



U.S. Department of Agriculture



Office of Inspector General
Northeast Region

Audit Report

Food and Nutrition Service Financial Statements for Fiscal Years 2006 and 2005

Report No. 27401-31-HY
November 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



November 8, 2006

REPLY TO

ATTN OF: 27401-31-HY

TO: Nancy Montanez Johner
Under Secretary
for Food, Nutrition, and Consumer Services

ATTN: Gary Maupin
Deputy Administrator
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 2006 and 2005

This report presents the results of our audit of FNS' financial statements for the fiscal years ending September 30, 2006 and 2005. 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.

Executive Summary

Food and Nutrition Service Financial Statements for Fiscal Years 2006 and 2005 (Report No. 27401-31-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; budgetary resources; and reconciliation of net costs to budgetary obligations, (2) the internal control objectives were met, and (3) the Food and Nutrition Service (FNS) complied with laws and regulations for those transactions and events that could have a 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 2006 and 2005, including the accompanying notes, present fairly in all material respects, the assets, liabilities, and net position of FNS, as of September 30, 2006 and 2005; and its net costs, changes in net position, budgetary resources, and reconciliations of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 (IPIA).

Key Recommendations We recommended that FNS disclose in its Management Discussion and Analysis (MDA) the status of its compliance with the IPIA.

Agency Position FNS officials concurred with our recommendation. The MDA prepared by FNS discusses its IPIA status and the actions being taken to bring FNS into full compliance with the statute.

OIG Position

Since FNS disclosed the status of its IPIA compliance, we are making no additional recommendations. An additional response is not required.

Abbreviations Used in This Report

FNS	Food and Nutrition Service
IPIA	Improper Payments Information Act
MDA	Management Discussion and Analysis
OMB	Office of Management and Budget
RSSI	Required Supplemental Stewardship Information

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Report of the Office of Inspector General

To: Nancy Montanez Johner
Under Secretary
for Food, Nutrition and Consumer Services

We have audited the accompanying balance sheet of the Food and Nutrition Service (FNS) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as the “financial statements,” previously referred to as the “consolidated financial statements”) for the fiscal years 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. 06-03, “Audit Requirements for Federal Financial Statements.” Those standards and OMB Bulletin No. 06-03 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FNS as of September 30, 2006 and 2005; and its net cost, changes in net position, reconciliation of net cost to budgetary obligations, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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, and,

in considering the results of the audit, these reports should be read in conjunction with this report. Our report on compliance with laws and regulations disclosed that FNS was not in full compliance with the Improper Payments Information Act of 2002.

This report is intended solely for the information of 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.

/s/

Robert W. Young
Assistant Inspector General
for Audit

November 8, 2006



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

To: Nancy Montanez Johner
Under Secretary
for Food, Nutrition and Consumer Services

We have audited the accompanying balance sheet of the Food and Nutrition Service (FNS) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as the “financial statements,” previously referred to as the “consolidated financial statements”), and have issued our report thereon dated November 8, 2006. 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. 06-03, “Audit Requirements for Federal Financial Statements.”

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. 06-03 and Government Auditing Standards. We did not test all internal controls as defined by the Federal Managers’ Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on 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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency’s ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal

course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

Additional Other Procedures

As required by OMB Bulletin No. 06-03, we considered the 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.

As further required by OMB Bulletin No. 06-03, 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.

This report is intended solely for the information and use of 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.

/s/

Robert W. Young
Assistant Inspector General
for Audit

November 8, 2006



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

To: Nancy Montanez Johner
Under Secretary
for Food, Nutrition and Consumer Services

We have audited the accompanying balance sheet of the Food and Nutrition Service (FNS) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources for the fiscal years ended (hereinafter referred to as the “financial statements,” previously referred to as the “consolidated financial statements”), and have issued our report thereon dated November 8, 2006. 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. 06-03, “Audit Requirements for Federal Financial Statements.”

The management of the 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, and governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to 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 of compliance disclosed no instances of reportable noncompliance with other laws and regulations discussed in the second paragraph of this report, with the exception of the Improper Payment Information Act of 2002 (IPIA) that are required to be reported under Government Auditing Standards and OMB Bulletin No. 06-03. Additionally, the results of our tests disclosed no instances in which FNS’ financial management systems did not substantially comply with FFMIA. We did observe that FNS was not in full compliance with requirements of the IPIA regarding the design of program internal controls relating to reporting improper payments. The IPIA requires that all programs susceptible to significant improper payments should report an estimate of the payments. FNS has not reported estimated payment errors for the National School Lunch Program; School Breakfast Program; and Special Supplemental

Nutrition Program for Woman, Infants, and Children; and the Child and Adult Care Food Program. FNS is working on developing methodologies to provide accurate estimates of improper payments for these programs in accordance with the agreement with OMB. We recommended that FNS disclose its compliance status. FNS officials agreed and included this information in Footnote 4 of the Management Discussion and Analysis.

This report is intended solely for the information and use of 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.

/s/

Robert W. Young
Assistant Inspector General
for Audit

November 8, 2006

Exhibit A –Financial Statements

**USDA
FOOD AND NUTRITION SERVICE**

Fiscal Years 2006 and 2005

**(PREPARED BY
FOOD AND NUTRITION SERVICE)**

MANAGEMENT DISCUSSION AND ANALYSIS

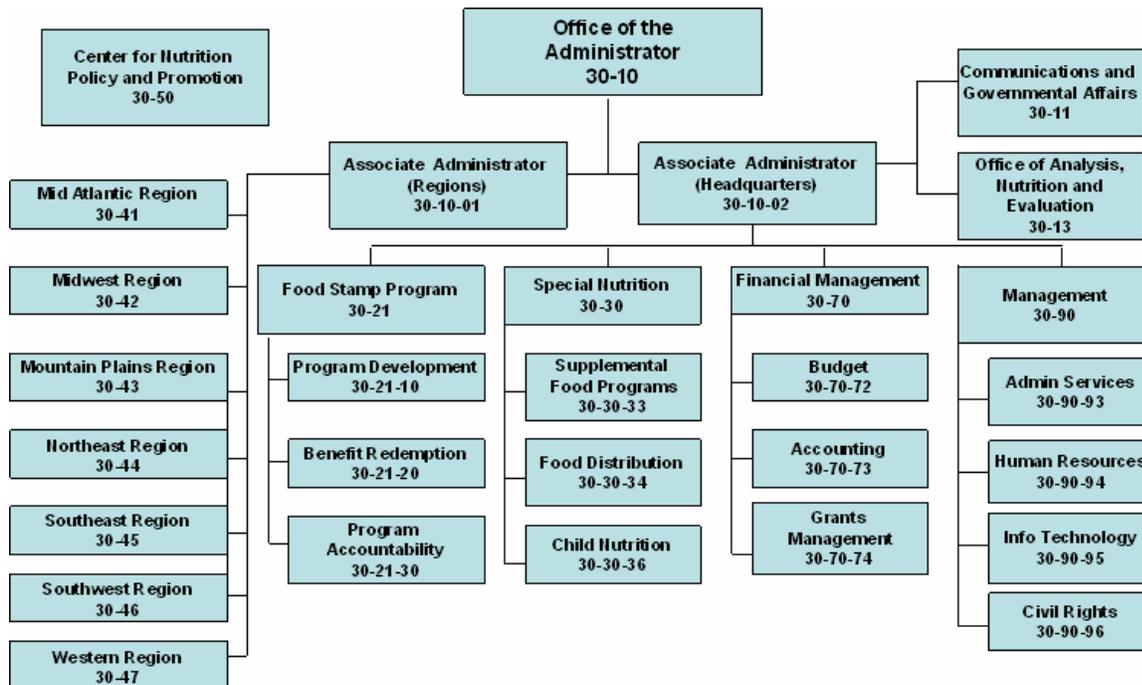
Section 1. Mission, Organizational Structure and Programs

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.

FNS Organization Chart



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 26 million low-income people. It enables participants, over 50 percent 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 50 States and the District of Columbia. 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.

- *Child Nutrition (CN) Programs:* The National School Lunch (NSLP), School Breakfast (SBP), Special Milk (SMP), Child and Adult Care (CACFP), and Summer Food Service (SFSP) Programs provide reimbursement to State and local governments for nutritious meals and snacks served to approximately 30 million children in schools, child care institutions, adult day care centers, and after-school care programs. 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*, which provides fresh produce to WIC participants.

- *Food Distribution Programs include:*
 - *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.
 - *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.
 - *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 Assistance:* This program involves food assistance to the nuclear-affected zones of the Republic of the Marshall Islands. It takes the form of commodities and administrative funds.
- *Disaster Assistance:* Disaster Relief funds are provided for use in non-Presidentially declared disasters.

FNS Staff:

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

FNS staff is funded primarily out of the Nutrition Programs Administration account, which represents approximately one-third 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. Because of the small size of the agency's staff relative to the resources it manages, FNS has created clear and specific performance measures and must focus its management efforts in a limited number of high-priority areas.

Program operations are managed through FNS' seven regional offices and 69 subordinate field offices/satellite locations. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNS programs. The agency's regional offices also conduct on-site management reviews of State operations and monitor the 160,288 stores participating in the Food Stamp Program.

As of September 30, 2006, there were 1,367 full-time permanent and 27 part-time and temporary employees in the agency. There were 515 employees in the Washington headquarters office; and 879 in the field, which includes seven regional offices, 69 field offices, four food stamp compliance offices in Illinois, Texas, New Jersey, and Tennessee; one computer support center in Minneapolis, Minnesota; and one administrative review office.

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

USDA Strategic Goal 5: Improve the Nation's Nutrition and Health

FNS made strides in promoting access to a nutritious diet and healthy eating behaviors for everyone in the U.S., in 2006. Through its leadership of the Federal nutrition-assistance programs, the agency made a healthier diet available for millions of children and low-income families. Interactive tools were used to help consumers establish and maintain healthy diets and lifestyles, consistent with the *Dietary Guidelines for Americans* and the President's HealthierUS initiative. Key accomplishments included:

- **Promoting access to the Food Stamp Program (FSP).** Food stamps help low-income families and individuals purchase nutritious low-cost food. FSP is the Nation's largest nutrition assistance program, serving 26.5 million people in an average month in FY 2006. The program enables eligible participants to improve their diets by increasing their food-purchasing power via benefits redeemable at retail grocery stores and farmers markets across the nation.
- **Continuing to ensure that the MyPyramid food guidance system serves the American public as an individualized approach to nutritional well-being and active living.** The high number of e-hits to MyPyramid.gov - over 2 billion in FY 2006 - continued to show users' interest in personalizing their diet. To date, there are over 1.5 million registrations to the MyPyramid Tracker, the dietary and physical activity assessment tool. The new MyPyramid for Kids and *MiPiramide* materials were made available in FY 2006. And an on-line customer satisfaction survey shows that 88 percent of consumers said that the information and interactive tools at MyPyramid.gov prompted them to take action to improve their health.
- **Continuing to ensure that Food Stamp benefits are accurately issued.** The National Food Stamp Program payment accuracy rate for FY 2005 was 94.16 percent; an all time high and a 34 percent reduction in error from just five years ago. This improvement is a result of strong partnerships with States' administering agencies, and program simplifications and policy options provided in the 2002 Farm Bill.

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 Program, 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)

Objective 5.1: Improve Access to Nutritious Food

FNS' nutrition assistance programs represent the Federal Government's core effort to reduce hunger and improve nutrition across the U.S. These programs aided one in five people in the U.S. during FY 2006. They promote better health for all people in the U.S., support the transition to self-sufficiency for low-income working families and support children's readiness to learn in school. A well-nourished, physically-active population is healthier, more productive and better able to fulfill its full potential.

In 2006, the agency continued to work with States to implement Food Stamp Program (FSP) provisions from the Farm Bill of 2002 that provides States with options to simplify the administration of the program. The agency also continued efforts to monitor and track outreach efforts to targeted populations to participate in the program. FNS continued a media campaign to inform low-income people of their potential eligibility. The agency also provided technical assistance, outreach and participation grants and guidance to faith- and community-based organizations to encourage FSP participation.

By working in partnership with States, FNS continues to implement effective nutrition assistance programs and deliver program benefits to eligible participants. The programs promote access to a nutritious and adequate diet for those with little income and few resources. For a variety of reasons, many individuals and families eligible to participate in these programs do not. In FY 2006, FNS focused on increasing the rate of participation among people eligible for Food Stamps and expanding access to the School Breakfast Program (SBP), which is not as widely available as the National School Lunch Program.

While SBP provides cash assistance to States to operate breakfast programs in schools and residential child care institutions, many children that could benefit from breakfast at school do not currently make use of the program. On an average school day in FY 2006, more than 50 million children had access to school lunch and about 30 million children chose to eat a program lunch, but only about 9.8 million children received a school breakfast. FNS promoted the SBP by raising awareness of the program's availability with State and civic leaders, and supporting and celebrating National School Breakfast Week.

The agency also continued to serve those eligible for the Special Supplemental Nutrition Program for Women, Infants and Children Program (WIC) who wish to participate within authorized funding levels – about 8.1 million pregnant women, new mothers and their young children in an average month in FY 2006. WIC helps to safeguard the health of low-income women, infants and children up to age five who are at nutritional risk. The program provides nutritious foods to supplement diets, information on healthy eating and referrals to health care.

Finally, FNS reached out to a wide range of faith-based and community organizations to deliver program benefits and services, and encourage access to the programs.

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. While recent changes in FSP have made more low-income people eligible, many may be unaware of the opportunity to receive these benefits. FNS looks to improve access to and promote awareness of these programs among those who may benefit from their services with continued outreach and information strategies.

FNS's ability to achieve this objective depends partly on adequate legislative authority for policies and program initiatives. These initiatives would promote effective access to nutrition assistance and funding to support program participation for all eligible people who seek service. The quality of program delivery by third parties—hundreds of thousands of State and local Government workers and their cooperators—is critical to agency efforts to reduce hunger and improve nutrition. Economic changes can affect both the number of people eligible and the ability of cooperators to provide services.

Key Outcome: Reduce Hunger and Improve Nutrition

FNS is committed to providing access to nutritious food through the major nutrition assistance programs for all eligible people who wish to participate. In FY 2006 participation increased in FSP and SBP and was maintained in WIC.

Exhibit 1: Improve Access to Nutritious Food

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
5.1.1 Improve Access to Nutritious Food:			Met
Food Stamp Program Avg. Monthly Participation (millions of people)	26.9	26.5	
National School Lunch Program Avg. Daily Participation (millions of people)	30.2	30.1	
School Breakfast Program Avg. Daily Participation (millions of people)	9.8	9.8	
Special Supplemental Nutrition Program for Women, Infants and Children (WIC) Monthly Participation (millions of people)	8.2	8.1	

Analysis of Results - In general, nutrition assistance program participation in FY 2006 reached levels as projected. 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 2: Trends in Improving Access to Nutritious Food

Trends (in millions of people)	Fiscal Year Actual				
	2002	2003	2004	2005	2006
Food Stamp Program Avg. Monthly Participation	19.1	21.3	23.9	25.7	26.5
National School Lunch Program Avg. Daily Participation	28.0	28.4	29.0	29.6	30.1
School Breakfast Program Avg. Daily Participation	8.1	8.4	8.9	9.4	9.8
WIC Program Monthly Participation	7.5	7.6	7.9	8.0	8.1

Source: National Data Bank data as of June 22, 2006 (subject to change)

Food Stamp Program - The program served approximately 26.5 million participants monthly in FY 2006, an increase of 3 percent from FY 2005 and the fourth year in a row of participation increases. FNS executed a range of efforts to support and encourage food stamp participation in FY 2006, including:

- Promoted the use of State policy options that promote outreach and improve access to the program.
- Continued to implement FSP public information campaign. In March 2006, three new paid advertisements in English began airing in 49 media markets and on 2 Statewide radio networks across the nation. Twelve of the markets also aired two new ads in Spanish. Ads aired during March, April, July and August.
- Continued work with the Social Security Administration to implement Combined Application Projects (CAP) demonstrations, which streamline the eligibility determination process and assist in improving FSP participation among elderly. Thirteen States have been approved to operate CAP projects, two States have plans under review, and six States are planning to submit plans in the next few months.
- Awarded 15 grants to small community and faith based organizations to conduct localized outreach activities.
- Awarded five participation grants totalling \$5 million to increase access to the FSP. The participation grants focus on efforts to simplify both the application process and eligibility systems and complement the outreach grants.
- Worked successfully with States to plan and implement 1,600 outreach activities with faith based and community-based organizations and public agencies.

FNS 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 most recent data, for 2004, indicates that approximately 23 million of the 38 million individuals who were eligible for food stamp benefits in an average month of 2004 participated, a participation rate of 60 percent. The program provided 71 percent of the total benefits that all eligible individuals could receive, one indicator that people who are eligible for higher benefits are more likely to participate than

others. The overall participation rate increased by nearly five percentage points between 2003 and 2004, the third annual increase in participation rates after falling for seven years.

National School Lunch Program—NSLP participation levels reached 30.1 million in FY 2006, up 1.7% from FY 2005 and continuing the trend of increases in recent years. NSLP provides nutritious meals to millions of children at school; more than 95,000 schools operated the program in FY 2006.

School Breakfast Program - SBP participation levels reached 9.8 million in FY 2006, up 5 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 78,000 schools operated the program in FY 2006. FNS continued to support and encourages SBP participation in FY 2006 by:

- Promoting SBP through such activities as School Breakfast Week, which involves schools across America in highlighting the program through events, posters and student activities in 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;
- Developing School Breakfast outreach materials for schools and parents; and
- Continuing to advance the implementation of the Child Nutrition/WIC Reauthorization Act of 2004.

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 use reflects FNS's continuing efforts to encourage schools to operate the program.

WIC Program - In FY 2006, 8.1 million participants received WIC benefits. FNS continued to work with OMB, Congress, and its State cooperators to ensure that funding was available to support participation for all those eligible who wish to participate.

FNS recently implemented a new methodology to estimate the number of people eligible to participate in WIC. The most recent data available shows that 57.1% of eligible women, infants, and children participated in the program in 2003, a slight decrease from 2002 but generally consistent with the rate since 2000.

Objective 5.2: Promote Healthier Eating Habits and Lifestyles

Eating healthfully is vital to reducing the risk of death or disability due to heart disease, certain cancers, diabetes, stroke, osteoporosis and other chronic illnesses. Despite this, a large gap remains between recommended dietary patterns and what people in the United States actually eat. FNS uses Federal nutrition policy and nutrition education, both for the general public and for those served by the nutrition assistance programs, to provide scientifically based information about healthful diets and lifestyles. FNS uses, for example, the *Dietary Guidelines for Americans* and MyPyramid to help Americans make wise choices related to food and physical activity. The *Guidelines* provide advice about food choices that promote health and prevent disease, and MyPyramid provides the educational tools to help Americans take the necessary "Steps to a Healthier You."

Overweight and obesity is one of the leading causes of premature death and disability in the United States. Improved diets can help with weight management and reduce the risk of certain types of cancers, as well as type II diabetes, which is the most common form of diabetes. Thus, FNS' efforts focus on updating nutrition policy, providing information and promoting behavioral changes that can reduce overweight, obesity and other diet-related health conditions. These actions hold the potential to improve the lives of millions of Americans and reduce the social costs of these conditions.

Science has established strong links between diet and health. Researchers attribute about 300,000 premature deaths annually to poor diets. The total costs attributed to overweight and obesity are estimated to be nearly \$120 billion

annually. Even small improvements in the average diet would yield large health and economic benefits to individuals and society as a whole.

To this end, FNS will continue promoting healthier eating and lifestyle behaviors as a vital public-health issue. The *Dietary Guidelines for Americans* is the cornerstone of Federal nutrition guidance. Using the 2005 *Dietary Guidelines*, and MyPyramid, the educational tool of the Guidelines, FNS will continue its leadership role of providing advice on patterns Americans can follow to improve overall health through proper nutrition and physical activity.

In the same vein, the nutrition assistance programs managed by FNS touch the lives of one in five Americans – an enormous opportunity to promote healthier behaviors. In 2006, FNS maintained its focus on providing benefits to children and low-income people that contribute to a healthful diet, with skills and motivation to encourage healthful eating and increased physical activity. For example, in the Food Stamp Program, with the help of stakeholders, FNS established a set of Guiding Principles that provide the foundation for nutrition education for FSP applicants, recipients and those eligible for the Food Stamp Program. In FY 2006, the Principles were incorporated into guidance for developing State Food Stamp nutrition education plans starting with Fiscal Year 2007.

Challenges for the Future - FNS's goal of reducing obesity levels begins with understanding what constitutes a healthy diet and the appropriate balance of exercise. Ultimately, however, 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. Accomplishing this understanding requires data that link behavior and consumption decisions for individuals of various backgrounds, regions, ages and genders. While data exists on a national scale, current survey sample sizes do not yield reliable information for population subgroups.

While updated Federal nutrition guidance is an important step in helping Americans develop and maintain healthier diets and lifestyles, using this guidance to motivate Americans to change remains a formidable task in light of the limited resources available for nutrition promotion. FNS will continue to explore ways to devote significant long-term resources to develop consumer-friendly and cost-effective nutrition education materials, and to make use of partnerships and "information multipliers" to maximize the reach and impact of these materials. Promotional materials will be used both within Federal nutrition-assistance programs and with the general public.

More broadly, attaining performance outcomes in this area depends partly on the emphasis that the Nation places on healthier eating, including products and practices in the food marketplace. Additionally, physical activity and other lifestyle issues have a significant affect on body weight and health.

Key Outcome: Promote More Healthful Eating and Physical Activity across the Nation

FNS promotes healthful eating through its comprehensive nutrition assistance, research and education programs. Efforts are targeted to nutrition-assistance program participants and the general public. For each target audience, the challenge is to find effective ways to translate research into working knowledge to understand what people eat, and to find effective strategies to reach target populations with promotional information and messages.

FNS tracks its annual performance in promoting healthful eating and physical activity by monitoring its annual distribution of nutrition education materials.

Exhibit 3: Promoting Healthier Eating Habits and Lifestyles

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
5.2.1 Promote Healthy Eating habits and Lifestyles: Application and usage level of nutrition guidance tools	1.5 billion pieces ³ of nutrition guidance distributed	2.18 billion	Exceeded

Analysis of Results - To meet the needs of the general population, FNS continued its leadership role in the promotion of nutrition guidance through educational tools that are designed to motivate Americans to “Step Up to a Healthier You:

- Usage level of nutrition guidance tools was substantial for FY 2006, as it was for FY 2005. Nearly 2.2 billion pieces of information were distributed via MyPyramid.gov and printed materials. Visitors to MyPyramid.gov used not only MyPyramid interactive tools, My Pyramid for Kids and *MiPiramide* but also used MyPyramid for Kids, a specialized version of MyPyramid designed to promote dietary changes to children 6- to 11-years old, and MiPirámide, a Spanish-language version of *MyPyramid*. To date, there are 1.56 million registered users of MyPyramid Tracker⁴, the assessment tool for dietary and physical activity status.
- Results from a customer satisfaction survey of MyPyramid.gov have been positive. Over 6 months, responses by site visitors continued to confirm the usefulness of MyPyramid.gov:
 - Overall, the site received a satisfaction score of that ranged from 69 to 83. The score was based on site content, functionality, look and feel, navigation, search, and site performance.
 - Most survey respondents to the site continued to be general consumers, students, and educators and teachers: 71 to 77 percent.
 - Most survey respondents believed the level and depth of the information at MyPyramid.gov met their needs: 64 to 78 percent.
 - Most survey respondents said that the information at MyPyramid.gov prompted them to take action regarding their health: 69 to 75 percent.
 - Of those who were prompted to take action, most said they changed their diet or their family’s diet, reduced unhealthful eating habits, started monitoring their intake, developed a personalized plan, or established a goal for physical activity: 73 to 85 percent.

Exhibit 4: Trends to Promote Healthier Eating Habits and Lifestyles

Trends	Fiscal Year Actual				
	2002	2003	2004	2005	2006
Application and usage level of nutrition guidance tools	N/A	N/A	N/A	1.0 billion	2.2 billion

Evidence from a range of sources indicates that problems related to diet quality persist, both among low-income people and the general population. FNS’ ongoing efforts during this period to promote behavior change, both through the nutrition assistance programs and its nation-wide nutrition policy and promotional efforts have been focused on motivating changes to reduce and prevent excessive weight gain and obesity.

³The total represents the number of e-hits to MyPyramid.gov links and number of print materials distributed

⁴Data on the number of registrations to MyPyramid Tracker are cumulative from April 19, 2005; therefore, that information is reported separately.

Objective 5.3: Improve Food Program Management and Customer Service

FNS is committed to ensuring that nutrition-assistance programs serve those in need at the lowest possible cost, and with 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. FNS focused on maintaining strong performance in the food stamp payment-accuracy rate as its key performance goal in this area.

FNS continued to improve management practices by reducing program errors and enhancing customer service. The delivery of food-stamp benefits remains a priority of the Department, as it continues to work with its State agency partners in maintaining a high level of integrity in administering nutrition assistance programs. Our continued focus in 2006 on improving nutrition-assistance program management and customer service reflects FNS’ long-term core commitment to prevent waste, inefficiency and abuse that diverts taxpayer resources from the core purposes and goals of these programs. The sheer size of these programs demands that the utmost attention be given to applying efficient management practices and, to the extent possible, preventing errors in distributing benefits. Deficiencies in customer service undermine the effectiveness of the programs in reaching clients with the benefits they need. Maintaining public trust in Federal nutrition-assistance programs is vital to their success and continued support.

Challenges for the Future - Some improper payment risks are inherent to the legislatively mandated program structure. The nutrition assistance structure is intended to serve people in special circumstances and settings. FNS must shape its management approach in light of the need to make services convenient and accessible to participants. In addition, State and local Governments bear direct responsibility for delivering the programs. Thus, the agency must work with State and local personnel 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 and prevents or minimizes error, waste and abuse.

To meet the challenge of continued improvements in payment accuracy in the Food Stamp Program (FSP), FNS continues to dedicate resources to this area. Despite this, 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. It remains to be seen how States will react to these changes. Additionally, State budgets have been and will continue to be extremely tight. This factor could hurt State performance in the payment-accuracy arena. FNS will continue to provide technical assistance and support to maintain payment accuracy in the context of this changing program environment.

Key Outcome: Maintain a High Level of Integrity in the Nutrition Assistance Programs

While 2006 data are currently unavailable, Food Stamp payment accuracy reached a record high in 2005, reflecting strong efforts in this area that have resulted in significant reductions in error over the past several years. Even small changes in the food stamp error rate can save millions of dollars.

Exhibit 5: Increase Efficiency in Food Management

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
5.3.1 Improve Food Program Management and Customer Service Increase Food Stamp Payment Accuracy Rate	93.8%	N/A	Deferred

Analysis of Results – The FY 2006 Food Stamp Payment Accuracy Rate will become available in June 2007. The FY 2005 Food Stamp Payment Accuracy Rate was a new record high of 94.16 percent, the seventh consecutive year of improvement and a reduction in error of 34% from five years earlier. Of the total FY 2005 payment error rate of 5.84 percent, 4.53 percentage points represent the over issuance of benefits; the other 1.31 percentage points represent under issuance of benefits. Performance highlights include:

- Thirty-two State agencies, including Illinois, Pennsylvania, and Texas, achieved a payment error rate of less than 6 percent. California, with a payment error rate of 6.38 percent, continued to improve from its FY 2002 error rate of 14.84 percent.
- Three State agencies in FY 2005 were assessed liabilities totaling an aggregate of \$3.6 million for having excessive error rates for two consecutive fiscal years.

FNS efforts such as the Partner Web (an intranet site for State Food Stamp agencies) and the National Payment Accuracy Work Group (consisting of representatives from FNS headquarters and regional offices) contributed significantly to this success by making timely and useful payment accuracy-related information and tools available across regions and States. Additionally, FNS continued to use an early detection system to target States that may be experiencing a higher incidence of errors based on preliminary QC data. Actions are then taken by Regional offices to address these situations in the individual States.

Exhibit 6: Trends in Increased Efficiency in Food Management

Trends	Fiscal Year Actual				
	2002	2003	2004	2005	2006
Food Stamp Payment Accuracy Rate	91.7%	93.4%	94.1%	94.2%	TBD

FNS' close working relationship with its State partners over the last several years, along with program changes to simplify rules and reduce the potential for error, has resulted in consistent increases in the Food Stamp Payment Accuracy rate. One of the most important factors in maintaining improved performance in this area is the need for State partners to continue and renew their leadership commitment to excellence in payment accuracy. To support State improvement, FNS will continue efforts with the National Payment Accuracy Work Group to share best practice methods and strategies. FNS also will continue to resolve Quality Control liabilities through settlements, which require States to invest in specific program improvements.

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 2006 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 Section 2 and Section 4 of FMFIA, respectively, for the period ending September 30, 2006. Based on the results of this evaluation, FNS can provide reasonable assurance that internal controls are operating effectively and no new material weaknesses or reportable conditions were identified.

While FNS is able to provide reasonable assurance relating to FMFIA Section 2 on program controls for FY 2006, continued reductions in FNS administrative resources, significant changes in program design, and/or additional administrative requirements may compromise FNS' ability to adequately execute internal controls over program management and limit FNS' ability to design and implement any additional controls that may be needed in the future.

Federal Financial Management Improvement Act (FFMIA) Assurance

FNS has evaluated its financial management systems under FFMIA for the period ended September 30, 2006. Based on the result of our evaluation, the agency is in substantial compliance with the FFMIA for the following sections:

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

The agency has put in place remediation plans and procedures to adequately address security deficiencies identified by the USDA OIG in its FY 2005 Financial Statements Audit Report No. 27401-1-FM.

Assurance for Internal Control over Financial Reporting

FNS conducted its assessment of the effectiveness of internal control over financial reporting for the period ended June 30, 2006 in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Appendix A. This assessment included an evaluation of entity level controls, process descriptions, risk assessments, documentation of key controls, an assessment of the design of key controls, and tests of effectiveness of properly designed controls. FNS recognizes its responsibility for monitoring and correcting all control deficiencies.

Based on the results of this activity, no new material weaknesses or reportable conditions were identified. FNS can provide reasonable assurance that internal controls over financial reporting are operating effectively. Additionally, there were no changes to financial reporting controls or processes for the period July through September 2006.

FNS currently has sufficient resources to execute its existing internal controls over financial reporting. However, future reductions in FNS resources or significant changes in program design without commensurate increases in administrative resources may compromise FNS' ability to adequately execute internal controls over

financial reporting already in place or limit FNS' ability to design and implement any additional controls that may be needed in the future.

OIG Audit Handling Process and Performance Report

The Audit Handling and Reporting Processes

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;
 - 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;
 - 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.

Audit Handling Performance

The number of FNS audits without final action more than one year after management decision has declined by more than 50 percent since FY 2004.⁵ The Inspector General Act Amendments of 1988 requires the following data for an annual report on the status of audits.

⁵ At the close of FY 2004, FNS had 13 such audits. At the close of FY 2005, FNS had 11 such audits.

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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	9-30-07	Awaiting publication of regulations
27010-19-SF	11-18-99	Smart Start, Inc.	12-31-06	Awaiting collection of disallowed costs
27099-22-CH	2-27-02	CACFP-Opportunities Industrialization Center of Greater Milwaukee	3-31-07	Awaiting collection of disallowed costs
27601-27-CH	4-30-02	NSLP Food Service Management Companies	6-30-07	Awaiting publication of regulations
27010-3-KC	3-22-00	CACFP-Wildwood	12-31-06	Awaiting external action by state
27601-12-AT	3-31-03	FS Employment and Training - Tennessee	09-30-06	Requested final action September 29, 2006.
27099-31-SF	8-24-04	Summer Food Service Program - Nevada	6-30-07	Awaiting collection of disallowed costs

Section 4. Improper Payment Information Act (IPIA) Reporting

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 report in a prescribed manner on the actions being taken to:

- 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.

Review of Programs/Activities and Identification of Programs Susceptible to Improper Payments

Prior to the passage of IPIA (P.L.107-300), the Food Stamp Program (FSP) regularly reported State and National overpayment and underpayment error rates. The system which provides this information was designed to measure performance information using the specific elements used to determine benefit eligibility. This information is continually analyzed and accumulated yearly. It provides useful information which guides legislative, policy, management and operational considerations as well as determines improper payment/payment accuracy metrics. These Food Stamp Program activities predate the passage of the IPIA and FSP was immediately recognized as compliant with the intent of the IPIA when the law was passed.

FNS assessed all other food assistance programs as well as its Nutrition Programs Administration (NPA) funding. NPA is the source of payments made for FNS' Federal administrative operations, e.g., salaries, travel and supplies, of the employees of the agency. Assessments were conducted in conjunction with USDA-coordinated procedures. FNS, with OMB concurrence, has designated the following programs as subject to significant improper payments:

- Food Stamp Program (FSP)
- National School Lunch Program (NSLP) and School Breakfast Program (SBP)
- Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
- Child and Adult Care Food Program (CACFP)

Estimates of Improper Payments and Actions to Achieve Desired Future Results

The **Food Stamp Program** National improper payment rate for FY 2005 was 5.84%, the lowest in the program's history. This represents a 4.53 overissuance rate and a 1.31 underissuance rate. The rate for FY 2006 will be available in June 2007.

Improper payment rates for the **National School Lunch Program** and **School Breakfast Program** are under development. Data from the 2005-2006 school year has been gathered and is being analyzed. The rates will be available in late 2007. Once the rates have been determined and the causes of error have been analyzed, improvement targets will be established and corrective action plans for improvement will be developed and implemented.

The **WIC Program** will have two improper payment measurements; a certification measure and a vendor payment measure.

- A vendor study, for FY 2005, was recently completed. This study found that 0.60% (six-tenths of one percent) of vendor claim transactions were in error. The causes of this error are being analyzed; based on the very small rate for 2005, corrective actions and targets for reduction are not necessary.
- Pending the availability of funding, a national study to determine the certification metric using FY 2008 data is scheduled to be available in late FY 2009. Once this certification rate has been determined and the causes of error have been analyzed, reduction targets will be established and corrective action plans for improvement will be developed and implemented.

Developing an improper payment measure for the entire *CACFP* is most difficult. This program is actually three separate programs, each with multiple levels of operation and differing costs structures. A budget request for funding was made for FY 2006 funds to perform a program-wide study to determine a payment error rate. The cost of this study was estimated at \$20 million; this funding was not approved. FNS has identified the Family Day Care Home (FDCH) component of CACFP as potentially of high risk. FDCHs participate in CACFP through public or private nonprofit sponsoring organizations.

- 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 provides information from a broadly representative national sample of sponsors and providers. Over a four -year period, FNS is conducting comprehensive on-site assessments of a sample of participating FDCH sponsors. The assessments are designed to analyze the effectiveness of FNS regulatory and policy initiatives on program performance. This activity will also offer insights on the control points in the claiming and reimbursement process that most frequently cause or contribute to improper payments. The information obtained will help to support the effort to develop measurement strategies to estimate CACFP erroneous payments pursuant to IPIA. All data collection for this activity is expected to conclude at the end of FY 2007. Once analysis of data is complete, corrective actions will be developed.

Improper payments in the FDCH component of CACFP are most likely caused by sponsor error in determining a participating home's reimbursement tier (*tiering error*) or FDCH error in reporting the number of meals which are eligible for reimbursement (*claiming error*). Planned actions to measure these are:

- Sponsor tiering error measurement - The first annual sponsor tiering error measure has just been announced. This measure, for FY 2005 is 1.8%. The FY 2006 estimate will be reported next year.
- Meal claiming error measurement - FNS has developed and plans to test two methods of **estimating the risk** of claiming error in FDCHs. These methods are:
 - a) A state data approach using data from State monitoring visits of FDCHs.
 - b) A sponsor data approach where Federal staff select a random sample of sponsoring organizations and from each use a random selection of the sponsor's monitoring visits of FDCHs.

Both approaches compare the number of participants observed during the monitoring visit to the average number of meals claimed for reimbursement for the meal or snack closest to the time of the visit. Each approach a) provides an estimate of the risk of claiming error among FDCH providers; b) involves a different set of problems (which may or may not be surmountable); and c) requires very different resource implications.

FNS will pilot both approaches in conjunction with the 21 Child Care Assessment Project (CCAP) reviews scheduled for FY 2007. We anticipate a sample size (for the pilot) of 400 FDCHs. Data collection forms have already been developed for each approach to facilitate standardized collection and data entry.

The tables below summarize the results of measurement activities for 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 second table reflects future reduction targets. All results reported each year represent measures of outlays and program activity

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for the previous year. Footnotes are provided to explain the anticipated availability of many of the numbers missing at this time.

Program	Results (\$ in millions)					
	FY2004 Results			FY2005 Results		
	Reported in FY 2005			Reported in FY 2006		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
FSP	24,358	5.88%	1,432	28,160	5.84%	1,645
NSLP-SBP	6,407	N/A	N/A	6,506	N/A	N/A
WIC	3,422	-----	-----	3,525	-----	-----
Certification	-----	N/A	N/A	-----	N/A	N/A
Vendor	-----	N/A	N/A	-----	0.60%	21.2
CACFP	2,061	N/A	N/A	2,065	-----	-----
- FDC Homes	888	-----	-----	864	-----	-----
Tiering Decisions	-----	N/A	N/A	-----	1.8%	15.6
Meal Claims	-----	N/A	N/A	-----	N/A	N/A

Program	Reduction Outlook (\$ in millions)								
	FY 2006			FY 2007			FY 2008		
	Reporting in FY2007			Reporting in FY2008			Reporting in FY 2009		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays ⁶	IP%	IP\$
FSP	30,588	6.20%	1,896	32,168	5.8%	1,866	TBD	5.7%	TBD
NSLP-SBP	7,623	TBD ⁷	TBD	7,777	TBD ⁸	TBD	TBD	TBD	TBD
WIC	3,606	-----	-----	3,751	-----	-----	TBD	-----	-----
Certification ⁹	-----	N/A	N/A	-----	N/A	N/A	-----	TBD	TBD
Vendor ¹⁰	-----	TBD	TBD	-----	TBD	TBD	-----	TBD	TBD
CACFP	2,074	-----	-----	2,074	-----	-----	TBD	-----	-----
- FDC Homes	833	-----	-----	808	-----	-----	TBD	-----	-----
Tiering ¹¹	-----	TBD	TBD	-----	TBD	TBD	-----	TBD	TBD
Meal Claims ¹²	-----	N/A	N/A	-----	N/A	N/A	-----	N/A	N/A

⁶ The FY 2008 outlays have not yet been estimated for any programs.

⁷ Improper payment rate and dollar equivalent for NSLP-SBP for the 2005-06 school year will be reported in August 2007.

⁸ Rates for school years after 2005-2006 will be reported according to a schedule not yet developed.

⁹ Contingent upon funding, the improper payment rate for WIC certification will be determined for FY2008 and available in late FY2009.

¹⁰ WIC vendor rate (0.60%) just recently announced. Reduction outlook not developed in time for this report

¹¹ CACFP-FDCH tiering rate just recently announced. Reduction outlook not developed in time for this report.

¹² CACFP-FDCH meal claiming rate will be determined for FY2009 and available in FY2010, contingent upon funding.

Section 5. Other Management Information, Initiatives and Issues

President's Management Agenda

FNS actively participates in eight President's Management Agenda initiatives. FNS reports quarterly on the completion of agency-specific milestones which progress toward the advancement of these initiatives.

During FY 2006, FNS improved on its score of FY 2005 in three items. FNS now has three initiatives scored **green** (success). FNS no longer has any initiatives scored as **red** (unsatisfactory). For the five items now scored as **yellow** (mixed results), FNS is working to comply with OMB and OCFO requirements for a green score and four items may reach that level by the end of FY 2007. One remaining item will not be scored green for another few years. :

Eliminating improper payments will not score green until all programs deemed susceptible to significant improper payments not only have an improper payment measure but also demonstrate having reached an initial improvement target. Such targets cannot be established for the programs so deemed until a yearly measurement metric is available. The final metric for one FNS program is not scheduled to be available before FY 2010.

Initiative Area	FY 2005	FY 2006
Human Capital Management	Yellow	Yellow
Competitive Sourcing	Yellow	Yellow
Financial Performance	Green	Green
E-Government	Red	Yellow
Budget & Performance Integration	Red	Yellow
Real Property Management	Green	Green
Eliminating Improper Payments	Yellow	Yellow
Faith-Based & Community	Yellow	Green

Management Challenges

In August, 2006, USDA-OIG identified seven management challenges facing USDA. Of these seven, FNS programs are directly mentioned as a part of two of them. The entire OIG report can be found in the FY 2006 USDA Performance and Accountability Report.

- Implementation of Improper Payment Act Requirements Needs Improvement

FNS has an active plan for reducing improper payments. This plan was first approved by OMB in September 2004. It contains actions toward fulfilling IPIA requirements in programs designated as subject to significant improper payments. FNS modified the CACFP plan and received OMB approval of the modification in August 2006.

- USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight

The specific challenges identified by OIG are; 1) distributing assistance as rapidly as possible while ensuring only victims receive benefits, 2) informing victims of the availability of benefits (outreach), and 3) learning from the experiences of those agencies that have responded to these catastrophes.

FNS has been part of the National emergency response network almost since the inception of public food assistance. Disaster response has been part of food assistance legislation and regulations for over 30 years. The mechanisms for performing outreach and providing food assistance in emergency circumstances have been constantly upgraded and improved. The 2005 hurricanes did bring about a situation never before experienced -- the massive evacuation of residents/beneficiaries out of the affected areas and across state lines. This created the need for new policies and procedures. (It should be noted that no new legislation was necessary in order to properly respond.) The new policies and procedures were very quickly created, approved and implemented nationwide. All new policies and procedures considered necessary controls to maintain program integrity while also promptly providing benefits to those in need. While actual measures of integrity and helpfulness are not yet available, FNS has been recognized as having led an outstanding food assistance response effort in the aftermath of the 2005 hurricanes.

"Prior to Katrina making landfall, the Food and Nutrition Service (FNS) had proactively pre-positioned food in warehouses in Louisiana and Texas, making the food readily available for disaster meal service programs. FNS continued its efforts to ensure adequate supplies of food were on hand or nearby by airlifting initial supplies of infant formula and baby food products to Louisiana, Texas, Alabama and Mississippi and then following up with additional baby food supplies for delivery via land transportation (this amounted to approximately two million pounds). Additional commodities (approximately twenty million pounds), that included fruits, juices, vegetables, meats and grains, were also procured and/or diverted from existing USDA and other state sources to assist with congregate meal service and provide families with food packages until the Disaster Food Stamp Program could provide food relief (certain locations in the hardest hit areas could not operate the Disaster Food Stamp Program because there were no retail outlets available). Additionally, schools outside the devastated areas were granted waivers which permitted the service of free meals to children who had fled the devastated areas and began attending school elsewhere. FNS also promptly implemented the Food Stamp Program's first National Evacuee Policies that enabled State agencies that were not affected by the hurricane or that were not administering a disaster program to immediately issue disaster benefits to individuals and families who evacuated to their States. FNS approved over seventy waivers to affected States to issue benefits under the disaster authority. FNS also expanded the range of foods that could be purchased with food stamps in Louisiana, Mississippi, Florida, Alabama, and Texas, and approved alternate procedures for use and replacement of food stamp benefit cards to improve a household's ability to purchase food."

The Federal Response to Hurricane Katrina: Lessons Learned - What Went Right
White House, February 2006

Section 6. 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 7. Financial Statements Highlights and Analysis

FNS' FY 2006 financial statements reflect the nutrition assistance program's responsiveness to the Nation's sustained, strong 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 health of economy. In FY 2006 the economy performed more strongly than was anticipated by the President's FY 2006 budget request. As a result, program participation and costs, as reflected in the financial statement are, on average, lower than was anticipated.

Of particular note in the FY 2006 financial statement are large increases in Unexpended Appropriations and Fund Balance with Treasury over FY 2005 levels. This results from two primary factors. In FY 2005 the Food Stamp Program contingency reserve was converted by Congress into a two-year appropriation, resulting in a significant increase in the reserve for FY 2006. None of these contingency resources were used in FY 2006. This resulted in the appropriation of significantly more resources than were necessary for the mandatory entitlement programs. The result was that, FY 2006 dollar levels for Fund Balance with Treasury and Unexpended Appropriations were higher (\$5.5 billion and \$5.3 billion, respectively) than FY 2005 levels.

Balance Sheet

	2006		2005		Proportion Change
	Dollars (mill)	Percent	Dollars (mill)	Percent	
Fund Balance with Treasury	16,585	95.77%	11,058	96.78%	-1.01%
Accounts Receivable	233	1.83%	211	1.36%	0.47%
General PP&E	25	0.23%	26	0.15%	0.08%
Other	294	2.18%	252	1.72%	0.47%
Total Assets	17,137	100.00%	11,547	100.00%	
Accounts Payable	3,543	27.97%	3,230	20.67%	7.30%
Benefits	7	0.07%	8	0.04%	0.03%
Other Liabilities	56	0.51%	59	0.33%	0.18%
Total Liabilities	3,606	21.04%	3,297	28.55%	
Unexpended Appropriations	13,322	69.77%	8,056	77.74%	-7.97%
Cummulative Results of Operations	209	1.68%	194	1.22%	0.46%
Total Net Position	13,531	78.96%	8,250	71.45%	
Total Liabilities & Net Position	17,137	100%	11,547	100%	

The balance sheet proportional composition remains relatively unchanged from FY 2005 to FY 2006. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - almost 96% in FY 2005 compared with almost 97% in FY 2006. This cash-like account largely represents appropriated funds that at fiscal year end have not yet been disbursed to States or other grantees because they have not yet been paid to and/or earned by the grantees. The dollar increase in FBWT of \$11,058 million in FY 2005 to \$16,585 million in FY 2006 is reflected in the corresponding level of growth in both Unexpended Appropriations and, to a lesser degree, Accounts Payable. Accounts Payable represents the largest liability of the agency, typically representing amounts that are currently payable to grantees. The FY 2006 Net Position of the agency is concentrated in Unexpended Appropriations.

Statement of Net Cost

	2006		2005		Proportion Change
	Dollars (mill)	Percent	Dollars (mill)	Percent	
Gross Cost	53,451	100.06%	51,605	100.04%	0.02%
Less: Earned Revenue	-21	-0.06%	-29	-0.04%	-0.02%
Net Cost of Operations	53,430	100.00%	51,576	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 \$51,605 million in FY 2005 (a 3.5% increase in absolute dollars) to \$53,451 million in FY 2006, reflecting the overall impact of FNS programs’ participation levels and food costs.

As the chart above displays, Earned Revenue represents an extremely small offset to Gross Costs (less than one percent), and the FY 2006 Net Cost of Operations is comparable to FY 2005. Earned revenue represents funds from the State Option Food Stamp Program authorized under P.L. 105-18. States participating in this program 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. As more formerly disqualified applicants are legally coming back onto the program rolls, and as the number of States participating in “State Option” have declined, levels of earned revenue have declined. In FY 2006, earned revenue fell \$8 million.

The Net Cost of Operations increased from \$51,576 million in FY 2005 to \$53,430 million in FY 2006.

Statement of Changes in Net Position

	2006		2005		Proportional Change
	Dollars (mill)	Percent	Dollars (mill)	Percent	
Cumulative Results of Operations					
Beginning Balance	194		285		0.00%
Appropriations Used	47,516	88.20%	45,410	88.91%	-0.71%
Transfers In(Out) without Reimbursement	5,203	10.04%	5,168	9.74%	0.30%
Other Budgetary Financing Sources		0.00%	-1	0.00%	0.00%
Imputed Financing	726	1.76%	908	1.36%	0.41%
Total Financing Sources	53,445	100.00%	51,485	100.00%	
Less: Net Cost of Operations	53,430		51,576		
Ending Balance	209		194		
Unexpended Appropriations					
Beginning Balance	8,056		8,579		
Appropriations Received	53,813		47,398		
Adjustments	-1,031		-2,511		
Appropriations Used	-47,516		-45,410		
Total: Financing Sources	5,266		-523		
Less: Net Cost of Operations	0		0		
Ending Balance	13,322		8,056		

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.

Cumulative Results of Operations increased \$15 million, from \$194 million in FY 2005 to \$209 million in FY 2006, as appropriations used and other financing sources exceeded the net cost of operations. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained relatively unchanged from FY 2005 to FY 2006. 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. Transfers represent almost ten percent of total financing sources in both FY 2005 and FY 2006.

Unexpended Appropriations increased from \$8,056 million in FY 2005 to \$13,322 million in FY 2006 as more appropriations (net of adjustments) were received than were expended. These unused financing sources are also reflected in the higher balances in the FBWT on the balance sheet.

Statement of Budgetary Resources

	2006		2005		Proportional Change
	Dollars (mill)	Percent	Dollars (mill)	Percent	
Budgetary Resources					
Beginning Unobligated Balance	7,108	10.77%	7,768	13.33%	-2.55%
Recoveries	797	1.21%	391	0.67%	
Appropriations	53,813	81.57%	47,398	81.31%	
Collections	85	0.13%	79	0.14%	
Without Adv. Fed Source	1	0.00%		0.00%	0.00%
Transfers	5,203	7.89%	5,168	8.87%	-0.98%
Less: Permanently Not Available	-1,033	-1.57%	-2,511	-4.31%	2.74%
Total Budgetary Resources	65,974	100.00%	58,293	100.00%	
Status of Budgetary Resources					
Direct Obligations	53,530	81.14%	51,157	87.76%	-6.62%
Reimbursable Obligations	27	0.04%	28	0.05%	-0.01%
Apportioned-Unobligated	3,160	4.79%	526	0.90%	3.89%
Unobligated-Not Available	9,257	14.03%	6,582	11.29%	2.74%
Total: Status of Budgetary Resources	65,974	100%	58,293	100%	
Net Outlays	52,448	79.50%	49,823	85.47%	-5.97%

FNS' FY 2006 budgetary resources increased from the prior year, in keeping with trends in projected program participation and food cost levels, as well as annual program appropriations levels. FNS had \$65,974 million in total budgetary resources during FY 2006, largely from appropriations received, but also from transfers and available unobligated balances from prior periods.

At fiscal year end 2006, most (\$53,530 million or 81%) of those resources were obligated, though \$3,160 million (almost 5%) remained unobligated and available, and another \$9,257 million (14%) was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and Food Stamps). In FY 2006, Net Outlays represented 79.5% of Total Budgetary Resources, compared to 85.5% in FY 2005.

Statement of Financing

	2006		2005		Proportion Change
	Dollars (mill)	Percent	Dollars (mill)	Percent	
Obligations Incurred	53,557	99.15%	51,185	100.29%	-1.14%
Less: Authority from Collections and Recoveries	-883	-0.91%	-470	-1.65%	0.74%
Plus: Imputed Financing	726	1.76%	908	1.36%	0.40%
Total Resources Used to Finance Activities	53,400	100.00%	51,623	100.00%	
Total Resources Used to Finance Net Cost of Operations	53,426	99.93%	51,589	100.05%	
Net Cost of Operations	53,430	99.91%	51,576	100.06%	

Obligations net of recoveries, combined with imputed financing resulted in \$53,400 million in total resources used to finance FNS activities in FY 2006, compared with \$51,623 million in FY 2005. Note that four amounts on the Statement are a close approximation of one another in both FY 2005 and FY 2006: Obligations Incurred, Total Resources Used to Finance Activities, Total Resources used to Finance the Net Cost of Operations, and the Net Cost of Operations. There were no significant proportional deviations from the FY 2005 Statement of Financing.

Food and Nutrition Service
BALANCE SHEET
 As of September 30, 2006 (CY) and 2005 (PY)
 (in dollars/millions)

	FY 2006 (CY)	FY 2005 (PY)
Assets (Note 2):		
Intragovernmental:		
Fund balance with treasury (Note 3)	\$16,585	\$11,058
Other (Note 6)	<u>294</u>	<u>252</u>
Total intragovernmental	16,879	11,310
Accounts receivable, net (Note 4)	233	211
General property, plant, and equipment, net (Note 5)	25	26
Total assets	<u>\$17,137</u>	<u>\$11,547</u>
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	\$0	\$2
Other (Note 8)	<u>38</u>	<u>27</u>
Total intragovernmental	38	29
Accounts payable	3,543	3,228
Federal employee and veterans benefits	7	8
Other (Note 8)	<u>18</u>	<u>32</u>
Total liabilities	3,606	3,297
Net position:		
Unexpended appropriations - other funds	13,322	8,056
Cumulative results of operations - other funds	<u>209</u>	<u>194</u>
Total net position	<u>\$13,531</u>	<u>\$8,250</u>
Total liabilities and net position	<u>\$17,137</u>	<u>\$11,547</u>

The accompanying notes are an integral part of these statements.

Note: (CY) denotes Current Year; (PY) denotes Prior Year.

Food and Nutrition Service
STATEMENT OF NET COST
For the years ended September 30, 2006 (CY) and 2005 (PY)
(in dollars/millions)

	FY 2006 (CY)	FY 2005 (PY)
Program costs:		
Strategic Goals:		
Improve the Nation's Nutrition and Health:		
Gross costs (Note 10)	\$53,451	\$51,605
Less: earned revenue	21	29
Net program costs	53,430	51,576
Net cost of operations	<u>\$53,430</u>	<u>\$51,576</u>

The accompanying notes are an integral part of these statements.

Food and Nutrition Service
STATEMENT OF CHANGES IN NET POSITION
 As of September 30, 2006 (CY) and 2005 (PY)
 (in dollars/millions)

	FY 2006 (CY)	FY 2005 (PY)
	All Other Funds	All Other Funds
Cummulative Results of Operations:		
Beginning Balances	\$194	\$285
Beginning balance, as adjusted	194	285
Budgetary Financing Sources:		
Appropriations Used	47,516	45,410
Transfers in/out without Reimbursement	5,203	5,168
Other	0	-1
Other Financing Sources (Non-Exchange):		
Imputed financing	726	908
Total Financing Sources	53,445	51,485
Net Cost of Operations	<u>-53,430</u>	<u>-51,576</u>
Net Change	15	-91
Cummulative Results of Operations	209	194
Unexpended Appropriations:		
Beginning Balances	8,056	8,579
Beginning balances, as adjusted:	8,056	8,579
Budgetary Financing Sources:		
Appropriations Received	53,813	47,398
Other Adjustments	-1,031	-2,511
Appropriations Used	<u>-47,516</u>	<u>-45,410</u>
Total Budgetary Financing Sources	<u>5,266</u>	<u>-523</u>
Total Unexpended Appropriations	<u>13,322</u>	<u>8,056</u>
Net Position	<u>13,531</u>	<u>8,250</u>

The accompanying notes are an integral part of these statements.

Food and Nutrition Service
STATEMENT OF BUDGETARY RESOURCES
 For the years ended September 30, 2006 (CY) and 2005 (PY)
 (in dollars/millions)

	FY 2006 (CY) <u>Budgetary</u>	FY 2005 (PY) <u>Budgetary</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$7,108	\$7,768
Recoveries of prior year unpaid obligations	797	391
Budget authority		
Appropriation	53,813	47,398
Spending authority from offsetting collections		
Earned		
Collected	85	79
Change in unfilled customer orders		
Without advance from Federal sources	1	0
Subtotal	53,899	47,477
Nonexpenditure transfers, net, anticipated and actual	5,203	5,168
Permanently not available	<u>-1,033</u>	<u>-2,511</u>
Total Budgetary Resources	<u>\$65,974</u>	<u>\$58,293</u>
Status of Budgetary Resources:		
Obligations incurred:		
Direct	\$53,530	\$51,157
Reimbursable	<u>27</u>	<u>28</u>
Subtotal	53,557	51,185
Unobligated balance:		
Apportioned	3,160	526
Subtotal	3,160	526
Unobligated balance not available	<u>9,257</u>	<u>6,582</u>
Total status of budgetary resources	<u>65,974</u>	<u>58,293</u>

This statement is continued on the following page.

Food and Nutrition Service
 STATEMENT OF BUDGETARY RESOURCES, continued
 For the years ended September 30, 2006 (CY) and 2005 (PY)
 (in dollars/millions)

Change in Obligated Balances:	FY 2006	FY 2005
Obligated balance, net		
Unpaid obligations, brought forward, October 1	3,940	3,048
Total unpaid obligated balance, net	3,940	3,048
Obligations incurred net (+/-)	53,557	51,185
Less: Gross outlays	-52,533	-49,902
Recoveries of prior year unpaid obligations, actual	-797	-391
Change in uncollected customer payments from Federal sources (+/-)	-1	0
Obligated balance, net, end of period		
Unpaid obligations	4,166	3,940
Less: Uncollected customer payments from Federal sources	-1	0
Total, unpaid obligated balance, net, end of period	4,165	3,940
Net Outlays:		
Net Outlays:		
Gross outlays	52,533	49,902
Less: Offsetting collections	<u>-85</u>	<u>-79</u>
Net outlays	52,448	49,823

The accompanying notes are an integral part of these statements.

Food and Nutrition Service
STATEMENT OF FINANCING
 For the years ended September 30, 2006 (CY) and 2005 (PY)
 (in dollars/millions)

	FY 2006 (CY)	FY 2005 (PY)
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$53,557	\$51,185
Less: Spending authority from offsetting collections and recoveries	<u>883</u>	<u>470</u>
Obligations net of offsetting collections and recoveries	52,674	50,715
Net obligations	52,674	50,715
Other Resources		
Imputed financing from costs absorbed by others	726	908
Net other resources used to finance activities	<u>726</u>	<u>908</u>
<i>Total resources used to finance activities</i>	53,400	51,623
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 (+/-)	42	-137
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Other	-14	105
Resources that finance the acquisition of assets	-2	-2
<i>Total resources used to finance items not part of the net cost of operations</i>	<u>26</u>	<u>-34</u>
<i>Total resources used to finance the net cost of operations</i>	53,426	51,589

This statement is continued on the following page.

Food and Nutrition Service
 STATEMENT OF FINANCING, continued
 For the Years Ended September 30, 2006 (CY) and 2005 (PY)
 (in dollars/millions)

	FY 2006	FY 2005
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	-2	0
Other (+/-)	<u>1</u>	<u>0</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	-1	0
Components not Requiring or Generating Resources:		
Depreciation and amortization	3	0
Revaluation of assets or liabilities (+/-)	0	-1
Other (+/-)	<u>2</u>	<u>-12</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>5</u>	<u>-13</u>
Total components of Net Cost of Operations that will not require or generate resources in the current period	<u>4</u>	<u>-13</u>
Net Cost of Operations	<u>\$53,430</u>	<u>\$51,576</u>

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements
Amounts Shown in Millions Unless Otherwise Noted

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report significant assets, liabilities, net cost of operations, changes in net position, and budgetary resources for the Food and Nutrition Service (FNS), as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated July 24, 2006. 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.

B. Reporting Entity

FNS is under the jurisdiction of the Under Secretary for Food, Nutrition, and Consumer Services of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia, and implemented through seven regional offices and 69 field offices, four food stamp compliance offices, one computer support center in Minneapolis, Minnesota; and one administrative review office. 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 2006 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 \$233 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 2006, the model explains 96 percent of the variation in claims collections. Historically, one-year-ahead collections projected by the model have proved to be accurate within approximately 2 percent of actual net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, 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 2005 QC error rates were announced in June 2006. Using this methodology, FNS estimates the value of benefit overissuance in Fiscal Year 2005 (the most recent year for which data are available) at \$1.294 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 2006 financial statements. For FY 2005, three States were assessed liabilities for having excessive error rates for two consecutive years. The aggregate total of the liability was \$3.61. 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 \$ Bil.
2005	4.53 %	\$ 1.294
2004	4.48 %	\$ 1.103
2003	5.04 %	\$ 1.080

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 FNCS 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:

FNCS RETIREMENT CONTRIBUTIONS (in millions)		
Type of Contribution	Amount	
	2006	2005
CSRS/Transitional retirement contributions-Civil Service	\$0.3	\$0.3
FERS regular contributions	\$7.0	\$6.4
Thrift Savings Plan contribution	\$2.7	\$2.5
TOTAL	\$10.0	\$9.2

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.

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2006
Notes to the Financial Statements

Note 2. Non-Entity Assets

	FY 2006	FY 2005
Intragovernmental:		
Fund balance with Treasury	\$3	\$12
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
Subtotal Intragovernmental	3	12
With The Public		
Cash and other monetary assets	-	-
Accounts receivable	31	22
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related property	-	-
Other	-	-
Subtotal With the Public	31	22
Total non-entity assets	34	34
Total entity assets	17,103	11,513
Total assets	\$ 17,137	\$ 11,547

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

Note 3. Fund Balance with Treasury

Fund Balances:	FY 2006	FY 2005
Trust Funds	\$ -	\$ -
Revolving Funds	-	-
Appropriated Funds	16,582	11,046
Other Fund Types	3	12
Total	16,585	11,058

Status of Fund Balance with Treasury:

Unobligated Balance:		
Available	3,160	526
Unavailable	9,258	6,582
Obligated Balance not yet Disbursed	4,165	3,940
Clearing Account Balances	2	10
Borrowing Authority not yet Converted to Fund Balance	-	-
Total	\$ 16,585	\$ 11,058

Note 4. Accounts Receivable, Net

FY 2006	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 0	\$ 0	\$ 0
With the Public	\$ 238	\$ 5	\$ 233
Total	\$ 238	\$ 5	\$ 233

FY 2005	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 0	\$ 0	\$ 0
With the Public	\$ 214	\$ 3	\$ 211
Total	\$ 214	\$ 3	\$ 211

(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 2006 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, 16, and 23 and USDA Departmental Regulation 2200-002, dated December 24, 2003. At year end, balances for Property, Plant, and Equipment were as follows:

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Notes to the Financial Statements

FY 2006	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	7	24
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 34	\$ 9	25

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

Note 6. Other Assets

	FY 2006	FY 2005
Intragovernmental:		
Advances to Others	\$ -	-
Prepayments	-	-
Other Assets	294	252
Subtotal Intragovernmental	294	252
With the Public:		
Advances to Others	-	-
Prepayments	-	-
Other Assets	-	-
Subtotal With the Public	-	-
Total Other Asssets	\$ 294	\$ 252

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

Intragovernmental:	FY 2006	FY 2005
Accounts payable	\$ -	\$ -
Debt	-	-
Other	-	-
Subtotal Intragovernmental	-	-
With the Public:	-	-
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	7	8
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	10	11
Subtotal With the Public	17	19
 Total liabilities not covered by budgetary resources	 17	 19
 Total liabilities covered by budgetary resources	 3,589	 3,278
Total liabilities	\$ 3,606	\$ 3,297

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

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Note 8. Other Liabilities

FY 2006	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	-
Other Accrued Liabilities		-	4		4
Employer Contributions and Payroll Taxes		-	1		1
Other Post-Employment Benefits Due and Payable		-	-		-
Unfunded FECA Liability		-	1		1
Other Unfunded Employment Related Liability		-	-		-
Advances from Others		-	-		-
Deferred Credits		-	-		-
Liability for Deposit Funds, Clearing Accounts		-	1		1
Contingent Liabilities		-	-		-
Capital Lease Liability		-	-		-
Liability for Subsidy Related to Undisbursed Loans		-	-		-
Accounts Payable from Canceled Appropriations		-	-		-
Resources Payable to Treasury		-	-		-
Custodial Liability		-	31		31
Other Liabilities		-	-		-
Subtotal Intragovernmental		-	38		38
With the Public:					
Contract Holdbacks		-	-		-
Other Accrued Liabilities		-	5		5
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		-	1		1
Prior Liens Outstanding or Acquired Collateral		-	-		-
Contingent Liabilities		-	-		-
Capital Lease Liability		-	-		-
Accounts Payable from Canceled Appropriations		-	-		-
Custodial Liability		-	-		-
Other Liabilities		-	-		-
Subtotal With the Public		-	18		18
Total Other Liabilities	\$	-	\$	56	\$
		-		56	

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

Note 9. Program Cost and Exchange Revenue

Child Nutrition	FY 2006		FY 2005	
Intragovernmental Costs	\$	9	\$	12
Public Costs	\$	12,650	\$	12,216
Total Costs	\$	12,659	\$	12,228
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-
Food Stamp				
Intragovernmental Costs	\$	19	\$	21
Public Costs	\$	34,473	\$	32,824
Total Costs	\$	34,492	\$	32,845
Intragovernmental Earned Revenue				
Public Earned Revenue	\$	18	\$	24
Total Earned Revenue	\$	18	\$	24
<hr/>				
Other	FY 2006		FY 2005	
Intragovernmental Costs	\$	93	\$	201
Public Costs	\$	181	\$	80
Total Costs	\$	274	\$	281
Intragovernmental Earned Revenue	\$	1	\$	3
Public Earned Revenue	\$	-	\$	1
Total Earned Revenue	\$	1	\$	4
Women, Infants & Children				
Intragovernmental Costs	\$	1	\$	1
Public Costs	\$	5,158	\$	5,215
Total Costs	\$	5,159	\$	5,216
Intragovernmental Earned Revenue				
Public Earned Revenue	\$	-	\$	(1)
Total Earned Revenue	\$	-	\$	(1)

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Commodity Assistance Program	FY 2006		FY 2005	
Intragovernmental Costs	\$	663	\$	856
Public Costs	\$	204	\$	179
Total Costs	\$	867	\$	1,035
Intragovernmental Earned Revenue	\$	2	\$	2
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	2	\$	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, 2006

	CHILD NUTRITION	FOOD STAMP	Women Infants & Children	Commodity Assistance Program	OTHER	Consolidated Total
Total Gross Costs	12,659	34,492	5,159	867	274	53,451
Less Earned Revenue:	0	18	0	2	1	21
Net Goal Costs:	12,659	34,474	5,159	865	273	<u>53,430</u>
Net Cost of Operations						<u>53,430</u>

CONSOLIDATING STATEMENT OF NET COST
 For the year ended September 30, 2005

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

Note 11. Exchange Revenues

FNS' earned revenue from nonfederal parties consists of \$21.2 from the state option food stamp program.

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

States operating a SOSFP utilize 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 2006, 3 States participated in this program, which generated earned revenues of \$21.2.

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

FY 2006	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 53,530	\$ 27	\$ 53,557
Apportionment for Special Activities	-	-	-
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 53,530	\$ 27	\$ 53,557

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

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

Differences exist between FNS' FY 2005 Statement of Budgetary Resources (SBR) (as provided to the Department for consolidation purposes) and the FY 2005 actual numbers presented in the FY 2007 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2005 SBR	\$58,293	\$49,823
Less: Expired Accounts not Included in Budget	\$4,965	
Add: Parent Child Relationship (CREES)	\$5	\$5
Add: Differences due to Rounding	\$4	\$1
Budget of the U.S. Government	\$53,337	\$49,829

Note 14. Undelivered Orders at the end of the Period

For the FY 2006 Financial Statements the amount of budgetary resources obligated for undelivered orders at the end of period amounted to \$604.

Note 15. Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods on the Statement of Financing

Current year liabilities not covered by budgetary resources as disclosed in Note 7.	\$ 17
Prior year liabilities not covered by budgetary resources	(19)
Increase (Decrease) in liability not covered by budgetary resources	\$ (2)
Upward/Downward Reestimates of Credit Subsidy Expense	0
Increase in Exchange Revenue Receivable from the Public	0
Other	<u>1</u>
Components requiring or generating resources in future periods, as reported on the Statement of Financing	<u>\$ (1)</u>

Note 16. Incidental Custodial Collections

Revenue Activity:	FY 2006	FY 2005
Sources of Collections:		
Miscellaneous	\$ (18)	\$ (19)
Total Cash Collections	(18)	(19)
Accrual Adjustments	8	12
Total Custodial Revenue	(10)	(7)
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	10	7
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2006 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.

**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>2006</u>	<u>2005</u>
1. Employment and Training	\$66	\$49

FNS' human capital consists 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 781,543 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,203,142 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>2006</u>	<u>2005</u>
1. ADP Equipment & Systems	\$21	\$22

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

B. Program Expense	<u>2006</u>	<u>2005</u>
1. ADP Equipment & Systems	\$12	\$17

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).

Informational copies of this report have been distributed to:

Agency Liaison Officer

General Accounting Office (1)

Office of Management and Budget (1)

For Food and Nutrition Services

Director, FNS Accounting Division (1)