CHAPTER 7	CONTROLS IN THE AMA SYSTEM DO NOT PREVENT UNAUTHORIZED ADJUSTMENTS TO STATE FSP ISSUANCE DATA
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FINDING NO. 8

In our prior 1998 and 1999 financial statements (Audit Nos. 27401-14-Hy and 27401-17-Hy) and Implementation of the Account Management Agent System (Audit No. 27099-04-Hy, dated September 1997) audits, we identified a control weakness in the AMA system design that allows EBT processors to adjust reported issuance data without State knowledge and approval. This vulnerability still exists and is further exacerbated because FNS policy allows an excessive amount of time for EBT processors to report corrections to issuance data. Since the advent of EBT, FNS has not revised its regulations¹⁰ that require States to report issuance data no later than 90 days following the end of the reporting month. Because of the excessive length of time EBT processors have for making corrections to data, the AMA system is more vulnerable to unauthorized adjustments.

The Joint Financial Management Improvement Program's (JFMIP) Core Financial System Requirements, dated February 1999, require Federal financial management systems to collect accurate, timely, complete, reliable, and consistent information.

In response to our prior audits, FNS officials stated that processor adjustments were caused by data entry errors, as well as untimely entry of daily issuance data and other EBT processor adjustments. Therefore, FNS implemented batch processing to minimize discrepancies between State issuance and AMA system data. Also, beginning in FY 1999, FNS implemented procedures that require States to periodically perform a reconciliation of daily issuance activity reported to the EBT processor and AMA system. This should, theoretically, detect unauthorized adjustments by the EBT processors after the adjustments have already been made. However, this reconciliation, and batch processing, do not prevent unauthorized adjustments from being posted to the AMA system. In response to our concerns, FNS also proposed to amend the AMA system design to prohibit manual adjustments without prior State approval. In November 2000, FNS officials advised us that they expect to implement this enhancement in January 2001.

While this enhancement will significantly reduce system vulnerability, FNS can also improve the timeliness of corrections to, and the reporting of, its issuance data by revising the required deadline for States to submit reports (currently no later than 90 days after the reporting month). This requirement was put in place when the primary FSP delivery system was paper-based (coupon issuance system). In the coupon environment, 90 days was a reasonable length of time because issuance information had to be collected from numerous field sites, compiled, verified, and then reported by the State to FNS. Ninety

¹⁰ 7 CFR Section 274.b (2)(ii).

days in an EBT environment is an unreasonable reporting requirement because EBT technology can produce daily data. We believe 30 days is a reasonable reporting requirement because AMA system data shows that corrections can be generally made within the next calendar month.

OIG recommended in Audit No. 27099-11-Hy, EBT System National Office Oversight, dated January 2001, that FNS should expedite the implementation of the proposed enhancement to the AMA system and modify the time period, to a maximum of 30 days, States and EBT processors have for making corrections to FSP issuance data. In its response, FNS indicated that the proposed enhancement to AMA is scheduled for implementation in January 2001. FNS also proposed to allow EBT processors 60 days, rather than 30 days, for making corrections. We believe this time period is excessive and increases AMA system vulnerability. Resolution of this issue will be resolved through the management decision process. Therefore, OIG is not making any additional recommendations.

FINDING NO. 9

State procedures for reviewing access to EBT systems need strengthening. This control weakness was reported in our prior nationwide EBT reports (Evaluation No. 27801-03-Hy, dated September 1996, and Audit No. 27099-11-Hy, dated January 2001). FNS' corrective actions have not been effective in ensuring the States correct this problem. State agencies have not always adequately monitored the need for their employees to have continuing access to EBT systems. State EBT systems are an integral part of FNS' control structure to record, process, summarize, and report both program and financial data that is material to FNS' financial statements. Also, they did not timely terminate access when employee job duties changed and/or when they were no longer employed. Although our audits did not detect any unauthorized access to the EBT systems, the system is vulnerable to misuse because unauthorized access to FSP benefits may not be prevented or detected.

OIG reported in its prior nationwide EBT report that, in the four States reviewed, EBT system access procedures needed strengthening. In response to this control weakness, in March 1997, FNS issued instructions to States that addressed limiting access to the EBT system, division of responsibilities among those with access, and periodic review of EBT access. These instructions stated that these procedures were for the States to *consider* (emphasis added) when implementing access controls. Since issuance of our nationwide EBT report in 1996, OIG has reported that seven additional States, or half of the States reviewed, need to improve controls over access to the EBT system. These States processed almost \$1.9 billion in FSP benefits in FY 2000.

In the seven States reviewed since 1996, OIG identified more than 180 individuals whose access to State EBT systems should have been removed. OIG found States did not always perform a periodic review of EBT system users to determine whether access was still needed, login IDs for terminated employees were deleted, and access to the system had been removed for those individuals who were either no longer employed or whose duties and need for access had changed. OIG did not, however, identify any unauthorized access. In some cases, States had not been provided a report that showed the last system access date for each authorized user, as required by their EBT contracts.

FNS regulations¹¹ require the State to establish a security plan and appropriate procedures to protect FSP data and equipment from theft and unauthorized use but they do not specifically require the State to periodically review system access.

¹¹ 7 CFR 277.18 (p)(2)(ii)(B), dated January 1, 1996

In Audit No. 27099-11-Hy, EBT System National Office Oversight, dated January 2001, OIG recommended that FNS require States to periodically review system access to identify those individuals who no longer have a need and immediately delete their access. In FNS' response to the report, FNS proposed writing to each EBT and FSP State director, directing them to tighten existing controls over EBT access, rather than regulating down to the level of logon ID review. FNS will direct EBT managers to conduct at least semi-annual access reviews and emphasize the need for these reviews in all regional user group meetings. OIG accepted this proposed management decision and will make no additional recommendations.

FINDING NO. 10

FNS needs to develop and implement procedures to review EBT processor Statement on Auditing Standards (SAS) 70 examination reports to 1) determine if they meet regulatory requirements and 2) ensure timely resolution of identified weaknesses. FNS uses commercial EBT service organizations (processor) as an integral part of their internal control structure to record, process, summarize, and report both program and financial data that is material to FNS' financial statements. Audit/review followup and resolution procedures are an important element of a strong internal control structure. Without such procedures and timely resolution of identified weaknesses, there is reduced assurance that EBT processors are correcting deficiencies in their control structure that may impact the reporting of reliable FSP data by FNS. Also, there is a risk that potential material fraudulent activity may not be detected and prevented.

SAS No. 70, Reports on the Processing of Transactions by Service Organizations,¹² provides guidance to auditors performing an audit of a user organization's (e.g., FNS) financial statements and procedures at a service organization that will enable them to issue a report on controls that may effect the user organization. In February 2000, FNS issued FSP regulations¹³ that requires State Agencies administering the FSP to obtain an annual SAS 70 examination of processors of EBT data. The auditor must issue a report that addresses controls placed in operation and tests of operating effectiveness at the EBT processor. The auditor is also to follow the guidance contained in OMB Circular A-133 Single Audit Compliance Supplement, issued March 2000. In addition to the general and application controls of the EBT processor, specific to the EBT environment, the auditor's examination should, in part, cover the following control areas: 1) EBT transactions received from State authorized sources; 2) transaction amounts and recording thereof; 3) processing; 4) settlement; and 5) reporting. These requirements became effective for audit periods that began after June 30, 1999.

During FY 2000, 41 States and the District of Columbia issued about \$11 billion in FSP benefits via EBT, which represents over 73 percent of the FSP benefits issued. In November 2000, FNS designated its Midwest Region as the control point for the review and resolution of SAS 70 reports. FNS officials have indicated that they are just beginning to develop procedures for processing these reports, including what steps will be taken to ensure that adequate corrective actions are timely implemented. Since these reports are already being issued, FNS needs to expedite its review and resolution process to ensure that all weaknesses potentially impacting FNS' financial statements are timely corrected.

¹² AICPA, Professional Standards, vol. 1, AU sec. 324, as amended by SAS No. 78, Consideration of Internal Control in a Financial Statement Audit: an amendment to SAS No. 55.

¹³ 7 CFR Parts 272.1 and 274.12(j).

FNS agreed to develop and implement audit review and resolution procedures for SAS 70 examinations by March 2001. FNS will also designate a cognizant FNS regional office that will be responsible for reviewing the reports, responding to all recommendations, and monitoring corrective actions to ensure they are timely implemented.

RECOMMENDATION NO. 11

Expedite the development and implementation of procedures to ensure SAS 70 examinations meet the requirements of OMB Circular A-133 Compliance Supplement, including the requirement that the reports cover all States using the processor's control environment.

RECOMMENDATION NO. 12

Develop audit resolution procedures to ensure that States require EBT processors to timely resolve identified weaknesses.

Material weaknesses are reportable conditions in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements, 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described in Finding Nos. 1 to 10 are material weaknesses.

In addition, we considered FNS' internal controls over Required Supplementary Stewardship Information by obtaining an understanding of the internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 01-02 and not to provide assurance on these internal controls. Accordingly, we do not provide assurance on such controls.

Finally, with respect to internal controls related to performance measures reported in the Overview section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information of the management of FNS, USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

/S/

ROGER C. VIADERO
Inspector General

January 19, 2001



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the Principal Statements and Required Supplementary Stewardship Information of the Food and Nutrition Service (FNS) as of and for the year ended September 30, 2000, and have issued our report thereon, dated January 21, 2001. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements, and other OMB bulletins applicable to the period under audit.

The management of FNS is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FNS.

- Accounting and Auditing Act of 1950 (Public Law 81-784)
- Anti-Deficiency Act and Federal Appropriations Law
- Budget and Accounting Procedures Act of 1950
- Cash Management Improvement Act of 1990
- Chief Financial Officers Act of 1990
- Debt Collection Improvement Act of 1996
- Federal Financial Management Improvement Act of 1996
- Federal Managers' Financial Integrity Act of 1982
- Government Management Reform Act of 1994
- Government Performance and Results Act of 1993
- National Defense Authorization Act of 1990
- Prompt Payment Act of 1990
- Single Audit Act of 1984 and Amendments of 1996

As part of our audit, we also reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), and compared FNS' most recent FMFIA reports with the evaluation we conducted of FNS' internal control structure. We also reviewed and tested FNS' policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Overview and Supplemental Information sections. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under the FFMIA, we are required to report whether FNS' financial management systems substantially comply with the Federal financial management systems requirements, general accepted accounting principles, and the U.S. Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 01-02. The results of our tests disclosed no instances in which FNS' financial management systems did not substantially comply with these three requirements.

Material instances of noncompliance are failure to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. The results of our tests of compliance with the laws and regulations described in the preceding paragraphs exclusive of FFMIA, disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and OMB Bulletin 01-02. They are described in the Findings and Recommendations section that follows.

FINDINGS AND RECOMMENDATIONS

CHAPTER 10	FOOD STAMP PROGRAM DEBT NOT ALWAYS PURSUED IN COMPLIANCE WITH THE DEBT COLLECTION IMPROVEMENT ACT
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FINDING NO. 11

FNS has not completed corrective actions to bring its Food Stamp Program (FSP) debt collection offset program into compliance with the Debt Collection Improvement Act (DCIA) of

1996. In our fiscal year (FY) 1999 audit of FNS' financial statements, 27401-17-Hy, OIG reported that FNS had not always effectively pursued all FSP recipient claims debt through the Treasury Offset Program (TOP). FNS was in noncompliance with the DCIA because it had not developed or implemented alternative procedures for pursuing the debt when the U.S. Department of the Treasury (Treasury) removed the requirement for the use of an Internal Revenue Service (IRS) address¹⁴ for due-process notice. FNS had to revise its program regulations¹⁵ to require States to submit all delinquent debt for offset under TOP. The regulations were also revised to allow States to use addresses, other than those maintained by the IRS, to provide the FSP recipient the required due process notification.

Our FY 1999 financial statements audit reported that FNS had not pursued over 521,000 FSP recipient claims totaling almost \$339 million for FY's 1997, 1998 and 1999 because they did not have an IRS address (the number may be overstated because some of the same claims may have been submitted more than once, or rejected more than once, during these periods). Because FNS has not fully implemented the requirements of the DCIA, in FY 2000, over 187,000 FSP recipient claims totaling almost \$124 million (resubmissions and debt already at Treasury are excluded from the FY 2000 data) have not been pursued for collection.

The DCIA of 1996, Section 31001(h)(6) requires Federal departments and agencies to refer all enforceable claims over 180 days delinquent to Treasury for TOP offset. Treasury regulations¹⁶ provide agencies the flexibility to send the required 60-day notice to an address other than the IRS provided address. As such, Treasury no longer requires the use of an IRS provided address, beginning September 28, 1998, the effective date of the final rule.

¹⁴ An IRS address is the address maintained by the IRS for tax purposes.

¹⁵ Title 7 Code of Federal Regulations (CFR) Parts 272 and 273, dated July 6, 2000.

¹⁶ Title 31 CFR Part 285, dated August 28, 1998.

FSP RECIPIENT DELINQUENT DEBT

FNS has participated in Treasury offset programs, Federal Tax Refund Offset Program (FTROP) and Federal Salary Offset Program (FSOP) since 1991, collecting almost \$435 million in FSP recipient claims debt during the period FYs 1992 through 2000. The TOP predecessor programs, FTROP and FSOP, allowed Federal agencies to only offset overpayments against Federal tax refunds and Federal salary. The TOP allows Treasury to offset against most Federal payments (such as benefit and vendor payments), in addition to Federal tax refunds and salaries.

Under current FNS procedures, States must submit two distinct transmissions to Treasury. The first is the pre-offset match where FNS forwards State file information on FSP recipient claims to the IRS, through Treasury. The IRS matches the claims to its database to determine if the recipient has an IRS address. In order to match, the first four letters of the last name and the individual's social security number must agree with the IRS database. If they do, the IRS provides an address. For those claims that match (i.e., have an IRS address), States send out the required 60-day notice to the FSP debtor, using the IRS address, which informs the FSP recipient that FNS plans to collect the delinquent debt through TOP offset unless the recipient repays the debt, contacts the State to set up a payment plan, or contests the debt. After sending the required notice to the FSP debtors, States put these claims in the appropriate file structure for the second transmission to Treasury and subsequent TOP processing. This second transmission is called the State certification file.

FNS revised regulations¹⁷ allow FNS to develop a standard for addresses that will maximize the number of notices sent, while ensuring that the addresses are valid. Currently, FNS has no formalized procedures in place to assist States in pursuing FSP claims when an IRS address is not obtained, however, several initiatives have been implemented. FNS is developing a "Standard for Addresses" and has asked its regional offices to request States to conduct pilot projects using different methodologies for locating FSP debtor addresses. Once developed, the "Standard for Addresses" will be incorporated into a handbook for States to use in managing their FSP debt. This handbook will provide the States the procedures to follow for issuing 60-day notices when an IRS address is not available. FNS is targeting issuance of the handbook by September 2001.

To date, two States (Washington and Virginia) have initiated pilot projects to develop alternative processes for obtaining addresses. Discussions are also under way with Maryland, Pennsylvania, and Delaware to conduct other pilots. Also, FNS provided evidence that other States (Michigan, Kentucky, South Dakota, North Carolina, California, Mississippi, and New Jersey) are using additional methods to obtain a valid address. FNS is also exploring the possibility of using a contractor to search the Internet for FSP debtor

¹⁷ Title 7 CFR Part 273.18, dated July 6, 2000.

addresses when offset referral is returned from Treasury without an IRS address. FNS plans to implement this pilot program if it is cost effective.

DELINQUENT RETAILER DEBT

In our FY 1999 financial statements audit, OIG also reported that FNS had not referred any delinquent FSP retailer debt for offset under TOP. Although Department regulations¹⁸ were modified in March 1999 to cover FSP retailers for administrative offset, FNS needed to issue a notice and new application to retailers advising them of the debt offset requirement. FNS completed this action in February 2000, and will implement referral of retailer debt to TOP effective March 2001.

Because corrective actions on prior audit recommendations are in process, we will not make any further recommendations at this time

This report is intended solely for the information of the management of FNS, USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

/S/

ROGER C. VIADERO
Inspector General

January 19, 2001

¹⁸ Title 7 CFR Part 3, dated March 10, 1999.

ABBREVIATIONS

AFMS	
Agency Financial Management System	5
AMA	
Account Management Agent	iii
CNP	
Child Nutrition Programs	i
DCIA	
Debt Collection Improvement Act.....	iv
EBT	
Electronic Benefits Transfer.....	iii
FASAB	
Federal Accounting Standards Advisory Board.....	ii
FFMIA	
Federal Financial Management Improvement Act	30
FMFIA	
Federal Manager's Financial Integrity Act	4
FNS	
Food and Nutrition Service.....	i
FRB	
Federal Reserve Bank.....	13
FSOP	
Federal Salary Offset Program.....	33
FSP	
Food Stamp Program	i
FTROP	
Federal Tax Refund Offset Program.....	33
FY	
Fiscal Year	i
GAAP	
Generally Accepted Accounting Principles	i
ID	
Identification.....	21
IRS	
Internal Revenue Service.....	iv

IT	
Information Technology.....	20
JFMIP	
Joint Financial Management Improvement Program.....	23
LOC	
Letter of Credit.....	4
OIG	
Office of Inspector General	7
OMB	
Office of Management and Budget.....	ii
SAS	
Statements on Auditing Standards	27
SGL	
U.S. Standard General Ledger.....	31
TOP	
Treasury Offset Program.....	iv
Treasury	
U.S. Department of Treasury.....	ii
USDA	
U.S. Department of Agriculture.....	1
WIC	
Special Supplemental Nutrition Program for Women, Infants, and Children.....	i

Food and Nutrition Service

Management Discussion and Analysis for Fiscal Year 2000

The Agency's Mission and Organizational Structure

Agency Mission The Food and Nutrition Service (FNS) was established August 8, 1969, to administer the food assistance programs of the U.S. Department of Agriculture. The Agency mission is to increase food security and reduce hunger in partnership with cooperating organizations by providing children and low-income people access to food, a healthful diet, and nutrition education in a manner that supports American agriculture and inspires public confidence.

FNS Locations and Staff Agency headquarters are in Alexandria, Virginia. FNS maintains seven regional offices. The regional locations are Boston, Massachusetts; Robbinsville, New Jersey; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; Denver, Colorado; and San Francisco, California. Additionally, as of the close of the fiscal year, the Agency maintained 51 field offices, 4 compliance offices, 2 administrative review offices, 13 satellite locations, 1 Caribbean area office and 1 benefit redemption systems branch (Minneapolis, Minnesota). Whenever possible, these additional offices are co-located with one another and with the seven regional offices.

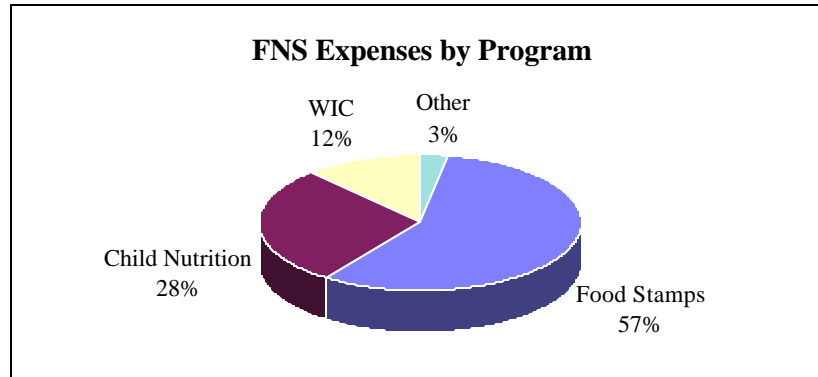
During fiscal year (FY) 2000, FNS allocated 1,582 full-time equivalents (FTEs). Of the FTEs, 631 were used in headquarters' functions and 951 were used in field functions. Of the field FTEs, 670 were used in the seven regional offices. The balance were used in satellite and special purpose field locations.

FNS Programs Most FNS programs are operated in a Federal/State partnership, with State and local agencies administering the program at the actual service delivery level. The major FNS programs fall into one of two program types: open-ended entitlement (e.g., Food Stamp and National School Lunch programs) or fixed grant (e.g., Special Supplemental Nutrition Program for Women, Infants, and Children [WIC]). Regardless of type, the program funding source is specific, direct appropriation. This has an impact on FNS financial and program performance. In entitlement programs, all persons requesting program benefits and meeting the established eligibility requirements must be served. When the growth of entitlement programs exceeds anticipated levels, it may be necessary to request supplemental appropriations. In fixed grant programs such as WIC, funding levels are set and participation levels must be managed to keep the program within the available budget.

FNS is responsible for paying program benefit costs and a portion of State administrative expenses for most food assistance programs, for planning and coordinating the purchase and distribution of commodities to State agencies, and for implementing program statutes through promulgation of regulations and instructions. FNS staff provide training and assistance to State agencies, assure proper funds allocation and control, conduct program monitoring and evaluation, and develop program policy. In a few instances, when State law prohibits a State from disbursing funds to particular types of entities or where no State agency has assumed administrative responsibility, FNS assumes operation of certain child nutrition programs.

FNS Funding

Total expenses for FNS programs in fiscal year 2000 totaled \$32.4 billion. The Food Stamp Program (\$18.5 billion) accounted for 57 percent of the total Agency appropriation while the Child Nutrition programs (\$9.08 billion) accounted for approximately 28 percent and the Supplemental Nutrition Program for Women, Infants, and Children (\$3.9 billion) accounted for 12 percent. All other programs and Federal administrative costs (\$856 million) accounted for the remaining 3 percent.



FNS' Performance Goals and Results

Agency Strategic Goals

The Food and Nutrition Service's fiscal year 2000 Annual Performance plan is comprised of six strategic goals and three management initiatives derived from the FY 2000 Strategic Plan. FNS' Strategic and Annual Performance Plans were streamlined and re-written for fiscal year 2001. The FY 2001 Annual Performance Plan contains some modifications for the FY 2000 targets. Where these modifications occurred, they are noted in the text.

The six strategic goals and three management initiatives for FY 2000 are:

- Goal 1:** Enhanced food and nutrition security for low-income Americans;
- Goal 2:** Healthful diets for school-age children;
- Goal 3:** Improved nutritional status and health of low-income women, infants and children;
- Goal 4:** Improved nutritional status of children in day-care settings;
- Goal 5:** Low-income children consume nutritious lunches when school meals are not available;
- Goal 6:** Improved quality of Food Distribution commodities and services;

- Management Initiative I:** Continually improve the quality, effectiveness and diversity of the FNS workforce (modified by the 2001 Annual Performance Plan);
- Management Initiative II:** Maintain continued fairness in FNS program delivery; and
- Management Initiative III:** Users have accurate, timely, financial data available for decision making.

Ten performance measures for these goals are included in this report. These were chosen as the “vital few” matters that are significant to the managing, budgeting and oversight functions of the Agency as referred to in the Federal Accounting Standards Advisory Board “Standards for Management’s Discussion and Analysis” dated April, 1999. The measures are presented in the following table and then discussed further in the context of program information:

Strategic Goal/ Management Initiative	FY 2000 Performance Goal	Target for FY 2000	Actual for FY 2000	Page # in MD&A
<i>Goal 1: Enhanced Food and Nutrition Security for Low- income Americans</i>	Maintain payment accuracy in the delivery of Food Stamp Program benefits			
	FSP payment accuracy rate	90.5%*	90.12%	7
	States qualifying for enhanced funding	8	6	8
	Increase claims collections to recover program losses and deter recipients from accepting overpayments			
	Percent of established claims collected	71%*	86%	9
	State reported claims collected	\$215.8*	\$214.4	9
	Maintain baseline number of sanctions against violating stores			
	Number of sanctioned stores	1,365*	1,349	9
	Increase States/Territories issuing benefits by electronic benefits transfer (EBT)			
	Number of States issuing benefits via EBT	42	42	10
<i>Goal 3: Improved Nutritional Status and Health of Women, Infants and Children</i>	States adopt initiatives to contain WIC food costs			
	Food cost per participant	\$33.66	\$32.94	15
	Increased number of State agencies participating in the Farmers Market Nutrition Program			
	Number of States participating in the FMNP	All States	39	16

Goal 4: Improved Nutritional Status of Children in Day-Care Settings	Increased participation of low-income children in CACFP Percent of CACFP children from low-income households	75%*	72.3%	11
Goal 5: Low-Income Children Consume Nutritious Lunches when School Meals Are Not Available	Increased children's participation in SFSP Number of participating sponsors	4,000	3,667	13
	Number of participating sites	33,000	31,170	
	Number of participating children	2.57 million	2.09 mil	
MI1: Continually Improve the Quality, Effectiveness and Diversity of the FNS Work Force	Improved diversity of FNS work force Percent of senior positions held by women	46%*	50%	17
	Percent of senior positions held by minorities	24%*	24%	
	Percent of women in the FNS workforce	63%	65%	
	Percent of minorities in the FNS workforce	31%	35%	
	Percent of the workforce with disabilities	13.17%	15.37%	
MI3: Users Have Accurate, Timely, Financial Data Available for Decision Making	Continue progress towards full implementation of the Debt Collection Improvement Act (DCIA) Percentage of eligible delinquent food stamp retailer debts referred to Treasury	90%*	96%	22
	Correct identified internal control deficiencies in a timely manner Percentage of audits completed timely	70%	91%	21
	Percentage of FMFIA material deficiencies corrected timely	90%	80%	

*FY 2000 Performance Goal revised by the FY 2001 Annual Performance Plan

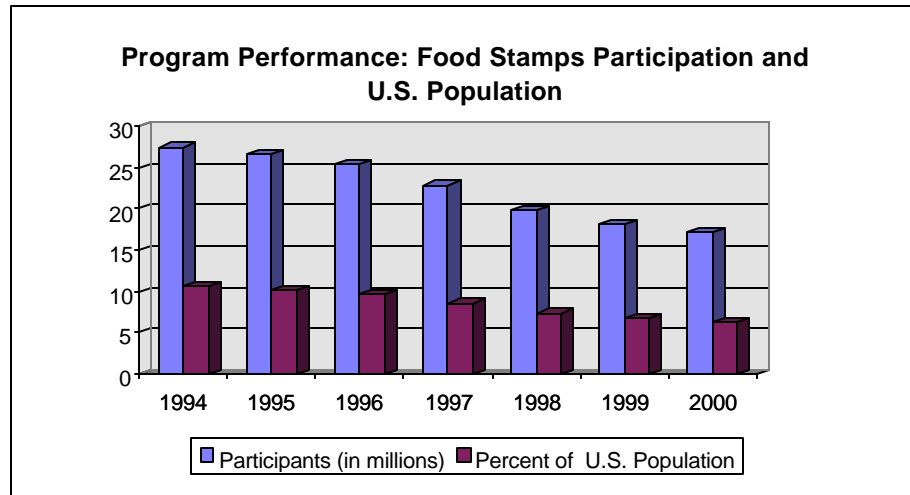
Food Stamp Program

Program Mission

The Food Stamp Program is the Nation's principal food assistance program, a vital component of the Federal safety net that protects needy persons against hunger. Its initial authorization was granted by the Food Stamp Act of 1964. The program enables low-income households to improve their diets by issuing monthly allotments of coupons (or electronic benefits) redeemable for food at retail stores. Eligibility and allotment amounts are based on household size and income, asset limitations, housing costs, work requirements, and other factors. Benefits are adjusted annually to reflect changes in the cost of the Thrifty Food Plan (a market basket of foods for a nutritious low-cost diet). The Federal Government pays the full cost of benefits and funds over half of the expenses incurred by the States to administer the program.

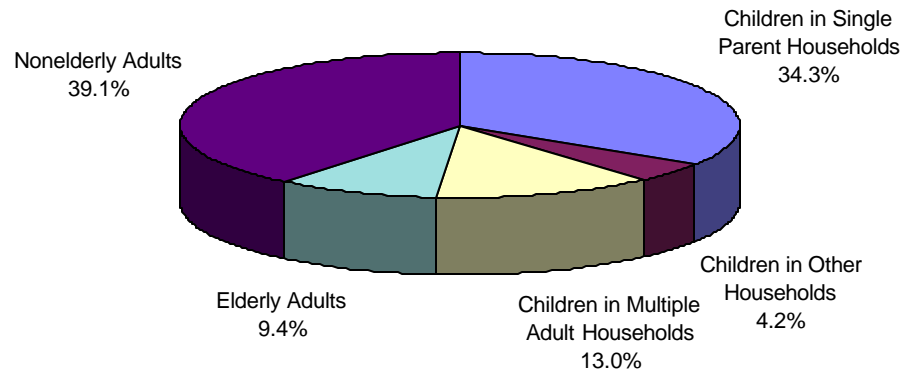
Participation

Participation in fiscal year 2000 fell to an annual average of 17.16 million persons— down by over 1 million persons (almost 6 percent) from the annual average in 1999. Part of this decrease is attributable to favorable economic conditions and a continuation of the downward participation trend that began in 1995. In addition, a portion of the decrease is attributable to Welfare Reform legislation which affected eligibility for food stamps in a number of ways such as changing household definitions and limiting the amount of time an able-bodied adult can receive food stamps. Whereas almost 11 percent of the total U.S. population received food stamps in 1994, about 6 percent received food stamps in FY 2000.

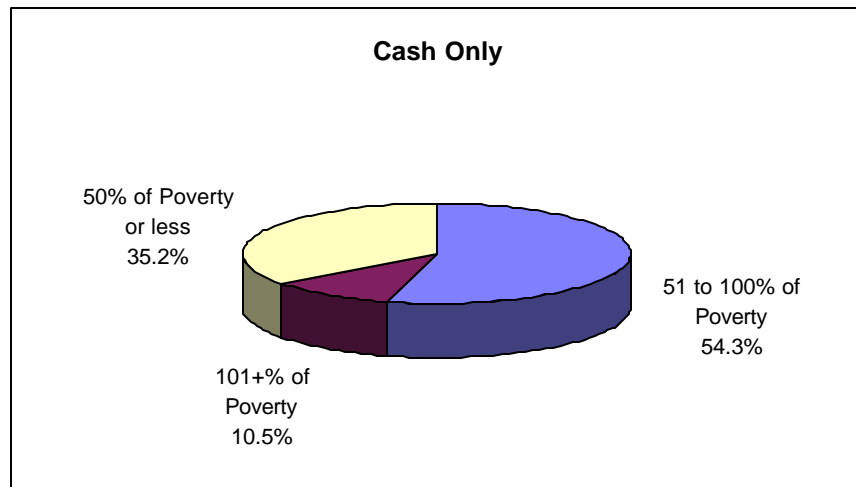


The most recent survey of household characteristics , conducted during fiscal year 1999, indicates that almost 52 percent of all participants were children under 18 years of age – most of them in single parent households. Additionally, over 9 percent of all participants were elderly adults age 60 or older.

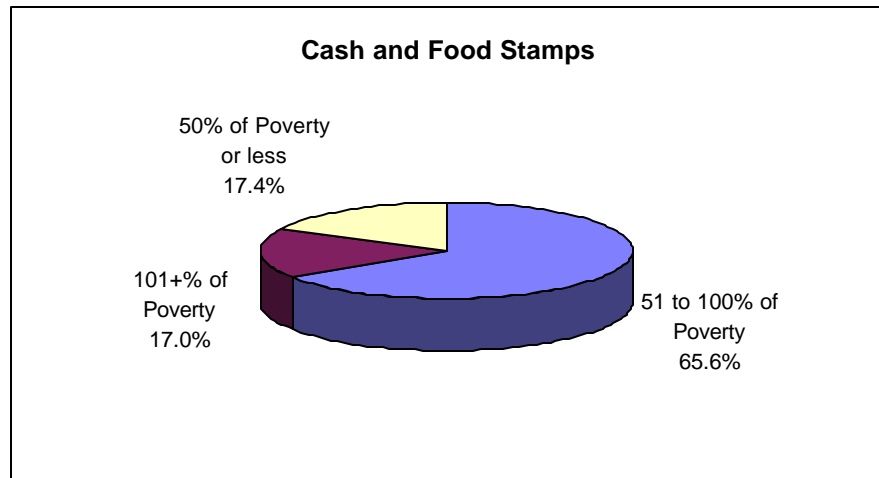
Distribution of Food Stamp Participants, 1999



In fiscal year 1999, the gross income of about 90 percent of “cash only” households (i.e., households not receiving food stamps) was below the Federal poverty level; 35 percent were at or below 50 percent of poverty.



Food stamps are made available to most low-income households with few resources to supplement their food purchases and help them maintain a healthy diet. In FY 1999, food stamps were over one-fifth of the average participating household’s total monthly income (cash + food stamps). If the value of food stamps is counted in addition to cash as gross income, the proportion of low-income people above the poverty line would move from under 11 percent to 17 percent. In addition, the proportion of the poorest households (50 percent of poverty or less) falls from 35.2 percent to 17.4 percent.

*Benefits*

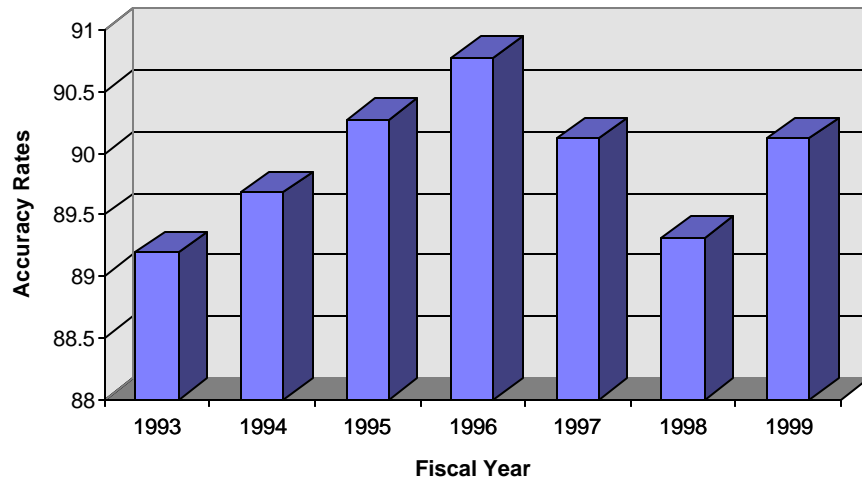
Benefit costs were \$14.99 billion in fiscal year 2000 compared to \$15.76 billion in 1999. The average monthly benefit per person increased from \$72.20 to \$72.77 during the same time period primarily due to a 1.8 percent increase in the cost of the Thrifty Food Plan. The Thrifty Food Plan serves as a national standard for a nutritious diet and is used as the basis for food stamp allotments. In addition to benefit costs, the food stamp appropriation includes the Federal share of State administrative costs, grants to States for Employment and Training (E&T) activities, and other Federal costs such as printing and distribution of stamps. Total expenses for the Food Stamp Program (includes \$1 billion for Puerto Rico) were \$18.5 billion in fiscal year 2000 while the value of unissued food stamp coupons in inventory at September 30, 2000 was \$2.2 billion.

Payment Accuracy

Food Stamp payment accuracy continues to be an FNS priority. One of FNS' performance goals as discussed in the fiscal year 2000 Annual Performance Plan is to maintain payment accuracy in the delivery of Food Stamp Program benefits. Payment accuracy is measured by State agencies via an annual statistical sample of households participating in the Food Stamp Program. A total of about 60,000 case files are reviewed each year, out of a total of over 100 million each year. This large sample is, in turn, subsampled by FNS to measure the over and underpayment accuracy for the program.

In FNS' fiscal year 2000 Annual Performance Plan, FNS established the goal of maintaining a 90.1 percent payment accuracy in the Food Stamp Program from fiscal year 1998 to fiscal year 1999. During the period from fiscal year 1993 through fiscal year 1996, the overall accuracy rate increased from 89.19 percent to 90.78 percent. In fiscal years 1997 and 1998, the payment accuracy rate decreased by 0.66 and 0.81 percentage points, respectively. However, in FY 1999, a payment accuracy rate of 90.12 percent was once again achieved thereby meeting the established goal.

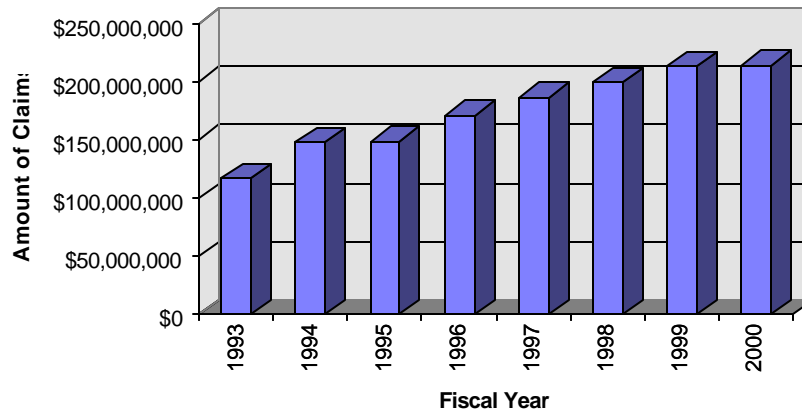
Payment Accuracy Rates in the Food Stamp Program



FNS continues to provide enhanced funding to those States who maintain error rates below a certain level. The 2000 Annual Performance Plan established the goal of eight States receiving enhanced funding in FY 2000 for their achievements in lowering error rates. In fiscal year 2000, six State agencies received a total of \$39.2 million based on their fiscal year 1999 payment accuracy performance: Mississippi, South Carolina, Arkansas, Texas, South Dakota and Wyoming.

Claims Collections

Claims are established against food stamp households that have received an overissuance in food stamp benefits. In recent years, FNS increased both the rate at which claims are established and collected and the total dollar amount of claims collected. For example, in FY 1996, newly established claims represented about 1.5 percent of total issuance. In FY 2000, the rate is about 1.6 percent. In addition, the dollar amount of claims collected has risen from \$171 million in FY 1996 to over \$214 million in FY 2000.

Total Claims Collected by Fiscal Year

FNS' fiscal year 2001 Annual Performance Plan revised the targets for the proportion of established claims collected and the amount of claims collected to 71 percent and \$215.8 million, respectively. In fiscal year 2000, FNS collected about 88 percent of claims established for a total dollar amount collected of about \$214.4 million. FNS achieved the targets set for the percent of claims collected for FY 2000 but did not meet the target for the amount of claims collected. It is extremely important to note that these numbers do not represent final numbers for FY 2000. Several States have waivers that establish later reporting dates for claims information – most notably in New York and California.

Sanctions Against Violating Stores

Food retailers are essential components in the delivery of food stamp benefits. The right for stores to redeem food stamps, however, is contingent upon the stores accepting the responsibility to operate the program correctly – to sell only food for food stamps, and not trade food stamps for cash (i.e., trafficking). When stores are known to violate program rules, there are associated sanctions. The sanction system was instituted so that stores will know that they will be penalized for failure to follow program rules.

The indicator established in the FY 2000 Annual Performance Plan (and revised by the FY 2001 Annual Performance Plan) measures efficient maintenance of the sanctioning system. Since there are about 180,000 stores authorized to redeem food stamps, FNS, due to staff year limitations, can only monitor a small percentage of them. Maintaining or increasing the number of sanction actions taken against violating stores is expected to help keep down the number of violations. Due to improved sophistication in targeting potential store violators, we expect sanction levels to remain steady even as store compliance levels improve. In FY 1999, FNS sanctioned 1,365 violating stores. The target for FY 2000 was revised to reflect 1,365 sanctioned stores. In fact, in FY 2000, FNS sanctioned 1,349 stores, and so, by a very slim margin, did not achieve the targets set in FNS' Annual Performance Plan.

Electronic Benefits Transfer

The number of States that have an Electronic Benefits Transfer (EBT) system for issuing food stamp benefits is a key indicator of efficiency progress since EBT offers a more effective and efficient way of redeeming food stamp benefits than the traditional paper coupon system. Stores and recipients prefer EBT to the paper-based system. EBT also offers greater ability at detecting and sanctioning both recipient and store trafficker. The Personal

Responsibility and Work Opportunity Act of 1996 requires that all States must implement an EBT system for issuing food stamp benefits by October, 2002.

FNS’ fiscal year 2000 Annual Performance Plan includes the goal of increasing the number of States operating EBT systems to 42 in fiscal year 2000. In fact, as of September 2000, 42 States used EBT to issue food stamp benefits.

Child Nutrition Programs

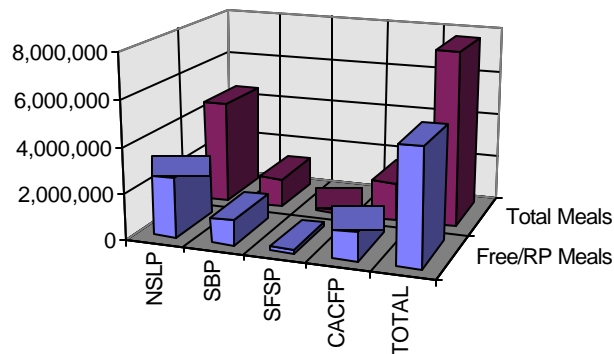
Program Mission

The purpose of the Child Nutrition Programs – the National School Lunch (NSLP), School Breakfast (SBP), Summer Food Service (SFSP), Special Milk (SMP), and the Child and Adult Care Food Programs (CACFP) – is to improve the nutrition level of America’s children by assisting State and local government in providing food services that serve healthful, nutritious meals to children in public and nonprofit private schools, child care institutions, summer recreation programs, and certain adult day care centers.

Program Performance

In fiscal year 2000, a total of 7.65 billion meals were served in Child Nutrition Programs, up from 7.55 billion in fiscal year 1999. The share of total meals served to children from low income families was 65.8 percent– down slightly from the year before.

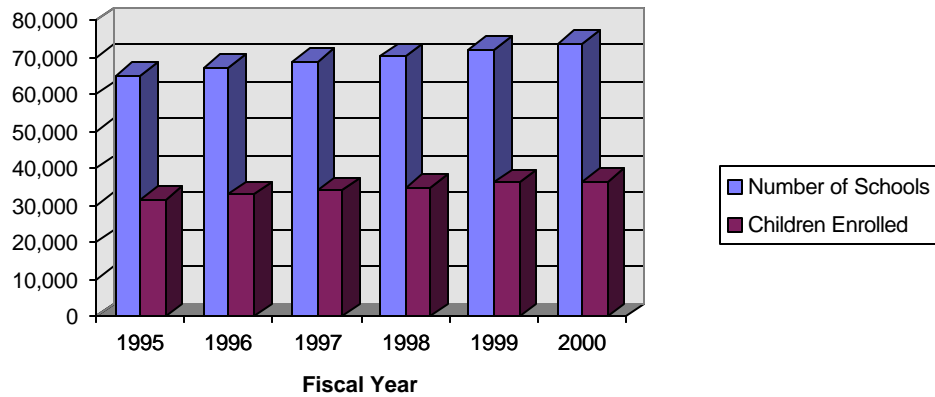
**Child Nutrition Program Performance
Free and Reduced Price Meal Service in FY 2000**



On any given school day in fiscal year 2000, more than one of every two schoolchildren in America ate lunch through the National School Lunch Program. The program was available in 97,425 schools and institutions with a total enrollment of 47.7 million children; reaching about 90 percent of all school children. Average daily participation was 27.1 million, up 7 percent from fiscal year 1999. Meal service in the reduced price and paid categories increased in FY 2000. Reduced-price meals served increased by 3.5 percent and paid meals increased by 1.8 percent. Free meal service, however, decreased by .8 percent.

Expansion of the School Breakfast Program, particularly in low-income areas, is mandated by Congress. Since fiscal year 1995, program availability has risen from 65,064 institutions with an enrollment of 31.7 million to 73,599 institutions with an enrollment of 36.4 million in fiscal year 2000. The program is now available to 69 percent (over two thirds) of the student population, as compared to only 63 percent in fiscal year 1995. Average daily participation in fiscal year 2000 was 7.53 million, up 2.1 percent from the prior year. The portion of meals served free or at reduced price fell slightly from 85.4 percent in fiscal year 1999 to 84.2 percent in fiscal year 2000.

Schools and Children Enrolled in the SBP

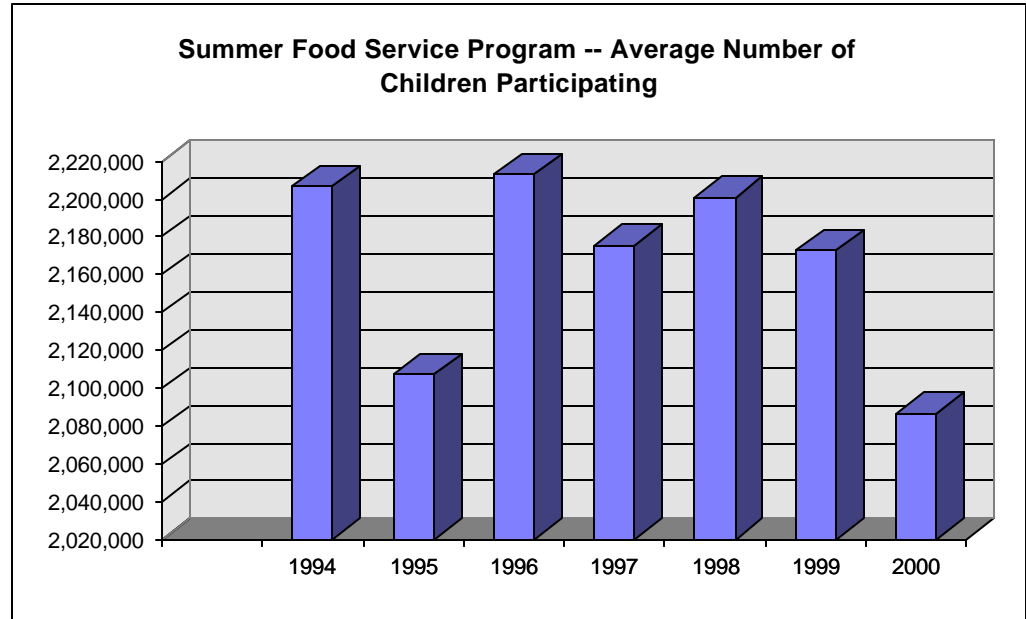


CACFP Meals Targeted to Low-Income Children

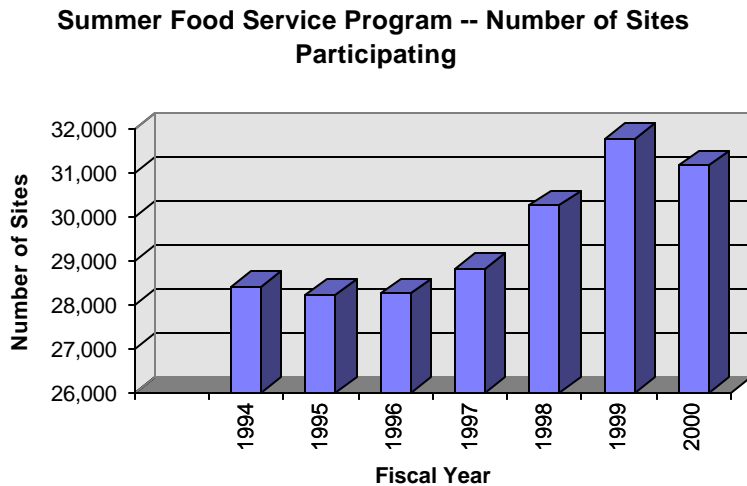
Total meal service in the Child and Adult Care Food Program grew by about two percent between fiscal years 1999 and 2000. Recent Federal reforms in welfare and child care call for increased CACFP participation by children from low-income households. For an incentive to increase low-income children’s participation, the legislation provides for differential meal reimbursement (Tier 1 for family day care homes and Tier 2 for the non-needy providers and children). As a result, one of FNS’ strategic goals for FY 2000 is improved program targeting to, and access by, low-income pre-school children. Because FNS does not collect data on income level of children participating in the CACFP, it is using meal reimbursement data, to correlate to meals served to needy children, as the best proxy available for the numbers of children in these categories. The specific goal for FY 2000, was to serve at least 75 percent of all CACFP meals to low-income children. In child and adult care centers, approximately 71 percent of all meals were served free or at reduced price, about the same as in fiscal year 1999. In family day care homes, approximately 74 percent of all meals were served to low-income children – up slightly from 73 percent in FY 1999. Overall, in both centers and homes, about 72.3 percent of meals were served to low-income children. Therefore, FNS did not achieve the target of 75 percent of meals served to low-income children in FY 2000.

Increased Children’s Participation in SFSP

The Summer Food Service Program (SFSP) serves children in low-income areas during the summer months. Only about 16 percent of the children that regularly receive free lunches during the school year participate in the Summer Food Service Program. One of FNS’ strategic goals is to increase children’s participation in the SFSP – particularly because it has historically been difficult to reach more children in needy areas. An increased number of SFSP sponsors and sites would directly support progress toward the strategic goal of reducing hunger by assuring low-income households access to adequate supplies of nutritious food.



In fiscal year 2000, over 136 million meals were served in the Summer Food Service Program – a 1 percent increase from the year before. States reported that 31,170 sites operated throughout the country during the summer of FY 2000 – a decrease of about 600 sites from the number reported in FY 1999. Average daily attendance was also down by almost 4 percent in FY 2000 as compared to FY 1999.



The goal for fiscal year 2000 as outlined in FNS' Annual Performance Plan was to have 4,000 sponsors operating 33,000 sites and serving an average of 2.57 million children per day. In fact, for fiscal year 2000, States recorded fewer than 32,000 sites operated by 3,667 sponsors serving an average of 2.09 million children per day. Therefore, FNS did not meet the targets for expanding SFSP participation in fiscal year 2000. In its new Strategic Plan for FY 2000 through 2005, FNS states that the Agency plans to facilitate expansion of the Summer Food Service Program through outreach to program sponsors and the elimination of barriers to sponsorship.

Program Benefits The Child Nutrition expenses totaled \$9.08 billion, including cash, entitlement commodities and the Special Milk Program, in fiscal year 2000. In addition to subsidizing meal service, the appropriation also helps States pay administrative expenses of operating the programs.

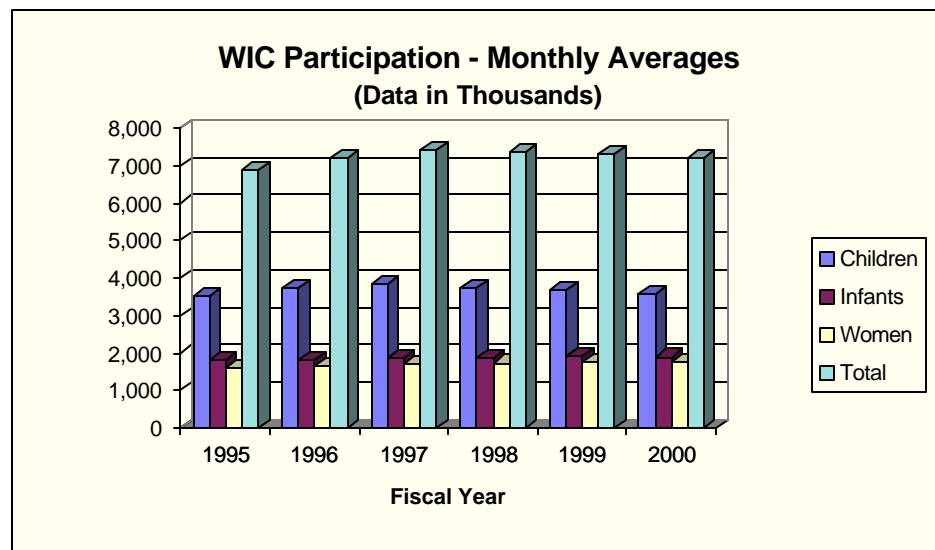
The Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Program Mission The Special Supplemental Food Program for Women, Infants and Children (WIC) provides nutritious supplemental foods, nutrition education and health care referrals at no cost to low-income pregnant or postpartum women, infants and children up to age 5 who are determined by competent professionals to be at nutritional risk. WIC serves one out of every four new mothers and 45 percent of all infants born in the United States.

The program consists of three components: a supplemental food package rich in nutrients often lacking in the diets of the target population, nutrition education and counseling (including breastfeeding information), and referrals to health care services. The latter include prenatal and well-baby care, immunization, smoking cessation, and drug and alcohol abuse counseling. Eligibility is based on income limitations (less than 185 percent of federal poverty guidelines), nutritional risk, and State residency requirements. The WIC Farmers' Market Nutrition Program provides many participants with fresh fruits and vegetables while promoting awareness and use of farmers' markets.

WIC is widely regarded as one of the Nation's most successful and cost-effective public health programs. The collective findings of studies and reports demonstrate the following results: 1) improved birth outcomes—lower infant mortality and fewer premature births; 2) improved diet and diet-related outcomes; 3) improved infant feeding practices; 4) improved immunization rates and regular medical care for infants and children; 5) improved cognitive development; 6) reduced incidence of iron deficiency anemia in children; and 7) significant reductions in Medicaid and other health care costs.

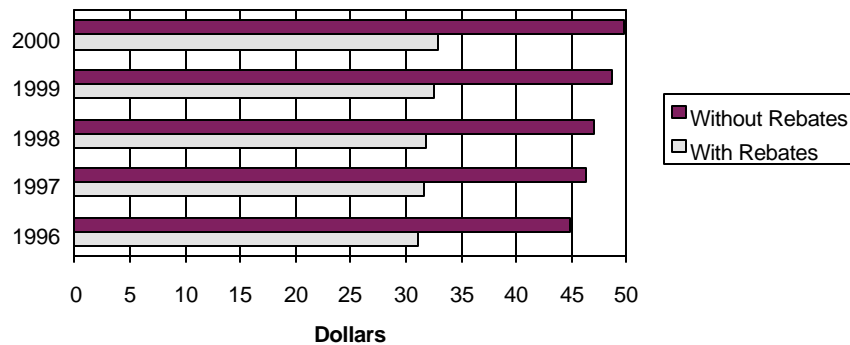
Participation WIC monthly participation averaged 7.20 million in fiscal year 2000, virtually identical to fiscal year 1996. After reaching a peak of 7.41 million in fiscal year 1997, activity has declined modestly for three successive years due to improved economic conditions. Compared to fiscal year 1999, total participation declined 1.6 percent. The decrease was concentrated in the children category (-3.2 percent). Children accounted for 49.4 percent of all participants, infants for 26.3 percent, and women for 24.3 percent. Program expenditures totaled \$3.94 billion.



Cost Containment

Mandatory cost containment measures have enabled the WIC Program to reach more participants with the same funds by reducing the average food cost per person. The most successful strategy has been competitive rebate contracts between State Agencies and manufacturers of infant formula, the most expensive item. All states and major Tribal Organizations receive infant formula rebates; nine states received rebates for infant cereal and four for infant juice in fiscal year 2000. The Infant Formula Procurement Act of 1992 enhanced competition by enabling FCS to solicit bids for multi-State contracts. In fiscal year 2000, ten multi-state contracts were in effect, seven for infant formula and three for other foods. Rebate savings reduced the monthly food cost per person by approximately one third (from \$49.73 to \$32.94) and supported more than 1.93 million participants per month. The average food cost in fiscal year 2000 was \$32.94, an increase of only 5.6 percent from fiscal year 1996 and \$0.34 less than fiscal year 1988, the year before cost containment measures were introduced. One of FNS' performance goals for fiscal year 2000 was to stabilize the food cost per person at the fiscal year 1997 value of \$31.67, adjusted for inflation as determined by increases in the Thrifty Food Plan. The inflation-adjusted value was \$33.66; the target was achieved because the actual food cost per participant was \$0.72 below the adjusted value.

WIC: Monthly Food Cost Per Person



Targeting High Risk Groups and Promoting Health

WIC assistance is targeted to the highest risk groups. During the July 1999-June 2000 period, 66.6 percent of all participants were in the top three priority categories. A major factor in WIC's effectiveness is promotion of nutrition education through individual and group counseling and through provision of educational materials. At least one-sixth of funds available for administration and program services must be spent on nutrition education activities. Emphasis is placed on teaching participants to deal with specific nutritional risks, on achieving positive change in dietary habits, and on the dangers of substance abuse during pregnancy. Particular stress is given to breastfeeding promotion efforts. WIC women who breastfeed receive an enhanced food package, are permitted to participate longer than other postpartum women, and are provided with a support system to encourage success. From fiscal year 1996 through fiscal year 2000, the proportion of postpartum women who breastfeed has risen from 35.7 percent to 41.1 percent.

Farmers' Market Nutrition Program

The WIC Farmers Market Nutrition Program (FMNP) has a dual purpose: to provide WIC participants with fresh, nutritious, unprepared foods while promoting awareness and use of farmers' markets by consumers. FMNP coupons are issued to eligible recipients separately from their regular WIC food instruments; the Federal benefit ranges from \$10 to \$20 per

recipient per year at the discretion of the States. Nutrition education is provided by State agencies (often in conjunction with local WIC agencies) to encourage recipients to improve their diets by adding fresh fruits and vegetables and to advise them in preparing FMNP foods. In fiscal year 1999 (the latest available data), over 1.5 million recipients received program benefits. A total of 39 State agencies and Tribal Organizations participated in fiscal year 2000, unchanged from the previous year. One of FNS' fiscal year 2000 performance goals was to have all States participating in the Farmers Market Nutrition Program; it was not achieved. However, 4 new agencies (2 States and 2 Tribal Organizations) are applying to participate in fiscal year 2001. A level of \$15 million was appropriated for the FMNP in the WIC account in fiscal year 2000.

Commodity Assistance Programs

FNS provides assistance to a variety of groups through food distribution. In fiscal year 2000, the Commodity Assistance Programs appropriation included funds for The Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFP).

TEFAP helps States relieve hunger and distress by making both purchased commodities and surplus USDA foods available to soup kitchens, food banks, and other emergency feeding organizations. FNS also subsidizes State administrative costs, such as warehousing and delivering commodities. The allocation of food and administrative grants is based on a formula which combines the number of persons below the poverty level and the number of unemployed persons. In fiscal year 2000, administrative costs were funded through the Commodity Assistance Program appropriation while food costs were under the Food Stamp appropriation. FNS costs totaled \$136 million.

CSFP is a food distribution predecessor of the WIC Program. Its original goal—and its highest priority—is to serve a similar target group of women, infants and children. CSFP also provides food packages to improve the health of low-income elderly persons. As the WIC Program has expanded, the women-infant-children component of CSFP has contracted. Compared to fiscal year 1996, total participation has risen 9.1 percent from 357 thousand to 389 thousand. However, the women-infants-children component has declined by 31 percent, and its share of total participation has fallen from 38.5 percent to 24.5 percent. The number of states with CSFP projects increased from 19 to 24. FNS program costs in fiscal year 2000 totaled \$87 million--\$67.4 million for entitlement commodities and \$19.2 million for administrative costs.

Other commodity assistance programs include the Food Distribution Program on Indian Reservations (FDPIR) and the Nutrition Program for the Elderly (NPE). FDPIR--an alternative to the Food Stamp Program for tribal organizations—served 121.5 thousand needy persons per month, 6.2 percent fewer than in fiscal year 1999. The decrease occurred after six consecutive years of program growth. FNS commodity and administrative costs totaled \$66 million. The Nutrition Program for the Elderly subsidized 252 million meals served in senior centers or delivered to the homebound. The proportion of home-delivered meals has risen from 46.7 percent in fiscal year 1993 to 55.7 percent in fiscal year 2000. FNS costs were \$136 million.

The FNS Workforce

Workforce Diversity

FNS is committed to establishing a work force that values diversity and works together to fulfill the Agency mission and an Agency committed to equal opportunity at all levels of the organization. This includes a firm commitment to achieve equitable, consistent, Agency-wide policies and systems providing equal access and reasonable accommodations where employees with disabilities are treated fairly, with dignity and respect, and to establish FNS as

an employer of choice. To this end, FNS established a performance goal for FY 2000 of achieving and maintaining representation of women and minorities in both senior positions and the work force generally. In addition, FNS seeks to ensure that they continue to employ employees with targeted disabilities. These goals were met in FY 1999, and FNS sought to sustain baseline levels achieved in prior years.

Improved Diversity of the FNS Work Force

Category	Target	Actual
Percent of senior positions filled by women	46%	50%
Percent of senior positions filled by minorities	24%	24%
Percent of women in the FNS workforce	63%	65%
Percent of minorities in the FNS workforce	31%	35%
Percent of the work force with disabilities	13.17%	15.37%

In FY 2000, FNS met its goals of maintaining prior year levels of women and minorities in senior level positions. In addition, FNS met the goals of maintaining or exceeding the FY 1999 levels of women, minorities and persons with disabilities in the work force.

Financial Statements

Limitations of Financial Statements

The financial statements that follow have been prepared to report the financial condition and results of operations of the Food and Nutrition Service pursuant to the requirements of the Chief Financial Officers Act of 1990.

While the statements have been prepared from the records of the Food and Nutrition Service in accordance with the formats prescribed by Office of Management and Budget (OMB) Bulletin 97-01, "Form and Content of Financial Statements", these statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These statements should be read with the realization that they are for a sovereign entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Financial and program activity information in this document reflects the status of the Agency at the close of the fiscal year. Other Agency publications may reflect changes, usually minor, that have occurred subsequent to the preparation of this document.

Systems, Controls, and Legal Compliance

Introduction

In fiscal year 2000, the Food and Nutrition Service had new budget authority equal to \$35.05 billion which represents about 48 percent of the \$73.36 billion in new budget authority for the entire Department of Agriculture. The size and visibility of FNS' programs have had a marked impact on the Agency's need to invest resources into its financial management operations.

Management Controls

The Food and Nutrition Service's Management Control process has two key aspects: the development of internal controls to be used in the operation of its programs; and the daily assessment of the health of its programs and Agency internal control systems, culminating in FNS' end-of-year assessment and assurance statement. The Agency's work in putting controls in place is demonstrated by its issued directives: program regulations, legislative improvements, handbooks, instructional materials, etc., and by the technical assistance

provided to program operators in States and local agencies. Agency managers are working together to link daily operations and future planning with the requirements of the Government Performance Reform Act (GPRA) and the management control process described by OMB Circular A-123.

Each senior manager must provide the Administrator with an end-of-year assessment of the status of the internal controls within the senior manager's area of oversight. The end-of-year assessment provides Agency managers with the opportunity to formally summarize the year long informal evaluation of Agency programs and operations. By formally considering the information gained from audits, management evaluations, and the other information sources detailed in the assessment, Agency managers are reviewing the significant accomplishments as well as the serious problems uncovered during the year. The assurance statement provided by each senior manager allows the manager to certify that, to the best of their ability, the manager and his or her organization are:

- working with the Agency to help put controls in place for the areas within the manager's control and for the problems detected by the manager's staff;
- performing assessments on the status of the internal controls found in the manager's area of oversight; and,
- reporting on the status of these controls in the end of year assurance to the Administrator.

What is included in each senior manager's assessment is open ended and subject to the Manager's discretion. However, at a minimum, each senior manager must consider the information found in the following sources of information:

- OIG and GAO reports, including audits, inspections, reviews and investigations;
- Evaluations of State agency management of Federal programs;
- State and local agency performance reporting;
- Agency internal reviews of financial and program operations;
- Annual performance plans subject to GPRA; and,
- Management knowledge gained from daily operations.

When senior managers provide their end-of-year assessment certifying that proper controls are in place, they may also identify areas of operation where vulnerabilities have been discovered to exist. Highly vulnerable areas with significant potential for loss are classed as "material weaknesses." Issues determined to have a lesser level of vulnerability have been described as areas of potential weakness or "areas of concern." This year, FNS Headquarters' Deputy Administrators were tasked with the responsibility to review the areas of concern identified by the FNS Regional Offices as well as those that may be identified by other Headquarters' senior managers to determine if areas of concern identified within their area are material.

A key feature of FNS' management control process is its Management Control Steering Committee. The Committee is composed of Headquarters' and Regional Office senior managers and is responsible for establishing management control policy for the Agency. The material found in the Agency's contribution to the Department's FMFIA has been prepared under the oversight of this Steering Committee, and it is this material that the group presents to the Administrator and Associate Administrator for their decision on the Agency's operating objectives and material weaknesses. Fiscal Year 2000 marked the 11th anniversary of the establishment of the Management Control Steering Committee.

FNS Material Weaknesses

Many of FNS' material weaknesses are broad structural weaknesses that have arisen out of operation of Federal programs by non-Federal agencies. Few are directly within the immediate operational control of FNS. Controlling the material weaknesses identified in FNS programs requires corrective action that attempts to broker the cooperation of more than

300 State level cooperators, and several thousand local agencies. The control features that may need to be adopted to improve operations may need to be incorporated in several thousand State and County level management systems.

For Fiscal Year 2000, FNS identified ten areas of material weakness under Section 2 of the Federal Managers' Financial Integrity Act. All ten are continuing material weaknesses. The areas of material weakness are:

1. FNS-90-01 Cost Reimbursements in the Food Stamp Program: Need for more intensive on-site review of administrative costs claimed for reimbursement by State agencies administering the Food Stamp Program in order to ensure that Federal funds for State administrative expenses are not misused.
2. FNS-90-02 Cost Reimbursements in the Women, Infants and Children (WIC) Program: Need for more intensive on-site review of administrative costs claimed for reimbursement by State agencies administering the Special Supplemental Program for Women, Infants, and Children (WIC) and for guidance on acceptable methods of charging costs to the Program in order to ensure that Federal funds for State administrative expenses are not misused.
3. FNS-90-04 Management of food delivery systems for the WIC Program: State agencies administering the WIC Program require more detailed guidance and more intensive oversight from FNS in the area of food delivery systems management to prevent Program abuse by WIC vendors.
4. FNS-90-06 Illegal transactions involving the exchange of food stamps: Participation by authorized retailers in illegal transactions involving the exchange of food stamps for cash, drugs, weapons, or other felony-level ineligible items.
5. FNS-91-01 Internal controls for management of recipient claims: Agency procedures for establishing, recording, adjusting, collecting, and reporting on claims need strengthening. Program funds are lost when claims are not established timely and pursued vigorously.
6. FNS-91-02 Administration of the Food Stamp Program at State agencies: State agencies administering the Food Stamp Program overissue Program benefits at a rate exceeding established tolerances and resulting in a loss of Program dollars.
7. FNS-94-01 Management of the Child and Adult Care Food Program: Management and monitoring of weaknesses in the Child and Adult Care Food Program (CACFP) need strengthening due to a variety of management and oversight problems, sponsoring organizations have been identified as receiving excessive Federal funds for meal service.
8. FNS-97-01 Avoidable costs in Food Stamp Program: FNS will be charged significant avoidable costs from the lack of adequate personnel resources to oversee new development efforts in the State Public Assistance systems. State systems are greatly impacted by the changes needed to meet Welfare Reform initiatives, and more than 50 percent of these systems have exceeded their useful lives and must be replaced. A large part of the total costs for development and modifications of State systems are borne by FNS.
9. FNS-99-01 Evaluation and performance measurement: FNS is unable to adequately measure and assess program performance, and to develop and test potential program changes to address emerging problems.
10. FNS-99-02 National School Lunch and Breakfast Program (NSLP and SBP) Eligibility: Data indicates a potential problem with the integrity of determinations of household eligibility for free and reduced price meals. A significant percentage of children from ineligible households may be receiving free or reduced price meals.

Audit Resolution

Under the third Management Initiative in the FY 2000 Annual Performance Plan, FNS established a goal of correcting identified internal control deficiencies in a timely manner. Performance is based on a standard of resolving all recommendations in each audit within time frames specified in the management decision, but in each case the entire audit should be resolved within a three year period, or documentation should explain why it was not resolved. This effort includes activity to achieve final action and closure on audit recommendations only, and does not include components for audit distribution or obtaining management decision on recommendations. For FMFIA material weaknesses, the standard is the stated milestones in the corrective action plan not completed within the promised time frames which should be no more than 10 percent. Keeping in mind that most of FNS' reported material weaknesses are far-reaching and complex, and by nature inherent in the management of our programs, the Agency is working with the OCFO to develop a more meaningful process for reporting on true material weaknesses and the development of corrective action plans to address them.

For fiscal year 2000, FNS set the twin goals of 70 percent of audits completed timely and 90 percent of FMFIA material deficiencies corrected timely. In fiscal year 2000, 100 FNS related audits were issued, and the Agency closed 91, achieving a 91 percent rate of audits closed to audits issued thereby meeting FNS' stated goal.

For fiscal year 2000, FNS had 10 material weaknesses. A total of 35 corrective action milestones related to these deficiencies were scheduled to be completed for the year. Of these, 28 were accomplished, an 80 percent rate for the year. The Agency did not meet its target for closure of material weakness milestones. Delays in publishing WIC Vendor Integrity regulations and a reconsideration of the corrective action needed to improve the FSP STARS System and improve the integrity in WIC State Agency funds management and in Employment and Training funds management in the Food Stamp Program are a few of the reasons for the delays.

While the Agency met its audit performance goal for FY 2000 using the ratio indicator devised for FY 1999 and FY 2000, to avoid any future confusion, the Agency will switch to the Department's standard for FY 2001. At that point, both the Office of the Chief Financial Officer and FNS will be reporting using the same standard.

The Federal Tax Refund Offset Program

The Food and Nutrition Service has been submitting Food Stamp over-issuance claims for collection through Federal collection programs. Starting in 1992, FNS began pilot testing the Federal Tax Refund Offset Program (FTROP). FTROP was added in 1996 and the Treasury Offset Program (administrative offsets) in 1998. State agency participation has been phased in over the last seven years and with the implementation of the remaining four States in 1998, all 51 State agencies are now participating. One hundred percent of eligible delinquent food stamp recipient claims are now transferred to the Department of Treasury for collection.

The following chart shows the recoveries through Federal collection programs since its initial year of operation. Numbers appearing for 2000 are projections.

Federal Offset Recoveries for Participating State Agencies

	TOTAL	2000	1999	1998	1997	1996	1995	1994	1993	1992
# of States Participating		51	51	47	43	40	32	21	9	2
Intercepted Collections (millions)	\$333	\$101*	\$91.1	\$73.4	\$59.9	\$40.5	\$26.6	\$30.7	\$ 8.7	\$ 3.5

*projected

Food Stamp Retailer Debt

In FY 2000, FNS sponsored a project to improve the management of delinquent food stamp retailer debts. Eligible debts include those that are delinquent and for which no collection activity is taking place, but do not include those under repayment agreement, under administrative review or appeal, in litigation or under a court-ordered restitution agreement. One of the project tasks involved "cleaning up" the accounts receivable reports in the accounting system. As a result of this effort, by the end of FY 2000, about 96 percent of all eligible delinquent food stamp retailer debts had been referred to Treasury. This exceeds FNS' stated FY 2000 performance goal of 90 percent of eligible debt referred to Treasury.

Food and Nutrition Service

Supplemental Information for Fiscal Year 2000 Operations

Introduction

Purpose Information provided in this supplementary section is intended to assist the reader in the interpretation of the Food and Nutrition Service's (FNS) operating results for fiscal year 2000. It is also intended to demonstrate the nation-wide scope of the Agency's programs. Note that the figures presented in the fiscal year 1999 Supplemental for fiscal years 1999 and 1998 were preliminary and subject to change; therefore, last year's and this year's Supplemental may not match.

FNS Regions The following data is primarily presented at the regional level. Food and Nutrition Service regions are as follows:

Food and Nutrition Service Organization of Regional Offices		
Region	Abbreviation	States Included
Northeast Regional Office	NERO	CT, ME, MA, NH, NY, RI, VT
Mid-Atlantic Regional Office	MARO	DE, DC, MD, NJ, PA, PR, VA, VI, WV
Southeast Regional Office	SERO	AL, FL, GA, KY, MS, NC, SC, TN
Midwest Regional Office	MWRO	IL, IN, MI, MN, OH, WI
Southwest Regional Office	SWRO	AR, LA, NM, OK, TX
Mountain Plains Regional Office	MPRO	CO, IA, KS, MO, MT, NE, ND, SD, UT, WY
Western Regional Office	WRO	AK, AZ, CA, GU, HI, ID, NV, OR, WA, Pacific Territories

Limitations Slight differences may exist between data presented in this supplementary section and similar data occurring elsewhere in this document. These differences result primarily from rounding at the regional level.

Food Stamp Program

Food Stamp Program Regional Activity: The following tables provide regional level Food Stamp Program performance data for the period fiscal year 1996 through fiscal year 2000.

Food Stamp Program Average Annual Program Participation by Region (Thousands)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	3,026	2,770	2,389	2,247	2,089
MARO	3,057	2,782	2,468	2,233	2,033
SERO	5,243	4,724	4,189	3,965	3,797
MWRO	4,053	3,572	3,154	2,831	2,689
SWRO	3,905	3,401	2,891	2,620	2,502
MPRO	1,551	1,380	1,216	1,168	1,137
WRO	4,708	4,229	3,481	3,120	2,917
TOTAL	25,542	22,858	19,788	18,183	17,163

Food Stamp Program Total Program Issuance by Region (Millions)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	\$2,800	\$2,458	\$2,109	\$2,035	\$1,886
MARO	2,736	2,409	2,101	1,915	1,736
SERO	4,615	3,970	3,462	3,352	3,235
MWRO	3,491	2,999	2,619	2,369	2,320
SWRO	3,468	2,914	2,473	2,294	2,219
MPRO	1,291	1,116	973	950	930
WRO	4,041	3,684	3,151	2,841	2,661
TOTAL	\$22,441	\$19,550	\$16,889	\$15,755	\$14,988

Food Stamp Program Average Monthly Per Person Benefit by Region (\$/Person)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	77.11	73.94	73.58	75.46	75.24
MARO	74.58	72.15	70.93	71.46	71.19
SERO	73.35	70.02	68.87	70.46	71.01
MWRO	71.76	69.96	69.21	69.72	71.88
SWRO	74.01	71.39	71.28	72.96	73.91
MPRO	69.34	67.40	66.68	67.81	68.14
WRO	71.53	72.61	75.43	75.87	76.03
NATIONAL	73.21	71.27	71.12	72.20	72.77

Food Stamp Program Compliance Branch Activity: Final FY 2000 data for Compliance Branch activity is not currently available. The following table contains estimates of FY 2000 activity. Final data will become available during January 2001. Updated information will be provided at that time.

Food Stamp Program Compliance Branch Activity		
Activity	FY 1999	FY 2000
Stores Investigated	4,622	4,616
Trafficking Found Occurring	517	447
Violations Detected	2,005	1,883
Annual Redemptions for Positive Cases (in millions of \$\$)	\$113.7	\$108.8

Child Nutrition Programs

Child Nutrition Programs Regional Activity: The following tables provide regional level performance data for the National School Lunch Program, the School Breakfast Program, and the Child and Adult Care Food Program over the period fiscal year 1996 through fiscal year 2000.

National School Lunch Program Annual Average Daily Program Participation by Region (Thousands)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NE RO	2,695	2,742	2,799	2,872	2,893
MARO	3,279	3,299	3,324	3,348	3,387
SERO	5,520	5,599	5,645	5,697	5,733
MWRO	4,343	4,402	4,433	4,512	4,552
SWRO	3,755	3,816	3,862	3,921	3,967
MPRO	2,360	2,385	2,373	2,397	2,392
WRO	3,957	4,066	4,129	4,165	4,185
DOD *	33	32	32	34	35
TOTAL	25,942	26,341	26,599	26,946	27,143

* The Department of Defense oversees schools.

School Breakfast Program Annual Average Daily Program Participation by Region (Thousands)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	618	646	660	681	684
MARO	743	773	808	827	828
SERO	1,704	1,791	1,837	1,885	1,903
MWRO	693	735	757	786	831
SWRO	1,273	1,331	1,390	1,453	1,527
MPRO	393	409	427	448	470
WRO	1,159	1,238	1,264	1,290	1,281
TOTAL	6,583	6,922	7,142	7,371	7,525

Child and Adult Care Food Program Average Daily Attendance by Region (Thousands)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	276	291	343	373	303
MARO	258	249	264	273	274
SERO	421	439	469	487	509
MWRO	414	424	440	451	461
SWRO	320	327	328	339	335
MPRO	296	297	297	299	282
WRO	430	446	459	447	445
TOTAL	2,415	2,472	2,601	2,670	2,609

Availability of National School Lunch Program: The following table displays the trend in National School Lunch Program participation in relation to the enrollment levels in participating schools.

National School Lunch Program Percent of Students Enrolled in Schools Participating in NSLP --Based on Average Participation-- (Thousands)					
Item	FY 96	FY 97	FY 98	FY 99	FY 00
Enrollment in NSLP Schools	45,299	46,342	46,937	47,572	47,688
Average Participation	25,942	26,341	26,599	26,946	27,143
Percent Participation of Enrollment	57.27%	56.84%	56.67%	56.64%	56.92%

Cash Payments to States: The programs are operated under an agreement entered into by State agencies and the Department. Funds are made available by letters of credit to State agencies for use in reimbursing participating schools and other institutions. Sponsors make application to the State agencies and, if approved, are reimbursed on a per-meal basis in accordance with the terms of their agreements and the rates prescribed by law. The reimbursement rates are adjusted annually to reflect changes in the Consumer Price Index for Food Away From Home as provided for in Section 11 of the National School Lunch Act.

National School Lunch Program (NSLP). Assistance is provided to the States for the service of lunches and snacks to children in participating schools and institutions, regardless of household income. Additional assistance is provided to the States for serving lunches and snacks free or at a reduced price to needy children. States must match a portion of the Federal cash grant. Schools which, in the second previous school year, served at least 60 percent of their lunches at free or reduced prices receive an additional 2 cents per meal in assistance.

National School Lunch Program Reimbursement Rates: July Through June¹ (Cents)					
	95-96	96-97	97-98	98-99	99-00
LESS THAN 60% SERVED FREE:					
Paid	17.25	17.75	18.00	18.00	19.00
Reduced	139.50	143.75	149.00	154.25	158.00
Free	179.50	183.75	189.00	194.25	198.00
60% OR MORE SERVED FREE:					
Paid	19.25	19.75	20.00	20.00	21.00
Reduced	141.50	145.75	151.00	156.25	160.00
Free	181.50	185.75	191.00	196.25	200.00
MAXIMUM PAYMENT RATES:					
Paid	25.25	25.75	26.00	26.00	27.00
Reduced	156.50	160.75	166.00	171.25	175.00
Free	196.50	200.75	206.00	211.25	215.00
SUPPLEMENTS:					
Paid	4.50	4.50	4.00	4.00	5.00
Reduced	24.75	25.25	26.00	26.75	27.00
Free	49.25	50.50	51.75	53.25	54.00
Commodity Reimbursement Rate					
	14.25	14.50	15.00	14.75	14.75

¹ Rates higher in Alaska and Hawaii.

School Breakfast Program (SBP). Federal reimbursement is based on the number of breakfasts served to children from low, lower, or upper income families. Schools that served at least 40 percent of their lunches at free or reduced prices in the second preceding year and had unusually high preparation costs, which exceeded regular breakfast per meal reimbursement, receive higher subsidies in both the free and reduced-price categories.

School Breakfast Program Reimbursement Rates: July Through June¹ (Cents)					
	95-96	96-97	97-98	98-99	99-00
NON-SEVERE NEED:					
Paid	19.50	19.75	20.00	20.00	21.00
Reduced	69.75	71.75	74.50	77.25	79.00
Free	99.75	101.75	104.50	107.25	109.00
SEVERE NEED:					
Paid	19.50	19.75	20.00	20.00	21.00
Reduced	88.50	91.25	94.50	97.75	100.00
Free	118.50	121.25	124.50	127.75	130.00

¹ Rates are higher in Alaska and Hawaii.

Child and Adult Care Food Program (CACFP). Nonprofit child care centers and family and group day care homes receive subsidies for meals served to preschool and other children. Profit-making child care centers receiving compensation under Title XX of the Social Security Act (Title XX) may participate in the program if 25 percent of the children enrolled are Title XX participants. Certain adult day care centers are also eligible for participation in this program if they provide meals to persons 60 years or older or to adults who are functionally impaired. They must be nonprofit unless they receive compensation under Title XIX or Title XX of the Social Security Act for at least 25 percent of their enrollees. The Child and Adult Care Food Program provides reimbursement to State agencies at varying rates for breakfasts, lunches, suppers, and meal supplements.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193), enacted August 22, 1996, made a fundamental change to the family day care home component of CACFP by establishing a two tier system of reimbursement to better target Federal benefits to low-income children and providers. Prior to enactment of this law, meals served to all children in family day care homes had received the same set of reimbursement rates for breakfasts, lunches, suppers and snacks.

One and one-half percent of total CACFP obligations from the second preceding year are provided for audits and administrative reviews of CACFP institutions. Under the Regional Office Administered Program (ROAP), the Office of the Inspector General contracts with Certified Public Accounting firms for audits of the child care institutions directly administered by FNS. FNS may use some of these funds not needed for audits for administrative reviews of child care sponsors for which the regional office is responsible.

Child and Adult Care Food Program Reimbursement Rates: July Through June¹ (Cents)					
	95-96	96-97	97-98	98-99	99-00
BREAKFASTS (in Centers):					
Paid	19.50	19.75	20.00	20.00	21.00
Reduced	69.75	71.75	74.50	77.25	79.00
Free	99.75	101.75	104.50	107.25	109.00
LUNCHES and SUPPERS (in Centers):					
Paid	17.25	17.75	18.00	18.00	19.00
Reduced	139.50	143.75	149.00	154.25	158.00
Free	179.50	183.75	189.00	194.25	198.00
SUPPLEMENTS (in Centers):					
Paid	4.50	4.50	4.00	4.00	5.00
Reduced	24.75	25.25	26.00	26.75	27.00
Free	49.25	50.50	51.75	53.25	54.00
COMMODITY REIMBURSEMENT RATE					
	14.25	14.50	15.00	14.75	14.75
MEALS SERVED IN LOW-INCOME HOMES					
Breakfasts	84.50	86.25	88.00	90.00	92.00
Lunches/Suppers	153.75	157.50	162.00	165.00	169.00
Snacks	45.75	47.00	48.00	49.00	50.00
MEALS SERVED IN UPPER INCOME HOMES					
Breakfasts	N.A.	N.A.	33.00	34.00	34.00
Lunches/Suppers	N.A.	N.A.	98.00	100.00	102.00
Snacks	N.A.	N.A.	13.00	13.00	13.00

¹ Rates higher in Alaska and Hawaii.

Special Supplemental Food Program for Women, Infants, and Children

Special Supplemental Food Program for Women, Infants, and Children (WIC): The following tables provide regional level performance data for the WIC Program over the period fiscal year 1996 through fiscal year 2000.

Special Supplemental Food Program for Women, Infants and Children (WIC) Average Monthly Participation Level by Region (Thousands)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	729	742	744	731	714
MARO	913	926	913	886	884
SERO	1,353	1,391	1,382	1,352	1,271
MWRO	1,051	1,046	1,039	1,025	1,010
SWRO	1,031	1,073	1,077	1,091	1,116
MPRO	485	491	480	479	467
WRO	1,626	1,739	1,733	1,748	1,736
TOTAL	7,284	7,505	7,367	7,311	7,197

Special Supplemental Food Program for Women, Infants, and Children (WIC) Average Monthly Food Cost Per Participant by Region (\$/Person)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	32.69	33.02	33.22	33.96	34.01
MARO	34.67	34.91	35.08	35.86	35.82
SERO	29.94	30.75	30.66	32.10	34.11
MWRO	30.76	30.78	30.17	31.75	32.43
SWRO	27.85	28.04	27.73	28.01	28.21
MPRO	30.80	30.79	30.63	30.14	30.35
WRO	32.12	33.12	34.01	34.43	34.21
TOTAL	31.19	31.67	31.75	32.51	32.94

Breastfeeding Promotion Efforts: The WIC program promotes breastfeeding as the best form of infant feeding through the provision of support and encouragement to new mothers and through nutrition education during pregnancy. In addition, breastfeeding WIC mothers receive a larger food package and, if otherwise eligible, are able to stay on WIC for a longer period of time than non breastfeeding postpartum women. By law, States are required to expend at least \$23.92 per pregnant and breastfeeding participant for breastfeeding promotion and support. Many States spend more than this minimum requirement on breastfeeding promotion.

Between 1996 and 2000 the number of breastfeeding women served by the WIC Program increased by over 27 percent (from over 292,000 to over 373,000) while total postpartum women rose by less than 11 percent. The proportion of total WIC postpartum women who breastfeed increased from 40.4 percent to 41.2 percent from FY1999 to FY2000.

Special Supplemental Food Program for Women, Infants, and Children (WIC) Percent of WIC Postpartum Women Who Breastfeed (Thousands)			
Fiscal Year	Breastfeeding Women	Total Postpartum Women	Percent Breastfeeding of Total
1996	292	819	35.7
1997	330	863	38.2
1998	346	876	39.5
1999	363	899	40.4
2000	373	906	41.2

Commodity Assistance Programs

Commodity Assistance Programs (CAP): The Commodity Assistance Programs appropriation included funding for the Commodity Supplemental Food Program (CSFP) and administrative expenses for The Emergency Food Assistance Program (TEFAP). The following tables provide participation data by region and by program component for CSFP over the period fiscal year 1996 through fiscal year 2000.

Commodity Supplemental Food Program Average Monthly Participation Level by Region (Thousands)					
REGION	FY 96	FY 97	FY 98	FY 99	FY 00
NERO	36	44	47	45	49
MARO	12	12	10	10	10
SERO	26	24	24	24	23
MWRO	105	105	110	110	109
SWRO	86	92	88	93	94
MPRO	47	46	46	47	46
WRO	46	47	52	53	58
TOTAL	357	467	377	382	389

Commodity Supplemental Food Program WIC and Elderly Components (Thousands)				
Fiscal Year	Women, Infants, and Children	Elderly Persons	Total	Percent WIC of Total
1996	137	219	357	38.5
1997	127	243	370	34.4
1998	128	249	377	34.0
1999	112	270	382	29.4
2000	95	294	389	24.5

**U.S. DEPARTMENT OF AGRICULTURE
BALANCE SHEET**

For the year ended September 30, 2000
(IN MILLIONS)

	Food and Nutrition Service	2000
ASSETS		
1. Assets for Use by Entity		
a. Federal		
(1) Fund Balance with Treasury (Note 2)		19,772
(2) Other assets (Note 4)		200
b. Total Federal		<u>19,972</u>
c. Non-Federal		
(1) Accounts receivable, Net (Note 3)		256
(2) General Property Plant & Equipment (Note 5)		2
d. Total Assets for Use by Entity		<u>20,230</u>
2. Assets Not for Use by Entity		
a. Federal		
(1) Fund Balance with Treasury (Note 2)		45
b. Total Federal		<u>45</u>
c. Non-Federal		
(1) Accounts receivable, net (Note 3)		28
d. Total Assets Not for Use by Entity		<u>73</u>
3. Total Assets		<u>20,303</u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Federal liabilities		
(1) Accounts payable		2
b. Total Federal		<u>2</u>
c. Non-Federal liabilities		
(1) Accounts payable (Note 6)		2,459
(2) Other liabilities (Note 7)		50
d. Total liabilities covered by budgetary resources		<u>2,511</u>
5. Liabilities not Covered by Budgetary Resources:		
a. Federal		
(1) Accrued Federal Employees Compensation Act Bills (Note K)		2
(2) Other liabilities (Note 7)		28
b. Total Federal		<u>30</u>
c. Non-Federal		
(1) Annual leave		8
(2) Federal Employees Compensation Act liability (Note L)		7
(3) Other liabilities (Note 7)		1
d. Total liabilities not covered by budgetary resources		<u>46</u>
6. Total Liabilities		<u>2,557</u>
NET POSITION		
7. Unexpended Appropriations (Note 9)		<u>17,763</u>
8. Cumulative Results of Operations		<u>(17)</u>
9. Total Net Position		<u>17,746</u>
10. Total Liabilities and Net Position		<u>20,303</u>

The accompanying footnotes are an integral part of these statements

UNITED STATES DEPARTMENT OF AGRICULTURE
 FOOD AND NUTRITION SERVICE
 CONSOLIDATING STATEMENT OF NET COST
 For the Year Ended September 30, 2000
 (in millions)

	CAP	CN	ES	WIC	OTHER	TOTAL
1 Program Costs						
A. Federal	\$ 2	14	24	4	507	551
B. Non Federal						
1 Grants and Transfers	62	8,755	18,227	3,918	158	31,120
2 Commodity Inventory Costs	68	261	94	1	55	479
3 Other Program Costs	1	52	124	16	3	196
C. Total Program Cost	133	9,082	18,469	3,939	723	32,346
D. Less: Earned Revenues (Note 12)	-	-	32	-	1	33
E. Excess Production Costs Over Revenue	133	9,082	18,437	3,939	722	32,313
F. Net Program Costs	133	9,082	18,437	3,939	722	32,313
2 Costs Not Assigned to Programs						-
3 Less: Earned Revenues Not Attributable to Programs						-
4 Net Cost Of Operations (Note 11)	\$ 133	9,082	18,437	3,939	722	32,313

The accompanying notes are an integral part of these statements

U.S. DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 2000

	TOTAL
1. Net Cost of Operations (Note 11)	32,313
2. Financing Sources (other than exchange revenues):	
a. Appropriations Used	31,769
b. Taxes (and other non-exchange revenues)	-
c. Donations (non-exchange revenue)	-
d. Imputed financing	536
e. Transfers-in	-
f. Transfers-out	-
g. Other Financing Sources	-
3. Net Results of Operations	(8)
4. Net Results Not Affecting Net Position	-
5. Prior Period Adjustments	-
6. Net Change in Cumulative Results of Operations	(8)
7. Increase (Decrease) in Unexpended Appropriations	(236)
8. Change in Net Position	(244)
9. Net Position-Beginning of Period	17,990
10. Net Position-End of Period (Note 14)	17,746

U.S. DEPARTMENT OF AGRICULTURE
 FOOD AND NUTRITION SERVICE
 COMBINED STATEMENT OF FINANCING
 For the Year Ended September 30, 2000
 (in millions)

1. Resources Used to Finance Operations		
a Budgetary		
1. Budgetary Resources Obligated for Items to be Received or Provided to Others	\$	33,014
2. Less: Offsetting Collections, Recoveries of Prior Year Authority and Changes in Unfilled Customer Orders		<u>920</u>
3. Net Budgetary Resources Used to Finance Operations		<u><u>32,094</u></u>
b Non-Budgetary		
1. Property Received from Others Without Reimbursement	\$	-
2. Less: Property Given to Others Without Reimbursement-Collected		
3. Costs Incurred by Others Without Reimbursement	\$	536
4. Other Non-Budgetary Resources		<u>-</u>
5. Net Non-Budgetary Resources Used to Finance Operations		<u><u>536</u></u>
c Total Resources Used to Finance Operations		<u><u>32,630</u></u>
2. Resources Used to Fund Items Not Part of the Net Cost of Operations		
a Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or Services Not Yet Received	\$	17
b Budgetary Offsetting Collections Not Increasing Earned Revenue or Decreasing Expense		-
c Less: Adjustments Made to Compute Net Budgetary Resources Not Affecting Net Cost of Operations		10
d Resources Funding Expenses Recognized in Prior Periods		(5)
e Resources Financing the Acquisition of Assets or Liquidation of Liabilities		-
f Other Resources used to Fund Items Not Part of the Net Cost of Operations		<u>-</u>
g Total Resources Used to Fund Items Not Part of the Net Cost of Operations	\$	<u><u>(2)</u></u>
3. Resources Used to Finance the Net Cost of Operations	\$	<u><u>32,628</u></u>
4. Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period		
a Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities or Allocation of Their Cost over Time	\$	5
b Expenses Which Will Be Financed with Budgetary Resources Recognized in Future Periods (Note 1H)		(4)
c Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period (Note 1E)		<u>314</u>
d Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period		<u><u>315</u></u>
5 NET COST OF OPERATIONS	\$	<u><u>32,313</u></u>

U.S. DEPARTMENT OF AGRICULTURE
 FOOD AND NUTRITION SERVICE
 COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2000
 (in millions)

Budgetary Resources:

Budget Authority	\$	35,086
Unobligated Balances-Beginning of Period		17,072
Spending Authority from Offsetting Collections		319
Less: Adjustments		<u>2,757</u>
Total Budgetary Resources	\$	49,720

Status of Budgetary Resources

Obligations Incurred	\$	33,014
Unobligated Balances-Available		2,876
Unobligated Balances-Not Available		<u>13,830</u>
Total Status of Budgetary Resources	\$	49,720

Outlays

Obligations Incurred	\$	33,014
Less: Actual Spending Authority from Offsetting Collections and Actual Adjustments		919
Obligated Balance, Net-Beginning of Period		2,703
Obligated Balance, Transferred, Net		-
Less: Obligated Balance, Net-End of Period		<u>2,966</u>
Total Outlays	\$	<u>31,832</u>

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report significant assets, liabilities, net cost of operations, changes in net position, and budgetary resources for the Food and Nutrition Service (FNS), as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of FNS in accordance with the Generally Accepted Accounting Principles (GAAP) hierarchy of accounting principles for the Federal Government.

B. Reporting Entity

The Food and Nutrition Service (FNS) was established August 8, 1969, per Secretary's Memorandum No 1659 and Supplement 1 pursuant to the authority contained in 5 U.S.C. 301 and Reorganization Plan No. 2 of 1953. The agency administers USDA's five nutrition assistance programs: Food Stamp (FS) Program, Child Nutrition (CN) Programs, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Commodity Assistance Program (CAP) as well as Cash and Commodities for Selected Groups (Food Donations). These nutrition programs are intended to provide access to a nutritionally adequate diet for families and persons with low incomes, and encourage better eating habits among the nation's children. The programs are also intended to help expand markets for food produced by American farmers. FNS also administers a Food Program Administration appropriation (FPA), which provides funds for salaries and administrative expenses. For the FY 2000 financial statement presentation, FNS has classified its Food Donations and FPA appropriations data as "Other" programs.

FNS is under the jurisdiction of the Under Secretary for Food, Nutrition and Consumer Services. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia, and implemented through seven regional offices, 51 field offices, 13 satellite locations, and 8 service centers. State departments of education have responsibility for food programs serving children in schools, child care centers, and summer recreation centers. State departments of health, welfare, and agriculture usually have responsibility for programs providing food stamp benefits or supplemental foods.

C. Basis of Accounting

FNS records transactions on an accrual accounting and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. These financial statements include all funds for which the FNS is responsible and were prepared in accordance with the GAAP hierarchy of accounting principles.

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

D. Accounts Receivable

The \$256 recognized as non-federal accounts receivable includes debts owed FNS by individuals, businesses, States and local governments. The largest single component of this item consists of Food Stamp Program recipient claims. States establish claims against households to recover overissued Food Stamp benefits after they confirm that such overissuance have taken place. They are then responsible for pursuing collection of such claims. Collections, less an authorized State retention amount, are remitted to FNS. The portion of total net realizable receivables consisting of Food Stamp recipient claims is the expected amount of such remittance from States. The data generated by the State systems of gross account receivables has been established to be unreliable. Accordingly, FNS does not know what the State gross account receivable is. FNS does not have any alternative method for acquiring reliable State receivable information.

FNS estimates net realizable Food Stamp accounts receivable through a regression-based statistical model. This model estimates future collections by the States, which the States will remit to the Federal Government as of the end of the accounting period (Federal fiscal year) based on the actual Food Stamp issuance and net claims collections for prior years. The forecasting model draws its predictive power from the strong historical relationship between the level of Food Stamp Program benefit issuance and the level of recipient claims collections by States. Using the statistical technique known as least squares, one can estimate the relationship between Food Stamp Program issuance and claims collections and use the results to project future claims collection levels. Applying the model to actual data covering the period FY 1984 through FY 2000 generates a coefficient of determination of 97.5%. The FY 2000 collections projected by the model at the end of FY 1999 proved to be accurate within 2% of actual FY 2000 net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNS does not estimate collections after the initial year or discount the estimate produced by the statistical model to its present value.

The Food Stamp Program has a system for monitoring and controlling program issuance called the QC system. It is an ongoing, comprehensive monitoring system required by the Food Stamp Act to promote program integrity. A statistically valid sample of cases, consisting of active cases and "negative case actions" (terminations and denials of benefits), is determined each month. State officials review the sampled case records to measure and verify the accuracy of eligibility and benefits determinations, made by State eligibility workers, against Program standards for the month under review. QC errors detected through the review process include both underissuance and overissuance to eligible households and issuance to households that are not eligible for benefits.

Because reliable data is not available addressing gross FNS accounts receivable, the FSP QC estimate of FSP benefits overissued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 1999 QC error rates were announced in April 2000. Using this methodology, FNS estimates the value of benefit overissuance in Fiscal Year 1999 (the most recent year for which data are available) at \$1.1 billion. SFFAS #1 permits Federal entities to estimate its account receivable. The QC error rate overissuance estimate is considered the best estimate available. However, since this is an estimate of all FSP overpayments, the actual State gross account receivable amount would be lower but the variance can not be quantified. The amount of overissued food stamps is included in the total program cost of the Food Stamp Program as reflected in the

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Statement of Net Cost. A material amount of the estimate would be bad debt expense if the amount of this estimate pertaining to accurate receivable could be quantified.

FNS does not receive information to calculate QC liabilities for approximately 7 months after the end of the fiscal year, therefore, current information is not available for the FY 2000 financial statements. For FY 1999, 24 States faced potential liabilities totaling almost \$75 because their FY 1999 error rates were above the National average. As he did for the FY 1998 liabilities, the Secretary again used his authority to adjust the liabilities to credit States for serving large numbers wage earners, immigrants and to remove the effects of small errors. Sixteen States remained in liability for almost \$31.

These 16 States were offered settlement agreements that would allow investment in program improvements in lieu of a repayment in cash. All 16 States signed these agreements and have until September 30, 2003 to expend these funds.

The QC over Issuance error rate data for the past 3 years follows

Fiscal Year	Rate Amount	Total \$ Bil.
1999	7.03 %	\$ 1.1
1998	7.63 %	\$ 1.290
1997	7.28 %	\$ 1.425

E. Accounts Payable

FNS must estimate the accounts payable for current year grant obligations (other than obligations for coupon and EBT food stamp benefits) using a statistical model. This is because FNS does not know the exact amount needed by its grantees until the grant close out process is completed, which does not occur for 3-9 months after the end of the fiscal year, depending on the type of grant. At the end of the fiscal year, accounts payable and related obligations were adjusted downward by \$313. That amount represents funds which will not be used by the grantees and will be deobligated as part of the grant close out process the following fiscal year. The downward adjustment made to the current period accounts payable is based upon the historical relationship between initial (September 30) grant account balances and the final grant account balances produced through the closeout process. Adjustments are made on an account specific basis.

F. Grants

FNS grant programs provide funds to States through a letter of credit process. This process allows the grantees to draw on established credit balances, as needed, to pay expenses associated with their grants. It also allows the federal government to hold funds until the grantees need the funds to pay program expenses. Expenses are recognized as Grantees drawdown on the Letter of Credit.

G. Unredeemed and Unissued Food Coupons

Food coupons are legal obligation instruments of the U.S. Government. FNS records a liability and related expense when notified by state agencies that they have issued coupons to recipients and records a reduction in liability when notified by the Federal Reserve Banks that they have redeemed coupons. The agency does not record in its general ledger or present on its financial statements a liability for the value of unissued food coupons which are carried as inventory by state agencies or by food coupon printers or which are in transit

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

from printers to state inventory sites at the end of the reporting period. Those entities are responsible for maintaining coupon inventories in accordance with regulations and must indemnify FNS if inventory losses occur. The balance in the food stamp liability account represents the value of unredeemed food coupons in the economy which are likely to be redeemed. Such food coupons are under the control of the companies which produce, distribute, and transport the coupons, as well as the States who control the inventories of food coupons available for issuance. Although FNS is indemnified for unaccounted food coupons by these companies, FNS must honor all redeemed food coupons.

H. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

I. Retirement Plan

FNS employees participate in both the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). FNS makes matching contributions to the CSRS plan equal to 8.51 percent of pay, while contributions to the FERS plan are 10.7 percent of pay. For most employees hired since December 31, 1983, FNS also contributes the employer's matching share for Social Security. FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which FNS automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. FNS makes these and other contributions to employee retirement plans as shown in the following table:

FNS RETIREMENT CONTRIBUTIONS FOR FY 2000	
Type of Contribution	Amount
CSRS/Transitional retirement contributions -Civil Service	4
FERS regular contributions	3
Thrift Savings Plan contribution	1
TOTAL	8

These contributions are reported as expenses in the Statement of Net Cost. FNS does not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management's Federal Retirement System.

J. Recognition of Financing Sources and Appropriations Used

FNS receives the majority of the funding it needs to support its programs through annual and multi-year appropriations. FNS recognizes appropriations as revenue at the time they are used to pay program or administrative expenses. FNS recognizes appropriations expended for capitalized property or equipment as expenses when the assets are consumed in operations. Appropriations used is the amount of appropriations expended during the current period to fund FNS' nutrition programs. This includes the Food Program Administration (FPA) appropriation, which provides funds for salaries and administrative expenses.

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

At the time grant awards are established, FNS records obligations for the full amount of expected program expenses as unexpended obligations-unpaid. Reductions in obligations occur as expenses are incurred by grantees. At year-end, the unused portions of grant awards are reclassified as unobligated balances and are shown on the balance sheet as part of unexpended appropriations. Unobligated balances available for future periods are also shown as unexpended appropriations.

K. Accrued Federal Employees Compensation Act Bills

FNS' Accrued Federal Employees Compensation Act Bills is comprised of a current portion due to the Department of Labor for billed charges to be funded in the subsequent year.

L. Federal Employees Compensation Act Liability

FNS' Federal Employees Compensation Act Liability is comprised of a current portion which is calculated by USDA's Office of the Chief Financial Officer (OCFO), and a non-current portion which is estimated by the Department of Labor.

Note 2. Fund Balances with Treasury

Fund balances with Treasury consist of all unexpended balances on FNS accounts with the U.S. Treasury. As of September 30, 2000, the total outstanding fund balance was \$19,817. Of this amount, \$19,772 are "Assets for Use by Entity" funds, and \$45 are classified as "Assets Not for Use by Entity" funds.

FNS' "Assets for Use by Entity" Unobligated balances for Appropriated Funds, consist of \$2,876 of Available Funds, \$13,830 of Expired Authority Funds, and \$100 of Restricted Funds. FNS' Restricted Funds consists of funds held in the Food Stamp Reserve. (See note 14A. for further disclosures on FNS' Food Stamp Reserve activities).

FNS' "Assets Not for Use by Entity" Unobligated - Available balance for Other Funds, consist of \$23 held in FNS' Suspense Account and \$22 held in FNS' Food Stamp Redemption Account.

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

FUND BALANCES WITH TREASURY						
	Appropriated Funds	Revolving Funds	Trust Funds	Other Funds: Suspense	Other Funds: Food Stamp Redemption	Total
Assets for Use by Entity						
Obligated	2,966	0	0	0	0	2,966
Unobligated - Available	2,876	0	0	0	0	2,876
Unobligated - Expired Authority	13,830	0	0	0	0	13,830
Unobligated - Restricted	100	0	0	0	0	100
Total	19,772	0	0	0	0	19,772
Assets Not for Use by Entity						
Obligated	0	0	0	0	0	0
Unobligated - Available	0	0	0	23	22	45
Unobligated - Expired Authority	0	0	0	0	0	0
Unobligated - Restricted	0	0	0	0	0	0
Total	0	0	0	23	22	45

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Note 3. Accounts Receivable

ACCOUNTS RECEIVABLE (amounts shown are in thousands)					
		Allowance for Uncollectible Accounts			
	Gross Accounts Receivable	Beginning Balance	Additions (Reductions)	Ending Balance	Net Accounts Receivable
ACCOUNTS RECEIVABLE FOR USE BY ENTITY					
Federal	0				0
Nonfederal (1)	257,270	887	(62)	825	256,445
Total Accounts Receivable for Use by Entity	257,270	887	(62)	825	256,445
ACCOUNTS RECEIVABLE NOT FOR USE BY ENTITY					
Federal	0	0	0	0	0
Nonfederal	29,940	1,541	(58)	1,483	28,457
Total Accounts Receivable Not for Use by Entity	29,940	1,541	(58)	1,483	28,457
Total Accounts Receivable	287,210	2,428	(120)	2,308	284,902

(1) See Note 1.D. for further explanation of FNS' nonfederal accounts receivable activity.

Note 4. Other Assets

A. Other Assets for Use by Entity

1. Federal

Advances to Farm Service Agency/Commodity Credit Corporation \$ 200

The food commodities represent items purchased with FNS appropriations and held for donation to states by the Farm Service Agency/Commodity Credit Corporation. The expenses for products held in inventory are recognized for a specific program when the products are delivered to the state distributing agency. In accordance with USDA policy, FNS establishes a 100% allowance for loss on inventories held for donation at yearend. Therefore, this item has carrying value of zero and does not appear on the Balance Sheet.

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Note 5. General Property, Plant and Equipment

Property and equipment are depreciated over their useful economic lives, which average 5-10 years, using the straight-line method. FNS' capitalization threshold for property and equipment for FY 2000 is \$5 thousand. FNS owns no buildings or land. At year end, balances for Property, Plant, and Equipment were as follows:

PROPERTY, PLANT, AND EQUIPMENT (amounts shown are in thousands)			
Classes	Cost	Accumulated Depreciation	Book Value
Furniture and Equipment	8,230	6,924	1,306
ADP Software	1,626	1,380	246
Sub total	9,856	8,304	1,552

Note 6. Accounts Payable

The "Accounts Payable, Non-Federal" includes amounts for accounts payable at year's end for all grant programs totaling \$2,421 and electronic benefits transfers (EBT) totaling \$38. (See Note 1.E. for further explanation of FNS' Accounts Payable activity.)

Note 7. Other Liabilities

OTHER LIABILITIES			
Description	Non-Current	Current	Total
Other Liabilities Covered by Budgetary Resources:			
Federal, Other liabilities	0	0	0
Total	0	0	0
Nonfederal, Other liabilities	50	0	50
Total	50	0	50
Other Liabilities Not Covered by Budgetary Resources:			
Federal, Other liabilities	28	0	28
Total	28	0	28
Nonfederal, Other liabilities	1	0	1
Total	1	0	1

For the FY 2000 financial statements, FNS' Other Liabilities Covered by Budgetary Resources nonfederal represent FNS' liabilities for deposit and suspense accounts and accrued liabilities for payroll and benefits in the Food Program Administration appropriation. Other Liabilities Not Covered by Budgetary Resources federal represent FNS' custodial liability. FNS' Other Liabilities Not Covered by Budgetary Resources nonfederal represent FNS' canceled year payables.

FOOD AND NUTRITION SERVICE
 FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
 (Amounts shown are in millions except as noted)

Note 8. Lease Liabilities

Entity as Lessee:

Operating Leases (amounts shown are in thousands):

Description of Lease Arrangements: FNS' operating leases includes a vehicle and office space. The vehicle is leased from October 1, 1999 through September 30, 2000 at a cost of \$5 per year. The office space is leased from February 1, 1997 through January 31, 2002 at a cost of \$310 per year. The office space may be renewed for one 5 year term at a cost of \$356 per year. If FNS elects to renew the lease, FNS has the option of terminating the lease within 120 days after the first 2 years. This renewal term is conditional upon FNS notifying the Lessor at least 120 days before the end of original lease term.

Future Payments Due

<u>Fiscal Year</u>	<u>Asset Category</u>
	<u>Office Space</u>
Year 4	\$ 103
Year 5	\$ 310
After 5 Years	\$ 1,782

Total Future Lease Payments	\$ 2,195
	=====

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Note 9. Unexpended Appropriations

A. Unexpended Appropriations

This balance includes the unexpended obligations-unpaid and unobligated balances of the FNS appropriated funds. Obligations and advances of appropriated funds are recorded as unexpended obligations-unpaid. Unexpended obligations-unpaid are relieved by either an expenditure or an obligation cancellation. Appropriated funds which are not obligated are included in the Unexpended Appropriations on the Balance Sheet; these totaled \$17,763 as of the end of the fiscal year. At the end of the fiscal year, certain multi-year appropriations which have unobligated balances remained available to FNS for obligations in future periods. Unobligated appropriations are available for obligational authority for a particular appropriation year until that appropriation is canceled.

Category	Total
A. Unexpended Appropriations:	
(1) Unobligated	
(a) Available	642
(b) Unavailable	16,735
(2) Unexpended Obligations Unpaid	386
Total	17,763

B. Unexpended Obligations - Unpaid

FNS is committed under obligations it has incurred as of the fiscal year for goods and services which have been ordered but not yet received. FNS' Unexpended Obligations - Unpaid amounted to \$386 at year's end.

UNEXPENDED OBLIGATIONS - UNPAID	
Type	Amount
Advances	200
Contracts & Other	178
FPA	8
Total	386

Note 10. Contingencies and Commitments

A. Judgment Fund

Most legal actions that affect USDA and involve an amount in excess of \$2,500 fall under the Federal Tort Claims Act and are paid from the Claims and Judgments Fund maintained by the Department of Treasury. USDA is not required to reimburse this Fund for payments made on its behalf. Pursuant to the guidance contained in SFFAS Number 5, USDA recognizes an expense and liability for all

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

contingent liabilities determined to be probable and estimable. Once the claim is settled or court Judgment is assessed against USDA and the Judgment Fund is determined to be the appropriate source for payment of claims, USDA records an imputed other financing source. During FY 2000, approximately \$6 thousand, respectively, were paid from the Fund to settle actions against USDA.

Note 11. SUPPORTING SCHEDULE FOR THE STATEMENT OF NET COST

	CAP	CN	RESPONSIBILITY SEGMENT			TOTAL
			FS	WIC	OTHER	
1 Program Costs						
A. Federal						
CSFP/CAP	2	-	-	-	-	2
SCHOOL LUNCH	-	-	-	-	-	-
SCHOOL BREAKFAST	-	-	-	-	-	-
CACF	-	-	-	-	-	-
SUMMER FOOD	-	-	-	-	-	-
TEAM NUTRITION	-	2	-	-	-	2
OTHER	-	3	-	-	-	3
FOOD SAFETY EDUCATION MEAL	-	9	-	-	-	9
REIMBURSEMENT FOOD STAMP	-	-	23	-	-	23
F/S PUERTO RICO	-	-	-	-	-	-
TEFAP	-	-	1	-	-	1
WOMEN, INFANT CHILDREN	-	-	-	4	-	4
FARMERS MARKET	-	-	-	-	-	-
FOOD DISTRIBUTION	-	-	-	-	507	507
NUTR. PROG ELDERLY	-	-	-	-	-	-
Subtotal	\$ 2	14	24	4	507	551
B. Non Federal						
1 Grants and Transfers						
CSFP/CAP	62	-	-	-	-	62
SCHOOL LUNCH	-	(14)	-	-	-	(14)
SCHOOL BREAKFAST	-	(36)	-	-	-	(36)
CACF	-	130	-	-	-	130
SUMMER FOOD	-	18	-	-	-	18
TEAM NUTRITION	-	5	-	-	-	5
OTHER	-	178	-	-	-	178
FOOD SAFETY EDUCATION MEAL	-	2	-	-	-	2
REIMBURSEMENT FOOD STAMP	-	8,472	-	-	-	8,472
FOOD STAMP	-	-	16,967	-	-	16,967
F/S PUERTO RICO	-	-	1,260	-	-	1,260
TEFAP	-	-	-	-	-	-
WOMEN, INFANT CHILDREN	-	-	-	3,901	-	3,901
FARMERS MARKET	-	-	-	17	-	17
FOOD DISTRIBUTION	-	-	-	-	20	20
NUTR. PROG ELDERLY	-	-	-	-	138	138
Subtotal	\$ 62	8,755	18,227	3,918	158	31,120

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

2 Commodity Inventory Costs

CSFP/CAP	68	-	-	-	-	68
SCHOOL LUNCH	-	-	-	-	-	-
SCHOOL BREAKFAST	-	-	-	-	-	-
CACF	-	-	-	-	-	-
SUMMER FOOD	-	-	-	-	-	-
TEAM NUTRITION	-	-	-	-	-	-
OTHER	-	261	-	-	-	261
FOOD SAFETY EDUCATION MEAL REIMBURSEMENT	-	-	-	-	-	-
FOOD STAMP	-	-	2	-	-	2
F/S PUERTO RICO	-	-	-	-	-	-
TEFAP	-	-	92	-	-	92
WOMEN, INFANT CHILDREN FARMERS MARKET	-	-	-	1	-	1
FOOD DISTRIBUTION	-	-	-	-	53	53
NUTR. PROG ELDERLY	-	-	-	-	2	2
Subtotal	\$ 68	261	94	1	55	479

3 Other Program Costs

CSFP/CAP	1	-	-	-	-	1
SCHOOL LUNCH	-	2	-	-	-	2
SCHOOL BREAKFAST	-	-	-	-	-	-
CACF	-	1	-	-	-	1
SUMMER FOOD	-	2	-	-	-	2
TEAM NUTRITION	-	1	-	-	-	1
OTHER	-	20	-	-	-	20
FOOD SAFETY EDUCATION MEAL REIMBURSEMENT	-	-	-	-	-	-
FOOD STAMP	-	26	-	-	-	26
F/S - PUERTO RICO	-	-	4	-	-	4
TEFAP	-	-	1	-	-	1
WOMEN, INFANT, CHILDREN	-	-	-	16	-	16
FARMERSMARKET	-	-	-	-	-	-
FOOD DISTRIBUTION	-	-	-	-	2	2
NUTR. PROG ELDERLY	-	-	-	-	1	1
Subtotal	\$ 1	52	124	16	3	196

C. Total Program Production Costs	133	9,082	18,469	3,939	723	32,346
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FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

D. Less: Earned Revenues (Note 12)	-	-	32	-	1	33
E. Excess Production Costs Over Revenues	133	9,082	18,437	3,939	722	32,313
F. Net Program Costs	<u>\$ 133</u>	<u>9,082</u>	<u>18,437</u>	<u>3,939</u>	<u>722</u>	<u>32,313</u>

2 Costs Not Assigned to Programs

3 Less: Other Earned Revenues Not Attributed to Programs

4 Net Cost Of Operations \$ 32,313

The other program costs line item includes administrative expenses whose transfer payments are not reported in any other program costs.

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Note 12. Earned Revenues

A. Earned Revenues from Nonfederal Parties	
1. Loan Program Interest Revenues	\$ -0-
2. Other Program Revenues	\$ 33
3. Total Earned Revenue from Nonfederal Parties	\$ 33 [1]
<hr style="border-top: 1px dashed black;"/>	
B. Earned Revenues from Federal Entities	\$ -0-
<hr style="border-top: 1px dashed black;"/>	
C. Total Earned Revenues Attributed to Programs	\$ 33
<hr style="border-top: 3px double black;"/>	
D. Earned Revenues Not Attributed to Programs	\$ -0-

[1] FNS' earned revenue from nonfederal parties consist of \$32 from the state option food stamp program.

On June 12, 1997, the President signed into law the Supplemental Appropriations Act, Public Law 105-18. This law authorized the state option food stamp program (SOFSP). In this program, States purchase food coupons from the Federal government for use in a State-funded food assistance program for legal immigrants, and childless, able-bodied adults ineligible for the Food Stamp Program.

States operating a SOSFP utilize FNS' FSP infrastructure. That is, they purchase FSP coupons (or electronic benefits transfer (EBT) issued benefits) from FNS which are transacted at FNS authorized FSP retailers. These benefits are subsequently redeemed through the FRB system.

Upon issuance, States are required to remit payment to FNS for the amount of the benefits issued as well as reimburse FNS for the costs of shipping, printing and redeeming coupons. During FY 1996, FY 1997, FY 1998, and FY 1999, FNS identified the percentage of Food Stamp over issuance dollars attributable to citizenship and alienage of 0.43, 1.20, 4.82, and 2.56 percent, respectively. This represents invalid payments totaling for the entire fiscal year of about \$5 million, \$13 million, \$87 million, and \$40 million, respectively for all states participating in the Food Stamp Program. The SOFSP was implemented in August 1977 in 7 states. SOFSP issuance reported during FY 1999 was about \$75 million. The states participating in the SOFSP in FY 1999 had invalid payments relating to citizenship and alienage benefit determinations of about \$27.4 million. A portion of these invalid payments may be attributed to Welfare Reform and implementation of the SOFSP.

During FY 2000, 9 states reported SOFSP issuance of about \$53 million. OIG audits and FNS reviews have indicated that errors in citizenship and alienage benefit determinations in FY 2000, because of Welfare Reform and SOFSP activity, will continue during the entire fiscal year. We estimate that the range of the invalid payments could be between \$2 million, based on the premise that the rate of error in 1999 continues into 2000, and \$22 million, based on the rate of Fiscal Year increase between 1996, 1997, 1998, and 1999 into 2000. These errors would affect the line item Earned Revenues on the Statement of Net Cost as well as related line items on the Statement of

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Budgetary Resources and Financing. Final FY 2000 QC data is announced April 30 of the following Fiscal Year.

During fiscal year 2000, 8 states participated in this program, which generated earned revenues of \$32, as indicated below:

Transaction Category	Fiscal Year	Amount
Issuance	2000	\$ 34
Refunds/State Adj.	1999	<u>(2)</u>
Total		\$32

Note 13. Total Cost and Earned Revenue by Budget Functional Classification:

Functional Classification	Gross Cost	Intra-USDA Eliminations	Earned Revenue	Intra-USDA Eliminations	Net Cost
605/Food and Nutrition Assistance	\$32,346	\$ 0	\$33	\$ 0	\$32,313
Internal USDA Imputed Cost Not Recorded in the General Ledger	0	0	0	0	0
Total	\$32,346	\$ 0	\$33	\$ 0	\$32,313

Intra-governmental Total Cost and Earned Revenue by Budget Functional Classification:

Functional Classification	Gross Cost	Earned Revenue	Net Cost
605/Food and Nutrition Assistance	\$ 0	\$ 0	\$ 0
Total	\$ 0	\$ 0	\$ 0

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

Note 14. Disclosures Related to the Statement of Changes in Net Position

1. Net Cost of Operations (Note 11)	\$ 32,313
2. Financing Sources (other than exchange revenues):	
a. Appropriations Used	31,769
b. Taxes (and other non-exchange revenues)	-
c. Donations (non-exchange revenue)	-
d. Imputed Financing	536
e. Transfers-in	-
f. Transfers-out	-
g. Other Financing Sources	-

3. Net Results of Operations	(8)
4. Net Results Not Affecting Net Position	-
5. Prior Period Adjustments	-

6. Net Change in Cumulative Results of Operations	(8)
7. Increase (Decrease) in Unexpended Appropriations	(236)

8. Change in Net Position	(244)
9. Net Position-Beginning of Period	17,990

10. Net Position-End of Period	\$ 17,746
	=====

Note 15. Disclosures Related to Statement of Budgetary Resources

A. Food Stamp Reserve Benefits

Beginning in fiscal year 1991, Congress has appropriated a reserve as part of the annual one year food stamp appropriation. These funds are available for use only in the year appropriated, but remain available for legitimate obligations of the period and are considered part of unexpended appropriations. The following table shows the amount of food stamp appropriation reserve by fiscal year:

FOOD AND NUTRITION SERVICE
FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
(Amounts shown are in millions except as noted)

FOOD STAMP APPROPRIATION RESERVE FUNDING		
Fiscal Year	Total Reserve Amount	Unused Reserve Amount
1994	2,500	2,500
1995	2,500	2,500
1996	500	500
1997	100	100
1998	100	100
1999	100	100
2000	100	100
TOTAL	5,900	5,900

B. Obligations and Transfers

During FY 2000 there were legal arrangements effecting the use of FNS' unobligated balances for the Food Stamp and Child Nutrition Programs. For FNS' Food Stamp Program, a food stamp reserve account is maintained and funds totaling \$100 were reserved as part of the annual one year food stamp appropriation.

FNS received a transfer of \$4.9 billion from the Agricultural Marketing Service (AMS) as appropriation authority to fund the Child Nutrition Programs. In addition, FNS received transfers of food commodities from the Farm Service Agency (FSA) and the AMS which it donates to States for distribution to schools and other approved recipients. FNS has included the \$507 expense of donated commodities incurred for FY 2000 within the Federal Program Costs line item on the Statement of Net Cost.

During FY 2000 FNS transferred approximately \$172 from the Food Stamp appropriation to the Food Stamp Employment and Training appropriation. Also, during this period, USDA's Office of the Secretary and the Economic Research Service transferred \$270 thousand and \$1 respectively, to FNS' Food Program Administration. These transfers were made under the authority provided in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Act for FY 2000 (Public Law 106-78).

C. Unobligated Balances - Not Available

This balance represents FNS' unobligated balances carried forward in an expired year fund. Unobligated balances related to expired accounts are available for adjustments but not available for new obligations.

D. Downward Adjustment to Accounts Payable

The downward adjustment made to the current period accounts payable is not reflected on the FY 2000 Statement of Budgetary Resources because the downward adjustment increases Line 2a "Unobligated Balance Brought Forward" and Line 6 "Obligations Incurred". In addition, past practices have shown that by applying the downward adjustment to the SF-133 "Report on Budget Execution", the carryover funds available increased, and this indicated to FNS' allowance holders that new obligations could be incurred when in actuality there is a zero net impact in carryover funds available.

FOOD AND NUTRITION SERVICE
 FOOTNOTES TO FISCAL YEAR 2000 FINANCIAL STATEMENTS
 (Amounts shown are in millions except as noted)

E. Obligated Balance, Net - End of Period

Net Amount

Unexpended obligations-unpaid at the end of period. \$ 386

Note 16. Disclosures Not Related to a Specific Statement

Custodial Activity

	<u>FY 2000</u>
<u>A. Sources of Collections</u>	
1 Interest	\$ -
2 Penalties and Fines	-
3 Other Custodial Revenue	2
4 Accrual Adjustment	<u>1</u>
Total Revenue Collected	\$ 3
 <u>B. Less: Disposition of Collections:</u>	
1 Transferred to Others: (by recipient)	\$ 6
2 Increase (Decrease) in Amounts to be Transferred	<u>(3)</u>
Total Disposition of Revenue	\$ <u>3</u>
 <u>C. Less: Amounts Retained by the Agency</u>	 \$ -
 <u>D. Net Custodial Activity</u>	 \$ =

FNS' FY 2000 custodial activity represents all accounts receivable activity related to canceled year appropriations for interest, fines & penalties assessed and collected. For example, civil money penalties, interest, retailer and wholesaler fines and penalties. (See Note 1D., "Accounts Receivable", for further disclosures on FNS' collection activities). FNS transfers these types of collections to the Department of Treasury. FNS' custodial collection activities are considered immaterial and incidental to the mission of the FNS.

**FOOD AND NUTRITION SERVICE
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
STEWARDSHIP INVESTMENTS
(Amounts shown are in millions except as noted)**

Human Capital

1. A. Food Stamp Program

B. Program Expense	<u>2000</u>
1. Employment and Training	\$ 156

FNS' human capital consist of employment and training (E&T) for the Food Stamp Program. The E&T program requires recipients of food stamp benefits to participate in an employment and training program as a condition to food stamp eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 636 thousand work registrants subject to the 3 - month Food Stamp Program participant limit and 486 thousand work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Nonfederal Physical Property

1. A. Food Stamp Program

B. Program Expense	<u>2000</u>
1. ADP Equipment & Systems	\$ 28

FNS' nonfederal physical property consist of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Food Stamp Program. The total Food Stamp Program Expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements.

2. A. Special Supplemental Nutrition Program for Women, Infants and Children

B. Program Expense	<u>2000</u>
1. ADP Equipment & Systems	\$ 29

FNS' nonfederal physical property also consist of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Special Supplemental Nutrition Program for Women, Infants and Children (WIC).

U.S. DEPARTMENT OF AGRICULTURE
 FOOD AND NUTRITION SERVICE
 REQUIRED SUPPLEMENTARY INFORMATION
 CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2000
 (in millions of dollars)

	CAP	CN	FS	WIC	OTHER	TOTAL
Budgetary Resources						
Budget Authority						
Appropriations	133	4,658	21,072	4,032	255	30,150
Borrowing Authority	-	-	-	-	-	-
Contract Authority	-	-	-	-	-	-
Net Transfers, Current Year Authority	-	4,935	-	-	1	4,936
Other	-	-	-	-	-	-
Unobligated Balance						
Brought Forward, October 1	14	185	16,842	22	9	17,072
Net Transfers, Prior Year, Actual (+ or -)	-	-	-	-	-	-
Anticipated Transfers, Prior Year Balance (+ or -)	-	-	-	-	-	-
Spending Authority from Offsetting Collections						
Eamed						
Collected	3	10	302	1	3	319
Receivable from Federal Source	-	-	-	-	-	-
Change in Unfilled Customer Orders						
Advance Received	-	-	-	-	-	-
Without Advance from Federal Source	-	-	-	-	-	-
Anticipated for Rest of Year						
Advance for Anticipated Orders	-	-	-	-	-	-
Without Advance from Federal Source	-	-	-	-	-	-
Transfers from Trust Funds						
Collected	-	-	-	-	-	-
Anticipated	-	-	-	-	-	-
Adjustments						
Recoveries of Prior Year Obligations	-	279	199	122	-	600
Temporarily Not Available Pursuant to Public Law	-	-	(100)	-	-	(100)
Permanently Not Available						
Cancellation of Expired Year and No Year Account	(4)	(33)	(3,211)	(5)	(4)	(3,257)
Enacted Rescissions of Prior Year Balances	-	-	-	-	-	-
Capital Transfers and Redemption of Debt	-	-	-	-	-	-
Other Authority Withdrawn	-	-	-	-	-	-
Pursuant to Public Law	-	-	-	-	-	-
Anticipated for Rest of Year	-	-	-	-	-	-
Total Budgetary Resources	146	10,034	35,104	4,172	264	49,720

Status of Budgetary Resources

Obligations Incurred	138	9,497	18,968	4,154	257	33,014
Unobligated Balances Available						
Apportioned, Currently Available	7	434	2,546	3	(114)	2,876
Anticipated	-	-	-	-	-	-
Exempt from Apportionment	-	-	-	-	-	-
Other	-	-	-	-	-	-
Unobligated Balance Not Yet Available						
Apportioned for Subsequent Periods	-	-	-	-	-	-
Deferred	-	-	-	-	-	-
Withheld Pending Rexcission	-	-	-	-	-	-
Other	1	103	13,590	15	121	13,830
Total Status of Budgetary Resources	146	10,034	35,104	4,172	264	49,720

Outlays

Obligations Incurred	138	9,497	18,968	4,154	257	33,014
Less: Actual Spending Authority from Offsetting Collections and Actual Adjustments						
Eamed						
Collected	3	10	302	1	3	319
Receivable from Federal Sources	-	-	-	-	-	-
Change in Unfilled Customer Orders						
Advance Received	-	-	-	-	-	-
Without Advance from Federal Source	-	-	-	-	-	-
Transfers from Trust Funds						
Collected	-	-	-	-	-	-
Anticipated	-	-	-	-	-	-
Actual Recoveries of Prior Year Obligations	-	279	199	122	-	600
Obligated Balance, Net-Beginning of Period	14	1,541	822	283	43	2,703
Obligated Balance transferred, Net	-	-	-	-	-	-
Less: Obligated Balance transferred, Net						
Accounts Receivable	-	-	-	-	-	-
Unfilled Customer Orders						
Federal Sources without Advances	-	-	-	-	-	-
Used Only with Prior OMB Approval	-	-	-	-	-	-
Used Only with Prior OMB Approval	-	-	-	-	-	-
Undelivered Orders	-	17	157	4	8	186
Accounts Payable	17	1,528	838	360	37	2,780
Total Outlays	132	9,204	18,294	3,950	252	31,832