



U.S. Department of Agriculture



Office of Inspector General
Northeast Region

Audit Report

Food and Nutrition Service Financial Statements for Fiscal Years 2007 and 2006

Report No. 27401-32-HY
November 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



November 9, 2007

REPLY TO

ATTN OF: 27401-32-Hy

TO: Roberto Salazar
Administrator
Food and Nutrition Service

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 2007,
and 2006

This report presents the results of our audit of FNS' financial statements for the fiscal years ending September 30, 2007, and 2006. The report contains an unqualified opinion and the results of our assessment of FNS' internal control over financial reporting and compliance with laws and regulations.

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

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

Attachment

Executive Summary

**Food and Nutrition Service Financial Statements for Fiscal Years 2007 and 2006
(Audit Report No. 27401-32-Hy)**

Purpose

Our audit objectives were to determine whether (1) the financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position; net costs; changes in net position; and budgetary resources; (2) the internal control objectives for financial reporting were met, and (3) the Food and Nutrition Service (FNS) complied with laws and regulations for those transactions and events that could have a direct and material effect on the financial statements. We also determined that the information in the Management Discussion and Analysis was materially consistent with the information in the financial statements.

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

Results in Brief

In our opinion, FNS' comparative financial statements for fiscal years 2007 and 2006, including the accompanying notes, present fairly in all material respects, the assets, liabilities, and net position of FNS, as of September 30, 2007, and 2006; and its net costs, changes in net position, and budgetary resources, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, FNS changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal years 2007 to adopt the provisions of Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*.

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.

Abbreviations Used in This Report

FFMIA	Federal Financial Management Improvement Act of 1996
FNS	Food and Nutrition Services
IPIA	Improper Payments Information Act of 2002
MDA	Management Discussion and Analysis
OMB	Office of Management and Budget
RSSI	Required Supplemental Stewardship Information

Table of Contents

Executive Summary	i
Report of the Office of Inspector General	1
Report of the Office of Inspector General on Internal Control Over Financial Reporting... 3	
Report of the Office of Inspector General on Compliance with Laws and Regulations	5
Exhibit A –Financial Statements	7



Report of the Office of Inspector General

To: Roberto Salazar
Administrator
Food and Nutrition Service

We have audited the accompanying balance sheet of the Food and Nutrition Service (FNS) as of September 30, 2007, and 2006, and the related statements of net cost, changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the “financial statements,”) for the fiscal years then ended. The financial statements are the responsibility of FNS’ management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 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, 2007, and 2006; and its related net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, FNS changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal years 2007 to adopt the provisions of Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

As required by OMB Bulletin No. 07-04, with respect to internal control related to performance measures determined by management to be key and reported in the Management’s Discussion and Analysis section of the Performance and Accountability Report, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. Our procedures were not designed to provide

assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on it.

As further required by OMB Bulletin No. 07-04, we considered FNS' internal control over Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over such RSSI; accordingly, we do not provide an opinion on such controls.

We have also issued reports on our consideration of FNS' internal control over financial reporting and its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, 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.

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

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

November 9, 2007



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

To: Roberto Salazar
Administrator
Food and Nutrition Service

We have audited the accompanying balance sheet of the Food and Nutrition Service (FNS) as of September 30, 2007, and 2006, and the related statements of net cost, changes in net position, and the combined statement of budgetary resources (hereinafter referred to as the “financial statements”), for the fiscal years then ended, and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered FNS’ internal control over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls for financial reporting as defined by the Federal Managers’ Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on FNS’ internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a

remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The results of our tests disclosed no significant deficiencies. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

Additional Other Procedures

As required by OMB Bulletin No. 07-04, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 07-04, we considered FNS' internal control over Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over such RSSI; accordingly, we do not provide an opinion on such controls.

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

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

November 9, 2007



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

To: Roberto Salazar
Administrator
Food and Nutrition Service

We have audited the accompanying balance sheet of the Food and Nutrition Service (FNS) as of September 30, 2007, and 2006, and the related statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal years ended (hereinafter referred to as the “financial statements,”) and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of FNS is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of FNS’ compliance with certain provisions of laws, regulations, contracts and agreements, and governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. We also obtained reasonable assurance that FNS complied with certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04 including requirements referred to in the Improper Payment Information Act of 2002 (IPIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA), except for those that, in our judgment, were clearly inconsequential. We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to FNS. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of reportable noncompliance with other laws and regulations discussed in the second paragraph of this report that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04. We found 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 report an estimate of the payments. FNS reported estimated

payment errors for the Food Stamp Program; National School Lunch Program; and the School Breakfast Program. However, the agency has not reported payment error rates for one segment (certification errors) for the Special Supplemental Nutrition Program for Women, Infants, and Children and one segment (claiming errors) for the Child and Adult Care Food Program; which prevents them from being in full compliance with IPIA. FNS officials concurred with our determination and disclosed this information in the Management Discussion and Analysis (MDA). FNS stated in its MDA that a preliminary estimate of erroneous payments associated with both programs will be available in August 2009, and the final estimates will be available in 2010.

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

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

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

November 9, 2007

Exhibit A -Financial Statements

USDA

Food and Nutrition Services

Fiscal Year 2007

(PREPARED BY FNS)

MANAGEMENT DISCUSSION AND ANALYSIS

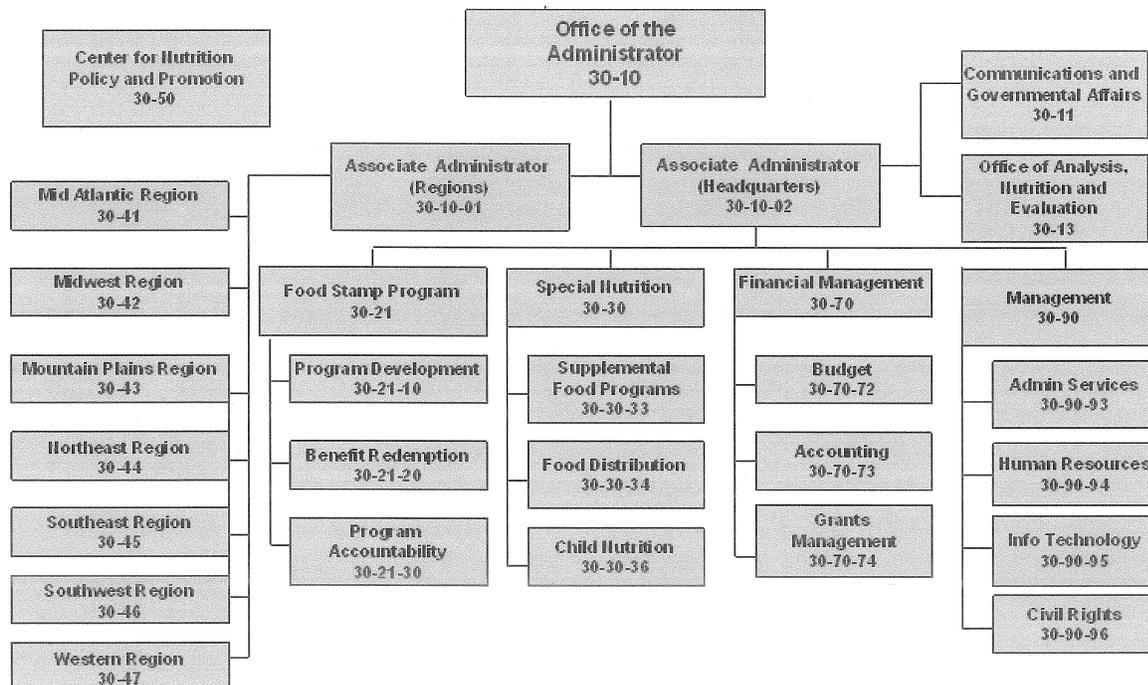
SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

The Food and Nutrition Service (FNS) is an agency within the U.S. Department of Agriculture (USDA). FNS was established August 8, 1969, by Secretary's Memorandum No. 1659 and Supplement 1 pursuant to the authority contained in 5 U.S.C. 301 and Reorganization Plan No. 2 of 1953.

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

The FNS appropriation for administrative funds annually includes a very small percentage of funds for the administration of the Center for Nutrition Policy and Promotion (CNPP). CNPP links scientific research to the nutrition needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education. CNPP develops integrated nutrition research, education, and promotion programs and provides science-based dietary guidance. The organization chart in place during FY 2007 is presented below. The agency is being re-aligned in FY 2008.

FNS FY 2007 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 over 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 2006, elderly participation comprised approximately 91 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:

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.

In FY 2007, FNS had approximately 1300 employees. Almost 500 were located at the Washington headquarters. Over 800 others were located in the seven regional offices, 68 field offices, four food stamp compliance offices, or the computer support center.

SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

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

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

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

FNS made strides in promoting access to a nutritious diet and healthy eating behaviors for everyone in the U.S. Through its leadership of the Federal nutrition-assistance programs, the Department made a healthier diet available for millions of children and low-income families. The Center for Nutrition Policy and Promotion used interactive tools to motivate Americans to make positive dietary behavioral changes. These interactive tools were designed to help consumers establish and maintain healthy diets and lifestyles, consistent with the *Dietary Guidelines for Americans* and the President's HealthierUS initiative. Key 2007 accomplishments include:

- **Promoting access to the Food Stamp Program (FSP).** Food stamp benefits help low-income families and individuals purchase nutritious food, and the program provides nutrition education to help influence healthy food choices and more active lives. FSP is the Nation's largest nutrition assistance program, serving over 26 million people in an average month in FY 2007.
- **Promoting the MyPyramid Food Guidance System.** *MyPyramid* offers the American public an individualized approach to nutritional well-being and active living. MyPyramid.gov's web-based educational tools help Americans assess and personalize their diet and physical activity plans. Consumers continue to respond enthusiastically to this educational approach; to date, there have been over 3.5 billion hits to

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

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

MyPyramid.gov, and over 2.7 million registrations on the MyPyramid Tracker, allowing personalized dietary and physical activity assessments.

- **Continuing to ensure that Food Stamp benefits are accurately issued.** The Food Stamp Program payment accuracy rate for FY 2006 was 94.01 percent; the third year in a row that the accuracy rate has been above 94 percent. This strong performance reflects effective partnerships with State administering agencies, and extensive use of policy options provided in the 2002 Farm Bill that streamline program administration while improving access for working families.

In FY 2007, FNS continued to improve the quality of Americans' diets through research-based nutrition enhancements to the Nation's food supply, and better knowledge and education to promote healthier food choices. Four of the top 10 causes of death in the U.S. (cardiovascular disease, cancer, stroke and diabetes) are associated with the quality of diets—diets too high in calories, total fat, saturated fat and cholesterol, or too low in fruits and vegetables, whole grains, and fiber. The Nation is experiencing an obesity epidemic resulting from a wide range of causes including a “more is better” mindset, a sedentary lifestyle, and the ready availability and choices of fat- and sugar-laden high-calorie foods. Consumers are looking for foods that taste good, offer nutrition and other health benefits, and are convenient to prepare and consume: science-based dietary guidance and promotion can help them integrate these choices into a diet that promotes their long-term health. In FY 2007, FNS pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to support and encourage good nutrition choices.

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

OBJECTIVE 5.1: ENSURE ACCESS TO NUTRITIOUS FOOD

Overview

FNS's 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 2007. They promote better health for all those that they serve, support the transition to self-sufficiency for low-income working families and support children's readiness to learn in school. A well-nourished population is healthier, more productive and better able to fulfill its potential.

By working in partnership with States, FNS continues to implement effective nutrition assistance programs and deliver program benefits to eligible participants. The programs ensure access to nutritious food 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 2007, 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.

In 2007, FNS 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. FNS also continued to implement outreach efforts designed to educate low income populations eligible to participate in the program, especially seniors, legal immigrants, and the working poor about the nutrition benefits of food stamps. 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-based and community organizations to encourage FSP participation.

Under the SBP, FNS continued to provide cash assistance to States to operate breakfast programs in schools and residential child care institutions, many children that could benefit from breakfast. On an average school day in FY 2007, more than 49 million children have access to school lunch and nearly 30 million children chose to eat a program lunch, but only about 10 million children received a school breakfast. FNS identified opportunities to promote the SBP by raising awareness of the program's availability with State and civic leaders, and supporting and celebrating National School Breakfast Week.

FNS 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. 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. About 8.2 million pregnant women, new mothers and their young children benefited in an average month in FY 2007 from WIC.

FNS also continues to work in partnership with a variety 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 still 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 FNS 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 2007, average participation reached expected levels in FSP and WIC. It was slightly lower than expected in the school meals programs, but remained well within performance thresholds.

Exhibit 1: Improve Access to Nutritious Food

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
5.1.1	Improve Access to Nutritious Food:			Met
—	Food Stamp Program Avg. Monthly Participation (millions of people)	26.3	26.3	
—	School Breakfast Program Avg. Daily Participation (millions of people)	10.4	10.1	
—	National School Lunch Program Avg. Daily Participation (millions of people)	31.0	30.6	
—	Special Supplemental Nutrition Program for Women, Infants and Children (WIC) Monthly Participation (millions of people)	8.2	8.2	

Note: FY 2007 data is estimated based on information available and is subject to change.

Analysis of Results

In general, nutrition assistance program participation in FY 2007 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:

Food Stamp Program—The program served approximately 26 million participants monthly in FY 2007, a decrease of about 1.5% from the FY 2006 average monthly level. However, it should be noted that the FY 2006 average was increased substantially by heavy participation early in the year due to ongoing impacts of Gulf hurricanes and disaster response. FNS executed a range of efforts to support and encourage food stamp participation in FY 2007, including:

- Awarded food stamp outreach grants totaling \$1 million to 14 community and faith-based organizations to implement and study effective food stamp outreach strategies.
- Continued the national media campaign with English and Spanish radio ads in dozens of locations promoting the nutrition benefits of food stamps and a Spanish television ad in nine locations.
- Launched a complementary effort to implement community-based food stamp outreach activities in Spanish and promote the use of the Spanish public service announcements.
- Made materials and resources available to State and local cooperators to assist them to engage in food stamp outreach. These materials include posters, brochures, copyright free photographs, radio and television public service announcements, as well as tool kits with easy to follow step by step instructions, sample materials and templates to customize. In addition, food stamp information materials in nearly three dozen languages continued to be available.
- Continued to support a toll free number which provides general information about food stamp benefits in English and Spanish.
- Maintained a pre-screening tool in English and Spanish which allows users to obtain an estimate of their eligibility and benefit amount.
- Supported the Food Stamp Outreach Coalition which serves as a way to convene national, State, and local leaders to discuss the state-of-the-art in food stamp outreach, network, and share ideas. The Coalition continued to support the annual Hunger Champions competition to recognize local food stamp offices that excel in customer service and outreach and launched the Golden Grocer program to recognize authorized retailers that engage in outreach.

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 indicates that approximately 25 million of the 38 million individuals who were eligible for food stamp benefits in an average month of 2005 participated, a participation rate of 65 percent.

Exhibit 2: Trends in Improving Access to Nutritious Food

Trends (in millions of people)	Fiscal Year Actual				
	2003	2004	2005	2006	2007
Food Stamp Program Avg. Monthly Participation	21.3	23.9	25.7	26.7	26.3
National School Lunch Program Avg. Daily Participation	28.4	29.0	29.6	30.1	30.6
School Breakfast Program Avg. Daily Participation	8.4	8.9	9.3	9.8	10.1
WIC Program Monthly Participation (mil)	7.6	7.9	8.0	8.1	8.2

Note: FY 2007 data is estimated based on information available and is subject to change.

National School Lunch Program—NSLP participation levels reached 30.6 million in FY 2007, up slightly from FY 2006 and continuing the trend of increases in recent years. NSLP provides nutritious meals to millions of children at school; approximately 95,000 schools operated the program in FY 2007.

School Breakfast Program—SBP participation levels reached 10.1 million in FY 2007, up 3 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 80,000 institutions operated the program in FY 2007. FNS continued to support and encourages SBP participation in FY 2007 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 that show the importance of a good breakfast—either at home or served through the program—in being ready for school;
- Working with various organizations and partners to help develop strategies for program expansion
- Developing School Breakfast outreach materials for schools and parents
- 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 growth reflects FNS's continuing efforts to encourage schools to operate the program.

Women, Infants and Children (WIC)—In FY 2007, approximately 8.2 million participants received WIC benefits. FNS addresses the health and nutritional needs of, at risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to 5 years of age with supplemental food packages, nutrition education and health and social services referrals. FNS continued to support and encourage WIC Program participation, and improve benefits and services, in FY 2007 by:

- Continuing work on regulatory changes to amend the WIC food packages based on recommendations from the Institute of Medicine in its report, *WIC Food Packages: Time For A Change*. During 2007, FNS analyzed over 46,000 comments received in response to the proposed rule published in August 2006. The Department is working expeditiously to develop an interim final rule that will be published in the fall of 2007.
- Providing training and technical assistance to States in implementing the Value-Enhanced Nutrition Assessment (VENA) initiative. In FY 2007 USDA initiated the development of a six-hour train-the trainer DVD and three on-line training modules.
- Continuing to support the State Agency Model (SAM) projects to develop model WIC information systems (IS) through multiple State agency consortia and to facilitate the transfer of these models to other WIC State agencies in order to eliminate duplication and streamline the IS procurement process. The SAM Project is consistent with FNS' 5-year technology plan to improve WIC system functionality through the replacement of automated legacy systems.
- Providing technical assistance to State agencies in implementing cost containment strategies. Savings generated by such actions as competitive bidding, rebates, least cost brands, and use of economically-priced package sizes are used by State agencies to provide benefits to more participants within the same total budget. Due to the success of cost saving measures, average per person WIC food costs have grown much more slowly than general food inflation over the last 16 years. The average monthly food cost has increased by approximately 23 percent since FY 1990, while general food inflation as measured by the Thrifty Food Plan (TFP) has increased by 53 percent.

OBJECTIVE 5.2: PROMOTE HEALTHIER EATING HABITS AND LIFESTYLES

Overview

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 U.S. actually eat. The Department 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. The Department 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 have become a serious risk factor for premature death and disability in the U.S. Improved diets can help with weight management and reduce the risk of chronic diseases including certain types of cancers, as well as type 2 diabetes. Thus, USDA’s efforts focus on updating nutrition policy, providing information and promoting behavioral changes that can help to prevent and, over time, reduce overweight, obesity and other diet-related health 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, the Department 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. USDA uses the 2005 *Dietary Guidelines* and MyPyramid, the educational tool of the Guidelines, to continue its leadership role of providing advice on patterns Americans can follow to improve overall health through proper nutrition.

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. However, ultimately 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 and ages, and both 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

Exhibit 3: Promoting Healthier Eating Habits and Lifestyles

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
5.2.1 Promote Healthy Eating habits and Lifestyles: Application and usage level of nutrition guidance tools	2.0 billion pieces ³ of nutrition guidance distributed	2.6 billion	Exceeded

Note: FY 2007 data is estimated based on information available and is subject to change.

Analysis of Results

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

- Usage level of nutrition guidance tools was substantial for FY 2007, as it was for FY 2006: over 2 billion pieces of nutrition guidance materials distributed via the Web and print materials. In addition, cumulative registrations (from 2005 to the present) continue to increase for the MyPyramid Tracker, an on-line diet and physical activity assessment tool. From 2005 to 2006, there were 1.6 million registrations; from 2005 to the present, 2.7 million.
- Consumers using the MyPyramid Food Guidance System personalized the information they receive via the electronic educational tools at MyPyramid.gov. For example, throughout the year, over half (61 to 77 percent) of the consumers who responded to a satisfaction questionnaire at www.MyPyramid.gov indicated that the information at the Web site prompted them to take action regarding their health. These actions or “steps” included changing their diet or the family’s diet, monitoring what they ate, reducing unhealthful eating practices, obtaining their personalized eating plan, or setting a physical activity goal.

Exhibit 4: Trends to Promote Healthier Eating Habits and Lifestyles

Trends	Fiscal Year Actual				
	2003	2004	2005	2006	2007
Application and usage level of nutrition guidance tools	N/A	N/A	1.0 billion	2.0 billion	2.6 billion

Note: FY 2007 data is estimated based on information available and is subject to change.

OBJECTIVE 5.3: IMPROVE FOOD PROGRAM MANAGEMENT AND CUSTOMER SERVICE

Overview

FNS is committed to ensuring that nutrition-assistance programs serve those in need at the lowest possible costs, and with a high level of customer service. Managing Federal funds for nutrition assistance effectively, including

³Represents number of e-hits to MyPyramid.gov links and number of print materials distributed.

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 agency, 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 2007 on improving nutrition-assistance program management and customer service reflects FNS's long-term core commitment to prevent waste, inefficiency and abuse that diverts taxpayer resources from the core purposes and goals of these programs.

Challenges for the Future

Some improper payment risks are inherent to the legislatively mandated program structure, which is intended and designed to be easily accessible to 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, FNS 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. However, State agencies have, for the most part, risen to the challenge and continue to achieve a high level of payment accuracy. Additionally, State budgets have been and will continue to be extremely tight. This factor could hurt State performance in 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 2007 data is not yet available, Food Stamp payment accuracy remained strong in 2006, reflecting State and Federal efforts 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 2007		
		Target	Actual	Result
5.3.1	Improve Food Program Management and Customer Service			
—	Increase Food Stamp Payment Accuracy Rate	94.2%	N/A	Deferred

Analysis of Results

The FY 2007 Food Stamp Payment Accuracy Rate will become available in June 2008 and will be reported in the *FY 2008 Performance and Accountability Report*.

The FY 2006 Food Stamp Payment Accuracy Rate was 94.01 percent, the third consecutive year of a payment accuracy rate of over 94 percent. Performance highlights include:

- This year, there are 25 States with a payment accuracy rate greater than 94 percent.

- The number of top-performing States, and their performance level, increased between 2005 and 2006:
 - In 2006, 13 States had payment accuracy rate over 96 percent—a more than 50 percent increase from 2005, when only 8 States reached that level.
 - The lowest State performance level that merited a performance bonus for best payment accuracy in FY 2006 was 96.6 percent, an increase from the FY 2005 “cutoff” level of 95.6 percent, reflecting a greater concentration of high-performing States at the very highest accuracy rates.

FNS efforts such as an enhanced Partner Web (an intranet for State Food Stamp agencies) and the National Payment Accuracy Work Group (consisting of representatives from USDA headquarters and regional offices) contributed significantly to this success by making timely and useful payment accuracy-related information 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 Quality Control (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				
	2003	2004	2005	2006	2007
Food Stamp Payment Accuracy Rate	93.4%	94.1%	94.1%	94.0%	N/A

FNS’s 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 2007 financial statements audit report.

Federal Managers' Financial Integrity Act (FMFIA) Assurance

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

FNS has conducted its assessment of internal control and financial systems pursuant to Sections 2 and 4 of FMFIA, for the period ending September 30, 2007. Based on the results of this evaluation, FNS can provide reasonable assurance that internal controls are operating effectively. For FY 2006, FNS had no existing material weaknesses or significant deficiencies on which to report. No new material weaknesses or significant deficiencies were identified for FY 2007.

While FNS is able to provide reasonable assurance relating to FMFIA Section 2 on program controls for FY 2007, continued reductions in FNS's administrative resources, significant changes in program design, and/or additional administrative requirements may compromise the ability to adequately execute internal controls over program management and limit the 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, 2007. Based on the result of our evaluation, the agency is in substantial compliance with the FFMIA for the following sections:

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

FNS has no areas of substantial non-compliance.

Assurance for Internal Control over Financial Reporting

FNS conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2007, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, Appendix A.

This assessment included an evaluation of entity level controls and process descriptions, an assessment of risk, a review of the design and documentation of key controls, and tests of effectiveness of properly designed controls.

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

FNS currently has sufficient resources to perform existing internal controls over financial reporting. However, future reductions in FNS's resources or significant changes in program design without commensurate increases in administrative resources may compromise the ability to adequately execute internal controls over financial reporting already in place or limit the ability to design and implement any additional controls that may be needed in the future.

OIG Audit Handling Process

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.

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
MANAGEMENT DISCUSSION AND ANALYSIS-UNAUDITED

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	3-31-08	Awaiting publication of regulations
27010-19-SF	11-18-99	Smart Start, Inc.	6-30-08	Awaiting collection of disallowed costs; court date set for January 08
27099-22-CH	2-27-02	CACFP-Opportunities Industrialization Center of Greater Milwaukee	3-31-08	Awaiting collection of disallowed costs
27601-27-CH	4-30-02	NSLP Food Service Management Companies	3-31-08	Awaiting publication of regulations & guidance
27010-3-KC	3-22-00	CACFP-Wildwood	10-31-11	Pending collection (repayment plan)
27099-31-SF	8-24-04	Summer Food Service Program - Nevada	6-30-08	Awaiting collection of disallowed costs
27099-60-AT	12-23-05	SWIP Audit – Puerto Rico	6-30-08	Pending action by state agency and expiration of contracts
27601-35-CH	7-14-06	CACFP Supper Meals Served in Schools	5-31-09	Awaiting publication of regulations

The number of FNS audits without final action more than one year after management decision has declined by more than 27 percent since FY 2005.⁴ In FY 2007, audit number 27601-12-AT, Food Stamps Employment and Training – Tennessee was closed. The Inspector General Act Amendments of 1988 requires the accompanying data for an annual report on the status of audits.

⁴ At the close of FY 2005, FNS had 11 such audits. At the close of FY 2007, FNS had 8 such audits.

SECTION 4. IMPROPER PAYMENTS INFORMATION ACT (IPIA)

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

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

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

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

- The **Food Stamp Program** has regularly reported State and National overpayment and underpayment error rates for over twenty years. The program's quality control system measures payment accuracy using a sample of Food Stamp cases in each State, reviewing specific data elements used to determine benefit eligibility. This information is continually accumulated and analyzed yearly. It provides useful information which guides legislative, policy, management and operational considerations as well as determines improper payment/payment accuracy metrics. These 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.
- In the **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**, FNS has reported on the vendor segment of the program and work is underway to report improper payment error rates on the certification segment of the program.
 - FNS first reported a *vendor* improper payment error rate in FY 2006. Over and under payment rates for FY 2005 were developed through a nationally representative study of a probability sample of WIC vendors. Data from this "bookend" study is then used in conjunction with information on vendor investigations by State WIC Agencies to prepare a statistically estimated improper payment amount for each subsequent year. An estimate for FY 2006 performance is being reported this year. This estimation method will continue to be used to produce estimates annually until the next "bookend" study.
 - A preliminary estimate of erroneous payments associated with *certification* actions will be available in August 2009, and the final estimate will be available in 2010.
- For the **Child and Adult Care Food Program**, FNS has identified support for meal service in family day care homes as the highest-risk component of CACFP. The Agency has identified two types of errors in this part of the program:

- *Sponsor tiering error* - CACFP sponsors are responsible for determining whether family day care homes receive meal reimbursement at the higher rate (Tier 1) or lower rate (Tier 2). FNS has developed and tested an annual nationally-representative sponsor tiering error measure; the second year results are reported this year.
- *Claiming error* - FNS is also developing a second component measure, focused on the accuracy of reimbursement claims. The agency is currently reviewing pretest results and preparing to pilot test data collection method(s) with the greatest likelihood of producing valid claiming error estimates. Assuming that a satisfactory measurement method is developed, FNS plans to report a claiming error rate estimate for FY 2009 in the FY 2010 PAR.
- This year, for the first time, FNS is reporting improper payment rates and dollar equivalents for the **National School Lunch Program** and **School Breakfast Program**. Rates were derived from a nationally representative study that was designed to provide a baseline error rate estimate as well as develop a methodology to update this estimate annually using program administrative data and macroeconomic indicators. The study methodology derived overpayment and underpayment estimates of erroneous payments for two sources of error; *certification error* (misclassification of the school meal eligibility status of participating students) and *non-certification error* (improper meal counting and meal claiming by schools and school districts).

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

The tables below summarize the results of measurement activities for FNS programs identified as subject to a significant risk of improper payments. The first table shows improper payment rates for the last two years and the second table reflects future reduction targets. All results reported each year represent measures of outlays and program activity for the previous year.

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
 MANAGEMENT DISCUSSION AND ANALYSIS-UNAUDITED

Program	Results (\$ in millions)					
	FY2005 Results			FY2006 Results		
	Reported in FY 2006			Reported in FY 2007		
	Outlays millions	IP%	IPS millions	Outlays millions	IP%	IPS millions
FSP	28,160	5.84%	1,645	29,942	5.99%	1,794
NSLP	N/A	N/A	N/A	8,602	-----	-----
Certification	-----	-----	-----	-----	9.42%	810.3
Count/Claim	-----	-----	-----	-----	6.88%	591.8
SBP	N/A	N/A	N/A	2,086	-----	-----
Certification	-----	-----	-----	-----	9.15%	190.9
Count/Claim	-----	-----	-----	-----	15.79%	329.4
WIC	3,560	-----	-----	3,598	-----	-----
Certification	-----	N/A	N/A	-----	N/A	N/A
Vendor	-----	0.60%	21.5	-----	0.69%	24.8
CACFP	2,081	-----	-----	2,187	-----	-----
- FDC Homes	739	-----	-----	738	-----	-----
Tiering Decisions	-----	1.80%	13.3	-----	1.69%	12.5
Meal Claims	-----	N/A	N/A	-----	N/A	N/A

Notes:

1. FY 2006 NSLP and SBP improper payment rates (IP%) are estimated for School Year (SY) 2005/06.
2. FY 2006 NSLP and SBP Improper Payment Dollars (IP\$) = Rate for SY 2005/06 x FY 2006 program outlays.

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
MANAGEMENT DISCUSSION AND ANALYSIS-UNAUDITED

Program	Reduction Outlook (\$ in millions)								
	FY 2007			FY 2008			FY 2009		
	Reporting in FY2008			Reporting in FY2009			Reporting in FY 2010		
	Outlays millions	IP%	IPS million	Outlays millions	IP%	IPS million	Outlays millions	IP%	IPS million
FSP	30,376	5.8%	1,761	31,351	5.7%	1,787	31,961	5.6%	1,789
NSLP	8,761	-----	-----	9,115	-----	-----	TBD	-----	-----
Certification	-----	TBD	TBD	-----	TBD	TBD	-----	TBD	TBD
Count/Claim	-----	TBD	TBD	-----	TBD	TBD	-----	TBD	TBD
SBP	2,226	-----	-----	2,371	-----	-----	TBD	-----	-----
Certification	-----	TBD	TBD	-----	TBD	TBD	-----	TBD	TBD
Count/Claim	-----	TBD	TBD	-----	TBD	TBD	-----	TBD	TBD
WIC	4,158	-----	-----	4,093	-----	-----	TBD	-----	-----
Certification	-----	N/A	N/A	-----	TBD	TBD	-----	TBD	TBD
Vendor	-----	0.64%	26.6	-----	0.59%	24.1	-----	TBD	TBD
CACFP	2,163	-----	-----	2,271	-----	-----	2,371	-----	-----
- FDC Homes	702	-----	-----	725	-----	-----	744	-----	-----
Tiering	-----	1.64%	11.5	-----	1.59%	11.5	-----	1.54	11.5
Meal Claims	-----	N/A	N/A	-----	N/A	N/A	-----	TBD	TBD

Notes:

1. The FY 2009 outlays have not been estimated for all programs.
2. Because the FY 2006 rates for the NSLP and SBP were only recently announced, reduction targets for these programs are currently under development.
3. The rate for WIC certification will be determined for FY 2008 and available in late FY 2009, contingent upon funding.
4. CACFP-FDCH meal claiming rate methodology is under development; if a feasible method is identified, a rate will be determined for FY 2009 and available in FY 2010, contingent upon funding.

SECTION 5. LIMITATIONS OF FINANCIAL STATEMENTS

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

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

SECTION 6. FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS

In order to understand the FNS FY 2007 financial statements, one must understand the circumstances of FY 2006 which had an impact on FY 2007. In FY 2006, the economy performed more strongly than was anticipated by the President's FY 2006 budget request. As a result, program participation levels and costs, particularly with respect to the Food Stamps program, were lower than anticipated by approximately \$5 billion. Thus, the appropriations levels were higher than needed. Fund Balance with Treasury was the repository of unused funds where they will remain until they are cancelled. These appropriations are categorized as "unavailable" since they were not used in the year appropriated. They cannot be used for future year new spending.

OMB Circular A-136, "Financial Reporting Requirements," was revised on June 29, 2007. The revision called for the former Statement of Financing to be moved to the notes to the financial statements and be called the "Reconciliation of Net Cost of Operations to Budget." The principal Statement of Financing is no longer required and is not presented for either FY 2006 or 2007; the new footnote is provided in the notes to the financial statements, in accordance with OMB Circular A-136.

Balance Sheet

	2007		2006	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Fund Balance with Treasury	19,044	97.17%	16,585	96.78%
Accounts Receivable	235	1.20%	233	1.36%
General PP&E	15	0.08%	25	0.15%
Other	304	1.55%	294	1.72%
Total Assets	19,598	100.00%	17,137	100.00%
Accounts Payable	3,514	17.93%	3,543	20.67%
Benefits	7	0.04%	7	0.04%
Other Liabilities	53	0.27%	56	0.33%
Total Liabilities	3,574	18.24%	3,606	21.04%
Unexpended Appropriations	15,822	80.73%	13,322	77.74%
Cummulative Results of Operations	202	1.03%	209	1.22%
Total Net Position	16,024	81.76%	13,531	78.96%
Total Liabilities & Net Position	19,598	100%	17,137	100%

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2007 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) – 97% in both FY 2006 and FY 2007. This cash-like account largely represents the aggregate amount of funds in the FNS accounts with the U.S. Treasury from which the agency is authorized to make expenditures and pay liabilities. They are appropriated funds that at fiscal year end represent unliquidated federal obligations. The Fund Balance with Treasury account was higher at the end of FY 2007 than FY 2006, as a result of the FY 2006 unobligated balances described earlier. As financial statement Note 3 presents, a substantial portion of the fund balance is unavailable as they are associated with either expired years or are contingency funds which were not made available.

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

Accounts Payable represents the largest liability of the agency, typically representing amounts that are currently payable to grantees. The FY 2007 and 2006 Net Position of the agency is concentrated in Unexpended Appropriations, which includes contingency reserves (over \$8 billion in FY 2007).

Statement of Net Cost

	2007		2006	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Gross Cost	54,348	100.04%	53,451	100.04%
Less: Earned Revenue	(24)	-0.04%	(21)	-0.04%
Net Cost of Operations	54,324	100.00%	53,430	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 \$53,451 million in FY 2006 to \$54,348 million in FY 2007, reflecting the overall impact of FNS programs' actual participation levels and food costs.

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

The Net Cost of Operations increased from \$53,430 million in FY 2006 to \$54,324 million in FY 2007.

Statement of Changes in Net Position

	2007		2006	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Cumulative Results of Operations				
Beginning Balance	209		194	
Appropriations Used	47,779	87.96%	47,516	88.91%
Transfers In(Out) without Reimbursement	5,746	10.58%	5,203	9.74%
Other Budgetary Financing Sources	0	0.00%		0.00%
Imputed Financing	792	1.46%	726	1.36%
Total Financing Sources	54,317	100.00%	53,445	100.00%
Less: Net Cost of Operations	54,324		53,430	
Ending Balance	202		209	
Unexpended Appropriations				
Beginning Balance	13,322		8,056	
Appropriations Received	51,314		53,813	
Adjustments	(1,035)		(1,031)	
Appropriations Used	(47,779)		(47,516)	
Total: Financing Sources	2,500		5,266	
Ending Balance	15,822		13,322	
Total Net Position	16,024		13,531	

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

The FY 2007 appropriations used was \$47,779 million, slightly higher than FY 2006 based on actual participation levels and food costs.

Cumulative Results of Operations decreased \$7 million, from \$209 million in FY 2006 to \$202 million in FY 2007, as the net cost of operations exceeded the financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained relatively unchanged from FY 2006 to FY 2007. Transfers are largely made up a single large transfer made in the annual appropriations act from funds available to the Secretary under Section 32 of the Act of 1935 for support of Child Nutrition programs. Additionally, FNS received a transfer from the Commodity Credit Corporation for the Senior Farmers Market Program. Transfers represented approximately ten percent of total financing sources in both FY 2006 and FY 2007.

Unexpended Appropriations increased from \$13,322 million in FY 2006 to \$15,822 million in FY 2007 as more appropriations (net of adjustments) were received than were expended. These unused financing sources are also reflected in the higher balances in the Fund Balance with Treasury on the balance sheet.

Statement of Budgetary Resources

	2007		2006	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Budgetary Resources				
Beginning Unobligated Balance	12,417	17.92%	7,108	10.77%
Recoveries	761	1.10%	797	1.21%
Appropriations	51,314	74.06%	53,813	81.57%
Collections	86	0.12%	85	0.13%
Change in unfilled customer orders	-2	0.00%	1	0.00%
Transfers	5,746	8.29%	5,203	7.89%
Less: Permanently Not Available	(1,034)	-1.49%	(1,033)	-1.57%
Total Budgetary Resources	69,288	100.00%	65,974	100.00%
Status of Budgetary Resources				
Direct Obligations	54,372	78.47%	53,530	81.14%
Reimbursable Obligations	24	0.03%	27	0.04%
Apportioned-Unobligated	639	0.92%	3,160	4.79%
Unobligated-Not Available	14,253	20.57%	9,257	14.03%
Total: Status of Budgetary Resources	69,288	100%	65,974	100%
Net Outlays	53,566	77.31%	52,448	79.50%

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

Though appropriations decreased in FY 2007, total budgetary resources were higher than the prior year due to the higher beginning unobligated balance. FNS had \$69,288 million in total budgetary resources during FY 2007, largely from appropriations received, but also from transfers and available unobligated balances from prior periods.

At fiscal year end 2007, most (\$54,372 million or 78%) of those resources were obligated, though \$639 million (almost 1%) remained unobligated and available, and another \$14,253 million (21%) was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and Food Stamps). In FY 2007, Net Outlays represented 77% of Total Budgetary Resources, compared to 79.5% in FY 2006.

Unobligated balances brought forward were significantly larger in FY 2007 than in FY 2006 (over \$12 billion compared to \$7 billion) because of the appropriations unused by the Food Stamp program at the end of FY 2006 that carried over into FY 2007, though the funds became unavailable for FY 2007. These funds are also reflected in the growth in Unobligated Balances Not Available from \$9,257 million in FY 2006 to \$14,253 million in FY 2007.

Food and Nutrition Service
BALANCE SHEET
 As of September 30, 2007 (CY) and 2006 (PY)
 (in dollars/millions)

	FY 2007 (CY)	FY 2006 (PY)
Assets (Note 2):		
Intragovernmental:		
Fund balance with Treasury (Note 3)	\$19,044	\$16,585
Other (Note 6)	<u>303</u>	<u>294</u>
Total intragovernmental	19,347	16,879
Accounts receivable, net (Note 4)	235	233
General property, plant, and equipment, net (Note 5)	15	25
Other (Note 6)	<u>1</u>	<u>0</u>
Total assets	<u>\$19,598</u>	<u>\$17,137</u>
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	\$0	\$0
Other (Note 8)	<u>34</u>	<u>38</u>
Total intragovernmental	34	38
Accounts payable	3,514	3,543
Federal employee and veterans benefits	7	7
Other (Note 8)	<u>19</u>	<u>18</u>
Total liabilities	3,574	3,606
Net position:		
Unexpended appropriations - other funds	15,822	13,322
Cumulative results of operations - other funds	<u>202</u>	<u>209</u>
Total net position	<u>\$16,024</u>	<u>\$13,531</u>
Total liabilities and net position	<u>\$19,598</u>	<u>\$17,137</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, 2007(CY) and 2006(PY)
(in dollars/millions)

	FY 2007 (CY)	FY 2006 (PY)
Program costs:		
Strategic Goals:		
Improve the Nation's Nutrition and Health:		
Gross costs (Note 10)	\$54,348	\$53,451
Less: earned revenue	24	21
Net program costs	54,324	53,430
Net cost of operations	<u>\$54,324</u>	<u>\$53,430</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, 2007 (CY) and 2006 (PY)
(in dollars/millions)

	FY 2007 (CY)	FY 2006 (PY)
	All Other Funds	All Other Funds
Cumulative Results of Operations:		
Beginning Balances	\$209	\$194
Beginning Balance, as adjusted	209	194
Budgetary Financing Sources:		
Appropriations Used	47,779	47,516
Transfers in/out without Reimbursement	5,746	5,203
Other	0	0
Other Financing Sources (Non-Exchange):		
Imputed financing	792	726
Total Financing Sources	54,317	53,445
Net Cost of Operations	<u>(54,324)</u>	<u>(53,430)</u>
Net Change	(7)	15
Cumulative Results of Operations	202	209
Unexpended Appropriations:		
Beginning Balances	13,322	8,056
Beginning Balances, as adjusted:	13,322	8,056
Budgetary Financing Sources:		
Appropriations Received	51,314	53,813
Other Adjustments	(1,035)	(1,031)
Appropriations Used	<u>(47,779)</u>	<u>(47,516)</u>
Total Budgetary Financing Sources	<u>2,500</u>	<u>5,266</u>
Total Unexpended Appropriations	<u>15,822</u>	<u>13,322</u>
Net Position	<u>16,024</u>	<u>13,531</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, 2007(CY) and 2006 (PY)
(in dollars/millions)

	FY 2007 (CY) <u>Budgetary</u>	FY 2006 (PY) <u>Budgetary</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$12,417	\$7,108
Recoveries of prior year unpaid obligations	761	797
Budget authority		
Appropriation	51,314	53,813
Spending authority from offsetting collections		
Earned		
Collected	86	85
Change in unfilled customer orders		
Advance received	(1)	0
Without advance from Federal sources	(1)	1
Subtotal	51,398	53,899
Nonexpenditure transfers, net, anticipated and actual	5,746	5,203
Permanently not available	<u>(1,034)</u>	<u>(1,033)</u>
Total Budgetary Resources	<u>\$69,288</u>	<u>\$65,974</u>
Status of Budgetary Resources:		
Obligations incurred:		
Direct	\$54,372	\$53,530
Reimbursable	<u>24</u>	<u>27</u>
Subtotal	54,396	53,557
Unobligated balance:		
Apportioned	639	3,160
Subtotal	639	3,160
Unobligated balance not available	<u>14,253</u>	<u>9,257</u>
Total status of budgetary resources	<u>69,288</u>	<u>65,974</u>

This statement is continued on the following page.

Food and Nutrition Service
STATEMENT OF BUDGETARY RESOURCES, continued
For the years ended September 30, 2007 (CY) and 2006 (PY)
(in dollars/millions)

Change in Obligated Balances:	FY 2007	FY 2006
Obligated balance, net		
Unpaid obligations, brought forward, October 1	4,166	3,940
Total unpaid obligated balance, net	4,166	3,940
Obligations incurred net (+/-)	54,396	53,557
Gross outlays	(53,647)	(52,533)
Recoveries of prior year unpaid obligations, actual	(761)	(797)
Change in uncollected customer payments from Federal sources (+/-)	0	(1)
Obligated balance, net, end of period		
Unpaid obligations	4,154	4,166
Uncollected customer payments from Federal sources	0	(1)
Total, unpaid obligated balance, net, end of period	4,154	4,165
Net Outlays:		
Net Outlays:		
Gross outlays	53,647	52,533
Offsetting collections	<u>(84)</u>	<u>(85)</u>
Distributed offsetting receipts	<u>3</u>	<u>(1)</u>
Net outlays	53,566	52,448

The accompanying notes are an integral part of these statements.

FOOD and NUTRITION SERVICE NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in millions except as noted)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report significant assets, liabilities, net cost of operations, changes in net position, and budgetary resources for the Food, Nutrition, and Consumer Services (FNS), as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated June 29, 2007. They have been prepared from the books and records of FNS in accordance with the Generally Accepted Accounting Principles (GAAP). GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body.

OMB Circular A-136, "Financial Reporting Requirements," was revised on June 29, 2007. The revision called for the former Statement of Financing to be moved to the notes to the financial statements and be called the "Reconciliation of Net Cost of Operations to Budget." The Principal Statement of Financing is no longer required and is not presented for either FY 2006 or 2007; the new footnote is provided in the notes to the financial statements, in accordance with OMB Circular A-136.

B. Reporting Entity

FNS, including the Center for Nutrition Policy and Promotion (CNPP), is under the jurisdiction of the Under Secretary for Food, Nutrition, and Consumer Services of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia, and implemented through seven regional offices and 68 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 2007 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 \$235 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 2007, the model explains 96 percent of the variation in claims collections. Historically, one-year-ahead collections projected by the model have proved to be accurate within approximately 4 percent of actual net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNS does not estimate collections after the initial year or discount the estimate produced by the statistical model to its present value.

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

Because reliable data is not available addressing gross FNS accounts receivable, the FSP QC estimate of FSP benefits overissued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 2006 QC error rates were announced in June 2007. Using this methodology, FNS estimates the value of benefit overissuance in Fiscal Year 2006 (the most recent year for which data are available) at \$1.453 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2007 financial statements. For FY 2006, two States were assessed liabilities for having excessive error rates for two consecutive years. The aggregate total of the liability was \$1.79. The two States signed payment agreements in lieu of immediately repaying in cash. The agreements called for each State to invest 50 percent of its liability in program improvement activities. The remaining 50 percent of the liability was placed at risk pending future improved performance.

The QC over Issuance error rate data for the past 3 years follows:		
Fiscal Year	Rate Amount	Total \$ (Billions)
2006	4.82 %	\$ 1.453
2005	4.53 %	\$ 1.294
2004	4.48 %	\$ 1.103

E. Grants and Program Benefits

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

F. Annual, Sick, and Other Leave

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

G. Retirement Plan

FNS employees participate in both the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). FNS makes matching contributions to the CSRS total plan equal to 8.5 percent of pay, while contributions to the FERS total plan are 10.7 percent of pay. For most employees hired since December 31, 1983, FNS also contributes the employer's matching share for Social Security. FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which FNS automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. FNS makes these and other contributions to employee retirement plans as shown in the following table:

FNS RETIREMENT CONTRIBUTIONS (IN MILLIONS)		
Type of Contribution	Amount	
	2007	2006
CSRS/Transitional retirement contributions-Civil Service	\$0.3	\$0.3
FERS regular contributions	\$7.0	\$7.0
Thrift Savings Plan contribution	\$2.7	\$2.7
TOTAL	\$10.0	\$10.0

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

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

H. Recognition of Financing Sources and Appropriations Used

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

At the time grant awards are established, FNS records obligations for the full amount of expected program expenses as unexpended obligations-unpaid (undelivered orders). Reductions in unexpended obligations occur as expenses are incurred by grantees. At year-end, grant obligations are accrued and reflected on statements as accounts payable. At grant closeout, the unused portions of grant awards are deobligated, increasing the unobligated balances and are shown on the balance sheet as part of unexpended appropriations. Unobligated balances available for future periods are also shown as unexpended appropriations.

I. Fund Balance With Treasury Accounts

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

J. Donated Commodities

The distribution of donated commodities from AMS and FSA is now further refined to reflect the ultimate distribution to TEFAP, Child Nutrition, CSFP, FDPIR, Nutrition Services Incentive Program (NSIP), Disaster Feeding, and Charitable Institutions programs in FY 2007 footnotes 9 and 10. In FY 2006 the donated commodities were all reflected under the Commodity Assistance Program. There were no changes to the methods used to determine any financial statement line items.

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
NOTES TO THE FINANCIAL STATEMENTS

Note 2. Non-Entity Assets

	FY 2007	FY 2006
Intragovernmental:		
Fund balance with Treasury	\$1	\$3
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
Total Intragovernmental	1	3
With The Public		
Cash and other monetary assets	-	-
Accounts receivable	34	31
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related porperty	-	-
Other	-	-
Total With the Public	34	31
Total non-entity assets	35	34
Total entity assets	19,563	17,103
Total assets	\$ 19,598	\$ 17,137

FNS' Non-Entity Asset, "Fund Balance with Treasury" consists of funds held in FNS' 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 2007	FY 2006
Trust Funds	\$ -	\$ -
Revolving Funds	-	-
Appropriated Funds	19,043	16,582
Other Fund Types	1	3
Total	19,044	16,585

Status of Fund Balance with Treasury:

Unobligated Balance:		
Available	639	3,160
Unavailable	14,253	9,258
Obligated Balance not yet Disbursed	4,154	4,165
Non-Budgetary Fund Balance with Treasury:		
Clearing Account Balances	(2)	2
Borrowing Authority not Yet Converted to Fund Balance	-	-
Total	\$ 19,044	\$ 16,585

Note 4. Accounts Receivable, Net

II. III. FY 2007	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 0	\$ 0	\$ 0
With the Public	\$ 240	\$ 5	\$ 235
Total	\$ 240	\$ 5	\$ 235

IV. V. 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

(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 2007 FNS' capitalization threshold for property and equipment is \$25 thousand. FNS' capitalization threshold for internal-use software is \$100 thousand. FNS owns no buildings or land. FNS follows recognition and measurement criteria in SFFAS No. 6 as amended by SFFAS No. 11 and 23, and USDA Departmental Regulation 2200-002, dated December 24, 2003. At year end, balances for Property, Plant, and Equipment were as follows:

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007

NOTES TO THE FINANCIAL STATEMENTS

FY 2007	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	3	2	1
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	17	14
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 34	\$ 19	\$ 15

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

Note 6. Other Assets

	FY 2007	FY 2006
Intragovernmental:		
Advances to Others	\$ -	\$ -
Prepayments	-	-
Other Assets	302	294
Total Intragovernmental	302	294
With the Public:		
Advances to Others	-	-
Prepayments	-	-
Other Assets	1	-
Total With the Public	1	-
Total Other Asssets	\$ 303	\$ 294

FNS' "Intragovernmental-Other Assets" consist of Advances to Farm Service Agency/Commodity Credit Corporation for the purchase of commodities. FNS' "With the Public"-Other Assets" consist of advances for Regional Office Administrative Payments (ROAP).

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
 NOTES TO THE FINANCIAL STATEMENTS

Note 7. Liabilities Not Covered by Budgetary Resources

Intragovernmental:	FY 2007	FY 2006
Accounts payable	\$ -	\$ -
Debt	-	-
Other	1	-
Total Intragovernmental	1	-
With the Public:	-	-
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	7	7
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	10	10
Total With the Public	17	17
Total liabilities not covered by budgetary resources	18	17
Total liabilities covered by budgetary resources	3,556	3,589
Total liabilities	\$ 3,574	\$ 3,606

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

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
 NOTES TO THE FINANCIAL STATEMENTS

Note 8. Other Liabilities

FY 2007	Non-Current	Current	Total
Intragovernmental:			
Contract Holdbacks	-	-	-
Other Accrued Liabilities	-	2	2
Employer Contributions and Payroll Taxes	-	1	1
Other Post-Employment Benefits Due and Payable	-	-	-
Unfunded FECA Liability	-	1	1
Other Unfunded Employment Related Liability	-	-	-
Advances from Others	-	(2)	(2)
Deferred Credits	-	-	-
Liability for Deposit Funds, Clearing Accounts	-	(2)	(2)
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Resources Payable to Treasury	-	-	-
Custodial Liability	-	34	34
Other Liabilities	-	-	-
Total Intragovernmental	-	34	34
With the Public:			
Contract Holdbacks	-	-	-
Other Accrued Liabilities	-	7	7
Accrued Funded Payroll and Leave	-	-	-
Withholdings Payable	-	-	-
Employer Contributions and Payroll Taxes Payable	-	-	-
Other Post-Employment Benefits Due and Payable	-	-	-
Pension Benefits Due and Payable to Beneficiaries	-	-	-
Benefit Premiums Payable to Carriers	-	-	-
Life Insurance Benefits Due and Payable	-	-	-
Unfunded Leave	-	10	10
Other Unfunded Employment Related Liability	-	-	-
Advances from Others	-	2	2
Deferred Credits	-	-	-
Liability for Deposit Funds, Clearing Accounts	-	-	-
Prior Liens Outstanding or Acquired Collateral	-	-	-
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Custodial Liability	-	-	-
Other Liabilities	-	-	-
Total With the Public	-	19	19
Total Other Liabilities	\$ -	\$ 53	\$ 53

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
 NOTES TO THE FINANCIAL STATEMENTS

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	-	-	-
Total 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	-	-	-
Total With the Public	-	18	18
Total Other Liabilities	\$ -	\$ 56	\$ 56

Note 9. Intragovernmental Cost and Exchange Revenue

Child Nutrition	FY 2007	FY 2006
Intragovernmental Costs	\$ 653	\$ 9
Public Costs	\$ 13,094	\$ 12,650
Total Costs	\$ 13,747	\$ 12,659
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ -
Food Stamp		
Intragovernmental Costs	\$ 61	\$ 19
Public Costs	\$ 34,726	\$ 34,473
Total Costs	\$ 34,787	\$ 34,492
Intragovernmental Earned Revenue		
Public Earned Revenue	\$ 20	\$ 18
Total Earned Revenue	\$ 20	\$ 18
Other	FY 2007	FY 2006
Intragovernmental Costs	\$ 104	\$ 93
Public Costs	\$ 240	\$ 181
Total Costs	\$ 344	\$ 274
Intragovernmental Earned Revenue	\$ 2	\$ 1
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ 2	\$ 1
Women, Infants & Children		
Intragovernmental Costs	\$ 1	\$ 1
Public Costs	\$ 5,250	\$ 5,158
Total Costs	\$ 5,251	\$ 5,159
Intragovernmental Earned Revenue		
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ -

NOTES TO THE FINANCIAL STATEMENTS

Commodity Assistance Program	FY 2007	FY 2006
Intragovernmental Costs	\$ 20	\$ 663
Public Costs	\$ 199	\$ 204
Total Costs	\$ 219	\$ 867
Intragovernmental Earned Revenue	\$ -	\$ 2
Public Earned Revenue	\$ 2	\$ -
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, 2007

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

For the year ended September 30, 2006

	CHILD NUTRITION	FOOD STAMP	Women Infants & Children	Commodity Assistance Program	OTHER	Consolidated Total
CHILD NUTRITION						
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>

NOTES TO THE FINANCIAL STATEMENTS

Note 11. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$19.6 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 2007, 3 States participated in this program, which generated earned revenues of \$19.6.

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

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

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

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

Differences exist between FNS' FY 2006 Statement of Budgetary Resources (SBR) (as provided to the Department for consolidation purposes) and the FY 2006 actual numbers presented in the FY 2008 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2006 SBR	\$65,973	\$52,448
Less: Expired Accounts not Included in Budget	\$4,412	
Add: Parent Child Relationship (CSREES)	\$5	\$5
Less: Differences due to Rounding	\$0	\$1
Budget of the U.S. Government	\$61,566	\$52,452

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2007
NOTES TO THE FINANCIAL STATEMENTS

Note 14. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2007 and 2006 was \$633 and \$604, respectively.

Note 15. Incidental Custodial Collections

Revenue Activity:	FY 2007	FY 2006
Sources of Collections:		
Miscellaneous	\$ (12)	\$ (18)
Total Cash Collections	(12)	(18)
Accrual Adjustments	3	8
Total Custodial Revenue	(9)	(10)
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	9	10
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2007 custodial activity represents all accounts receivable activity related to canceled year appropriations for interest, fines & penalties assessed and collected. For example, civil money penalties, interest, retailer and wholesaler fines and penalties. (See Note 1D., "Accounts Receivable", for further disclosures on FNS' collection activities). FNS transfers these types of collections to the Department of Treasury. FNS' custodial collection activities are considered immaterial and incidental to the mission of the agency.

NOTES TO THE FINANCIAL STATEMENTS

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

Resources Used to Finance Activities:	<u>FY 2007</u>	<u>FY2006</u>
Budgetary Resources Obligated		
Obligations Incurred	\$ 54,396	\$ 53,557
Less: Spending authority from offsetting collections and recoveries	845	883
	-----	-----
Obligations net of offsetting collections and recoveries	53,551	52,674
Less: Offsetting receipts	-	-
	-----	-----
Net Obligations	53,551	52,674
Other Resources		
Donations and forfeitures of property	-	-
Transfers in (out) without reimbursement	-	-
Imputed financing from costs absorbed by others	792	726
Other	-	-
	-----	-----
Net other resources used to finance activities	792	726
	<u>FY 2007</u>	<u>FY 2006</u>
Total resources used to finance activities	54,342	53,400
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	(26)	42
Resources that fund expenses recognized in prior periods	-	-
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increases liabilities for loan guarantees or allowances for subsidy	-	-
Change in Unfilled Customer Orders	(3)	-
Decrease in exchange revenue receivable from the public	-	-
Other	-	(14)
Resources that finance the acquisition of assets	-	(2)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	-	-
	-----	-----
Total resources used to finance items not part of the net cost of operations	(29)	26
	-----	-----
Total resources used to finance the net cost of operations	54,313	53,426

NOTES TO THE FINANCIAL STATEMENTS

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)
Increase in environmental and disposal liability	-	-
Upward/Downward reestimates of credit subsidy expense	-	-
Increase in exchange revenue receivable from the public	-	-
Other	1	1
	-----	-----
Total components of Net Cost of Operations that will require or generate resources in future periods	1	(1)
Components not Requiring or Generating Resources:		
Depreciation and amortization	10	3
Revaluation of assets or liabilities	-	-
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	1	-
Cost of Goods Sold	-	-
Other	(1)	2
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources	10	5
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources in the current period	11	4
	-----	-----
Net Cost of Operations	\$ 54,324	53,430
	=====	=====

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

The stewardship objective of Federal financial reporting includes accountability for Stewardship Investments. Stewardship Investments are expenses and investments incurred for education and training of the public that is intended to increase national economic productive capacity (investment in human capital), and research and development intended to produce future benefits.

Human Capital

1. A. Food Stamp Program

B. Program Expense	<u>2007</u>	<u>2006</u>
1. Employment and Training	\$51	\$66

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

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 703,927 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,152,744 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>2007</u>	<u>2006</u>
1. ADP Equipment & Systems	\$20	\$21

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

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

B. Program Expense	<u>2007</u>	<u>2006</u>
1. ADP Equipment & Systems	\$15	\$12

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).