



U.S. Department of Agriculture

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Office of Inspector General  
Financial & IT Operations

# **Audit Report**

## **Food, Nutrition, and Consumer Services' Financial Statements for Fiscal Year 2005**

Report No. 27401-1-FM  
November 2005

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



November 8, 2005

REPLY TO

ATTN OF: 27401-1-FM

TO: Eric Bost  
Under Secretary  
for Food, Nutrition, and Consumer Services

ATTN: Gary Maupin  
Deputy Administrator  
Food, Nutrition, and Consumer Services

FROM: Robert W. Young /s/  
Assistant Inspector General  
for Audit

SUBJECT: Food, Nutrition, and Consumer Services' Financial Statements  
for Fiscal Year 2005

This report presents the results of our audit of the Food, Nutrition, and Consumer Services' (FNCS) financial statements for the fiscal year ending September 30, 2005. The report contains an unqualified opinion and the results of our assessment of FNCS' internal control structure and compliance with laws and regulations.

Based on the information provided during the audit, we are making no recommendations within this report.

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

# ***Executive Summary***

## ***Food, Nutrition, and Consumer Services' Financial Statements for Fiscal Year 2005 (Audit Report No. 27401-1-FM)***

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### **Purpose**

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations; (2) the internal control objectives were met; and (3) Food, Nutrition, and Consumer Services (FNCS) complied with laws and regulations for those transactions and events that could have a material effect on the consolidated financial statements.

We conducted our audit at FNCS' national office in Alexandria, Virginia. We also performed site visits at selected regional offices.

### **Results in Brief**

In our opinion, FNCS consolidated financial statements for fiscal year 2005, including the accompanying notes, present fairly in all material respects, the assets, liabilities, and net position as of September 30, 2005; and its net costs, changes in net position, budgetary resources, and reconciliations of net costs to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our Report on Internal Control Over Financial Reporting, we reported that improvements were needed in FNCS' information technology (IT) security and controls.

In our Report on Compliance with Laws and Regulations, we reported that the core financial management system is in substantial compliance with the Federal Financial Management Improvement Act of 1996, except for deficiencies noted in IT security and controls.

During a major portion of fiscal year 2005, we noted that significant deficiencies existed in IT security and controls. Specifically, we found that IT security controls were not adequately secured and sufficiently restricted within the Integrated Program Accounting System (IPAS) and General Support System (GSS). FNCS also had not instituted a systematic methodology to monitor the effectiveness of security controls when implemented.

### **Key**

#### **Recommendations**

During the course of the audit, FNCS effectively implemented corrective action as IT weaknesses were brought to its attention. We

verified this activity as part of our audit. Therefore, we are making no recommendations in this report.

**Agency Position**

FNCS officials concurred with our findings as detailed in this report and took immediate actions to secure its IPAS and GSS from threats to data integrity. As of September 30, 2005, FNCS had either resolved the deficiencies or initiated adequate corrective actions to mitigate the weakness.

**OIG Position**

While these deficiencies existed during the major portion of the fiscal year, as of September 30, 2005, FNCS had taken sufficient actions so that IT security was no longer a material weakness.

## ***Abbreviations Used in This Report***

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FFMIA	Federal Financial Management Improvement Act
FNCS	Food, Nutrition, and Consumer Services
GSS	General Support System
IPAS	Integrated Program Accounting System
IT	Information Technology
OMB	Office of Management and Budget
RSSI	Required Supplemental Stewardship Information

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# ***Report of the Office of Inspector General***

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To: Eric Bost  
Under Secretary  
for Food, Nutrition, and Consumer Services

We have audited the accompanying consolidated balance sheet of the Food, Nutrition, and Consumer Services (FNCS) as of September 30, 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as the “consolidated financial statements”) for the fiscal year then ended. The consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.” Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FNCS as of September 30, 2005; and its net cost, changes in net position, reconciliation of net cost to budgetary obligations, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management’s Discussion and Analysis is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America or by OMB Circular No. A-136, “Financial Reporting Requirements.” We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. We did not audit this information and, accordingly, we express no opinion on it. FNCS is presenting its consolidated financial statements, along with required

supplemental stewardship information and a (reduced in scope) Management's Discussion and Analysis per a waiver received from OMB allowing this limited presentation for fiscal year 2005.

We have also issued reports on our consideration of FNCS internal controls over financial reporting and its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with Government Auditing Standards, and, in considering the results of the audit; these reports should be read in conjunction with this report. For internal control over financial reporting, we identified significant deficiencies in information technology security controls that existed during a major portion of the fiscal year under audit. As of September 30, 2005, however, we determined that these deficiencies were no longer material. Our report on compliance with laws and regulations discusses the impact of these deficiencies on our assessment of FNCS compliance with the Federal Financial Management Improvement Act.

This report is intended solely for the information of the management of FNCS, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

ROBERT W. YOUNG  
Assistant Inspector General  
for Audit

November 2, 2005





# ***Report of the Office of Inspector General on Internal Control Over Financial Reporting***

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To: Eric Bost  
Under Secretary  
for Food, Nutrition, and Consumer Services

We have audited the accompanying consolidated balance sheet of the Food, Nutrition, and Consumer Services (FNCS) as of September 30, 2005, and the related consolidated statement of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as the “consolidated financial statements,”) and have issued our report thereon dated November 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.”

In planning and performing our audit, we considered internal control over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and Government Auditing Standards. We did not test all internal controls as defined by the Federal Managers’ Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on FNCS internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

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 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 consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated 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. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters described in the Findings, Sections 1 and 2 of this report, involving the internal control over financial reporting that we consider to be significant deficiencies in information technology security and controls which existed during a major portion of the fiscal year under audit. As of September 30, 2005, however, we determined these deficiencies were no longer material.

### **Additional Other Procedures**

As required by OMB Bulletin No. 01-02, we considered FNCS internal control over Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over such RSSI; accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures, FNCS is presenting its consolidated financial statements, along with RSSI and a (reduced in scope) Management's Discussion and Analysis per a waiver received from OMB allowing this limited presentation for fiscal year 2005. The Management's Discussion and Analysis does not include performance measures, and our procedures were not designed to provide assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of FNCS, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

ROBERT W. YOUNG  
Assistant Inspector General  
for Audit

November 2, 2005



# ***Report of the Office of Inspector General on Compliance with Laws and Regulations***

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To: Eric Bost  
Under Secretary  
for Food, Nutrition, and Consumer Services

We have audited the consolidated balance sheets of the Food, Nutrition, and Consumer Services (FNCS) as of September 30, 2005, and the related consolidated statement of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as the “consolidated financial statements,”) and have issued our report thereon dated November 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, “Audit Requirements for Federal Financial Statements.”

The management of FNCS is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of FNCS compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to FNCS. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the second paragraph of this report, exclusive of FFMIA, that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

This report is intended solely for the information and use of the management of FNCS, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

ROBERT W. YOUNG  
Assistant Inspector General  
for Audit

November 2, 2005

# Findings

## Section 1. Internal Control Over Financial Reporting – Material Weakness

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Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated 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. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We believe that the finding discussed in this section was a material internal control weakness during a major portion of fiscal year 2005.

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### Finding 1

#### Controls Over Information Technology (IT) Systems Security Needed Strengthening

During the major portion of fiscal year 2005, for Food, Nutrition, and Consumer Services' (FNCS) IT security controls neither adequately secured nor sufficiently restricted access to FNCS Integrated Program Accounting System (IPAS)<sup>1</sup> and General Support System (GSS).<sup>2</sup> Although Federal and departmental guidance are available, we found FNCS had not put in place all of the required controls, due to a variety of circumstances detailed below. They also had not instituted a systematic way to monitor the effectiveness of the controls they had implemented. As a result, the agency could not be confident of the integrity of its IPAS and GSS data.

Specifically, we found the following.

- FNCS did not do a quarterly review of its key card access list to make sure that only current employees and contractors had access to its computer room. As a result, FNCS put critical applications at increased risk of being accessed, stolen, destroyed or modified.
- FNCS did not have adequate access controls over IPAS. Separated employees had access to IPAS, contractors shared administrative identifications, and there was no security logging for both the

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<sup>1</sup> The Integrated Program Accounting System (IPAS) is an Oracle-based application used for day-to-day recording of accounting transactions.

<sup>2</sup> FNCS' General Support System is a Window's-based network providing initial access control and management of FNCS' applications. Wide area network connections allow FNCS regional offices to access IPAS application and other FNCS resources.

IPAS and the underlying database. FNCS had not considered these issues as part of their overall security strategy. As a result, FNCS IPAS was vulnerable to undetected unauthorized access and changes to critical data.

- FNCS had not tested a critical contingency plan component for GSS. While the agency conducted a full contingency test on IPAS in fiscal years 2004 and 2005, FNCS had not performed any testing of the GSS files. This occurred because FNCS did not enforce its own regulations requiring that the IT staff document that quarterly testing was completed and submitting proof of testing to the Headquarter IT staff. Without some assurance that the backup process is functioning properly, FNCS may not be properly prepared for a disruption or loss of data for the GSS.
- FNCS did not follow procedures, which require monthly vulnerability scans to be performed and vulnerabilities corrected within 30 days. FNCS conducted the scans and distributed the list of detected vulnerabilities to the appropriate personnel for correction; but, it did not establish timeframes for completing corrective actions. Left uncorrected, these vulnerabilities could allow unauthorized access to FNCS network, thereby jeopardizing the integrity of \$47 billion in critical financial and program data.
- FNCS employees and contractors with the ability to bypass security controls were given access to sensitive IT applications without required security clearances. FNCS submitted clearance requests for these personnel but did not restrict their access pending the results, thereby placing sensitive data at risk of theft, modification, or destruction.
- FNCS did not recertify its IPAS within the 3 year requirement. Further, the system accreditations for both IPAS and GSS conducted in 2002 did not include the required independent testing of system controls and official acceptance of risk. While FNCS did recertify its systems, it did not completely follow accreditation requirements in effect at the time, or ensure that reaccreditations occurred timely. As a result, FNCS could not be completely assured that its systems had the controls necessary to maintain the systems' confidentiality, integrity, and availability.

FNCS officials generally concurred with our findings. At the conclusion of the IT fieldwork in July 2005, FNCS took immediate action to secure IPAS and GSS from threats to data integrity. FNCS (1) tightened physical access to its computer room; (2) strengthened IPAS access controls for separated employees and contractors and

instituted security logging procedures for IPAS and the underlying database; (3) implemented controls to ensure all GSS tapes were tested to guarantee their usability in the event of a disaster; and (4) mitigated vulnerabilities the Office of Inspector General identified in its network and systems, as well as, strengthened oversight of its monthly scanning processes and the timely correction of critical vulnerabilities. FNCS is also in the process of obtaining security clearances for FNCS employees and contractors with access to sensitive IT applications and data and obtaining reaccreditations for both its IPAS and GSS. While these weaknesses existed during a major portion of the fiscal year, as of September 30, 2005, FNCS had either resolved the deficiencies or initiated corrective actions to where IT security is no longer a material weakness.

## **Section 2. Compliance With Laws and Regulations**

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The management of FNCS is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of FNCS compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA).

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### **Finding 2**

#### **Substantial Compliance With FFMIA Requirements**

The primary purpose of FFMIA is to ensure that agencies' financial management systems routinely generate timely, accurate, and useful information. With such information, Government leaders are better positioned to invest resources, reduce costs, oversee programs and hold agency managers accountable for the way they run Government programs. Under FFMIA, agencies are required to annually assess whether their financial management systems comply substantially with (1) Federal Financial Management System requirements, (2) applicable Federal Accounting Standards, and (3) the U.S. Standard General Ledger at the transaction level. In addition, the Federal Information Security Management Act requires each agency to report significant information security deficiencies, relating to financial management systems, such as those detailed in Finding 1 of this report, as a lack of substantial compliance under FFMIA.

While these weaknesses existed during a major portion of our audit, FNCS took immediate and pervasive actions toward securing both IPAS and GSS systems from threats to their data integrity. As of September 30, 2005, FNCS had resolved or initiated corrective actions on substantially all of the deficiencies noted to where IT security is no longer a material weakness. As a result, FNCS was not required to report substantial noncompliance with FFMIA as of September 30, 2005, and submit a remediation plan.



# Exhibit A - Agency Response



United States  
Department of  
Agriculture

NOV - 2 2005

Food and  
Nutrition  
Service

3101 Park  
Center Drive  
Alexandria, VA  
22302-1500

Robert W. Young  
Assistant Inspector General for Audit  
Office of Inspector General

The Food, Nutrition, and Consumer Services concurs with the Audit Report for its Fiscal Year 2005 Financial Statements without comment.

We appreciated the professionalism of your audit staff during the course of the FY 2005 financial statement audit process.

A handwritten signature in black ink, appearing to read "Gary Maglieri".

Gary Maglieri  
Deputy Administrator  
Financial Management and Chief Financial Officer

AN EQUAL OPPORTUNITY EMPLOYER



***Exhibit B - Consolidated Financial Statements***

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**U.S. Department of Agriculture**  
**Food, Nutrition, and Consumer Services**  
**Fiscal Year 2005**  
**(PREPARED BY FNCS)**

## MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

### INTRODUCTION

The Food, Nutrition, and Consumer Services (FNCS) is the mission area that combines the Food and Nutrition Service (FNS) and the Center for Nutrition Policy and Promotion (CNPP). FNS was established August 8, 1969, by Secretary's Memorandum No. 1659 and Supplement 1 pursuant to the authority contained in 5 U.S.C. 301 and the Reorganization Plan No. 2 of 1953.

FNCS is the Federal entity responsible for managing the domestic nutrition assistance programs. FNS' mission is to increase food security and reduce hunger in partnership with cooperating organizations by providing children and low-income individuals access to food, a healthful diet, and nutrition education in a manner that supports American agriculture and inspires public confidence.

The U.S. Department of Agriculture is the lead Federal agency in human nutrition, charged with providing research-based human nutrition education and information to all American consumers. The 26-member staff of the CNPP links nutrition research to consumers through an integrated program of nutrition education, promotion, and research. CNPP translates nutrition guidance into consumer-oriented promotion programs to improve the dietary behavior of all Americans. CNPP serves a diverse consumer base including customers of food and nutrition assistance programs. CNPP also helps devise better cost-effective strategies to target nutrition programs to different customers by analyzing consumer dietary needs, characteristics, behaviors, and lifestyles.

Over the past half-century – beginning with the National School Lunch Program in 1946 – the Nation has gradually built an array of nutrition assistance programs designed to help the most vulnerable populations meet their food needs. Taken together, the current programs form a nationwide safety net supporting low-income families and individuals in their efforts to escape food insecurity and hunger and achieve healthy, nutritious diets. Currently, the programs administered by FNCS touch the lives of approximately one in five Americans over the course of a year.

### **DESCRIPTIONS OF PROGRAMS:**

The nutrition assistance programs described below work both individually and in concert with one another to improve the Nation's nutrition and health by improving the diets of children and low-income households.

- *Food Stamp Program (FSP):* Authorized by the Food Stamp Act of 1977, the FSP serves as the centerpiece and primary source of nutrition assistance for over 24 million low-income people. It enables participants, over 50 percent of whom are children, to improve their diets by increasing food purchasing power using benefits that are redeemed at retail grocery stores across the country. State agencies are responsible for the administration of the program according to national eligibility and benefit standards set by Federal law and regulations. Benefits are 100 percent Federally-financed, while administrative costs are shared between the Federal and State governments.

The FSP provides the basic nutrition assistance benefit for low-income people in the United States while the other FNCS programs supplement the program with benefits targeted to special populations, dietary needs and delivery settings. (Puerto Rico, the Commonwealth of the Northern Mariana Islands, and American Samoa receive grant funds with which to provide food and nutrition assistance in lieu of the FSP.)

- *Food Distribution Program on Indian Reservations (FDPIR)*: The Food Stamp Act of 1977 authorized the distribution of agricultural commodities to eligible needy persons residing on or near Indian reservations. FDPIR serves as an alternative to the FSP for Indian households on or near reservations. Indian Tribal Organizations (ITOs) that operate the program are responsible for certifying recipient eligibility, nutrition education, local warehousing and transportation of commodities, distribution of commodities to recipient households, and program integrity. The Federal Government pays 100 percent of the cost of commodities distributed through the program, as well as cash payments for administrative expenses.
- *Child Nutrition Programs (CNP)*: The National School Lunch (NSLP), School Breakfast (SBP), Special Milk (SMP), Child and Adult Care (CACFP), and Summer Food Service (SFSP) Programs provide reimbursement to State and local governments for nutritious meals and snacks served to approximately 30 million children in schools, child care institutions, adult day care centers, and after-school care programs. FNCS provides cash and commodities on a per-meal basis to offset the cost of food service at the local level as well as offset a significant portion of State and local administrative expense and provides training, technical assistance, and nutrition education. Payments are substantially higher for meals served free or at a reduced price to children from low-income families.
- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*: WIC addresses the special needs of at-risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to five years of age. On a monthly basis, it provides over 7.9 million participants with supplemental food packages targeted to their dietary needs, nutrition education, and referrals to a range of health and social services – benefits that promote a healthy pregnancy for mothers and a healthy start for their children. Appropriated funds are provided to States for food packages and nutrition services and administration for the program; States operate the program pursuant to plans approved by FNCS. WIC is augmented in some localities by the Farmers' Market Nutrition Program, funded within the Commodity Assistance Program account, and authorized by the WIC Farmers' Market Nutrition Act of 1992, which provides fresh produce to WIC participants.
- *The Emergency Food Assistance Program (TEFAP)*: This program distributes Federally-purchased commodities for use by emergency feeding organizations including soup kitchens, food recovery organizations, and food banks, in providing food assistance to the needy. TEFAP also provides administrative funds to defray costs associated with processing, repackaging, storage, and distribution of Federal and privately donated commodities. The allocation of both Federal commodities and administrative grants to States is based on a formula that considers the States' unemployment levels and the number of persons with income below the poverty level.
- *The Commodity Supplemental Food Program (CSFP)*: This program provides foods purchased by USDA to low-income infants and children up to age six, low-income pregnant, postpartum and breastfeeding women, and to low-income senior citizens who are residing in approved project areas. In recent years, there has been a shift towards low-income elderly in this program; in FY 2004, elderly participation comprised more than 88 percent of total participation. Foods are distributed through State agencies to supplement food acquired by recipients from other sources. The CSFP is operated as a Federal/State partnership under agreements between FNCS and State health care, agricultural or education agencies. Currently, 32 States, the District of Columbia, and two Indian reservations operate CSFP.

Federal nutrition assistance programs operate as partnerships between FNCS and the State and local organizations that interact directly with program participants. States voluntarily enter into agreements with the Federal Government to operate programs according to Federal standards in exchange for program funds that cover all benefit costs, as well as a significant portion of administrative expenses.

Under these agreements, FNCS is responsible for implementing statutory requirements that set national program standards for eligibility and benefits, providing Federal funding to State and local partners, and monitoring and evaluating to make sure that program structures and policies are properly implemented and effective in meeting program missions. State and local organizations are responsible for delivering benefits efficiently, effectively, and in a manner consistent with national requirements.

**FNCS STAFF:**

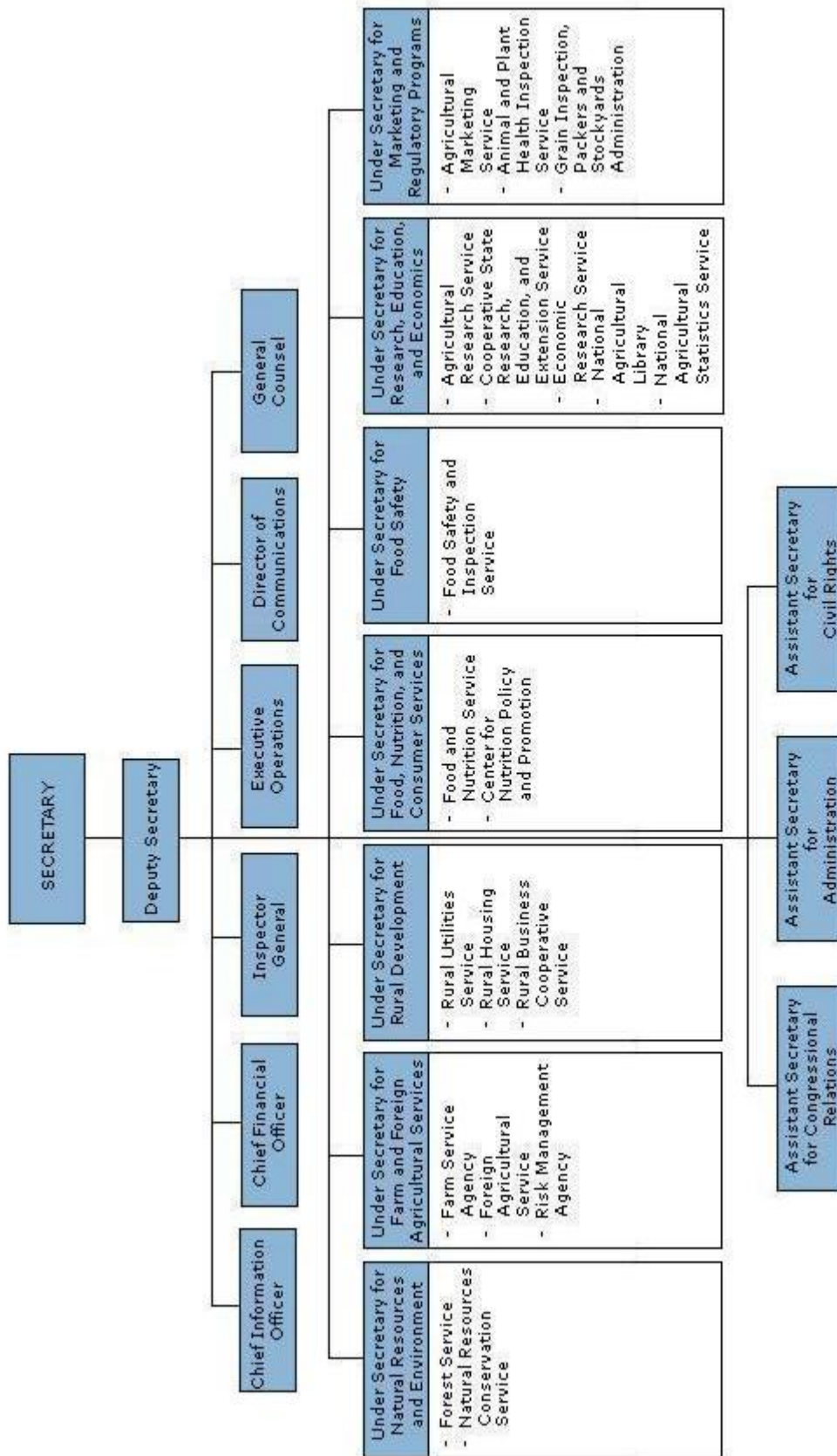
The public servants of FNCS are an important resource for advancing the key outcomes sought through the nutrition assistance programs. The agency staff serves to ensure and leverage the effective use of the other program appropriations.

FNCS staff is funded primarily out of the Nutrition Programs Administration account, which represents approximately one-third of one percent of the total FNCS budget. The agency employment level represents less than two percent of the total employment within USDA and is similarly a small fraction of total State-level staff needed to operate the programs. The agency employs people from a variety of disciplines, including policy and management analysts, nutritionists, computer and communication experts, accountants, investigators, and program evaluators. Because of the small size of the agency’s staff relative to the resources it manages, FNCS has created clear and specific performance measures and must focus its management efforts in a limited number of high-priority areas.

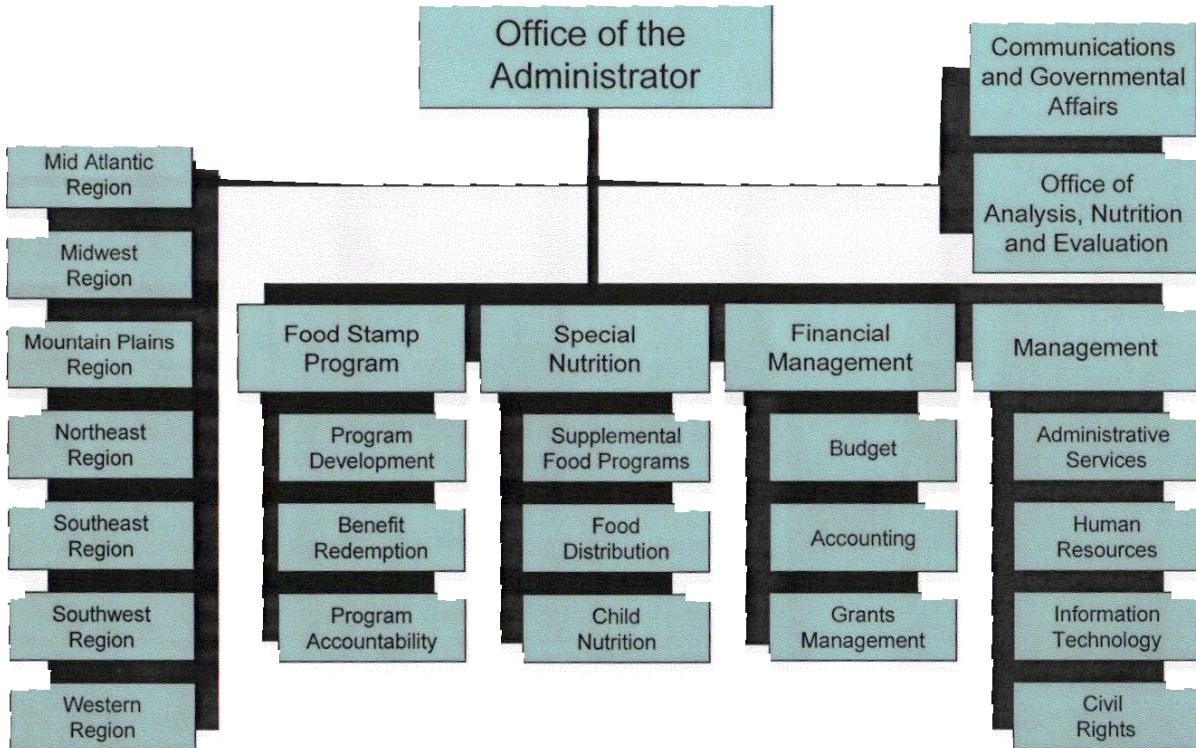
Program operations are managed through FNCS’ seven regional offices and 69 subordinate field offices/satellite locations. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNCS programs. The agency’s regional offices also conduct on-site management reviews of State operations and monitor the 152,499 stores participating in the Food Stamp Program.

As of September 30, 2004, there were 1,425 full-time permanent and 69 part-time and temporary employees in the agency. There were 547 employees in the Washington headquarters office, which includes four food stamp compliance offices in Illinois, Texas, New Jersey, and Tennessee; one computer support center in Minneapolis, Minnesota; and one administrative review office; and 947 in the field, which includes seven regional offices and 69 field offices. The charts below display staff year utilization and organizational structure.

STAFF YEAR DISTRIBUTION (From All Sources of Funds)				
Project	2004 Actual	2005 Estimated	Change	2005 Requested
Food Stamp Program	69	68	0	68
Child Nutrition Programs	140	164	0	164
Nutrition Programs Administration	1,261	1,230	0	1,230
Center for Nutrition Policy and Promotion	26	26	0	26
Total Available	1,496	1,488	0	1,488



# U.S. Department of Agriculture Food and Nutrition Service



Aug. 10, 2005

**FINANCIAL STATEMENT HIGHLIGHTS**

FNS performs the budgeting, accounting and funds control at the mission area level which includes CNPP and FNS. CNPP is funded via administrative funds only in the NPA appropriation. The accounting and reporting performed by FNS includes CNPP in its entirety.

**BUDGETARY RESOURCES AND OUTLAYS**

FNCS receives most of its funding from appropriations authorized by Congress that are administered by the Treasury Department. Total resources consist of the balance at the beginning of the year, appropriations received during the year, transfers, spending authority from offsetting collections and other budgetary resources.

(In millions)

	2005	2004	% Change
Appropriations Received	47,398	42,592	11.3%
Net Transfers	5,168	4,715	9.6%
Total Budgetary Resources	58,293	53,569	8.8%
Obligations Incurred	51,185	45,801	11.8%
Outlays	49,823	44,994	10.7%

**ANALYSIS OF RESOURCES:**

The FNCS experienced a significant increase in appropriations in fiscal year 2005. Of the \$4.8 billion increase 84 % of the increase is attributable to growth in the Food Stamp Program, with 7% attributable to the Child Nutrition Programs for meal services and higher food costs. Transfers from customs receipts available under section 32 of the Child Nutrition Act of 1966 of \$4.7 billion in FY 2004 increased to \$5.2 billion in FY 2005.



## BALANCE SHEET

Presented below are some key components of the FNCS Balance Sheet for comparison and analysis

### CONDENSED BALANCE SHEET DATA

(In millions)			
	2005	2004	% Change
Fund Balance with Treasury	11,058	10,835	2.1%
Accounts Receivable	211	318	-33.6%
General P P & E	26	23	13.0%
Accounts Payable	3,230	2,510	28.7%
Benefits	8	8	0.0%
Other Liabilities	59	77	-23.4%
Unexpended Appropriations	8,056	8,580	-6.1%
Cumulative Results of Operations	194	285	-31.9%

#### ACCOUNTS RECEIVABLE:

FNCS Accounts Receivable are with the Public. The decrease in accounts receivable is due in part to increased collections and improvements in Food Stamp payment accuracy which results in reduced claims established.

As of September 30, 2005 \$179 million of the balance is amounts owed by Food Stamp recipients. Grantee receivables total \$7.4 million. Retailer/Wholesaler amounts owed for program violations are \$25 million.

#### GENERAL PROPERTY, PLANT AND EQUIPMENT, NET (PP&E):

Property and equipment are depreciated over their useful economic lives, which average 5-10 years, using the straight –line method. FNCS’ capitalization threshold for property and equipment for FY 2005 is \$25 thousand. FNCS owns no buildings or land.

#### LIABILITIES:

Liabilities represent the amount of monies or other resources that are likely to be paid as a result of a transaction or event that has already occurred. However, no liability can be paid absent an appropriation. Where an appropriation has not been enacted, liabilities are considered not covered by budgetary resources.

#### ACCOUNTS PAYABLE:

The majority of FNCS accounts payable of \$3.2 billion are to the public for grants and benefits.

#### OTHER:

Of the \$59 million and \$77 million in other liabilities in Fiscal Year 2005 and 2004 respectively, \$22 million and \$33 million respectively, is amounts payable to the U.S. Department of Treasury for

finances, interest and penalties. This amount decreased in FY 2005 because of increased collections and improvements in the Food Stamp payment accuracy which results in reduced claims establishment.

## NET COST OF OPERATIONS

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### CONDENSED STATEMENT OF NET COST

(In millions)

	2005	2004	% Change
Gross Cost	51,605	45,184	14.2%
Less: Earned Revenue	29	18	61.1%
Net Cost	51,576	45,166	14.2%
<b>Net Cost of Operations</b>	51,576	45,166	14.2%

FNCS Net Cost of Operations totaled \$51.6 billion and \$45.2 billion for fiscal years 2005 and 2004, respectively. Grants comprise the largest portion of FNCS costs, with \$50 billion and \$44 billion in costs for 2005 and 2004, respectively.

The increase in earned revenue is attributable to increase participation by California in the State Option Food Stamp Program. This program was enacted in 1997 and allows States to issue Food Stamp benefits using the FNCS infrastructure. Prior to issuance, States are required to remit payment to FNCS for the amount of the benefits issued as well as reimburse FNCS for the cost of redeeming benefits.

**Food, Nutrition, And Consumer Services**  
**Balance Sheet**  
**As of September 30, 2005**  
(millions)

**Assets:**

Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$11,058
Other (Note 6)	<u>\$252</u>
Total Intragovernmental	\$11,310
Accounts Receivable, Net (Note 4)	\$211
General Property, Plant, and Equipment, Net (Note 5)	\$26
<b>Total Assets</b>	<b><u>\$11,547</u></b>

**Liabilities:**

Intragovernmental:	
Accounts Payable	\$2
Other (Note 8)	<u>\$27</u>
Total Intragovernmental	\$29
Accounts Payable	\$3,228
Federal Employee and Veterans Benefits	\$8
Other (Note 8)	<u>\$32</u>
<b>Total Liabilities</b>	<b>\$3,297</b>

**Net Position:**

Unexpended Appropriations	\$8,056
Cumulative Results of Operations	<u>\$194</u>
<b>Total Net Position</b>	<b><u>\$8,250</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$11,547</u></b>

The accompanying notes are an integral part of these statements.

**Food, Nutrition, And Consumer Services**  
**Statement of Net Cost**  
**for the Year Ended September 30, 2005**  
(millions)

**Strategic Goals:**

Improve the Nation's Nutrition and Health:

Gross Cost	\$51,605
Less: Earned Revenue	<u>\$29</u>
Net Goal Cost	<u>\$51,576</u>

<b>Total Gross Cost</b>	\$51,605
<b>Less: Total Earned Revenue</b>	<u>\$29</u>

<b>Net Cost of Operations</b> (Note 10)	<u>\$51,576</u>
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The accompanying notes are an integral part of these statements.

**Food, Nutrition, And Consumer Services**  
**Statement of Changes in Net Position**  
**for the Year Ended September 30, 2005**  
(millions)

	<b>Cumulative Results of Operations</b>	<b>Unexpended Appropriations</b>
<b>Beginning Balances</b>	<u>\$285</u>	<u>\$8,579</u>
Budgetary Financing Sources:		
Appropriations Received	\$0	\$47,398
Other Adjustments (recissions, etc.)	\$0	-\$2,511
Appropriations Used	\$45,410	-\$45,410
Transfers In (Out) without Reimbursement	\$5,168	\$0
Other Budgetary Financing Sources	-\$1	\$0
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others	\$908	\$0
Total Financing Sources	\$51,485	<u>-\$523</u>
Net Cost of Operations	<u>-\$51,576</u>	<u>\$0</u>
Net Change	-\$91	-\$523
<b>Ending Balances</b>	<u>\$194</u>	<u>\$8,056</u>

The accompanying notes are an integral part of these statements.

**Food, Nutrition, And Consumer Service**  
**Statement of Budgetary Resources**  
**for the Year Ended September 30, 2005**  
(millions)

**Budgetary Resources:**

Budget Authority:	
Appropriations Received	\$47,398
Net Transfers	\$5,168
Unobligated Balances:	
Beginning of Period	\$7,768
Spending Authority From Offsetting Collections:	
Earned	
Collected	\$79
Recoveries of Prior Year Obligations	\$391
Permanently not Available	<u>-\$2,511</u>
Total Budgetary Resources	<u>\$58,293</u>

Status of Budgetary Resources:

Obligations Incurred (Note 12)	
Direct	\$51,157
Reimbursable	<u>\$28</u>
Subtotal	\$51,185
Unobligated Balance:	
Apportioned	\$526
Unobligated Balance not Available	<u>\$6,582</u>
Total Status of Budgetary Resources	<u>\$58,293</u>
Relationship of Obligations to Outlays:	
Obligated Balance, Net, Beginning of Period	\$3,048
Obligated Balance, Net, End of Period:	
Undelivered Orders	\$700
Accounts Payable	\$3,240
Outlays	
Disbursements	\$49,902
Collections	<u>-\$79</u>
Subtotal	<u>\$49,823</u>
Net Outlays	<u>\$49,823</u>

The accompanying notes are an integral part of these statements.

**Food, Nutrition, And Consumer Services**  
**Statement of Financing**  
**for the Year Ended September 30, 2005**  
(millions)

***Resources Used to Finance Activities:***

Budgetary Resources Obligated	
Obligations Incurred	\$51,185
Less: Spending authority from offsetting collections and recoveries	<u>\$470</u>
Obligations net of offsetting collections and recoveries	\$50,715
Net Obligations	\$50,715
Other Resources	
Imputed financing from costs absorbed by others	\$908
Net other resources used to finance activities	<u>\$908</u>
<b><i>Total resources used to finance activities</i></b>	<b>\$51,623</b>

***Resources Used to Finance Items not Part of the Net Cost of Operations:***

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	\$137
Resources that fund expenses recognized in prior periods	-\$105
Resources that finance the acquisition of assets	<u>\$2</u>
<b><i>Total resources used to finance items not part of the net cost of operations</i></b>	<b><u>\$34</u></b>

***Total resources used to finance the net cost of operations*** **\$51,589**

***Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:***

Components not Requiring or Generating Resources:	
Revaluation of assets or liabilities	-\$1
Other	<u>-\$12</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>-\$13</u>

***Total components of Net Cost of Operations that will not require or generate resources in the current period*** **-\$13**

***Net Cost of Operations*** **\$51,576**

The accompanying notes are an integral part of these statements.

FOOD, NUTRITION, and CONSUMER SERVICES  
FOOTNOTES TO FISCAL YEAR 2005 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, Nutrition, and Consumer Services (FNCS), as required by the Chief Financial Officers Act of 1990 as amended. They have been prepared from the books and records of FNCS in accordance with the Generally Accepted Accounting Principles (GAAP) hierarchy of accounting principles for the Federal Government.

B. Reporting Entity

FNCS is under the jurisdiction of the Under Secretary for Food, Nutrition, and Consumer Services of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia, and implemented through seven regional offices and 69 subordinate/satellite locations. 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. For the FY 2005 financial statement presentation, data classified as "Other" is primarily comprised of Nutrition Program Administration (NPA) appropriations. A detailed description of the FNS programs is contained in the MD&A.

C. Basis of Accounting

FNCS 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 FNCS is responsible and were prepared in accordance with the GAAP hierarchy of accounting principles for the Federal Government.

D. Change in Accounting Estimates

The grant accounts payable amount is the result of accruing the grant undelivered balance as of the end of FY 2005. Prior to FY 2005 FNCS used a model to record the grant accounts payable. FNCS developed a model for estimating and adjusting the fiscal year end grant accounts payable balance based on five years of the historical relationship between grant payables at fiscal year end and at grant close out. This model was used for more than a decade. The use of this model caused a discrepancy between the Statement of Budgetary Resources and the FACTS II (SF 133, Report of Budget Execution); therefore, FNCS now bases its grant accounts payable amount on the undelivered orders balance which is considered the best available and most conservative information at the end of the fiscal year.



FOOD, NUTRITION, and CONSUMER SERVICES  
FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS  
(Amounts shown are in millions except as noted)

E. Accounts Receivable

The \$211 recognized as non-federal accounts receivable includes debts owed FNCS 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 has taken place. They are then responsible for pursuing collection of such claims. Collections, less an authorized State retention amount, are remitted to FNCS. 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 determined to be unreliable. Accordingly, FNCS does not know what the State gross account receivable is. FNCS does not have any alternative method for acquiring reliable State receivable information.

FNCS 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. Applying the model to actual data covering the periods

FY 1984 through FY 2005, the model explains 96 percent of the variation in claims collections. Historically, one-year-ahead collections projected by the model have proved to be accurate within approximately 2 percent of actual net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNCS 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 chosen 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 FNCS accounts receivable, the FSP QC estimate of FSP benefits overissued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 2004 QC error rates were announced in June 2005. Using this methodology, FNCS estimates the value of benefit overissuance in Fiscal Year 2004 (the most recent year for which data are available) at \$1.103 billion. Statement of Federal Financial Accounting Standards (SFFAS) #1 permits Federal entities to estimate its accounts 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 Statement of Net Cost. A material amount of the estimate would be bad debt expense if the amount of this estimate pertaining to accounts receivable could be quantified.

**FOOD, NUTRITION, and CONSUMER SERVICES  
FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**

(Amounts shown are in millions except as noted)

FNCS does not receive information to calculate States' QC liabilities for approximately 7 months after the end of the fiscal year, therefore, current information is not available for the FY 2005 financial statements. For FY 2004, four States were assessed liabilities for having excessive error rates for two consecutive years. The aggregate total of the liability was \$ 2.28. The four States signed payment agreements in lieu of immediately repaying in cash. The agreements called for each State to invest 50 percent of its liability in program improvement activities. The remaining 50 percent of the liability was placed at risk pending future improved performance.

<b>The QC over Issuance error rate data for the past 3 years follows:</b>		
<b>Fiscal Year</b>	<b>Rate Amount</b>	<b>Total \$ Bil.</b>
2004	4.48 %	\$ 1.103
2003	5.04 %	\$ 1.080
2002	6.16 %	\$ 1.123

**F. Grants and Program Benefits**

FNCS records grant obligations based on the grant awards and food stamp program benefits based on the issuance of benefits to recipients. Funds for FNCS grant programs and food stamp electronic benefits transfer (EBT) benefits are provided to States through a Letter of Credit process. This process allows the grantees or the EBT processor to draw on established credit balances, as needed, to pay expenses associated with their grants or food stamp EBT transactions at retailers. This allows FNCS to hold funds until the grantees need the funds to pay program expenses or until the food stamp EBT benefits are actually used. Expenses are recognized as grantees or EBT processors drawdown on the Letter of Credit.

**G. 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.

**H. Retirement Plan**

FNCS employees participate in both the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). FNCS makes matching contributions to the CSRS total plan equal to 8.5 percent of pay, while contributions to the FERS total plan are 10.7 percent of pay. For most employees hired since December 31, 1983, FNCS 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 FNCS automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. FNCS makes these and other contributions to employee retirement plans as shown in the following table:

**FOOD, NUTRITION, and CONSUMER SERVICES  
FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**

(Amounts shown are in millions except as noted)

<b>FNCS RETIREMENT CONTRIBUTIONS FOR FY 2005 (in millions)</b>	
<b>Type of Contribution</b>	<b>Amount</b>
CSRS/Transitional retirement contributions-Civil Service	\$0.3
FERS regular contributions	\$6.4
Thrift Savings Plan contribution	\$2.5
<b>TOTAL</b>	<b>\$9.2</b>

These contributions are reported as expenses in the Statement of Net Cost. FNCS 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.

**I. Recognition of Financing Sources and Appropriations Used**

FNCS receives the majority of the funding it needs to support its programs through annual and multi-year appropriations. FNCS recognizes appropriations as used at the time that program or administrative expenses are paid. FNCS recognizes appropriations expended for capitalized property or equipment as expenses when the assets are purchased. Appropriations used is the amount of appropriations expended during the current period to fund FNCS' nutrition programs. This includes the NPA appropriation, which provides funds for salaries and administrative expenses.

At the time grant awards are established, FNCS records obligations for the full amount of expected program expenses as unexpended obligations-unpaid (undelivered orders). Reductions in unexpended obligations occur as expenses are incurred by grantees. At year-end, grant obligations are accrued and reflected on statements as accounts payable. At grant closeout, the unused portions of grant awards are deobligated, increasing the 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.

**J. Fund Balance With Treasury Accounts**

The Fund Balance with Treasury (FBWT) is an asset account that reflects the available budget spending authority of federal agencies.

FOOD, NUTRITION, and CONSUMER SERVICES  
 FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS  
 (Amounts shown are in millions except as noted)

Note 2 Non-Entity Assets

	FY 2005
<hr/>	
Intragovernmental:	
Fund balance with Treasury	\$12
Investments	-
Accounts Receivable	-
Loans Receivable	-
Other	-
<hr/>	
Subtotal Intragovernmental	12
With The Public	
Cash and other monetary assets	-
Accounts receivable	22
Taxes receivable	-
Loan receivable and related foreclosed property	-
Inventory and related porperty	-
Other	-
<hr/>	
Subtotal With the Public	22
<hr/>	
Total non-entity assets	34
<hr/>	
Total entity assets	11,513
<hr/>	
Total assets	\$ 11,547
<hr/>	

FNCS' Non-Entity Asset, "Fund Balance with Treasury" consists of funds held in FNCS' Suspense Account and the Food Stamp Redemption Account. FNCS' Accounts Receivable consist of FNCS' Miscellaneous Receipts, Interest, Fines & Penalties, and Miscellaneous Receipts for Cancelled Years.

**FOOD, NUTRITION, and CONSUMER SERVICES**  
**FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**  
(Amounts shown are in millions except as noted)

**Note 3. Fund Balance with Treasury**

Fund Balances:		FY 2005
Trust Funds	\$	-
Revolving Funds		-
Appropriated Funds		11,046
Other Fund Types		12
<b>Total</b>		<b>11,058</b>

Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available		526
Unavailable		6,582
Obligated Balance not yet Disbursed		3,940
Clearing Account Balances		10
Borrowing Authority not yet Converted to Fund Balance		-
<b>Total</b>	<b>\$</b>	<b>11,058</b>

**Note 4. Accounts Receivable, Net**

	<b>Gross Accounts Receivable</b>	<b>Allowance for Uncollectible Accounts</b>	<b>Accounts Receivable, Net</b>
Intragovernmental	\$ 0	\$ 0	\$ 0
With the Public	\$ 214	\$ 3	\$ 211
<b>Total</b>	<b>\$ 214</b>	<b>\$ 3</b>	<b>\$ 211</b>

(1) See Note 1.E. for further explanation of FNCS' accounts receivable activity with the public.

**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. For FY 2005 FNCS' capitalization threshold for property and equipment is \$25 thousand. FNCS' capitalization threshold for internal-use software is \$100 thousand. FNCS owns no buildings or land. At year end, balances for Property, Plant, and Equipment were as follows:

**FOOD, NUTRITION, and CONSUMER SERVICES**  
**FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**  
(Amounts shown are in millions except as noted)

FY 2005 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ -	\$ -	-
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	4	3	1
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	30	5	25
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
<b>Total</b>		<b>\$ 34</b>	<b>\$ 8</b>	<b>26</b>

**Note 6. Other Assets**

	FY 2005
<b>Intragovernmental:</b>	
Advances to Others	\$ -
Prepayments	-
Other Assets	252
<b>Subtotal Intragovernmental</b>	<b>252</b>
<b>With the Public:</b>	
Advances to Others	-
Prepayments	-
Other Assets	-
<b>Subtotal With the Public</b>	<b>-</b>
<b>Total Other Asssets</b>	<b>\$ 252</b>

FNCS' "Intragovernmental-Other Assets" consist of Advances to Farm Service Agency/Commodity Credit Corporation for the purchase of commodities.

FOOD, NUTRITION, and CONSUMER SERVICES  
 FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS  
 (Amounts shown are in millions except as noted)

Note 7. Liabilities Not Covered by Budgetary Resources

Intragovernmental:	FY 2005
Accounts payable	\$ -
Debt	-
Other	-
Subtotal Intragovernmental	-
With the Public:	-
Accounts Payable	-
Debt held by the public	-
Federal employee and veterans' benefits	8
Environmental and disposal liabilities	-
Benefits due and payable	-
Other	11
Subtotal With the Public	19
Total liabilities not covered by budgetary resources	19
Total liabilities covered by budgetary resources	3,278
<b>Total liabilities</b>	<b>\$ 3,297</b>

FNCS' "With the Public-Other Liabilities" consist of Custodial Liability and Unfunded Leave.

**FOOD, NUTRITION, and CONSUMER SERVICES**  
**FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**  
(Amounts shown are in millions except as noted)

**Note 8. Other Liabilities**

FY 2005	Non-Current		Current		Total
<b>Intragovernmental:</b>					
Contract Holdbacks	\$	-	\$	-	-
Other Accrued Liabilities		4		-	4
Employer Contributions and Payroll Taxes		1		-	1
Other Post-Employment Benefits Due and Payable		-		-	-
Unfunded FECA Liability		1		-	1
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		-	-
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		22		-	22
Other Liabilities		-		-	-
<b>Subtotal Intragovernmental</b>		<b>28</b>		<b>-</b>	<b>28</b>
<b>With the Public:</b>					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		6		-	6
Accrued Funded Payroll and Leave		-		-	-
Withholdings Payable		-		-	-
Employer Contributions and Payroll Taxes Payable		-		-	-
Other Post-Employment Benefits Due and Payable		-		-	-
Pension Benefits Due and Payable to Beneficiaries		-		-	-
Benefit Premiums Payable to Carriers		-		-	-
Life Insurance Benefits Due and Payable		-		-	-
Unfunded Leave		11		-	11
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		2		-	2
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		12		-	12
Prior Liens Outstanding or Acquired Collateral		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Custodial Liability		-		-	-
Other Liabilities		-		-	-
<b>Subtotal With the Public</b>		<b>31</b>		<b>-</b>	<b>31</b>
<b>Total Other Liabilities</b>	<b>\$</b>	<b>59</b>	<b>\$</b>	<b>-</b>	<b>59</b>



**FOOD, NUTRITION, and CONSUMER SERVICES  
FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**

(Amounts shown are in millions except as noted)

Note 9. Program Cost and Exchange Revenue

**Child Nutrition**

Intragovernmental Cost	\$	12
Public Cost	\$	12,216
Total Cost	\$	12,228

Intragovernmental Earned Revenue	\$	-
Public Earned Revenue	\$	-
Total Earned Revenue	\$	-

**Food Stamp**

Intragovernmental Cost	\$	21
Public Cost	\$	32,824
Total Cost	\$	32,845

Intragovernmental Earned Revenue		
Public Earned Revenue	\$	24
Total Earned Revenue	\$	24

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**Other**

Intragovernmental Cost	\$	201
Public Cost	\$	80
Total Cost	\$	281

Intragovernmental Earned Revenue	\$	3
Public Earned Revenue	\$	1
Total Earned Revenue	\$	4

**Women, Infants & Children**

Intragovernmental Cost	\$	1
Public Cost	\$	5,215
Total Cost	\$	5,216

Intragovernmental Earned Revenue		
Public Earned Revenue	\$	(1)
Total Earned Revenue	\$	(1)

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FOOD, NUTRITION, and CONSUMER SERVICES  
FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS

(Amounts shown are in millions except as noted)

**Commodity Assistance Program**

Intragovernmental Cost	\$	856
Public Cost	\$	179
Total Cost	\$	1,035
Intragovernmental Earned Revenue	\$	2
Public Earned Revenue	\$	-
Total Earned Revenue	\$	2

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FNCS' intragovernmental costs are exchange transactions made between FNCS and another entity within the Federal government. FNCS cost with the public are exchange transactions made between FNCS and a non-Federal entity. FNCS' intragovernmental exchange revenues are exchange transactions made between FNCS and another entity within the Federal government. FNCS exchange revenues with the public are exchange transactions made between FNCS and a non-Federal entity.

**FOOD, NUTRITION, and CONSUMER SERVICES**  
**FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**  
(Amounts shown are in millions except as noted)

Note 10. Program Cost By Segment

	CHILD NUTRITION	FOOD STAMP	Women Infants & Children	Commodity Assistance Program	OTHER	Consolidated Total
Total Gross Cost	12,228	32,845	5,216	1,035	281	51,605
Less Earned Revenue:	0	24	-1	2	4	29
Net Goal Cost:	12,228	32,821	5,217	1,033	277	<u>51,576</u>
Net Cost of Operations						<u>51,576</u>

Note 11. Exchange Revenues

FNCS' earned revenue from nonfederal parties consists of \$24.2 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 issue food stamp benefits through 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 FNCS' FSP infrastructure. That is, they utilized electronic benefits transfer (EBT) issued benefits from FNCS which are transacted at FNCS authorized FSP retailers. These benefits are subsequently redeemed through the Federal Reserve Banking (FRB) system.

Prior to issuance, States are required to remit payment to FNCS for the amount of the benefits issued as well as reimburse FNCS for the costs of redeeming benefits. During fiscal year 2005, 3 States participated in this program, which generated earned revenues of \$24.2.

Note 12. Apportionment Categories of Obligations Incurred

FY 2005	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 51,157	\$ 28	\$ 51,185
Apportionment for Special Activities	-	-	-
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 51,157	\$ 28	\$ 51,185

Note 13. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Differences exist between FNCS' FY 2004 Statement of Budgetary Resources (SBR) (as provided to the Department for consolidation purposes) and the FY 2004 actual numbers presented in the FY 2006 Budget of the United State Government (Budget). These differences are summarized below:

**FOOD, NUTRITION, and CONSUMER SERVICES**  
**FOOTNOTES TO FISCAL YEAR 2005 FINANCIAL STATEMENTS**  
(Amounts shown are in millions except as noted)

Description	Budgetary Resources	Outlays
2004 SBR	\$53,569	\$44,994
Less: Expired Accounts not Included in Budget	\$5,289	
Less: Financial Statement Adjustment not Included in Budget	\$453	
Less: Differences due to Rounding	\$4	\$4
Budget of the U.S. Government	\$47,823	\$44,990

The \$453 represents the FNS' accounts payable model write-down. The model was developed to estimate and adjust the fiscal year end grant accounts payable balance between grant payables at fiscal year end and at grant close out. This adjustment is made to the Statement of Budgetary Resources and is not included in the President's Budget.

Note 14. Incidental Custodial Collections

Revenue Activity:	FY 2005
Sources of Collections:	
Miscellaneous	\$ (19)
Total Cash Collections	(19)
Accrual Adjustments	12
Total Custodial Revenue	(7)
Disposition of Collections:	
Transferred to Others:	
Treasury	-
States and Counties	-
( Increase )/Decrease in Amounts Yet to be Transferred	7
Refunds and Other Payments	-
Retained by the Reporting Entity	-
Net Custodial Activity	\$ -

FNCS' FY 2005 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 1E., "Accounts Receivable", for further disclosures on FNCS' collection activities). FNCS transfers these types of collections to the Department of Treasury. FNCS' custodial collection activities are considered immaterial and incidental to the mission of FNCS.

**FOOD , NUTRITION, AND CONSUMER SERVICES**  
**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**  
**STEWARDSHIP INVESTMENTS**  
**(Amounts shown are in millions)**

**Human Capital**

1. A. Food Stamp Program

B. Program Expense	<u>2005</u>
1. Employment and Training	\$49

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 839,218 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,207,295 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>2005</u>
1. ADP Equipment & Systems	\$22

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>2005</u>
1. ADP Equipment & Systems	\$17

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).