



U.S. Department of Agriculture



Office of Inspector General
Northeast Region

Audit Report

Food and Nutrition Service Financial Statements for Fiscal Years 2008 and 2007

Report No.27401-33-Hy
November 2008



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



November 7, 2008

REPLY TO

ATTN OF: 27401-33-Hy

TO: Enrique Gomez
Acting Administrator
Food and Nutrition Service

ATTN: David Burr
Acting Deputy Administrator
for Financial Management
Food and Nutrition Service

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

SUBJECT: Food and Nutrition Service (FNS) Financial Statements for Fiscal Years 2008 and 2007

This report presents the results of our audit of FNS' financial statements for the fiscal years ending September 30, 2008 and 2007. The report contains an unqualified opinion and the results of our assessment of FNS' internal control over financial reporting and compliance with laws and regulations.

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

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

Attachment

Executive Summary

Food and Nutrition Service Financial Statements for Fiscal Years 2008 and 2007 (Audit Report No. 27401-33-Hy)

Purpose

Our audit objectives were to determine whether (1) the 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; and budgetary resources; (2) the internal control objectives for financial reporting were met, and (3) the Food and Nutrition Service (FNS) complied with laws and regulations for those transactions and events that could have a direct and material effect on the financial statements. We also determined that the information in the Management Discussion and Analysis was materially consistent with the information in the financial statements.

We conducted our audit at the FNS National office in Alexandria, Virginia. We also performed site visits to the Federal Reserve Bank of Richmond and obtained data from selected FNS Regional offices.

Results in Brief

In our opinion, FNS' comparative financial statements for fiscal years (FY) 2008 and 2007, including the accompanying notes, present fairly in all material respects, the assets, liabilities, and net position of FNS, as of September 30, 2008, and 2007, and its net costs, changes in net position, and budgetary resources, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, in accordance with the United States Standard General Ledger and the Treasury Financial Manual, FNS has clarified its reporting of benefits for grant accruals. The changes in the presentation of these benefits have no impact on the amounts reported for Total Liabilities. In 2007, grant accruals were reported as Accounts Payable. In 2008, these accruals are reported as Benefits Due and Payable and Other Liabilities.

In our "Report on Internal Control Over Financial Reporting" we reported that FNS concluded that the agency can currently provide reasonable assurance relating to internal controls, financial reporting, and financial systems for FY 2008; however according to FNS, the agency has reached a critical point regarding necessary administrative resources.

In our "Report on Compliance with Laws and Regulations," we reported FNS' core financial management system is in substantial compliance with the Federal Financial Management Improvement Act of 1996. We did report that the agency was not in full compliance with the Improper Payments Information Act of 2002. Specifically, FNS has not reported payment errors for one segment of the Special

Supplemental Nutrition Program for Women, Infants, and Children and one segment of the Child and Adult Care Food Program. FNS has plans for reporting this information in future years. In addition, FNS has not reported the amount of actual improper payments the agency expects to recover and how it will go about recovering them. For the majority of the programs, FNS does not have the statutory authority to pursue collection of improper payments identified on the basis of statistical sampling or estimation procedures.

Abbreviations Used in This Report

FDCH	Family Day Care Homes
FFMIA	Federal Financial Management Improvement Act of 1996
FNS	Food and Nutrition Service
FY	Fiscal Year
IPIA	Improper Payments Information Act of 2002
OMB	Office of Management and Budget
RSSI	Required Supplemental Stewardship Information

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Report of the Office of Inspector General

To: Enrique Gomez
Acting Administrator
Food and Nutrition Service

We have audited the accompanying consolidated balance sheets of the Food and Nutrition Service (FNS) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the “financial statements”) for the fiscal years (FY) then ended. The financial statements are the responsibility of FNS’ management. Our responsibility is to express an opinion on the 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance that 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FNS as of September 30, 2008 and 2007, and its related net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, in accordance with the United States Standard General Ledger and the Treasury Financial Manual, FNS has clarified its reporting of benefits for grant accruals. The changes in the presentation of these benefits have no impact on the amounts reported for Total Liabilities. In 2007, grant accruals were reported as Accounts Payable. In 2008, these accruals are reported as Benefits Due and Payable and Other Liabilities.

As required by OMB Bulletin No. 07-04, as amended, with respect to internal control related to performance measures determined by management to be key and reported in the Management’s Discussion and Analysis section of the Performance and Accountability Report, we applied

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. Our procedures were not designed to provide assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on it.

As further required by OMB Bulletin No. 07-04, as amended, we considered FNS' 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.

We have also issued reports on our consideration of FNS' internal control 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*. In considering the results of the audit, these reports should be read in conjunction with this report.

Our report on internal control over financial reporting disclosed that FNS concluded the agency can currently provide reasonable assurance relating to internal controls, financial reporting, and financial systems for FY 2008; however, according to FNS, the agency reached a critical point regarding necessary administrative resources.

Our report on compliance with laws and regulations disclosed that FNS was not in full compliance with the Improper Payments Information Act. Specifically, FNS has not reported payment errors for one segment of the Special Supplemental Nutrition Program for Women, Infants, and Children and one segment of the Child and Adult Care Food Program. FNS has plans for reporting this information in future years. In addition, FNS has not reported the amount of actual improper payments the agency expects to recover and how it will go about recovering them. For the majority of the programs, FNS does not have the statutory authority to pursue collection of improper payments identified on the basis of statistical sampling or estimation procedures.

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

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

November 7, 2008



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

To: Enrique Gomez
Acting Administrator
Food and Nutrition Service

We have audited the accompanying consolidated balance sheets of the Food and Nutrition Service (FNS) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the “financial statements”), for the fiscal years (FY) then ended, and have issued our report thereon dated November 7, 2008. 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered FNS’ internal control over financial reporting by obtaining an understanding of the design effectiveness of 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 financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended, and *Government Auditing Standards*. We did not test all internal controls for financial reporting as defined by the Federal Managers’ Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on FNS’ 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 significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The results of our tests disclosed no significant deficiencies. Because of inherent

limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

According to FNS, while the agency can currently provide reasonable assurance relating to internal controls, financial reporting, and financial systems for FY 2008, they have reached a critical point regarding necessary administrative resources. In 2007, FNS initiated a multi-year effort on "Building a New FNS," which seeks to redesign the Agency's workforce, organizational structure, processes, and systems to meet the program and organizational demands forced on the Agency by diminished resources. This effort focuses on organization and process changes that will position the Agency to be able to function optimally with projected workforce reductions. Initial structural and process changes have already begun to occur including the realignment of the Agency's senior management structure and a holistic redesign of Food Stamp Program's retailer authorization function. These initiatives, as well as others which will emerge from the process over time, will fundamentally change the way in which FNS conducts its business making it more nimble and tightly focused on core mission responsibilities.

FNS intends to continue to strive to insure the operational and fiscal integrity of the Nation's nutrition safety net as it has throughout its 40 year existence. However, as noted in the Management Discussion and Analysis, the agency's ability to continue to absorb administrative resource reductions without impacting essential Agency functions is not unlimited.

Additional Other Procedures

As required by OMB Bulletin No. 07-04, as amended, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation. 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.

As further required by OMB Bulletin No. 07-04, as amended, we considered FNS' 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.

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

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

November 7, 2008



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

To: Enrique Gomez
Acting Administrator
Food and Nutrition Service

We have audited the accompanying consolidated balance sheets of the Food and Nutrition Service (FNS) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the fiscal years (FY) then ended (hereinafter referred to as the “financial statements”) and have issued our report thereon dated November 7, 2008. 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of FNS is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of FNS’ compliance with certain provisions of laws, regulations, contracts and agreements, and governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. We also obtained reasonable assurance that FNS complied with certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including requirements referred to in the Improper Payments Information Act of 2002 (IPIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA), except for those that, in our judgment, were clearly inconsequential. 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 FNS. 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 disclosed two instances of reportable noncompliance with other laws and regulations discussed in the second paragraph of this report that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended. We found that although FNS has made significant progress towards compliance with the IPIA, they are still not in full compliance with requirements regarding the design of program internal controls relating to reporting improper payments. The IPIA requires that all programs susceptible to significant improper payments report an estimate of the payments. FNS reported estimated payment errors for the Food Stamp Program, the National School Lunch Program, and the School Breakfast

Program. However, the agency has not reported payment error rates for one segment (certification errors) of the Special Supplemental Nutrition Program for Women, Infants, and Children and one segment (claiming errors) of the Child and Adult Care Food Program. As stated in FNS' Management Discussion and Analysis, they currently have work underway to report improper payment rates on certification errors. A preliminary estimate of erroneous payments associated with certification actions will be available in August 2009, and the final estimate will be available in 2010. Regarding claiming errors, FNS staff collected data involving 11 family day care sponsors nationwide and conducted a random sample of 268 records relating to monitoring visits to Family Day Care Homes (FDCH). For each sample, FNS gathered the FDCH's meal claim data for the month of the monitoring visit and the month before. The information is being analyzed and results will be available in early 2009. FNS also contracted to develop and pilot test additional alternatives for determining the feasibility of estimating the risk of claiming error by methods such as direct observation of FDCHs or by contacting parents to determine if children were really present at a FDCH when claimed.

The IPIA also requires that agencies report the amount of actual improper payments the agency expects to recover and how it will go about recovering them. FNS has not reported the amount of improper payments they expect to recover for the Food Stamp Program, the Special Supplemental Nutrition Program for Woman, Infants and Children, the Child and Adult Care Food Program, the National School Lunch Program, and the School Breakfast Program.

As explained in Section 4 of the Management Discussion and Analysis;

- Current statutes only provide authority to recover improper payments identified through reviews, audits, or other operational oversight activity. As such, the Special Supplemental Nutrition Program for Woman, Infants and Children, the Child and Adult Care Food Program, the National School Lunch Program and the School Breakfast Program would need new statutory authority to pursue collection of improper payments identified on the basis of statistical sampling or estimation procedures.
- Establishing targets for recovery amounts in the Food Stamp Program is not feasible because it does not anticipate fluctuations in the economy and recipient population and does not take into account the variability of State collection systems.

Additionally, the results of our tests disclosed no instances in which FNS' financial management systems did not substantially comply with FFMIA.

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

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

November 7, 2008

Exhibit A -Financial Statements

USDA

Food and Nutrition Services

Fiscal Year 2008

(PREPARED BY FNS)

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

The Food and Nutrition Service (FNS) is an agency within the U.S. Department of Agriculture (USDA). 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 Reorganization Plan No. 2 of 1953.

FNS is the Federal agency responsible for managing the domestic nutrition assistance programs. Its 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.

The FNS appropriation for administrative funds annually includes a very small percentage of funds for the administration of the Center for Nutrition Policy and Promotion (CNPP). CNPP links scientific research to the nutrition needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education. CNPP develops integrated nutrition research, education, and promotion programs and provides science-based dietary guidance. The agency was re-aligned during FY 2008.

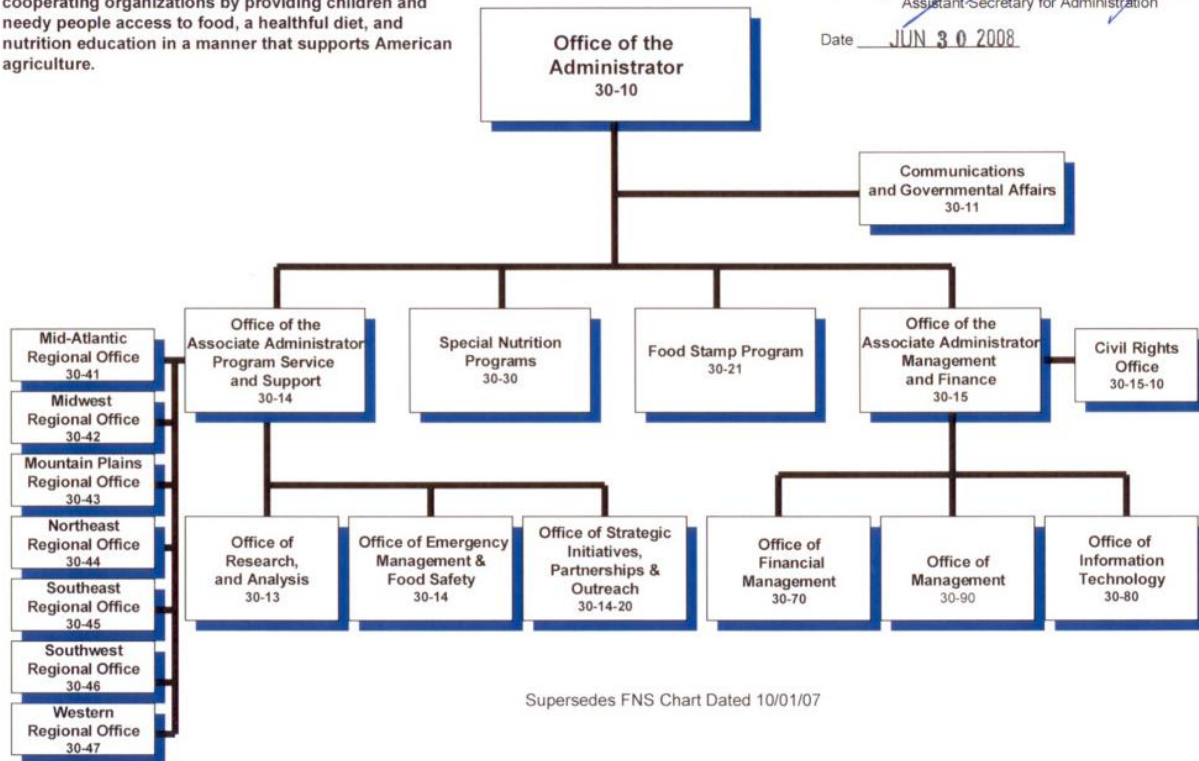
FNS FY 2008 Organization Chart

United States Department of Agriculture
Food and Nutrition Service

Mission Statement

Reduce hunger and food insecurity in partnership with cooperating organizations by providing children and needy people access to food, a healthful diet, and nutrition education in a manner that supports American agriculture.

Recommended *Karen M. Johnson*
Under Secretary for Food,
Nutrition and Consumer Services
Approved *Bobby L. Heyland*
Assistant Secretary for Administration
Date JUN 30 2008



Descriptions of FNS Programs:

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. 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.

Federal nutrition assistance programs operate as partnerships between FNS 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, FNS 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.

FNS nutrition assistance programs 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. Currently, the programs administered by FNS touch the lives of one in five Americans over the course of a year.

- *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 25 million low-income people. It enables participants, over 50 percent of who 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 FNS 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 Food (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. FNS 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 supplemental nutritional needs of at-risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to five years of age. It provides participants monthly 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 FNS. 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 supports the emergency food organization network by distributing Federally-purchased commodities for use by emergency feeding organizations including soup kitchens, food recovery organizations, and food banks. 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 2005, elderly participation comprised approximately 90 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 FNS and State health care, agricultural or education agencies. Currently, 32 States, the District of Columbia, and two Indian reservations operate CSFP.
- *Senior Farmers’ Market Nutrition Program (SFMNP):* This program provides coupons to low-income seniors that can be exchanged for fresh, nutritious, unprepared, locally grown fruits, vegetables and herbs at farmers’ markets, roadside stands, and community-supported agriculture programs.
- *Pacific Island and Disaster Assistance:* Pacific Island Assistance includes assistance to the nuclear-affected zones of the Republic of the Marshall Islands in the form of commodities and administrative funds and is authorized under the Compact of Free Association Amendments Act of 2003, (P.L. 108-188). Disaster Relief funds are provided for use in non-Presidentially declared disasters.

FNS Staff:

FNS staff is funded primarily out of the Nutrition Programs Administration account, which represents approximately one quarter of one percent of the total FNS budget. The agency employment level represents less than two percent of the total employment within USDA and is similarly small in proportion to the 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.

In FY 2008, FNS had almost 1300 employees. Approximately 500 were located at the Washington headquarters. The rest were located in the seven regional offices, 67 field offices, four food stamp compliance offices, or the computer support center.

SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

The FNS agency goal and objectives are fully integrated into USDA's Strategic Goal 5 and three related Department Strategic objectives. Each Department Strategic Objective has a key outcome and indicator, as discussed below.

USDA Strategic Goal	USDA Strategic Objective	Programs that Contribute ¹	Key Outcomes	Key Indicators
USDA Goal 5: Improve the Nation's Nutrition and Health	<u>USDA Strategic Objective 5.1:</u> Ensure Access to Nutritious Food	FSP, CN, WIC, CAP, FDPIR, TEFAP	<u>Key Outcome 1:</u> Reduce hunger and improve nutrition.	Program Participation Rates
	<u>USDA Strategic Objective 5.2:</u> Promote Healthier Eating Habits and Lifestyles	FSP, CN, WIC CNPP ²	<u>Key Outcome 2:</u> Promote more healthful eating and physical activity across the Nation.	Nutrition Guidance Distribution Volume
	<u>USDA Strategic Objective 5.3:</u> Improve Nutrition Assistance Program Management and Customer Service	FSP, CN, WIC	<u>Key Outcome 3:</u> Maintain a high level of integrity in the nutrition assistance programs.	Food Stamp Payment Accuracy Rate

STRATEGIC GOAL 5: IMPROVE THE NATION'S NUTRITION AND HEALTH

Nutrition is the link between agriculture and the Nation's health, and the Department made strong progress in advancing our nutrition and health goal in 2008. USDA's leadership of the Federal nutrition assistance programs made a healthier diet available for millions of children and low-income families. And the cutting-edge nutrition promotion efforts of the Center for Nutrition Policy and Promotion harnessed interactive technologies to motivate all Americans to make positive dietary behavioral changes consistent with the *Dietary Guidelines for Americans* and the President's HealthierUS initiative. Key 2008 accomplishments include:

- Promoting access to the Food Stamp Program (FSP).** FSP is the Nation's largest nutrition assistance program, serving over 28 million people in an average month in FY 2008. And the latest information on the rate of participation among eligible people showed that in 2006, 67 percent of all who were eligible for the Food Stamp Program (FSP) participated as compared with 54 percent in 2001.

¹ FSP = Food Stamp Program, CN=Child Nutrition (includes the National School Lunch Program, the School Breakfast Program, and the Special Milk Program), WIC = Special Supplemental Nutrition Program for Women, Infants & Children, CAP = Commodity Assistance Programs, FDPIR = Food Distribution Program on Indian Reservations, TEFAP = The Emergency Food Assistance Program

² CNPP = Center for Nutrition Policy & Promotion (Partner agency to FNS within USDA)

- **Promoting the MyPyramid Food Guidance System.** *MyPyramid* offers the American public an individualized approach to nutritional well-being and active living. *MyPyramid.gov*'s web-based educational tools help Americans assess and personalize their diet and physical activity plans. The newest tool was the MyPyramid Menu Planner, designed to help individuals and family nutrition "gatekeepers" plan more healthful menus and determine daily, weekly, and monthly consistency with the recommendations of the *Dietary Guidelines for Americans* and the MyPyramid Food Guidance System. Consumers continue to respond enthusiastically to this educational approach; in 2008, *MyPyramid.gov* and other nutrition interactive web-based tools were accessed or used over 5 billion times.
- **Continuing to ensure that Food Stamp benefits are accurately issued.** The Food Stamp Program payment accuracy rate for FY 2007, announced in 2008, was 94.4 percent, a new record high that reflects effective partnerships with State administering agencies, and extensive use of policy options to streamline program administration while improving access for working families.

In FY 2008, USDA continued to improve the quality of Americans' diets through research-based nutrition enhancements to the Nation's food supply, and better knowledge and education to promote healthier food choices. In FY 2008, USDA pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to support and encourage good nutrition choices.

USDA's success in promoting public health through good nutrition and the effectiveness of its nutrition assistance education programs relies heavily on research. The research provides critical knowledge of what we need to eat to stay healthy and how that knowledge can be conveyed to the public in a manner that leads to true changes in our diets. Research also supports development of new healthy and tasty food products providing another avenue for helping consumers eat well.

OBJECTIVE 5.1: ENSURE ACCESS TO NUTRITIOUS FOOD

Overview

USDA's commitment to the nutrition assistance programs—the core of the Nation's effort to improve food security and reduce and prevent hunger—is guided by a straightforward principle: to ensure that all Americans who are eligible and wish to participate can receive program services easily, and with dignity and respect. The strong performance of the programs in 2008 reflects their fundamental strengths, and the Department's efforts to promote access and improve service to our clients in cooperation with our State partners.

Challenges for the Future

Studies and analyses show that there continue to be large numbers of eligible people who do not participate in Federal nutrition assistance programs. Many may not be aware that they are eligible. Therefore, efforts to improve access to and promote awareness of these programs, and seeking improvements in policy and operations that make it easier to apply, are ongoing challenges.

The quality of program delivery by third parties—hundreds of thousands of State and local Government workers and their cooperators—is critical to Department efforts to reduce hunger and improve nutrition. Our ongoing efforts in partnership with these entities to improve program operations with new technologies and business processes, must always focus on customer service and ease of access to benefits, along with efficiency, as central components of program effectiveness.

KEY OUTCOME
Reduce Hunger and Improve Nutrition

In FY 2008, the Department and its program delivery partners sustained effective access to the programs, with greater-than-targeted participation in the food stamps and WIC, expected levels of average monthly participation in the School Breakfast Program, and slightly lower-than-targeted (but well within expected performance) average participation in the National School Lunch Program.

Analysis of Results

As program participation is voluntary, participation projections are estimates based on economic and other factors that impact the likely behavior of eligible populations. An analysis of the most recent information available follows:

Exhibit 1: Improve Access to Nutritious Food

Annual Performance Goals and Indicators		Fiscal Year 2008		
		Target	Actual	Result
5.1.1	Participation levels for the major Federal nutrition assistance programs (millions per month):			Met
	▪ Food Stamp Program	27.8 million	28.1 million	
	▪ National School Lunch Program	31.6 million	31.5 million	
	▪ School Breakfast Program	10.8 million	10.8 million	
	▪ Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	8.5 million	8.7 million	

Food Stamp Program—The program served approximately 28 million participants monthly in FY 2008, an increase of about 7.7% from the FY 2007 average monthly level. USDA executed a range of efforts to support and encourage food stamp participation in FY 2008, including:

- Securing key improvements to food stamps in the 2008 Farm Bill, including Administration proposals to exclude the value of retirement and educational savings accounts, military combat pay, and all dependent care expenses from Food Stamp eligibility determination, increasing access for some low-income families.
- Efforts with States to develop outreach strategies, with over 60% of States having formal outreach plans or other documented outreach activity in place.
- Support for innovative State practices to promote access by simplifying the application process. Latest available data shows that 21 States have internet-based application filing (15 Statewide). 25 States allow recertification interviews to be done by telephone, and 18 States have call centers (7 Statewide). Additionally, 9 States have waivers to allow initial certification interviews to be done by telephone.
- A new publication, “Eat Right When Money’s Tight,” designed to help low-income families with tips on thrifty shopping, meal preparation, and the availability of food stamps and other nutrition assistance programs as a critical tool for low-income families facing rising food costs.

USDA also conducts studies to measure the number of people eligible for the program, in order to determine the rate at which eligible people are participating. The latest study shows that in 2006, 67 percent of all who were eligible for the Food Stamp Program (FSP) participated, a substantial increase from the prior year. Also in 2006, participants received 83 percent of all food stamps available if every eligible person participated – an indicator that the program is effectively reaching those most in need.

National School Lunch Program—NSLP participation levels reached 31.5 million in FY 2008, up slightly from FY 2007 and continuing the trend of increases in recent years. NSLP provides nutritious meals to millions of children at school; over 100,000 schools and residential child care institutions (RCCIs) operated the program in FY 2008.

School Breakfast Program—SBP participation levels reached 10.8 million in FY 2008, up over 6 percent from a year ago and continuing a trend of increases over the last several years. SBP makes healthy, nutritious meals available to millions of children at the start of each school day. More than 85,000 institutions operated the program in FY 2008. USDA continued to support and encourage SBP participation in FY 2008 by:

- Promoting SBP through such activities as School Breakfast Week, highlighting the availability of the program through events, posters and student activities that show the importance of a good breakfast—either at home or served through the program—in being ready for school;
- Working with various organizations and partners to help develop strategies for program expansion; and
- Developing School Breakfast outreach materials for schools and parents.

In addition to the increase in the number of participating children, trend data indicate that the proportion of all children enrolled in schools who participate in SBP has risen slowly but steadily in recent years. This growth reflects USDA’s continuing efforts to encourage schools to operate the program.

Women, Infants and Children (WIC)—In FY 2008, approximately 8.7 million participants received WIC benefits. USDA addresses the health and nutritional needs of, at risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to 5 years of age with supplemental food packages, nutrition education and health and social services referrals. USDA continued to support and encourage WIC Program participation, and improve benefits and services, in FY 2008 by:

- Maintaining the Administration’s commitment to ensure adequate funding to support participation by all those eligible people who seek services.
- Completing an historic update to the standards for WIC food benefits – the first major changes to the WIC food packages since 1980. These new packages will be aligned with the 2005 *Dietary Guidelines for Americans* and infant feeding practice guidelines of the American Academy of Pediatrics – important steps in keeping the program optimally aligned to meet today’s nutrition needs.

Exhibit 2: Trends in Improving Access to Nutritious Food (2008 from 2010 Dept. Estimates; 2007 from 10/22/08 Key Data)

Trends	Fiscal Year				
	2004	2005	2006	2007	2008
5.1.1 Improve Access to Nutritious Food:					
▪ Food Stamp Program Avg. Monthly Participation (mil)	23.9	25.7	26.7	26.3	28.1
▪ National School Lunch Program Avg. Daily Participation (mil)	29.0	29.6	30.1	30.6	31.5
▪ School Breakfast Program Avg. Daily Participation (mil)	8.9	9.3	9.8	10.1	10.8
▪ WIC Program Monthly Participation (mil)	7.9	8.0	8.1	8.2	8.7

OBJECTIVE 5.2: PROMOTE HEALTHIER EATING HABITS AND LIFESTYLES

Overview

Healthy eating and physical activity practices are vital to reducing the risk of death or disability from a wide range of chronic diet-related illnesses. USDA uses Federal nutrition policy and nutrition education, both for the general public and those served by the nutrition assistance programs, to provide scientifically based information about healthful diets and lifestyles.

The *Dietary Guidelines for Americans*, developed jointly by USDA's Center for Nutrition Policy and Promotion and the Department of Health and Human Services, provide advice about food choices that promote health and prevent disease. And CNPP's MyPyramid food guidance system provides the educational tools to help Americans take the necessary "Steps to a Healthier You." A range of cutting-edge information tools, many available on the web, offer a personalized eating plan with the foods and amounts that are right for a given individual.

KEY OUTCOME

Promote More Healthful Eating and Physical Activity across the Nation

The Department will continue promoting diets and behaviors as a vital public-health issue. The *Dietary Guidelines for Americans* is the cornerstone of Federal nutrition guidance. USDA uses the 2005 *Dietary Guidelines* and MyPyramid, the Guidelines' educational tool, to continue its leadership role of providing advice people in the U.S. can follow to improve overall health through proper nutrition. USDA uses partnerships and "information multipliers" – such as shopkeepers who post public service messages in their shops, or school teachers who teach their students about nutrition – to maximize the reach and impact of its interventions, both within Federal nutrition-assistance programs and with the general public.

Challenges for the Future

While USDA's goal to address and prevent obesity begins with understanding what constitutes a healthy diet and the appropriate balance of exercise, success requires individuals to change their diets by modifying their eating behavior. Crafting more effective messages and nutrition education programs to help people make better food choices requires understanding their current choices and the relationships between these choices and their attitudes, knowledge and awareness of diet/health links. The data that can address this information gap, however, are limited.

The ability of existing nutrition guidance and promotional materials to achieve behavior change remains challenging because of the limited resources available for nutrition promotion relative to other messages, products and practices in the food marketplace. Additionally, physical activity and other lifestyle issues significantly impact body weight and health.

USDA tracks its annual performance in promoting healthful eating and physical activity by monitoring its annual distribution of nutrition education materials. Over the longer term, USDA assesses the effect of these efforts with the CNPP-developed Healthy Eating Index (HEI), a measure of diet quality that assesses conformance to Federal dietary guidance and is based on nutrition surveillance data.

Analysis of Results

To meet the needs of the general population, USDA continued its leadership role in the promotion of nutrition guidance through educational tools designed to motivate people to live healthier:

- Usage level of nutrition guidance tools was substantial, with more than 3 billion pieces of nutrition guidance materials distributed via the Web and print materials. Additionally, registrations continue to increase for the MyPyramid Tracker, an on-line diet and physical activity assessment tool. The tracker has averaged over 2 million active registrations since 2005.
- USDA launched a ground-breaking collaborative effort to magnify the communication of dietary and physical activity guidance messages. The new *Partnering with MyPyramid: Corporate Challenge* showcases the role of various industries as partners to government in encouraging healthier eating and physical activity behaviors among families. The Challenge is designed to empower nutrition gatekeepers by providing easy to apply guidance for modeling a healthy lifestyle and by providing information to help them make healthy food choices for themselves and their families where they prepare foods, work, play, and purchase foods.
- The MyPyramid Menu Planner, the newest educational tool at www.MyPyramid.gov, exemplifies USDA's commitment to personalizing nutrition guidance. The menu planner shows whether the diet is balanced and consistent with the Dietary Guidelines for Americans, and advises on ways for individuals to learn and adjust their diets to meet the dietary recommendations. It is designed to track the diet, and helps the user plan upcoming meals. The MyPyramid Menu Planner is not only useful to those interested in healthful and nutritious diets, but also to high school and middle school classes, and dietitians, health professionals, and nutrition educators for use in counseling and educational programming.

In addition, USDA advanced a number of important initiatives to promote healthy diets in the nutrition assistance programs. Key accomplishments include:

- Continued use of nutrition education in the Food Stamp Program to promote healthy food choices and physically active lifestyles, including the popular *Loving Your Family, Feeding Their Future*, a comprehensive nutrition education intervention in English and Spanish to reach low-income moms with limited literacy skills, to motivate them to improve their families' eating and physical activity behaviors
- Expansion and improvement of the *HealthierUS* Challenge, USDA's recognition program to encourage schools to take a leadership role in helping students make healthy eating and active lifestyle choices by voluntarily meeting guidelines established that promote a healthy school nutrition environment. FNS recently announced new *HealthierUS* criteria that have been updated and revised to reflect the *2005 Dietary Guidelines*. The Department developed a new Gold Award of Distinction to recognize schools that exceed the regular requirements. Over 90 schools have recognized through the Challenge this year.
- Launch of an effort to engage an expert panel convened by the National Academies' Institute of Medicine to recommend updates to meal pattern requirements for the school meals programs based on the *2005 Dietary Guidelines for Americans* and related nutrition requirements.
- Award of a grant to the National Academies' Institute of Medicine to support the review of the dietary reference intakes for vitamin D and calcium, two of the nutrients that were identified by the 2005 Dietary Guidelines Advisory Committee as concern for the specific population groups.

Exhibit 3: Promoting Healthier Eating Habits and Lifestyles

Annual Performance Goals and Indicators	Fiscal Year 2008		
	Target	Actual	Result
5.2.1 Application and usage level of nutrition guidance tools (pieces of nutrition guidance distributed)	2.5 billion	3.2 billion	Exceeded

Exhibit 4: Trends to Promote Healthier Eating Habits and Lifestyles

Trends	Fiscal Year				
	2004	2005	2006	2007	2008
5.2.1 Application and usage level of nutrition guidance tools (billions of pieces of nutrition guidance distributed)	N/A	1.0 billion	2.0 billion	2.6 billion	3.2 billion

OBJECTIVE 5.3: IMPROVE NUTRITION ASSISTANCE PROGRAM MANAGEMENT AND CUSTOMER SERVICE

Overview

USDA is committed to ensuring that nutrition-assistance programs serve those in need at the lowest possible costs and offer a high level of customer service. Managing Federal funds for nutrition assistance effectively, including prevention of program error and fraud, is a key component of the President's Management Agenda. The Department focused on maintaining strong performance in the food stamp payment-accuracy rate as its key performance goal in this area.

KEY OUTCOME

Maintain a High Level of Integrity in the Nutrition Assistance Programs

Challenges for the Future

Some improper payment risks are inherent to the legislatively mandated program structure. This structure is intended and designed to be easily accessible to people in special circumstances and settings. USDA must shape its management approach in light of the need to make services convenient and accessible to participants. State and local Governments also bear direct responsibility for delivering the programs. Thus, the Department must work with these groups to address improper payment problems through monitoring and technical assistance. This approach requires adequate numbers of trained staff supported by a modernized information technology infrastructure to ensure full compliance with national program standards.

Despite this strategy, two significant challenges will impact future success. Congressional action has changed the quality control process, lowering the risk of penalties for poor State agency performance. However, State agencies have, for the most part, risen to the challenge and continue to achieve a high level of payment accuracy. Additionally, State budgets have been and will continue to be extremely tight. This factor could hurt State performance in payment-accuracy. USDA will continue to provide technical assistance and support to maintain payment accuracy in the context of this changing program environment.

Analysis of Results

The FY 2008 Food Stamp Payment Accuracy Rate will become available in June 2009. It will be reported in the *FY 2009 Performance and Accountability Report*.

While 2008 data are not yet available, food stamp payment accuracy reached 94.4 percent in 2007, a record-high level reflecting excellent performance by State agencies in administering the program. This combined rate reflects 4.58 percent in overpayments, and 1.06 percent in underpayments, for a total of 5.64 in erroneous payments.

Twenty-eight States had a payment accuracy rate greater than 94 percent, including 12 States with rates greater than 96 percent.

In June, FNS awarded \$30 million in high performance bonuses to the 7 States with the best payment accuracy rates and the 3 States with the most improved rates.

USDA's close working relationship with its State partners during the last several years, along with program changes to simplify rules and reduce the potential for error, has resulted in consistent increases in food stamp payment accuracy. Such USDA efforts as an enhanced Partner Web (an Intranet for State Food Stamp agencies) and the National Payment Accuracy Work Group (consisting of representatives from USDA headquarters and regional offices) contributed significantly to this success by making timely and useful payment accuracy-related information, tools, and best practices available across the country. FNS will work with States on further streamlining such as the Farm Bill option to extend simplified reporting to elderly and disabled households.

Additionally, the Department continued to use an early detection system to target States that may be experiencing a higher incidence of errors based on preliminary quality control (QC) data. Actions then are taken by regional offices to address these situations in the individual States.

Exhibit 5: Increase Efficiency in Food Management

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
5.3.1	Improve Food Stamp payment accuracy rate			
	<ul style="list-style-type: none"> ■ Increase Food Stamp Payment Accuracy Rate 	94.3%	94.4%	Exceeded

Exhibit 6: Trends in Increased Efficiency in Food Management

Trends		Fiscal Year				
		2004	2005	2006	2007	2008
5.3.1	Increase Food Stamp Payment Accuracy Rate.	94.1%	94.1%	94.0%	94.4%	● N/A

SECTION 3. ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The information in this section is consistent with the findings of the USDA OIG's FY 2008 financial statements audit report.

Federal Managers' Financial Integrity Act (FMFIA) Assurance

Management is responsible for developing and maintaining internal controls to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations and safeguarding of assets. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas as well as accounting and financial management.

FNS has conducted its assessment of internal control and financial systems pursuant to Sections 2 and 4 of FMFIA, for the period ending September 30, 2008. Based on the results of this evaluation, FNS can provide reasonable assurance that internal controls are operating effectively. For FY 2007, FNS had no existing material weaknesses or significant deficiencies on which to report. No new material weaknesses or significant deficiencies were identified for FY 2008.

Federal Financial Management Improvement Act (FFMIA) Assurance

FNS has evaluated its financial management systems under FFMIA for the period ended September 30, 2008. Based on the result of our evaluation, the agency is in substantial compliance with the FFMIA for the following sections:

1. Federal Financial Management System Requirements,
2. Applicable Federal Accounting Standards,
3. Standard General Ledger at the Transaction Level, and
4. Information Security, Policies, Procedures, and Practices

FNS has no areas of substantial non-compliance.

Assurance for Internal Control over Financial Reporting

FNS conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2008, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, Appendix A.

This assessment included an evaluation of entity level controls, risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of effectiveness of properly designed controls, summary of deficiencies and the development of corrective action plans for control deficiencies.

Management recognizes its responsibility for monitoring and correcting all control deficiencies. Based on the results of this assessment, FNS can provide reasonable assurance that internal controls over financial reporting are operating effectively. No new material weaknesses or significant deficiencies were identified.

While FNS can currently provide reasonable assurance relating to internal controls, financial reporting and financial systems for FY 2008, we have reached a critical point regarding necessary administrative resources. For several years we have reported that any further reductions in FNS resources, or increases in responsibilities without compensating administrative resource increases may compromise our ability to adequately execute internal controls already in place or to develop additional controls that may be needed. We have now reached the point where senior managers must prioritize critical Agency functions and allocate limited resources accordingly.

Over the last two decades, FNS' staff has declined by approximately 50% while the nutrition assistance programs and government-wide initiatives affecting program management have grown in number, size, and complexity. Administrative funding for FNS now accounts for only about ¼ of 1% of the total investment in nutrition assistance. The Agency has responded to this challenge by seeking greater efficiencies through careful evaluation and improvement of business processes, aggressive application of information technology solutions and the development of a corporate work planning and priority setting process. These incremental changes have allowed FNS to successfully respond to the growth in scope and complexity of the nutrition safety net and increasing public attention to critical issues of program integrity with ever dwindling staff levels. Maintaining the Agency's success in the light of likely future administrative resource reductions, however, will require more fundamental, comprehensive change.

Toward this end, in 2007, the Agency initiated a multi-year effort on "Building a New FNS," which seeks to redesign the Agency's workforce, organizational structure, processes and systems to meet the program and organizational demands forced on the Agency by diminished resources. This effort focuses on organization and process changes that will position the Agency to be able to function optimally with projected workforce reductions. Initial structural and process changes have already begun to occur including the realignment of the Agency's senior management structure and a holistic redesign of the Food Stamp Program's retailer authorization function. These initiatives, as well as others which will emerge from the process over time, will fundamentally change the way in which FNS conducts its business making it more nimble and tightly focused on core mission responsibilities.

FNS will continue to strive to ensure the operational and fiscal integrity of the Nation's nutrition safety net as it has throughout its forty year existence. However, it must be acknowledged that the Agency's ability to continue to absorb administrative resource reductions without impacting essential Agency functions is not unlimited.

OIG Audit Handling Process and Performance

USDA's Office of the Inspector General (OIG) performs audits of FNS programs, systems and operations. The results of this work are reports detailing, at a minimum, what was examined, findings that should be addressed and recommendations for changes/improvements. Upon release of each final report, FNS submits to OIG a written corrective action plan listing actions planned and dates by which these actions will occur. *Management decision* is reached when OIG accepts FNS' proposed corrective actions.

Upon reaching management decision, FNS's Financial Management organization oversees follow-up activities to assure that planned actions for each recommendation are implemented and completed. As this occurs, FNS notifies the Department's Office of the Chief Financial Officer (OCFO) and requests concurrence that all actions described in the management decision agreement have occurred. *Final action* is achieved for each finding/recommendation when all actions necessary to fulfill the management decision agreement have been performed.

Delays in reaching *Final Action* status most often occur for two categories of reasons:

- The amount of time needed to complete certain activities cannot be accurately estimated. Examples of these are:
 - Specific legislation, policy or guidance needs to be developed;
 - An investigation, negotiation, or administrative appeal action must be completed;

- An automated system needs to be developed, implemented, or enhanced;
 - The results of additional monitoring or program review activity must be completed;
 - Disallowed costs must be collected;
 - Legal advice or opinion from the Office of General Counsel is needed; or
 - Certain external (state) or administrative actions must occur.
- Changes that could not be anticipated at the time management decision was reached:
 - A change must be made to the management decision agreement. For example, the agreed upon management decision calls on the Agency to publish a regulation, but Congress initiates a moratorium on regulations.
 - Additional information, explanation, advice or action from OIG is needed.

USDA agencies submit quarterly progress reports to OCFO for all audits that remain open more than one year past the management decision date. These interim reports show incremental progress toward completion of planned actions, changes in planned actions, actual or revised completion dates, and explanations for revised dates.

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2008
 MANAGEMENT DISCUSSION AND ANALYSIS

Audits Without Final Action More Than One Year Past the Management Decision Date				
Audit Number	Date Issued	Audit Title	Completion Date for Actions (est)	Reason for Lack of Final Action
27601-3-CH	3-22-96	FSP Disqualified Recipient System	9-30-09	Awaiting publication of regulations
27010-19-SF	11-18-99	Smart Start, Inc.	12-31-08	Awaiting collection of disallowed costs
27010-3-KC	3-22-00	CACFP-Wildwood	10-31-11	Pending collection (repayment plan)
27601-6-KC	11-21-01	CACFP Wildwood – Phase II	12-31-09	Pending conclusion of independent reviews
27601-27-CH	4-30-02	NSLP Food Service Management Companies	9-30-08	Awaiting publication of guidance
27099-31-SF	8-24-04	Summer Food Service Program - Nevada	9-30-08	Awaiting collection of disallowed costs
27010-18-CH	10-28-05	Monitoring of CACFP Providers in Minnesota	3-1-10	Awaiting collection of disallowed costs
27601-35-CH	7-14-06	CACFP Supper Meals Served in Schools	5-31-09	Awaiting publication of regulations

The number of FNS audits without final action more than one year after management decision has declined by more than 27 percent since FY 2005.³ In FY 2008, audit number 27099-22-CH, CACFP Opportunities Industrialization Center of Greater Milwaukee, and audit number 27099-60-AT, Special Wages Incentive Program (SWIP) Audit – Puerto Rico was closed. The Inspector General Act Amendments of 1988 requires the accompanying data for an annual report on the status of audits.

³ At the close of FY 2005, FNS had 11 such audits. At the close of FY 2008, FNS had 8 such audits.

SECTION 4. IMPROPER PAYMENTS INFORMATION ACT (IPIA)

The Improper Payments Information Act (IPIA) requires all agencies to 1) review all programs and activities, 2) identify those that may be susceptible to significant improper payments, 3) estimate the annual amount of improper payments for each program and activity and 4) report results.

Appendix C of OMB Circular A-123 defines significant improper payments as an annual amount that exceeds both 2.5% of program payments and \$10,000,000. For programs/payments that fit this description, agencies must:

- Measure and reduce the improper payments,
- Identify the causes and take action to correct them,
- Implement necessary infrastructure to support activities,
- Develop proposals to obtain necessary infrastructure, and
- Hold managers accountable for results.

FNS assessed all food assistance programs as well as its Nutrition Programs Administration (NPA) funding, which support FNS' Federal administrative operations. Assessments were conducted in conjunction with USDA-coordinated procedures. FNS, with OMB concurrence, has designated five programs as susceptible to significant improper payments: the Food Stamp Program (FSP), the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), the Child and Adult Care Food Program (CACFP), the National School Lunch Program (NSLP) and the School Breakfast Program (SBP). Improper payment measurement activities for each are described briefly below.

- The **Food Stamp Program** sampling and erroneous payment measurement processes, the accepted hallmark of the IPIA environment, has been a legislative mandate for more than 30 years. This process compares the certification criteria upon which a household's benefit issuance is determined with the household's circumstances at the time of issuance. All case results are accumulated by state. The state results are validated and the validated results are combined into a national cumulative (overpayments plus underpayments) error rate. No other payment lifecycle steps are included. Improper payment measurement activities predate the passage of the IPIA and FSP was immediately recognized as compliant with the intent of the law when it was passed. State agencies are required to establish and collect Food Stamp claims in accordance with the requirements found in the Program regulations. Debts that become delinquent are subsequently submitted by the State agencies for collection through the Treasury Offset Program. In past years, FNS has used target measures to gauge the success of recipient claims activity. While claims collection by States continues and is ongoing, establishment of specific target amounts or rates would not be useful, since collections are to a large extent tied to the ability of each individual State to pursue and collect erroneous payments. To complicate matters, State error rates fluctuate over time with downturns (or upswings) in the economy and changes in numbers of the recipient population. Establishing targets for recovery amounts is not feasible because it does not anticipate such fluctuations, and does not take into account the variability of State collection systems.
- In the **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**, work is underway to report improper payment error rates on two segments of the program: certification error and vendor error.
 - FNS first reported a *vendor* improper payment error rate in FY 2006. Over and under payment rates for FY 2005 were developed through a nationally representative study of a probability sample of WIC vendors. Data from this "bookend" study is then used in conjunction with

information on vendor investigations by State WIC Agencies to prepare a statistically estimated improper payment amount for each subsequent year. Until the next bookend study planned for 2012, the 2005 rates will be aged and reported annually using data generated by State undercover investigators who attempt to make WIC purchases using valid WIC food instruments. The charges submitted by each sampled vendor are compared to the undercover purchase activity to estimate overcharging, and other sanctionable violations. Case results are accumulated by State and used to age the estimates.

- Certification rate: The contractor will interview WIC households and compare the certification criteria upon which a household's benefit issuance was determined with the household's circumstances at the time of issuance. This data will be accumulated nationally. Delays in the national representative study will result in data collection being delayed until FY 2009. A preliminary estimate of erroneous payments associated with *certification* actions will be available in August 2009, and the final estimate will be available in 2010.

Current statutory authority allows USDA to recover improper payments from state agencies when identified through reviews, audits or other operational oversight activities. Current statutory authority does not support collection of improper payments identified on the basis of a statistical sample or estimation procedure, as used to develop the national estimates of improper payments reported here.

- The **Child and Adult Care Food Program (CACFP)** has three distinct parts: Child Care Centers, Adult Day Care facilities and Family Day Care Homes (FDCHs). Overall program funding is provided to state agencies which provide funds to sponsoring organizations to pay for claims for reimbursable meals served at provider sites. Sites can be as large as an institution or as small as a household. Each part of CACFP has its own reimbursement structure.

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

FNS has identified the FDCH component of this program as potentially high risk, and measures error in this part of the program in lieu of the unfunded comprehensive measure. FDCHs participate in CACFP through public or private nonprofit sponsoring organizations. FDCH improper payments are most likely caused by sponsor error in determining a participating home's reimbursement tier (*tiering error*) or by FDCH error in reporting the number of meals which are eligible for reimbursement (*claiming error*).

Two activities are underway which provide information on improper payments in the FDCH component of CACFP. A third activity is being pilot tested.

- CCAP – In the Spring of 2004, FNS began the Child Care Assessment Project (CCAP). This project was designed to measure the effectiveness of efforts to improve the integrity of CACFP family day care homes and provide information from a broadly representative national sample of sponsors and providers. Data were collected by the Food and Nutrition Service (FNS), in cooperation with State agencies and sponsors administering the Child and Adult Care Food Program, during the period 2004-2007. The CCAP process was designed to measure whether the two interim management improvement rules issued by FNS in 2002 and 2004 had been properly implemented, and whether the rules had effectively addressed the serious program management and integrity problems that had been uncovered in the 1990s. In the three and one-half years during which assessments were conducted, FNS gathered the program records of 58 family day care home (FDCH) sponsors and over 3,000 of their providers. A database has been constructed and is being carefully examined and analyzed to assess the effectiveness of the regulations as well

as to offer insights on the control points in the claiming and reimbursement process that most frequently cause or contribute to improper payments. Results will be available by mid-2009.

- Sponsor error – FNS has developed an annual sponsor tiering error measure and tested it. CACFP sponsors are responsible for determining whether family day care homes receive meal reimbursement at the higher rate (Tier 1) or lower rate (Tier 2). In FY 2005, the first annual data collection began to determine a nationally representative sponsor tiering determination error rate. Results for FY2005, FY2006 and FY2007 have been reported. Preliminary FY 2008 estimates will be reported in June 2009 with final estimates available in August 2009.
- Claiming error - In its 2006 measurement plan, FNS proposed to test the feasibility of estimating the risk of claiming errors. FNS proposed to select a random sample of sponsoring organizations and, from each, use a random selection of the sponsor's monitoring visits of FDCHs. FNS would compare the number of meals claimed with the number of children observed at the time of the visit. If feasible to conduct, it is assumed that this comparison would provide an estimate of the risk of overpayment.

FNS staff collected data in 11 family day sponsors around the country, gathering a random sample of 268 FDCH sponsor monitoring visit records. For each, FNS gathered the FDCH's meal claim data for the month of the monitoring visit and the month before. The information is being analyzed and results will be available in early 2009. FNS also contracted to develop and pilot test additional alternatives to determine the *feasibility* of estimating the risk of claiming error by methods such as direct observation of FDCHs or by contacting parents to determine if children were really present at a FDCH when claimed.

Improper payments identified during the course of a review, audit, or other operational oversight activities can be recovered either through direct billing or through an offset of future program payments earned. Current statutes only provide authority to recover improper payments identified through reviews, audits or other operational oversight activity. Program regulations allow States to waive claims against a single institution for improper payments of up to \$600 in a single fiscal year. CACFP would need new statutory authority to pursue collection of improper payments identified on the basis of a statistical sample or estimation procedure.

- **The National School Lunch Program and School Breakfast Program** do not have a sampling and erroneous payment measurement process comparable to FSP. Instead, FNS must rely on nationally representative studies to produce estimates of erroneous payments. An erroneous payments rate for School Year 2005-2006 based on current study results was reported in the FY 2007 Performance and Accountability Report, Appendix B. Because of the scope and cost of this study, it is more prudent to repeat it on a multi-year cycle. Contingent upon available funding, FNS will produce an erroneous payment measurement through this type of study every five years. Also, as part of this same project, FNS developed a methodology that uses data available from other sources to estimate erroneous payments due to certification error on an annual basis. Current statutory authority allows USDA to recover improper payments from state agencies when identified through reviews, audits or other operational oversight activities. Current statutory authority does not support collection of improper payments identified on the basis of a statistical sample or estimation procedure, as used to develop the national estimates of improper payments reported here.

Additional information on FNS' Improper Payments Information Act (IPIA) activities can be found in the USDA Performance and Accountability Report.

The following tables summarize the results of measurement activities for FNS programs identified as subject to a significant risk of improper payments. The first table shows improper payment rates for the last two years and the

third table reflects future reduction targets. All results reported each year represent measures of outlays and program activity for the previous year.

FNS Measures for IPIA Reporting

Improper Payment Sampling Results (\$ in millions)						
Program	Results Reported in FY 2007			Results Reported in FY 2008		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Food Stamp Program, FNS	29,942	5.99%	1,794	30,373	5.64%	1,713
National School Lunch Program, FNS						
Total Program	8,602	16.30%	1,402	8,756	16.55%	1,449
Certification Error	8,602	9.42%	810	8,756	9.67%	847
Counting/Claiming Error	8,602	6.88%	592	8,756	6.88%	602
School Breakfast Program, FNS						
Total Program	2,086	24.94%	520	2,150	25.02%	538
Certification Error	2,086	9.15%	191	2,150	9.23%	198
Counting/Claiming Error	2,086	15.79%	329	2,150	15.79%	339
Women, Infants and Children, FNS						
Total Program	3,598	N/A	N/A	3,950	N/A	N/A
Certification Error Component	3,598	N/A	N/A	3,950	N/A	N/A
Vendor Error Component	3,598	0.69%	25	3,950	0.87%	34
Child and Adult Care Food Program, FNS						
Total Program	2,187	N/A	N/A	2,311	N/A	N/A
FDC Homes – Tiering Decisions	738	1.69%	12	728	1.56%	11
FDC Homes – Meal Claims	738	N/A	N/A	728	N/A	N/A

Detailed Breakout of Improper Payment Rates Reported in FY 2008 (\$ in millions)					
	Total Payments	IP%	Over-payments	Under-payments	Other
Food Stamp Program, FNS	30,373	5.64%	4.58%	1.06%	N/A
National School Lunch Program, FNS	8,756	16.55%	12.51%	4.04%	N/A
School Breakfast Program, FNS	2,150	25.02%	21.54%	3.50%	N/A
Women, Infants and Children, FNS					
Vendor Error Component	3,950	0.87%	0.35%	0.52%	N/A
Child and Adult Care Food Program, FNS					
FDC Homes – Tiering	728	1.56%	1.54%	0.02%	N/A

Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2009 Reporting			FY 2010 Reporting			FY 2011 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Food Stamp Program, FNS	33,866	5.7%	1,930	35,189	5.6%	1,970	35,483	5.4%	1,916
National School Lunch Program, FNS	9,562	16.08%	1,538	9,715	15.63%	1,518	9,981	15.19%	1,516
School Breakfast Program, FNS	2,418	24.2%	590	2,503	23.42%	590	2,623	22.77%	590
Women, Infants and Children, FNS	4,547	0.82%	37	4,492	0.77%	35	4,594	0.72%	33

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Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2009 Reporting			FY 2010 Reporting			FY 2011 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Child and Adult Care Food Program, FNS	757	1.51%	11	776	1.46%	11	796	1.41%	11

Note: Please refer to the USDA 2008 Performance and Accountability Report for more detailed IPIA information.

SECTION 5. LIMITATIONS OF FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Food and Nutrition Services (FNS), an agency of the United States Department of Agriculture, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of FNS in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

SECTION 6. FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS

FNS' FY 2008 financial statements reflect the nutrition assistance programs' responsiveness to the Nations' economic performance. By design, the level of activity within the nutrition assistance programs varies with the level of need experienced by the populations we serve. A key determinant of this level of need is the condition of the economy. In FY 2008 the economy performed weaker than was anticipated by the President's FY 2008 budget request. As a result, program participation and costs, as reflected in the financial statements are, on average, higher than was anticipated.

In accordance with the US Standard General Ledger and the Treasury Financial Manual 1TFM 4700, FNS has clarified its reporting of its grant accrual. For fiscal year 2008, FNS is classifying the accrual as Entitlement Benefits and Non Entitlement Benefits. For the FY 2008 Financial Statements FNS will report Entitlement Benefits as "Benefits Due and Payable" and report Non Entitlement Benefits as "Other Liabilities" on the Balance Sheet and related footnotes. In addition, FNS will not reflect these benefits as a portion of Accounts Payable on the Balance Sheet. The classification of these accruals have no impact on the amounts reported for Total Liabilities.

Balance Sheet

	2008		2007	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Fund Balance with Treasury	18,546	96.97%	19,044	97.17%
Accounts Receivable	261	1.36%	235	1.20%
General PP&E	10	0.05%	15	0.08%
Other	309	1.62%	304	1.55%
Total Assets	19,126	100.00%	19,598	100.00%
Accounts Payable	3	0.02%	12	0.06%
Employee Benefits	7	0.04%	7	0.04%
Benefits Due and Payable	2,764	14.45%	2,854	14.56%
Other Liabilities	818	4.28%	701	3.58%
Total Liabilities	3,592	18.78%	3,574	18.24%
Unexpended Appropriations	15,311	80.05%	15,822	80.73%
Cumulative Results of Operations	223	1.17%	202	1.03%
Total Net Position	15,534	81.22%	16,024	81.76%
Total Liabilities & Net Position	19,126	100%	19,598	100%

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2008 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - approximately 97% in both FY 2007 and FY 2008. This cash-like account largely represents the aggregate amount of funds in the FNS accounts with the U.S. Treasury from which the agency is authorized to make expenditures and pay liabilities. As financial statement Note 3 presents, a substantial portion of the fund balance is unavailable as they are associated with either expired years or are contingency funds which were not made available.

“Other assets” remained at levels consistent with the prior year. Accounts receivable levels also remained consistent with the prior year.

Benefits Due and Payable represents the largest liability of the agency, typically representing amounts that are currently payable to grantees on Entitlement Benefits Programs. In 2007, grant accruals were reported as Accounts Payable. In 2008, grant accruals are classified as either Entitlement Benefits or Non Entitlement Benefits. The accrual for Entitlement Benefits is reported as “Benefits Due and Payable” and the accrual for Non Entitlement Benefits is reported as “Other Liabilities.” This treatment is presented consistently for both 2007 and 2008.

The FY 2008 and 2007 Net Position of the agency is concentrated in Unexpended Appropriations.

Statement of Net Cost

	2008		2007	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Gross Cost	60,552	100.05%	54,348	100.04%
Less: Earned Revenue	(28)	-0.05%	(24)	-0.04%
Net Cost of Operations	60,524	100.00%	54,324	100.00%

The FNS mission addresses USDA Strategic Goal 5 “To Improve the Nation’s Nutrition and Health”. All program costs are reported under that strategic goal. Gross Costs increased from \$54,348 million in FY 2007 to \$60,552 million in FY 2008, reflecting the overall impact of FNS programs’ actual participation levels and food costs.

As the chart above displays, Earned Revenue represents an extremely small offset to Gross Costs (less than one percent), in both fiscal years. Earned revenue largely represents funds from the State Option Food Stamp Program authorized under P.L. 105-18. States participating in this program (California, Wisconsin, and Nebraska) reimburse FNS for benefits paid to legal immigrants who do not qualify for the Federal Food Stamp Program to whom the States have “opted” to provide benefits. Additional earned revenue is received from other Federal agencies for reimbursement of expenses related to information technology services, commodities, and facility-related services.

The Net Cost of Operations increased from \$54,324 million in FY 2007 to \$60,524 million in FY 2008.

Statement of Changes in Net Position

	2008		2007	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Cumulative Results of Operations				
Beginning Balance	202		209	
Appropriations Used	53,513	88.39%	47,779	87.96%
Transfers In(Out) without Reimbursement	6,274	10.36%	5,746	10.58%
Other Budgetary Financing Sources	0	0.00%	0	0.00%
Imputed Financing	758	1.25%	792	1.46%
Total Financing Sources	60,545	100.00%	54,317	100.00%
Less: Net Cost of Operations	60,524		54,324	
Ending Balance	223		202	
Unexpended Appropriations				
Beginning Balance	15,822		13,322	
Appropriations Received	53,839		51,314	
Adjustments	(837)		(1,035)	
Appropriations Used	(53,513)		(47,779)	
Total: Financing Sources	(511)		2,500	
Ending Balance	15,311		15,822	
Total Net Position	15,534		16,024	

The Statement of Changes in Net Position explains the changes in the two components of Net Position of the Balance Sheet from year to year, the Cumulative Results of Operations and the Unexpended Appropriations.

The FY 2008 appropriations used was \$53,513 million, increased \$5,734 million from FY 2007, based on actual participation levels and food costs.

Cumulative Results of Operations increased \$21million, from \$202 million in FY 2007 to \$223 million in FY 2008, as the net cost of operations is less than the total financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained relatively unchanged from FY 2007 to FY 2008. Transfers are largely made up a single large transfer made in the annual appropriations act from funds available to the Secretary under Section 32 of the Act of 1935 for support of Child Nutrition programs. Additionally, FNS received transfers from the Commodity Credit Corporation for the Senior Farmers Market Program and the Nutrition Services Incentive Program (NSIP). Transfers represented approximately ten percent of total financing sources in both FY 2007 and FY 2008.

Unexpended Appropriations decreased from \$15,822 million in FY 2007 to \$15,311 million in FY 2008 as more appropriations were expended than were received (net of adjustments). These used financing sources are also reflected in the lower balances in the Fund Balance with Treasury on the balance sheet.

Statement of Budgetary Resources

	2008		2007	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Budgetary Resources				
Beginning Unobligated Balance	14,892	19.89%	12,417	17.92%
Recoveries	637	0.85%	761	1.10%
Appropriations	53,835	71.89%	51,314	74.06%
Collections	85	0.11%	86	0.12%
Change in unfilled customer orders	0	0.00%	(2)	0.00%
Transfers	6,277	8.38%	5,746	8.29%
Less: Permanently Not Available	(838)	-1.12%	(1,034)	-1.49%
Total Budgetary Resources	74,888	100.00%	69,288	100.00%
Status of Budgetary Resources				
Direct Obligations	60,602	80.92%	54,372	78.47%
Reimbursable Obligations	28	0.04%	24	0.03%
Apportioned-Unobligated	974	1.30%	639	0.92%
Unobligated-Not Available	13,284	17.74%	14,253	20.57%
Total: Status of Budgetary Resources	74,888	100%	69,288	100%
Net Outlays	59,773	79.82%	53,566	77.31%

The Statement of Budgetary Resources displays the source of all budgetary resources for the fiscal year as well as the status of those resources as of the end of the fiscal year.

Appropriations were increased from \$51,314 millions in FY 2007 to \$53,835 millions in FY 2008. Total budgetary resources were higher than prior year due to higher in both beginning unobligated balance and Appropriations during the year. FNS had \$74,888 million in total budgetary resources during FY 2008, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods.

At fiscal year end 2008, most (\$60,602 million or 81%) of those resources were obligated, though \$974 million or 1% remained unobligated and available, and another \$13,284 million (18%) was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and Food Stamps). In FY 2008, Net Outlays represented 80% of Total Budgetary Resources, compared to 77% in FY 2007.

Unobligated balances brought forward were higher in FY 2008 than in FY 2007 (almost \$15 billion compared to \$12 billion) because of the appropriations unused by the Food Stamp program at the end of FY 2007 that carried over into FY 2008. These funds were largely expired, and thus unavailable to support new obligations in FY 2008.

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Food and Nutrition Service

CONSOLIDATED BALANCE SHEETS
As of September 30, 2008 (CY) and 2007 (PY)
(Dollars in Millions)

	FY 2008 (CY)	FY 2007 (PY)
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury	\$ 18,546	\$ 19,044
Other (Note 6)	309	303
Total Intragovernmental	18,855	19,347
Accounts Receivable, net (Note 4)	261	235
General Plant, Property, and Equipment, net (Note 5)	10	15
Other (Note 6)	-	1
Total Assets	\$ 19,126	\$ 19,598
Liabilities (Note 7):		
Intragovernmental:		
Accounts Payable	\$ -	\$ -
Other (Note 8)	37	34
Total Intragovernmental	37	34
Accounts Payable	3	12
Federal Employee and Veterans Benefits	7	7
Benefits Due and Payable	2,764	2,854
Other (Note 8)	781	667
Total Liabilities	3,592	3,574
Net Position:		
Unexpended Appropriations - Other Funds	15,311	15,822
Cumulative Results of Operations - Other Funds	223	202
Total Net Position	\$ 15,534	\$ 16,024
Total Liabilities and Net Position	\$ 19,126	\$ 19,598

The accompanying notes are an integral part of these statements.

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Food and Nutrition Service

CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2008 (CY) and 2007 (PY)
(Dollars in Millions)

	FY 2008 (CY)	FY 2007 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 10)	\$ 60,552	\$ 54,348
Less: Earned Revenue	28	24
Net Program Costs	<u>60,524</u>	<u>54,324</u>
Net Cost of Operations	<u>\$ 60,524</u>	<u>\$ 54,324</u>

The accompanying notes are an integral part of these statements.

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Food and Nutrition Service

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
As of September 30, 2008 (CY) and 2007 (PY)
(Dollars in Millions)

	FY 2008 (CY)	FY 2007 (PY)
Cumulative Results of Operations:		
Beginning Balance	\$ 202	\$ 209
Beginning Balance, as adjusted	202	209
Budgetary Financing Sources:		
Appropriations Used	53,513	47,779
Transfers in/out without reimbursement	6,274	5,746
Other	-	-
Other Financing Sources (Non-Exchange):		
Imputed Financing	758	792
Total Financing Sources	60,545	54,317
Less: Net Cost of Operations	60,524	54,324
Net Change	21	(7)
Cumulative Results of Operations	223	202
Unexpended Appropriations:		
Beginning Balance	15,822	13,322
Beginning Balance, as adjusted:	15,822	13,322
Budgetary Financing Sources:		
Appropriations Received	53,835	51,314
Appropriations Transferred in/out	4	
Other Adjustments	(837)	(1,035)
Appropriations Used	(53,513)	(47,779)
Total Budgetary Financing Sources	(511)	2,500
Total Unexpended Appropriations	15,311	15,822
Net Position	\$ 15,534	\$ 16,024

The accompanying notes are an integral part of these statements.

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Food and Nutrition Service

COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2008 (CY) and 2007 (PY)

(Dollars in Millions)

	FY 2008 (CY)	FY 2007 (PY)
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$ 14,892	\$ 12,417
Recoveries of prior year unpaid obligations	637	761
Budget authority		
Appropriation	53,835	51,314
Spending authority from offsetting collections		
Earned		
Collected	85	86
Change in unfilled customer orders		
Advance received	(0)	(1)
Without advance from Federal sources	(0)	(1)
Subtotal	53,920	51,398
Nonexpenditure transfers, net, anticipated and actual	6,277	5,746
Permanently not available	(838)	(1,034)
Total Budgetary Resources	\$ 74,888	\$ 69,288
 Status of Budgetary Resources:		
Obligations Incurred:		
Direct	\$ 60,602	\$ 54,372
Reimbursable	28	24
Subtotal	60,630	54,396
Unobligated balance:		
Apportioned	974	639
Subtotal	974	639
Unobligated balance not available	13,284	14,253
Total status of budgetary resources	\$ 74,888	\$ 69,288
 Change in Obligated Balances:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 4,154	\$ 4,166
Total unpaid obligated balance, net	4,154	4,166
Obligations incurred net (+/-)	60,630	54,396
Gross outlays	(59,859)	(53,647)
Recoveries of prior year unpaid obligations, actual	(637)	(761)
Change in uncollected customer payments from Federal sources (+/-)	(0)	-
Obligated balance, net, end of period		
Unpaid obligations	4,288	4,154

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Uncollected customer payments from Federal sources	-	-
Total unpaid obligated balance, net, end of period	4,288	4,154
Net Outlays:		
Gross outlays	59,859	53,647
Offsetting Collections	(85)	(84)
Distributed offsetting receipts	(2)	3
Net Outlays	<u>\$ 59,773</u>	<u>\$ 53,566</u>

The accompanying notes are an integral part of these statements.

FOOD and NUTRITION SERVICE
NOTES TO THE 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 (FNS), as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated June 3, 2008. 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. GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body.

In accordance with the US Standard General Ledger and the Treasury Financial Manual FNS has clarified its reporting of the GAD Accrual. FNS performed an analysis of the GAD Accrual and determined that the GAD Accrual consist of Entitlement Benefits and Non Entitlement Benefits. For the FY 2008 Financial Statements FNS will report Entitlement Benefits as "Benefits Due and Payable" and report Non Entitlement Benefits as "Other Liabilities" on the Balance Sheet and related footnotes. In addition, FNS will not reflect these benefits as a portion of Accounts Payable on the Balance Sheet. The classification of these benefits have no impact on the amounts reported for Total Liabilities.

B. Reporting Entity

FNS, including the Center for Nutrition Policy and Promotion (CNPP), 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 67 field offices, four food stamp compliance offices, one computer support center in Minneapolis, Minnesota. 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 2008 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 Management Discussion & Analysis (MD&A).

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 for the Federal Government.

D. Accounts Receivable

The \$261 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 has 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 determined 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. Applying the model to actual data covering the periods FY 1984 through FY 2008, 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 4 percent of actual 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 Quality Control (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 FNS accounts receivable, the FSP QC estimate of FSP benefits overissued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 2007 QC error rates were announced in June 2008. Using this methodology, FNS estimates the value of benefit overissuance in Fiscal Year 2007 (the most recent year for which data are available) at \$1.392 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.

FNS 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 2008 financial statements. For FY 2007, three States were assessed liabilities for having excessive error rates for two consecutive years. The aggregate total of the liability was \$4.43. The three 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.

The QC over Issuance error rate data for the past 3 years follows:		
Fiscal Year	Rate Amount	Total \$ (Billions)
2007	4.58 %	\$ 1.392
2006	4.82 %	\$ 1.453
2005	4.53 %	\$ 1.294

E. Grants and Program Benefits

FNS records grant obligations based on the grant awards and food stamp program benefits based on the issuance of benefits to recipients. Funds for FNS 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 FNS 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.

F. 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.

G. 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 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, 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 (In Millions)		
Type of Contribution	Amount	
	2008	2007
CSRS/Transitional retirement contributions - Civil Service	\$0.3	\$0.3
FERS regular contributions	\$7.3	\$7.0
Thrift Savings Plan contributions	\$2.8	\$2.7
TOTAL	\$10.4	\$10.0

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.

Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the Office of Personnel Management (OPM).

H. 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 used at the time that program or administrative expenses are paid. FNS 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 FNS' nutrition programs. This includes the NPA appropriation, which provides funds for salaries and administrative expenses.

At the time grant awards are established, FNS 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.

I. Fund Balance With Treasury Accounts

The Fund Balance with Treasury represents the aggregate amount of funds in the FNS accounts with Treasury for which the agency is authorized to make expenditures and pay liabilities. The FNS Fund Balance with Treasury is primarily appropriated funds.

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 NOTES TO THE FINANCIAL STATEMENTS

Note 2. Non-Entity Assets

	2008	FY 2007
Intragovernmental:		
Fund balance with Treasury	\$1	\$1
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
Total Intragovernmental	1	1
With The Public		
Cash and other monetary assets	-	-
Accounts receivable	34	34
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related porperty	-	-
Other	-	-
Total With the Public	34	34
Total non-entity assets	35	35
Total entity assets	19,091	19,563
Total assets	\$ 19,126	\$ 19,598

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

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 NOTES TO THE FINANCIAL STATEMENTS

Note 3. Fund Balance with Treasury

Fund Balances:	FY 2008	FY 2007
Trust Funds	\$ -	-
Revolving Funds	-	-
Appropriated Funds	18,545	19,043
Other Fund Types	1	1
Total	18,546	19,044

Status of Fund Balance with Treasury:

Unobligated Balance:

Available	974	639
Unavailable	13,283	14,253
Obligated Balance not yet Disbursed	4,288	4,154

Non-Budgetary Fund Balance with Treasury:

Clearing Account Balances	1	(2)
Borrowing Authority not Yet Converted to Fund Balance	-	-
Total	\$ 18,546	\$ 19,044

Note 4. Accounts Receivable, Net

FY 2008	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 266	\$ 5	\$ 261
Total	\$ 266	\$ 5	\$ 261

FY 2007	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 240	\$ 5	\$ 235
Total	\$ 240	\$ 5	\$ 235

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(1) See Note 1.D. for further explanation of FNS' 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 2008 FNS' capitalization threshold for property and equipment is \$25 thousand. FNS' capitalization threshold for internal-use software is \$100 thousand. FNS owns no buildings or land. FNS follows recognition and measurement criteria in SFFAS No. 6 as amended by SFFAS No. 11 and 23, and USDA Departmental Regulation 2200-002, dated December 24, 2003. At year end, balances for Property, Plant, and Equipment were as follows:

FY 2008 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	5	3	2
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	23	8
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 36	\$ 26	\$ 10

FY 2007 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	3	2	1
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	17	14
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 34	\$ 19	\$ 15

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Note 6. Other Assets

	FY 2008	FY 2007
Intragovernmental:		
Advances to Others	\$ -	\$ -
Prepayments	-	-
Other Assets	309	302
Total Intragovernmental	309	302
With the Public:		
Advances to Others	-	-
Prepayments	-	-
Other Assets	-	1
Total With the Public	-	1
Total Other Assets	\$ 309	\$ 303

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

Note 7. Liabilities Not Covered by Budgetary Resources

	FY 2008	FY 2007
Intragovernmental:		
Accounts payable	\$ -	-
Debt	-	-
Other	1	1
Total Intragovernmental	1	1
With the Public:		
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	7	7
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	10	10
Total With the Public	17	17
Total liabilities not covered by budgetary resources	18	18
Total liabilities covered by budgetary resources	3,574	3,556
Total liabilities	\$ 3,592	\$ 3,574

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

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Note 8. Other Liabilities

FY 2008	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	\$
Other Accrued Liabilities		-		1	1
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		-		34	34
Other Liabilities		-		-	-
Total Intragovernmental		-		37	37
With the Public:					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		-		770	770
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		-		10	10
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		-	-
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		1	1
Prior Liens Outstanding or Acquired Collateral		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Custodial Liability		-		-	-
Other Liabilities		-		-	-
Total With the Public		-		781	781
Total Other Liabilities	\$	-	\$	818	\$
		818		818	

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FY 2007	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	-
Other Accrued Liabilities		-		2	2
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		-		(2)	(2)
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		(2)	(2)
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		-		34	34
Other Liabilities		-		-	-
Total Intragovernmental		-		34	34
With the Public:					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		-		655	655
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		-		10	10
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		2	2
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		-	-
Prior Liens Outstanding or Acquired Collateral		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Custodial Liability		-		-	-
Other Liabilities		-		-	-
Total With the Public		-		667	667
Total Other Liabilities	\$	-	\$	701	\$ 701

Note 9. Intragovernmental Cost and Exchange Revenue

Child Nutrition	FY 2008		FY 2007
Intragovernmental Costs	\$ 602	\$	653
Public Costs	\$ 13,892	\$	13,094
Total Costs	\$ 14,494	\$	13,747
Intragovernmental Earned Revenue	\$ -	\$	-
Public Earned Revenue	\$ -	\$	-
Total Earned Revenue	\$ -	\$	-
Food Stamp			
Intragovernmental Costs	\$ 81	\$	61
Public Costs	\$ 39,095	\$	34,726
Total Costs	\$ 39,176	\$	34,787
Intragovernmental Earned Revenue	\$ -	\$	-
Public Earned Revenue	\$ 27	\$	20
Total Earned Revenue	\$ 27	\$	20
Other	FY 2008		FY 2007
Intragovernmental Costs	\$ 121	\$	104
Public Costs	\$ 275	\$	240
Total Costs	\$ 396	\$	344
Intragovernmental Earned Revenue	\$ 1	\$	2
Public Earned Revenue	\$ -	\$	-
Total Earned Revenue	\$ 1	\$	2
Women, Infants & Children			
Intragovernmental Costs	\$ -	\$	1
Public Costs	\$ 6,251	\$	5,250
Total Costs	\$ 6,251	\$	5,251
Intragovernmental Earned Revenue	\$ -	\$	-
Public Earned Revenue	\$ -	\$	-
Total Earned Revenue	\$ -	\$	-

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 NOTES TO THE FINANCIAL STATEMENTS

Commodity Assistance Program	FY 2008		FY 2007	
Intragovernmental Costs	\$	12	\$	20
Public Costs	\$	223	\$	199
Total Costs	\$	235	\$	219
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	2
Total Earned Revenue	\$	-	\$	2

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

Note 10. Program Costs By Segment

For the year ended September 30, 2008

	CHILD NUTRITION	FOOD STAMP	women Infants &	Commodi y Assistance	OTHER	Consolidated Total
Total Gross Costs	14,494	39,176	6,251	235	396	60,552
Less Earned Revenue:	0	27	0	0	1	28
Net Goal Costs:	14,494	39,149	6,251	235	395	<u>60,524</u>
Net Cost of Operations						<u>60,524</u>

For the year ended September 30, 2007

	CHILD NUTRITION	FOOD STAMP	women Infants &	Commodi y Assistance	OTHER	Consolidated Total
Total Gross Costs	13,747	34,787	5,251	219	344	54,348
Less Earned Revenue:	0	20	0	2	2	24
Net Goal Costs:	13,747	34,767	5,251	217	342	<u>54,324</u>
Net Cost of Operations						<u>54,324</u>

Note 11. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$25.4 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 FNS' FSP infrastructure. That is, they utilized electronic benefits transfer (EBT) issued benefits from FNS which are transacted at FNS 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 FNS for the amount of the benefits issued as well as reimburse FNS for the costs of redeeming benefits. During fiscal year 2008, 3 States participated in this program, which generated earned revenues of \$25.4.

Note 12. Apportionment Categories of Obligations Incurred: Direct vs Reimbursable Obligations

FY 2008	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 60,602	\$ 28	\$ 60,630
Apportionment for Special Activities	-	-	-
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 60,602	\$ 28	\$ 60,630

FY 2007	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 54,372	\$ 24	\$ 54,396
Apportionment for Special Activities	-	-	-
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 54,372	\$ 24	\$ 54,396

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

Differences exist between FNS' FY 2007 Statement of Budgetary Resources (SBR) (as provided to the Department for consolidation purposes) and the FY 2007 actual numbers presented in the FY 2009 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2007 SBR	\$ 69,288	\$53,563
Less: Expired Accounts not Included in Budget	\$8,350	\$0
Add: Parent Child Relationship (CSREES)	\$9	\$5

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 NOTES TO THE FINANCIAL STATEMENTS

Add: Differences due to Rounding	\$(1)	\$1
Budget of the U.S. Government	\$60,946	\$53,569

The actual numbers for the President's Budget has not yet been published as of FNS' FY 2008 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at www.whitehouse.gov.

Note 14. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2008 and 2007 was \$780 and \$663, respectively.

Note 15. Incidental Custodial Collections

Revenue Activity:	FY 2008	FY 2007
Sources of Collections:		
Miscellaneous	\$ (8)	\$ (12)
Total Cash Collections	(8)	(12)
Accrual Adjustments	-	3
Total Custodial Revenue	(8)	(9)
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	8	9
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2008 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 FNS.

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Note 16. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

Resources Used to Finance Activities:	<u>FY 2008</u>	<u>FY2007</u>
Budgetary Resources Obligated		
Obligations Incurred	\$ 60,630	\$ 54,396
Less: Spending authority from offsetting collections and recoveries	722	845
	-----	-----
Obligations net of offsetting collections and recoveries	59,908	53,551
Less: Offsetting receipts	1	-
	-----	-----
Net Obligations	59,907	53,551
Other Resources		
Donations and forfeitures of property	-	-
Transfers in (out) without reimbursement	-	-
Imputed financing from costs absorbed by others	758	792
Other	-	-
	-----	-----
Net other resources used to finance activities	758	792
	<u>FY 2008</u>	<u>FY 2007</u>
Total resources used to finance activities	60,665	54,342
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	(121)	(26)
Resources that fund expenses recognized in prior periods	(1)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increases liabilities for loan guarantees or allowances for subsidy	-	-
Change in Unfilled Customer Orders	-	(3)
Decrease in exchange revenue receivable from the public	-	-
Other	-	-
Resources that finance the acquisition of assets	(1)	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations	2	-
	-----	-----
Total resources used to finance items not part of the net cost of operations	(121)	(29)
	-----	-----
Total resources used to finance the net cost of operations	60,544	54,313

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Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	-	-
Increase in environmental and disposal liability	-	-
Upward/Downward reestimates of credit subsidy expense	-	-
Increase in exchange revenue receivable from the public	-	-
Other	(33)	1
	-----	-----
Total components of Net Cost of Operations that will require or generate resources in future periods	(33)	1
Components not Requiring or Generating Resources:		
Depreciation and amortization	6	10
Revaluation of assets or liabilities	-	-
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	12	1
Cost of Goods Sold	-	-
Other	(5)	(1)
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources	13	10
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources in the current period	(20)	11
	-----	-----
Net Cost of Operations	\$ 60,524	\$ 54,324

FOOD AND NUTRITION SERVICE

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

STEWARDSHIP INVESTMENTS

(Amounts shown are in millions)

Human Capital

1. A. Food Stamp Program

B. Program Expense	<u>2008</u>	<u>2007</u>
1. Employment and Training	\$36	\$51

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 779,173 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,318,019 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>2008</u>	<u>2007</u>
1. ADP Equipment & Systems	\$32	\$20

FNS' nonfederal physical property consists 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 (WIC)

B. Program Expense	<u>2008</u>	<u>2007</u>
1. ADP Equipment & Systems	\$11	\$15

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