



U.S. Department of Agriculture

Office of Inspector General



## **Audit Report**

# **Food and Nutrition Service Financial Statements for Fiscal Years 2009 and 2008**

**Audit Report 27401-34-Hy  
November 2009**



U.S. Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: November 6, 2009

REPLY TO

ATTN OF: 27401-34-Hy

TO: Julia M. Paradis  
Administrator  
Food and Nutrition Service

ATTN: E. Enrique Gomez  
Acting Chief Financial Officer  
Food and Nutrition Service

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

SUBJECT: Food and Nutrition Service Financial Statements for Fiscal Years 2009 and 2008

This report presents the results of our audit of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2009 and 2008. The report contains an unqualified opinion on the financial statements as well as the results of our assessment of the Food and Nutrition Service's internal controls 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.

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***Food and Nutrition Service Financial Statements for Fiscal Years 2009 and 2008***  
***(Audit Report 27401-34-Hy)***

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**Executive Summary**

**Purpose**

Our audit objectives were to determine whether the (1) 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) internal control objectives for financial reporting were met; and (3) 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 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 a site visit to the Federal Reserve Bank in Richmond, Virginia, and obtained information from all FNS regional offices.

**Results in Brief**

In our opinion, FNS' comparative financial statements for fiscal years 2009 and 2008, including the accompanying notes, present fairly in all material respects, the assets, liabilities, and net position of FNS as of September 30, 2009 and 2008; and its net costs, changes in net position, and budgetary resources, in conformity with accounting principles generally accepted in the United States of America.

In the section entitled "Consideration of Internal Control," we report that although FNS reported no material weaknesses in its FY 2009 Federal Manager's Financial Integrity Act, FNS did report one control deficiency that was part of a Department-wide material weakness on unliquidated obligations and seven significant deficiencies relative to a minor agency financial system.

In the section entitled "Compliance with Laws and Regulations," we report that FNS' core financial 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 Improvement Act of 2002.

## **Independent Auditor's Report**

Julia M. Paradis  
Administrator  
Food and Nutrition Service

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying balance sheets of the Food and Nutrition Service (FNS) as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and the combined statements of budgetary resources (herein afterward referred to as the "financial statements") for the fiscal years (FY) then ended. The financial statements are the responsibility of FNS' management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with standards generally accepted in the United States of America (the standards applicable to financial audits are contained in Government Auditing Standards issued by the Comptroller General of the United States), and the Office of Management and Budget (OMB) Bulletin 07-04, Audit Requirements for Federal Financial Audits, as amended. Those standards and OMB Bulletin 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide 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 the FNS as of September 30, 2009 and 2008; and its net costs; changes in net position; and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in FNS' Management Discussion and Analysis and Required Supplementary Information is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America and OMB Circular A-136. We have applied certain limited procedures, consisting primarily of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, express no opinion on it.

### **Consideration of Internal Control**

Our consideration of the internal controls over financial reporting was for the limited purposes described in the Responsibilities section of this report and would not necessarily identify all matters in the internal controls over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affect FNS' ability to initiate, authorize, record, process, or report financial data reliably and 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 financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the financial statements being audited will not be prevented or detected. Because of inherent limitations in any system of internal control, misstatements due to error or fraud may occur and not be detected.

FNS asserted through its FY 2009 Federal Manager's Financial Integrity Act (FMFIA) submission that although no material weaknesses were identified, it did identify one control deficiency that was part of a Department-wide material weakness on unliquidated obligations. FNS also identified seven significant deficiencies in an agency financial system that processes transaction amounts immaterial to the overall FNS financial reporting system. Our tests of data submitted by the system did not disclose any errors. FNS has established corrective action plans as required by OMB Circular A-123 to address both of the issues identified in the FMFIA assurance statement.

While FNS can provide reasonable assurance relating to the adequacy of internal controls over its financial reporting and financial systems for FY 2009, they have identified the following concerns that will require continued vigilance and efforts relating to the operations of the agency.

FNS officials stated that the agency and its partners are in the planning and early implementation stages for several major system transitions including: web-based supply chain configuration management (WBSCM), Financial Management Modernization Initiative (FMMI), and Supplemental Nutrition Assistance Program Account Management Agent (SNAP-AMA). Those officials added that managing the deployment of these systems, which is projected to occur over the next three years, poses significant risk for the FNS. If the implementation of the new systems falters, the impact will be felt not only at FNS but also at the Department level. As an example, the Processed Commodity Inventory Management System (PCIMS) is being converted to WBSCM. FNS officials stated that failure to get FNS' State partners up and running with WBSCM may ultimately result in commodity benefits not being delivered to program recipients.

## **Compliance with Laws and Regulations**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of FNS' compliance as described in the Responsibilities section of this report. The results of our tests disclosed two instances of reportable noncompliance with other laws and regulations discussed in the Responsibilities section of this report that are required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04, as amended. We found that although FNS has made significant progress with the 2002 Improper Payments Improvement Act (IPIA), they are still not in full compliance with its requirements regarding the design of program internal controls relating to reporting improper payments.

The IPIA requires agency officials to estimate erroneous payments for all programs susceptible to significant improper payments. FNS has not reported the amount of improper payments they expect to recover involving the Special Nutrition Assistance Program (SNAP), 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).

FNS reported estimated improper payments for SNAP, NSLP, and SBP. However, FNS has not reported erroneous payment rates for WIC certification errors and CACFP claiming errors. As stated in the FNS Management Discussion and Analysis (MD&A), work is currently underway to report on WIC certification errors. An estimate of erroneous payments associated with certification actions will be available in 2011. Regarding CACFP claiming errors, FNS has developed a methodology to randomly sample the results of State monitoring visits to Family Day Care Homes and follow up by observing the Family Day Care Homes or contacting parents to corroborate the Family Day Care Sponsors' child claimant reports. The estimate for WIC certification errors will be available in 2011.

The IPIA also requires that agencies report the amount of erroneous payments the agency expects to recover and how it will recover them. FNS has not reported the amount of improper payments they expect to recover for the SNAP, the WIC, the CACFP, the NSLP, and the SBP. FNS explains in section 4 of their MD&A that current statute only provides authority to recover improper payments identified through reviews, audits, or other operational oversight activity. As such, the WIC, CACFP, NSLP, and SBP would need new statutory authority to pursue collection of improper payments identified on the basis of statistical sampling or estimation procedure. FNS further explains that an estimated recovery target for the SNAP is not feasible because it does not anticipate fluctuations in the economy and recipient population, and does not take into account the variability of State collection systems.

### **Additional Other Procedures**

As required by OMB Bulletin 07-04, as amended, with respect to internal controls related to key performance measures as determined by management and reported in the MD&A, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined if they had been placed in operation. Our procedures were not designed to provide assurance on internal controls over reported performance measures; accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin 07-04, as amended, we considered FNS' internal controls over Required Supplementary Stewardship Information (RSSI) by obtaining an understanding of the internal controls, along with making a determination if those controls had been placed in operation, assessing control risk, and performing tests of the controls. Our procedures were not designed to provide assurance on internal controls over RSSI; accordingly, we do not provide an opinion on such controls.

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

Additionally, the results of our tests disclosed no instances in which FNS' financial management systems did not substantially comply with Federal Financial Management Improvement Act.

## **Responsibilities**

**Management's Responsibilities.** Management is responsible for the consolidated financial statements, establishing and maintaining effective internal control, and complying with laws and regulations.

**Our Responsibilities.** The objective of our audit was to express an opinion on the fair presentation of the accompanying financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (the standards applicable to financial audits are contained in *Government Auditing Standards* issued by the Comptroller General of the United States); and OMB Bulletin 07-04 *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our audits, we considered FNS' system of internal control over financial statement 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 audit 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 07-04, as amended, and *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers Financial Integrity Act of 1982. The objective of our audits was not to provide an opinion on FNS' internal control. Consequently, we do not provide an opinion on internal controls over financial reporting.

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 and 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 the FNS complied with certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including requirements referred to in the Federal Financial Management Improvement Act of 1996, except for those that, in our judgment, were clearly inconsequential. We limited our tests of compliance to the provisions described in the preceding sentences 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 audits, and accordingly, we do not express an opinion.

This report is intended for the information and the use by the management of FNS, and 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 3, 2009

## ***Abbreviations***

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OIG .....	Office of Inspector General
FNS .....	Food and Nutrition Service
FY .....	Fiscal Year
OMB .....	Office of Management and Budget
USDA.....	United States Department of Agriculture
WBSCM.....	web-based supply chain management
FMMI.....	Financial Management Modernization Initiative
SNAP-AMA.....	Supplemental Nutrition Assistance Program – Account Management Agent
PCIMS.....	Processed Commodity Inventory Management System
IPIA.....	Improper Payment Improvement Act
SNAP .....	Supplemental Nutrition Assistance Program

**USDA**

**Food and Nutrition Service**

**Fiscal Year 2009**

**Financial Statements**

**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.

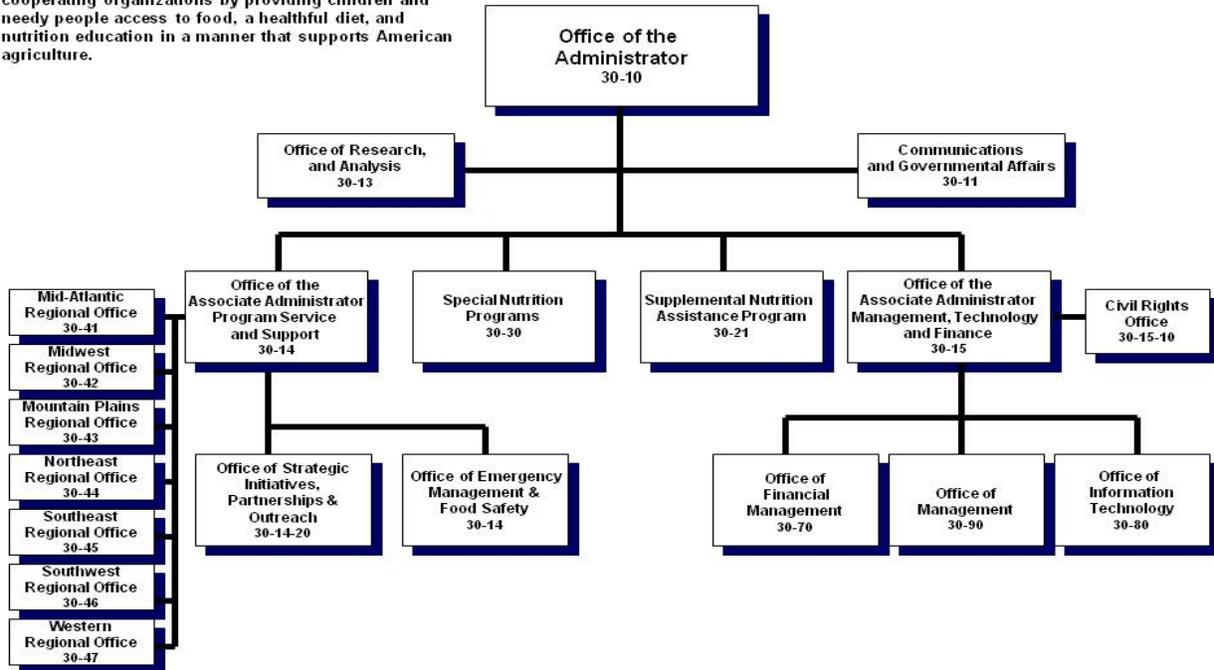
The FNS annual appropriation for administrative funds includes a very small percentage of funds for the administration of the Center for Nutrition Policy and Promotion (CNPP). CNPP links scientific research to the nutrition needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education. CNPP develops integrated nutrition research, education, and promotion programs and provides science-based dietary guidance. The agency was re-aligned at the beginning of FY 2008 to promote increased efficiencies and improved customer service. Additional changes were made in FY 2009.

#### FNS FY 2009 Organization Chart

##### United States Department of Agriculture Food and Nutrition Service

###### Mission Statement

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



## **Descriptions of FNS Programs:**

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

The nutrition assistance programs described below works 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.

- *Supplemental Nutrition Assistance Program (SNAP):* Authorized by the Food and Nutrition Act of 2008, SNAP serves as the primary source of nutrition assistance for over 32 million low-income people. It enables participants, about 49 percent of whom are children, to improve their diets by increasing food purchasing power using benefits that are redeemed at authorized 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.

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

- *Food Distribution Program on Indian Reservations (FDPIR):* FDPIR distributes USDA-purchased foods as an alternative to SNAP for Indian households on or near reservations. State agencies and Indian Tribal Organizations (ITOs) that operate the program are responsible for certifying recipient eligibility, nutrition education, local warehousing and transportation of food, distribution of food to recipient households, and program integrity. The Federal Government pays 100 percent of the cost of commodities distributed through the program, and cash payments for administrative expenses.
- *Child Nutrition Programs (CNP):* The Child Nutrition Programs - National School Lunch (NSLP), School Breakfast (SBP), Special Milk (SMP), Child and Adult Care Food (CACFP), and Summer Food Service (SFSP) - provide reimbursement to State and local governments for nutritious meals and snacks served to over 31 million children in schools, child care institutions, adult day care centers, and after school care programs. FNS provides cash and USDA purchased food on a per-meal basis to offset the cost of food service at the local level and a significant portion of State and local administrative expense, and provides training, technical assistance, and nutrition education. Payments are substantially higher for meals served free or at a reduced price to children from low-income families.
- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC):* WIC addresses the supplemental nutritional needs of at-risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to five years of age. It provides participants monthly supplemental food packages targeted to their dietary needs, nutrition education, and referrals to a range of health and social services – benefits that promote a healthy pregnancy for mothers and a healthy start for their children. Appropriated funds are provided to States for food packages and nutrition services and administration for the program; States operate the program pursuant to plans approved by FNS. WIC is augmented in some localities by the Farmers’ Market Nutrition Program, funded within the Commodity Assistance Program account, and authorized by the WIC Farmers’ Market Nutrition Act of 1992, which provides fresh produce to WIC participants.

- *The Emergency Food Assistance Program (TEFAP):* This program supports the emergency food organization network by distributing USDA-purchased food 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 food. The allocation of both Federal food and administrative grants to States is based on a formula that considers the States' unemployment levels and the number of persons with income below the poverty level.
- *The Commodity Supplemental Food Program (CSFP):* This program provides foods purchased by USDA to low-income infants and children up to age six, low-income pregnant and postpartum women, and to low-income senior citizens. In recent years, there has been a shift towards low-income elderly in this program; in FY 2008, elderly participation comprised approximately 93 percent of total participation. Foods are distributed through State agencies to supplement food acquired by recipients from other sources. The CSFP is operated as a Federal/State partnership under agreements between FNS and State health care, agricultural or education agencies. Currently, 32 States, the District of Columbia, and two Indian reservations operate CSFP.
- *Senior Farmers' Market Nutrition Program (SFMNP):* This program provides coupons to low-income seniors that can be exchanged for fresh, nutritious, unprepared, locally grown fruits, vegetables and herbs at farmers' markets, roadside stands, and community-supported agriculture programs.
- *Pacific Island and Disaster Assistance:* Pacific Island Assistance includes assistance to the nuclear-affected zones of the Republic of the Marshall Islands in the form of USDA purchased food, or cash-in-lieu of food, and administrative funds and is authorized under the Compact of Free Association Amendments Act of 2003, (P.L. 108-188). Disaster relief funds are provided for use in non-Presidentially declared disasters.

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, and 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 Staff:**

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

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

Program operations are managed through FNS’ seven regional offices and 67 field offices/satellite locations. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNS programs. The agency’s regional offices also conduct on-site management reviews of State operations and monitor the 177,052 stores authorized to redeem SNAP benefits.

As of September 30, 2009, there were 1,272 full-time permanent employees in the agency. There were 457 employees in the Washington headquarters office; and 815 in the field, which includes seven regional offices; 67 field offices; four SNAP compliance offices in Illinois, California, New Jersey, and Tennessee; and a computer support center in Minneapolis, Minnesota. The chart below displays staff year utilization.

Project	2008 Actual	2009 Actual	2010 Requested
Supplemental Nutrition Assistance Program	77	104	98
Child Nutrition Programs	154	158	170
Nutrition Programs Administration	1,016	982	1,028
Center for Nutrition Policy and Promotion	24	28	32
<b>Total Available</b>	<b>1,271</b>	<b>1,272</b>	<b>1,328</b>

## SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

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

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

### STRATEGIC GOAL 5: IMPROVE THE NATION’S NUTRITION AND HEALTH

Nutrition is the link between agriculture and the Nation's health, and the Department made strong progress in advancing our nutrition and health goal in 2009. USDA’s leadership of the Federal nutrition assistance programs made a healthier diet available for millions of children and low-income families. And the cutting-edge nutrition promotion efforts of the Center for Nutrition Policy and Promotion harnessed interactive technologies to motivate all Americans to make positive dietary behavioral changes consistent with the *Dietary Guidelines for Americans* and the HealthierUS initiative. Key 2009 accomplishments include:

**Promoting access to the Supplemental Nutrition Assistance Program (SNAP):** Formerly the Food Stamp Program, **SNAP** is the Nation’s largest nutrition assistance program, serving a record high 34 million people each month and growing. The latest information on the rate of participation among eligible people showed that in 2007, 66 percent of all who were eligible participated as compared with 54 percent in 2001.

**Promoting Nutrition Education by Using the MyPyramid Food Guidance System.** *MyPyramid—a network of nutrition education tools that translates the Dietary Guidelines for Americans into understandable concepts for consumers—offers the American public an individualized approach to*

<sup>1</sup> SNAP = Supplemental Nutrition Assistance Program (formerly the 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

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

nutritional well-being and active living. MyPyramid.gov's web-based educational tools help Americans assess and personalize their diet and physical activity plans. . The newest tool was the MyPyramid for Preschoolers (ages 2 to 5 years old) to help parents use MyPyramid to help their young children eat well, be active, and be healthy. Consumers continue to respond enthusiastically to this educational approach; thus, CNPP continues to develop new educational tools to promote nutrition education to specific population groups to help stem the trends in obesity and nutrition-related diseases. In 2009, MyPyramid.gov and other nutrition related web-based tools were accessed or used by over 3.5 billion times bringing the overall total since April 2005 to 7.5 billion.

**Continuing to ensure that SNAP benefits are accurately issued.** The SNAP payment accuracy rate for FY 2008, announced in 2009, was 94.99 percent, a new record high that reflects effective partnerships with State administering agencies, and extensive use of policy options to streamline program administration while improving access for working families.

In FY 2009, USDA continued to improve the quality of Americans' diets through research-based nutrition enhancements to the Nation's food supply, and better knowledge and education to promote healthier food choices. In FY 2009, USDA pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to support and encourage good nutrition choices.

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

## **OBJECTIVE 5.1: ENSURE ACCESS TO NUTRITIOUS FOOD**

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### **Overview**

USDA's commitment to the nutrition assistance programs—the core of the Nation's effort to improve food security and reduce and prevent hunger—is guided by a straightforward principle: to ensure that all Americans who are eligible and wish to participate can receive program services easily, and with dignity and respect. The strong performance of the programs in 2009 reflects their fundamental strengths, and the Department's efforts to promote access and improve service to our clients in cooperation with our State partners.

### **Challenges for the Future**

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

The quality of program delivery by third parties—hundreds of thousands of State and local Government workers and their cooperators—is critical to Department efforts to reduce hunger and improve nutrition. Our ongoing efforts in partnership with these entities to improve program operations with new

technologies and business processes, must always focus on customer service and ease of access to benefits, along with efficiency, as central components of program effectiveness.

**KEY OUTCOME**

*Reduce hunger and improve nutrition*

In FY 2009, the Department and its program delivery partners sustained effective access to the programs, with greater-than-targeted participation in SNAP, and expected levels of average monthly participation in the National School Lunch Program, School Breakfast Program, and WIC.

**Analysis of Results**

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

**Exhibit 1:** Improve Access to Nutritious Food

Annual Performance Goals and Indicators		Fiscal Year 2009		
		Target	Actual	Result
5.1.1	Participation levels for the major Federal nutrition assistance programs (millions per month):			Met
	▪ Supplemental Nutrition Assistance Program	32.6 million	33.9 million	
	▪ National School Lunch Program	31.6 million	31.6 million	
	▪ School Breakfast Program	11.0 million	11.0 million	
	▪ Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	9.3 million	9.3 million	

**Supplemental Nutrition Assistance Program**—The program served more than 34 million participants in May 2009, a record high and an increase of about 21 percent from May 2008. USDA executed a range of efforts to support and encourage SNAP participation in FY 2009, including:

- Rapidly implementing key provisions of the 2008 Farm Bill that expanded liability and increased benefits; and simplified program administration.
- Continued efforts with States to develop outreach strategies, with 40 out of 53 State Agencies having formal outreach plans or other documented outreach activity in place.
- Supported innovative State practices to promote access by simplifying the application process. Latest available data shows that 23 States have internet-based application filing; nearly 25 States allow interviews to be done by telephone; and 27 States have call centers. Implemented Recovery Act provisions on time to: increase benefits; eliminate time limits for Able Bodied Adults without Children and provide nearly \$300 million in 100 percent State Administrative Expense funding to State agencies in response to the economic downturn.
- Provided numerous strategies to help States manage workload as a result of increasing participation and decreasing State resources due to the economic downturn, including a tool to identify workload management strategies.

USDA also conducts studies to measure the number of people eligible for the program, in order to determine the rate at which eligible people are participating. The latest study shows that in 2007, 66 percent of all who were eligible for SNAP participated, reflecting an increase in eligible individuals that was greater than the increase in participants. While the number of participants increased by 2 percent, the number of eligible's increased by 4 percent. Also in 2007, participants received 81 percent of all benefits available if every eligible person participated – an indicator that the program is effectively reaching those most in need.

**National School Lunch Program**—NSLP participation levels reached 31.6 million in FY 2009, up slightly from FY 2008 and continuing the trend of increases in recent years. NSLP provides nutritious meals to millions of children at school; over 100,000 schools and residential child care institutions (RCCIs) operated the program in FY 2009.

**School Breakfast Program**—SBP participation levels reached 11 million in FY 2009, continuing a trend of increases over the last several years. SBP makes healthy, nutritious meals available to millions of children at the start of each school day. More than 85,000 institutions operated the program in FY 2008. USDA continued to support and encourage SBP participation in FY 2009 by:  
Promoting SBP through such activities as School Breakfast Week, highlighting the availability of the program through events, posters and student activities that show the importance of a good breakfast—either at home or served through the program—in being ready for school;  
Working with various organizations and partners to help develop strategies for program expansion; and  
Developing School Breakfast outreach materials for schools and parents.

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

**Women, Infants and Children (WIC)**—In FY 2009, approximately 9.3 million participants received WIC benefits. USDA addresses the health and nutritional needs of, at risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to 5 years of age with supplemental food packages, nutrition education and health and social services referrals. USDA continued to support and encourage WIC Program participation, and improve benefits and services, in FY 2009 by:

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

**Exhibit 2:** Trends in Improving Access to Nutritious Food (2009 from 2011 Dept. Estimates; 2008 from 09/30/09 Key Data)

Trends	Fiscal Year				
	2005	2006	2007	2008	2009
5.1.1 Improve Access to Nutritious Food:					
■ Supplemental Nutrition Assistance Program Avg. Monthly Participation (mil)	25.7	26.7	26.5	28.4	33.9
■ National School Lunch Program Avg. Daily Participation (mil)	29.6	30.1	30.5	31.0	31.6
■ School Breakfast Program Avg. Daily Participation (mil)	9.3	9.8	10.2	10.6	11.0
■ WIC Program Monthly Participation (mil)	8.0	8.1	8.3	8.7	9.3

## OBJECTIVE 5.2: PROMOTE HEALTHIER EATING HABITS AND LIFESTYLES

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### Overview

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

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

#### KEY OUTCOME

*Promote More Healthful Eating and Physical Activity across the Nation*

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

### Challenges for the Future

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

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

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

## Analysis of Results

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

Usage level of nutrition guidance tools was substantial, with more than 3 billion pieces of nutrition guidance materials distributed via the Web and print materials.

USDA continued its collaborative effort to magnify the communication of dietary and physical activity guidance messages. The Partnering with MyPyramid, with over 140 members, showcases the role of various industries and others (e.g., youth groups) as partners to government in encouraging healthier eating and physical activity behaviors among families. The Partnership is designed to empower nutrition gatekeepers by providing easy to apply guidance for modeling a healthy lifestyle and by providing information to help them make healthy food choices for themselves and their families where they prepare foods, work, play, and purchase foods.

The MyPyramid for Preschoolers is the newest educational tool at [www.MyPyramid.gov](http://www.MyPyramid.gov). The new tool is designed to help parents create a customized eating plan for their preschooler and encourages parents to explore ways to help their preschooler (1) grow up healthy, (2) develop healthy eating habits, (3) try new foods, (4) play actively every day, and (4) follow food safety rules. Sample meals and snack patterns are designed to help parents translate [MyPyramid Plan](#) daily amounts into individual meals and snacks, and ideas are offered for having a preschooler help the food preparer in the kitchen—a good way to encourage a child to try new foods..

**Exhibit 3: Promoting Healthier Eating Habits and Lifestyles**

Annual Performance Goals and Indicators	Fiscal Year 2009		
	Target	Actual	Result
5.2.1 Application and usage level of nutrition guidance tools (pieces of nutrition guidance distributed)	3.0 billion	3.5 billion	Exceeded

**Exhibit 4: Trends to Promote Healthier Eating Habits and Lifestyles**

Trends	Fiscal Year				
	2005	2006	2007	2008	2009
5.2.1 Application and usage level of nutrition guidance tools (billions of pieces of nutrition guidance distributed)	N/A	1.5 billion	2.6 billion	3.2 billion	3.5 billion

## OBJECTIVE 5.3: IMPROVE NUTRITION ASSISTANCE PROGRAM MANAGEMENT AND CUSTOMER SERVICE

### Overview

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

#### KEY OUTCOME

Maintain a High Level of Integrity in the Nutrition Assistance Programs

### Challenges for the Future

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

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

### Analysis of Results

The FY 2009 SNAP Payment Accuracy Rate will become available in June 2010. It will be reported in the *FY 2010 Performance and Accountability Report*.

While 2009 data are not yet available, SNAP payment accuracy reached 94.99 percent in 2008, a record-high level reflecting excellent performance by State agencies in administering the program. This combined rate reflects 4.01 percent in overpayments, and 1.00 percent in underpayments, for a total of 5.01 in erroneous payments.

Thirty-five States had a payment accuracy rate greater than 94 percent, including 15 States with rates greater than 96 percent.

In June, FNS awarded \$30 million in high performance bonus to states for excellence and improvements in administering benefits. Of that \$30 million, FNS awarded \$24 million to the 10 States with the best and most improved payment accuracy rate, and \$6 million to the 6 States with the best and most improved negative error rate.

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

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

**Exhibit 5:** Increase Efficiency in Food Management

Annual Performance Goals and Indicators		Fiscal Year 2008		
		Target	Actual	Result
5.3.1	Improve SNAP payment accuracy rate			
	<ul style="list-style-type: none"> <li>■ Increase SNAP Payment Accuracy Rate</li> </ul>	94.3%	94.99%	Exceeded

**Exhibit 6:** Trends in Increased Efficiency in Food Management

Trends		Fiscal Year				
		2005	2006	2007	2008	2009
5.3.1	Increase SNAP Payment Accuracy Rate.	94.1%	94.0%	94.4%	94.99%	N/A

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

The information in this section is consistent with the findings of the USDA OIG's FY 2009 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, 2009. Based on the results of this evaluation, FNS can provide reasonable assurance that internal controls are operating effectively. For FY 2008, FNS had no existing material weaknesses or significant deficiencies on which to report. No new material weaknesses or significant deficiencies were identified for FY 2009.

### **Federal Financial Management Improvement Act (FFMIA) Assurance**

FNS has evaluated its financial management systems under FFMIA for the period ended September 30, 2009. 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, 2009, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, Appendix A.

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

Although no new material weaknesses were identified, FNS did identify one control deficiency that is part of a Department-wide material weakness on Unliquidated Obligations. In addition, seven significant deficiencies related to Agency financial management systems were identified.

While FNS can currently provide reasonable assurance relating to internal controls, financial reporting and financial systems for FY 2009, we have identified the following areas of concern that will require continued vigilance and efforts relating to the operations of the Agency.

- **USDA Data Center Consolidation Initiative** – Without adequate funding, FNS will not be able to accomplish this initiative. A funding request for this project submitted for inclusion in the President’s FY 2009 Budget was denied by the Department. The reticence of USDA to pursue a comprehensive, coordinated resource strategy, including seeking appropriations, has significantly hampered our ability to implement this and other Department-wide infrastructure initiatives.
- **New System Implementation** – FNS and its partners are in planning and early implementation stages for several major system transitions including: web-based supply chain management (WBSCM), administrative Financial Management Modernization Initiative (FMMI), program FMMI and Supplemental Nutrition Assistance Program Account Management Agent (SNAP-AMA). Managing the deployment of these systems, which is projected to occur over the next three years, poses significant risk for the Agency. If some of these outdated systems fail, or if the implementation of the new systems falters, the impact will be felt not only at FNS but at the Departmental level. As an example, our Processed Commodity Inventory Management System (PCIMS) is being converted to WBSCM. Failure to get our State partners up and running with WBSCM may ultimately result in commodity benefits not being delivered to program recipients.

## **OIG Audit Handling Process and Performance**

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

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

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

- The amount of time needed to complete certain activities cannot be accurately estimated. Examples of these are:
  - Specific legislation, policy or guidance needs to be developed;
  - An investigation, negotiation, or administrative appeal action must be completed;
  - An automated system needs to be developed, implemented, or enhanced;
  - The results of additional monitoring or program review activity must be completed;
  - Disallowed costs must be collected;
  - Legal advice or opinion from the Office of General Counsel is needed; or
  - Certain external (state) or administrative actions must occur.
- Changes that could not be anticipated at the time management decision was reached:

- A change must be made to the management decision agreement. For example, the agreed upon management decision calls on the Agency to publish a regulation, but Congress initiates a moratorium on regulations.
- Additional information, explanation, advice or action from OIG is needed.

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

FINANCIAL REPORT - U.S.D.A. - F.N.S. - FY 2009  
MANAGEMENT DISCUSSION AND ANALYSIS

<b>Audits Without Final Action More Than One Year Past the Management Decision Date</b>				
<b>Audit Number</b>	<b>Date Issued</b>	<b>Audit Title</b>	<b>Completion Date for Actions (est)</b>	<b>Reason for Lack of Final Action</b>
27601-3-CH	3-22-96	SNAP Disqualified Recipient System	6-30-10	<b>Awaiting publication of regulations</b>
27010-19-SF	11-18-99	Smart Start, Inc.	9-30-10	<b>Awaiting collection of disallowed costs</b>
27010-3-KC	3-22-00	CACFP-Wildwood	10-31-11	<b>Pending collection (repayment plan)</b>
27010-6-KC	11-21-01	CACFP Wildwood – Phase II	12-31-09	<b>Agency requesting final action</b>
27601-18-CH	10-28-05	Monitoring of CACFP Providers in Minnesota	3-1-10	<b>Awaiting collection of disallowed costs</b>
27601-35-CH	7-14-06	CACFP Supper Meals Served in Schools	3-31-10	<b>Awaiting publication of regulations</b>
27099-34-SF	8-17-07	SSNAP California and Nevada	6-30-10	<b>Pending legal action on complaint</b>
27099-49-TE	9-4-07	Disaster Supplemental Nutrition Assistance Program for Hurricanes Katrina and Rita	11-30-11	<b>Awaiting publication of regulations</b>
27099-63-AT	3-31-08	SSNAP Operated by the State of Georgia	6-30-10	<b>Awaiting collection of disallowed costs</b>
27501-2-HY	3-31-08	Application Control Review of FNS's Store Tracking and Redemption System II	9-30-09	<b>Agency requesting final action</b>
27601-32-CH	9-28-04	Compliance With Improper Payments Reporting Requirements	6-30-11	<b>Awaiting OMB clearance</b>

In FY 2009, audit number 27601-27-CH, NSLP Food Service Management Companies, and audit number 27099-31-SF, Summer Food Service Program-Nevada was closed. The Inspector General Act Amendments of 1988 requires the accompanying data for an annual report on the status of 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's 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 Supplemental Nutrition Assistance Program (SNAP), 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 Supplemental Nutrition Assistance Program (SNAP)** – formerly known as the Food Stamp Program), sampling and erroneous payment measurement processes, the accepted hallmark of the IPIA environment, has been a legislative mandate for more than 30 years. This process compares the certification criteria upon which a household's benefit issuance is determined with the household's circumstances at the time of issuance. All case results are accumulated by state. The state results are validated and the validated results are combined into a national cumulative (overpayments plus underpayments) error rate. No other payment lifecycle steps are included. Improper payment measurement activities predate the passage of the IPIA and SNAP was immediately recognized as compliant with the intent of the law when it was passed. State agencies are required to establish and collect SNAP claims in accordance with the requirements found in the Program regulations. Debts that become delinquent are subsequently submitted by the State agencies for collection through the Treasury Offset Program. In past years, FNS has used target measures to gauge the success of recipient claims activity. While claims collection by States is ongoing, the establishment of specific target amounts or rates would not be useful, since collections are to a large extent tied to the ability of each individual State to pursue and collect erroneous payments. To complicate matters, State error rates fluctuate over time with downturns (or upswings) in the economy and changes in numbers of the recipient population. Establishing targets for recovery amounts is not feasible because it does not anticipate such fluctuations, and does not take into account the variability of State collection systems.
- In the **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**, work is underway to report improper payment error rates on two segments of the program: certification error and vendor error.
  - FNS first reported a *vendor* improper payment error rate in FY 2006. Over and under payment rates for FY 2005 were developed through a nationally representative study of a probability sample of WIC vendors. Data from this "bookend" study is then used in conjunction with information on vendor investigations by State WIC Agencies to prepare a statistically estimated improper payment amount for each subsequent year. Until the next bookend study, the 2005 rates will be aged using data generated by State undercover investigators who attempt to make WIC purchases using valid WIC food instruments. The charges submitted by each sampled vendor are

compared to the undercover purchase activity to estimate overcharging, and other sanctionable violations. Case results are accumulated by State and used to age the estimates.

- Certification rate: The contractor will interview WIC households and compare the certification criteria upon which a household's benefit issuance was determined with the household's circumstances at the time of issuance. This data will be accumulated nationally. Delays in the national representative study will result in data collection being delayed until FY 2009. A preliminary estimate of erroneous payments associated with *certification* actions will be available in 2011.

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

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

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

The original plan was to develop a program-wide study which would examine reimbursements for meals served and develop program error measurements that complied with the requirements of the IPIA. Because of the complexities of the program, FNS estimated that it would cost \$20 million to measure improper payments at the precision required by IPIA. This amount has not been provided.

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

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

- **CCAP** – In the Spring of 2004, FNS began the Child Care Assessment Project (CCAP). This project was designed to measure the effectiveness of efforts to improve the integrity of CACFP family day care homes and provide information from a broadly representative national sample of sponsors and providers. Data were collected by the Food and Nutrition Service (FNS), in cooperation with State agencies and sponsors administering the Child and Adult Care Food Program, during the period 2004-2007. The CCAP process was designed to measure whether the two interim management improvement rules issued by FNS in 2002 and 2004 had been properly implemented, and whether the rules had effectively addressed the serious program management and integrity problems that had been uncovered in the 1990s. In the three and one-half years during which assessments were conducted, FNS gathered the program records of 58 family day care home (FDCH) sponsors and over 3,000 of their providers. A final report was issued in July 2009. Overall, the findings indicated that the serious problems which had prompted the previous legislative and regulatory action were not common in 2004-2007. However,

some concerns were identified, including the accuracy of recordkeeping by family day care home providers and the use of the serious deficiency process by program sponsors. FNS is currently developing an action plan to address those CCAP findings which suggest a need for additional measures to improve Program administration in the FDCH component of CACFP at the local, State, and Federal levels. This action plan will take into account the very real challenges of providing Federally-supported nutrition assistance in approximately 140,000 private residences across the country. Therefore, any changes to Program procedures and requirements recommended in the action plan will consider this unique aspect of administering the CACFP. Managers at the Federal, State and local levels must be challenged to be better stewards of the public funds that support the CACFP's important public purposes.

- Sponsor error – FNS has developed an annual sponsor tiering error measure and tested it. CACFP sponsors are responsible for determining whether family day care homes receive meal reimbursement at the higher rate (Tier 1) or lower rate (Tier 2). In FY 2005, the first annual data collection began to determine a nationally representative sponsor tiering determination error rate. Results for FY2005, FY2006 and FY2007 have been reported. Preliminary FY 2008 estimates will be reported in June 2010 with final estimates available in August 2010.
- Claiming error - In its 2006 measurement plan, FNS proposed to test the feasibility of estimating the risk of claiming errors. FNS proposed to select a random sample of sponsoring organizations and, from each, use a random selection of the sponsor's monitoring visits of FDCHs. FNS would compare the number of meals claimed with the number of children observed at the time of the visit. If feasible to conduct, it was assumed that this comparison would provide an estimate of the risk of overpayment.

FNS staff collected data in 11 family day sponsors around the country, gathering a random sample of 268 FDCH sponsor monitoring visit records. For each, FNS gathered the FDCH's meal claim data for the month of the monitoring visit and the month before. Results were analyzed and released in a report in May 2009; FNS found that the tested method does not provide a reliable estimate of family day care meal claiming error.

FNS also contracted with MPR to develop and pilot test additional alternatives to determine the *feasibility* of estimating the risk of claiming error by methods such as direct observation of FDCHs or by contacting parents to determine if children were really present at a FDCH when claimed. This test found that parent recall surveys are worthy of further testing as the method most likely to yield the needed information on improper payments related to meal claiming errors. A report on the feasibility study was released in September 2009.

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

- The **National School Lunch Program** and **School Breakfast Program** do not have a sampling and erroneous payment measurement process comparable to SNAP. Instead, FNS must rely on nationally representative studies to produce estimates of erroneous payments. An erroneous payments rate for School Year 2005-2006 based on current study results was reported in the FY 2007 Performance and Accountability Report, Appendix B. Because of the scope and cost of this study, it is more prudent to repeat it on a multi-year cycle. Contingent upon available funding, FNS will produce an erroneous

payment measurement through this type of study every five years. Also, as part of this same project, FNS developed a methodology that uses data available from other sources to estimate erroneous payments due to certification error on an annual basis. Current statutory authority allows USDA to recover improper payments from state agencies when identified through review, audits or other operational oversight activities. Current statutory authority does not support collection of improper payments identified on the basis of a statistical sample or estimation procedure, as is used to develop the national estimates of improper payments reported here.

*Nationally-Representative Study:* The sampling plan for the large national study of erroneous payments in NSLP and SBP called for the selection of a national probability sample of School Food Authorities (SFAs), schools, certified students and households that applied and were denied NSLP and SBP benefits in SY 2005-06. A stratified random sample of 78 unique public SFAs was selected in the first stage of sampling. Stratification variables included geographic region, prevalence of schools with SBP and those using Provision 2/3, and a poverty indicator. For SFAs that do not have Provision 2/3 schools, three schools, on average, were selected for inclusion in the studying the second stage of sampling. Schools were stratified into two groups: (1) elementary schools and (2) middle- and high-schools. The school sample included both public and private schools. A total of 264 schools participated in the study (216 non-Provision 2/3 schools, 24 Provision 2/3 schools in their base year, and 24 Provision 2/3 schools not in their base year). For the third stage of sampling, samples of households were selected in 240 of these schools to yield completed interviews for about 3,000 students certified for free and reduced-price meals and about 400 denied applicant households. The sample of approved and denied applicant households was augmented by sampling of applications from Provision 2/3 schools in which household surveys were not conducted. Application reviews of about 6,800 students approved for free and reduced-price meals and over 1,000 denied applicants were conducted to estimate the case error rate due to administrative error. All schools selected for application reviews would also include data collection for counting and claiming errors. Field staff observed approximately 100 lunch transactions at each of 245 schools participating in the NSLP and 50 breakfast transactions at each of 218 schools participating in the SBP on randomly selected school days. Cashier error was estimated using information from these meal transactions. Data on school-recorded daily meal totals across all points of sale, aggregated meal counts reported to the district, and total meals submitted to the State Agency for reimbursement were examined to determine claiming errors.

*Interim Estimation:* To update the erroneous payment rate estimates in NSLP without having to conduct another full round of primary data collection, a series of econometric models were developed that captured the relationship between characteristics of the districts that participated in the APEC study and their estimated rates of certification error. Estimated coefficients from these models were used in conjunction with updated values of district characteristics obtained from the School Food Authorities Verification Summary Reports (Form FNS-742) to predict certification error. Certification error rates were then translated into amounts and rates of erroneous payments in each district. Aggregating the district level estimates produced a national measure of predicted erroneous payments.

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.

## Preliminary Data as of 7/31/09 – FNS Measures for IPIA Reporting 2008 Performance and Accountability Report

Improper Payment Sampling Results (\$ in millions)						
Program	Results Reported in FY 2008			Results Reported in FY 2009		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Supplemental Nutrition Assistance Program, FNS	30,376	5.64%	1,713	34,611	5.01%	1,733
National School Lunch Program, FNS	8,756	16.55%	1,449	9,436	16.44%	1,551
School Breakfast Program, FNS	2,150	25.02%	538	2,273	24.62%	560
Women, Infants and Children, FNS						
Total Program	3,950	N/A	N/A	4,483	N/A	N/A
Certification Error Component	3,950	N/A	N/A	4,483	N/A	N/A
Vendor Error Component	3,950	1.24%	49	4,483	1.27%	57
Child and Adult Care Food Program, FNS						
Total Program	2,311	N/A	N/A	2,214	N/A	N/A
FDC Homes – Tiering Decisions	728	1.56%	11.4	713	2.07%	14.7
FDC Homes – Meal Claims	728	N/A	N/A	713	N/A	N/A

Detailed Breakout of Improper Payment Rates reported in FY 2009 (\$ in millions)					
	Total Payments	IP%	Over-payments	Under-payments	Other
Supplemental Nutrition Assistance Program, FNS	34,611	5.01%	4.01%	1.00%	N/A
National School Lunch Program, FNS	9,436	16.44%	12.47%	3.96%	N/A
School Breakfast Program, FNS	2,273	24.62%	21.28%	3.35%	N/A
Women, Infants and Children, FNS					
Vendor Error Component	4,483	1.27%	0.81%	0.46%	N/A
Child and Adult Care Food Program, FNS					
FDC Homes – Tiering	713	2.07%	1.87%	0.2%	N/A

Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2009 Reporting			FY 2010 Reporting			FY 2011 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Supplemental Nutrition Assistance Program, FNS	33,866	5.64%	1,910	35,189	5.6%	1,970	35,483	5.4%	1,916
National School Lunch Program, FNS	10,215	15.97%	1,631	10,941	15.52%	1,698	11,370	15.52%	1,765
School Breakfast Program, FNS	2,589	23.81%	616	2,823	23.03%	650	2,959	22.28%	659
Women, Infants and Children, FNS	4,901	1.22%	60	5,265	1.02%	54	5,376	0.82%	44
Child and Adult Care Food Program, FNS	758	2.02%	15.3	799	1.97%	15.7	816	1.92%	15.7

## **SECTION 5. LIMITATIONS OF FINANCIAL STATEMENTS**

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

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

## **SECTION 6. FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS**

FNS' FY 2009 financial statements reflect the nutrition assistance programs' responsiveness to the Nations' economic performance. By design, the level of activity within the nutrition assistance programs varies with the level of need experienced by the populations we serve. A key determinant of this level of need is the condition of the economy. In FY 2009 the economy performed weaker than was anticipated by the President's FY 2009 budget request. As a result, program participation and costs, as reflected in the financial statements are, on average, higher than was anticipated.

In accordance with the US Standard General Ledger and the Treasury Financial Manual 1TFM 4700, in FY 2008 FNS clarified its reporting of the Grant Award (GAD) Accrual. FNS performed an analysis of the GAD Accrual and determined that the GAD Accrual consists of Entitlement Benefits and Non Entitlement Benefits. For the FY 2009 Financial Statements FNS will report Entitlement Benefits as "Benefits Due and Payable" and report Non Entitlement Benefits as "Other Liabilities" on the Balance Sheet and related footnotes. In addition, FNS will not reflect these benefits as a portion of Accounts Payable on the Balance Sheet. The classification of these accruals have no impact on the amounts reported for Total Liabilities.

## Balance Sheet

	2009		2008	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Fund Balance with Treasury	20,820	96.44%	18,546	96.97%
Accounts Receivable	324	1.50%	261	1.36%
General PP&E	4	0.02%	10	0.05%
Other	441	2.04%	309	1.62%
<b>Total Assets</b>	<b>21,589</b>	<b>100.00%</b>	<b>19,126</b>	<b>100.00%</b>
Accounts Payable	4	0.02%	3	0.02%
Employee Benefits	6	0.03%	7	0.04%
Benefits Due and Payable	3,120	14.45%	2,764	14.45%
Other Liabilities	1,166	5.40%	818	4.28%
<b>Total Liabilities</b>	<b>4,296</b>	<b>19.90%</b>	<b>3,592</b>	<b>18.78%</b>
Unexpended Appropriations	17,008	78.78%	15,311	80.05%
Cumulative Results of Operations	285	1.32%	223	1.17%
<b>Total Net Position</b>	<b>17,293</b>	<b>80.10%</b>	<b>15,534</b>	<b>81.22%</b>
<b>Total Liabilities &amp; Net Position</b>	<b>21,589</b>	<b>100%</b>	<b>19,126</b>	<b>100%</b>

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2009 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - approximately 96% and 97% in FY 2009 and FY 2008 respectively. This cash-like account largely represents the aggregate amount of funds in the FNS accounts with the U.S. Treasury from which the agency is authorized to make expenditures and pay liabilities. As financial statement Note 3 presents, a substantial portion of the fund balance is unavailable as they are associated with either expired years or are contingency funds which were not made available.

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

Benefits Due and Payable represents the largest liability of the agency, typically representing amounts that are currently payable to grantees on Entitlement Benefits Programs. The FY 2009 and 2008 Net Position of the agency is concentrated in Unexpended Appropriations.

**Statement of Net Cost**

	2009		2008	
	Dollars (mill)	Percent	Dollars (mill)	Percent
Gross Cost	79,430	100.05%	60,552	100.05%
Less: Earned Revenue	(42)	-0.05%	(28)	-0.05%
Net Cost of Operations	79,388	100.00%	60,524	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 \$60,552 million in FY 2008 to \$79,430 million in FY 2009, 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 Supplemental Nutrition Assistance 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 Supplemental Nutrition Assistance 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 and facility-related services including WBSCM, Commodity Improvement Initiative and Whole Grain Study.

The Net Cost of Operations increased from \$60,524 million in FY 2008 to \$79,388 million in FY 2009.

## Statement of Changes in Net Position

	2009		2008	
	Dollars (mill)	Percent	Dollars (mill)	Percent
<b>Cumulative Results of Operations</b>				
Beginning Balance	223		202	
Appropriations Used	71,833	90.41%	53,513	88.39%
Transfers In(Out) without Reimbursement	6,588	8.29%	6,274	10.36%
Other Budgetary Financing Sources	0	0.00%	0	0.00%
Imputed Financing	1,029	1.30%	758	1.25%
Total Financing Sources	79,450	100.00%	60,545	100.00%
Less: Net Cost of Operations	79,388		60,524	
Ending Balance	285		223	
Net Change	62		21	
<b>Unexpended Appropriations</b>				
Beginning Balance	15,311		15,822	
Appropriations Received	75,649		53,839	
Adjustments	(2,119)		(837)	
Appropriations Used	(71,833)		(53,513)	
Total: Financing Sources	1,697		(511)	
Ending Balance	17,008		15,311	
Total Net Position	17,293		15,534	

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 2009 appropriations used was \$71,833 million, increased \$18,320 million from FY 2008, based on actual participation levels and food costs.

Cumulative Results of Operations increased \$62 million, from \$223 million in FY 2008 to \$285 million in FY 2009, as the net cost of operations is less than the total financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained relatively unchanged from FY 2008 to FY 2009. Transfers are largely made up a single large transfer made in the annual appropriations act from funds available to the Secretary under Section 32 of the Act of 1935 for support of Child Nutrition programs. Additionally, FNS received transfers from the Commodity Credit Corporation for the Senior Farmers Market Program. Transfers represented approximately eight percent and ten percent of total financing sources in FY 2009 and FY 2008 respectively.

Unexpended Appropriations increased from \$15,311 million in FY 2008 to \$17,008 million in FY 2009 as less appropriations were expended than were received (net of adjustments). Adjustments increased from \$837 million in FY 2008 to \$2,119 million in FY 2009 are due to cancellations of expired accounts.

## Statement of Budgetary Resources

	2009		2008	
	Dollars (mill)	Percent	Dollars (mill)	Percent
<b>Budgetary Resources</b>				
Beginning Unobligated Balance	14,258	15.01%	14,892	19.89%
Recoveries	507	0.53%	637	0.85%
Appropriations	75,647	79.66%	53,835	71.89%
Collections	85	0.09%	85	0.11%
Change in unfilled customer orders	0	0.00%	0	0.00%
Transfers	6,590	6.94%	6,277	8.38%
Less: Permanently Not Available	(2,119)	-2.23%	(838)	-1.12%
<b>Total Budgetary Resources</b>	<b>94,968</b>	<b>100.00%</b>	<b>74,888</b>	<b>100.00%</b>
<b>Status of Budgetary Resources</b>				
Direct Obligations	79,453	83.66%	60,602	80.92%
Reimbursable Obligations	42	0.04%	28	0.04%
Apportioned-Unobligated	1,520	1.60%	974	1.30%
Unobligated-Not Available	13,953	14.69%	13,284	17.74%
<b>Total: Status of Budgetary Resources</b>	<b>94,968</b>	<b>100%</b>	<b>74,888</b>	<b>100%</b>
Net Outlays	77,844	81.97%	59,773	79.82%

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

Appropriations were increased from \$53,835 millions in FY 2008 to \$75,647 millions in FY 2009. Total budgetary resources were higher than prior year due to increase in Appropriations for the year. FNS had \$94,968 million in total budgetary resources during FY 2009, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods. In addition FNS has included in the FY 2009 financial statements the ARRA supplemental appropriations used to stimulate the U.S. economy. The ARRA appropriations for FY 2009 totaled \$5.9 billion.

Permanently Not Available increased from \$838 million in FY 2008 to \$2,119 million in FY 2009 is due to cancellations of expired accounts.

At fiscal year end 2009, most (\$79,453) million or 84% of those resources were obligated, though \$1,520 million or 2% remained unobligated and available, and another \$13,953 million (15%) was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2009, Net Outlays represented 82% of Total Budgetary Resources, compared to 80% in FY 2008.

Food and Nutrition Service

**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2009 (CY) and 2008 (PY)  
(Dollars in Millions)

	FY 2009 (CY)	FY 2008 (PY)
<b>Assets (Note 2):</b>		
<b>Intragovernmental:</b>		
Fund Balance with		
Treasury	\$ 20,820	\$ 18,546
Other (Note 6)	441	309
<b>Total Intragovernmental</b>	<b>21,261</b>	<b>18,855</b>
Accounts Receivable, net (Note 4)	324	261
General Plant, Property, and Equipment, net (Note 5)	4	10
Other (Note 6)	-	-
<b>Total Assets</b>	<b>\$ 21,589</b>	<b>\$ 19,126</b>
<b>Liabilities (Note 7):</b>		
<b>Intragovernmental:</b>		
Accounts Payable	\$ 2	-
Other (Note 8)	32	37
<b>Total Intragovernmental</b>	<b>34</b>	<b>37</b>
Accounts Payable	2	3
Federal Employee and Veterans Benefits	6	7
Benefits Due and Payable	3,120	2,764
Other (Note 8)	1,134	781
<b>Total Liabilities</b>	<b>4,296</b>	<b>3,592</b>
<b>Net Position:</b>		
Unexpended Appropriations - Other Funds	17,008	15,311
Cumulative Results of Operations - Other Funds	285	223
<b>Total Net Position</b>	<b>\$ 17,293</b>	<b>\$ 15,534</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 21,589</b>	<b>\$ 19,126</b>

The accompanying notes are an integral part of these statements.

Food and Nutrition Service

**CONSOLIDATED STATEMENTS OF NET COST**  
 For the Years Ended September 30, 2009 (CY) and 2008 (PY)  
 (Dollars in Millions)

	FY 2009 (CY)	FY 2008 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 10)	\$ 79,430	\$ 60,552
Less: Earned Revenue	42	28
Net Program Costs	79,388	60,524
Net Cost of Operations	\$ 79,388	\$ 60,524

The accompanying notes are an integral part of these statements.

Food and Nutrition Service

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION  
As of September 30, 2009 (CY) and 2008 (PY)  
(Dollars in Millions)

	FY 2009 (CY)	FY 2008 (PY)
<b>Cumulative Results of Operations:</b>		
Beginning Balance	\$ 223	\$ 202
Beginning Balance, as adjusted	223	202
<b>Budgetary Financing Sources:</b>		
Appropriations Used	71,833	53,513
Transfers in/out without reimbursement	6,588	6,274
Other	-	-
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing	1,029	758
Total Financing Sources	79,450	60,545
Less: Net Cost of Operations	79,388	60,524
Net Change	62	21
<b>Cumulative Results of Operations</b>	285	223
<b>Unexpended Appropriations:</b>		
Beginning Balance	15,311	15,822
Beginning Balance, as adjusted:	15,311	15,822
<b>Budgetary Financing Sources:</b>		
Appropriations Received	75,647	53,835
Appropriations Transferred in/out	2	4
Other Adjustments	(2,119)	(837)
Appropriations Used	(71,833)	(53,513)
Total Budgetary Financing Sources	1,697	(511)
Total Unexpended Appropriations	17,008	15,311
<b>Net Position</b>	\$ 17,293	\$ 15,534

The accompanying notes are an integral part of these statements.

Food and Nutrition Service

COMBINED STATEMENTS OF BUDGETARY RESOURCES  
For the years ended September 30, 2009 (CY) and 2008 (PY)

(Dollars in Millions)

	FY 2009 (CY)	FY 2008 (PY)
<b>Budgetary Resources:</b>		
Unobligated balance, brought forward, October 1:	\$ 14,258	\$ 14,892
Recoveries of prior year unpaid obligations	507	637
Budget authority		
Appropriation	75,647	53,835
Spending authority from offsetting collections		
Earned		
Collected	85	85
Change in unfilled customer orders		
Advance received	(0)	(0)
Without advance from Federal sources	(0)	(0)
Subtotal	75,732	53,920
Nonexpenditure transfers, net, anticipated and actual	6,590	6,277
Permanently not available	(2,119)	(838)
Total Budgetary Resources	\$ 94,968	\$ 74,888
<b>Status of Budgetary Resources:</b>		
Obligations Incurred:		
Direct	\$ 79,453	\$ 60,602
Reimbursable	42	28
Subtotal	79,495	60,630
Unobligated balance:		
Apportioned	1,520	974
Subtotal	1,520	974
Unobligated balance not available	13,953	13,284
Total status of budgetary resources	\$ 94,968	\$ 74,888
<b>Change in Obligated Balances:</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 4,288	\$ 4,154
Total unpaid obligated balance, net	4,288	4,154
Obligations incurred net (+/-)	79,495	60,630
Gross outlays	(77,929)	(59,859)
Recoveries of prior year unpaid obligations, actual	(507)	(637)
Change in uncollected customer payments from Federal sources (+/-)	(0)	(0)
Obligated balance, net, end of period		
Unpaid obligations	5,347	4,288

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Uncollected customer payments from Federal sources	-	-
Total unpaid obligated balance, net, end of period	5,347	4,288
Net Outlays:		
Gross outlays	77,929	59,859
Offsetting Collections	(85)	(85)
Distributed offsetting receipts	(0)	(2)
Net Outlays	<u>\$ 77,844</u>	<u>\$ 59,773</u>

The accompanying notes are an integral part of these statements.

## FOOD and NUTRITION SERVICE NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in millions except as noted)

### Note 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation

These financial statements have been prepared to report significant assets, liabilities, net cost of operations, changes in net position, and budgetary resources for the Food and Nutrition Service (FNS), as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated June 10, 2009. They have been prepared from the books and records of FNS in accordance with the Generally Accepted Accounting Principles (GAAP) hierarchy of accounting principles for the Federal Government. GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body.

In accordance with the Office of Management and Budget and the Budget Execution of the American Recovery and Reinvestment Act (ARRA) of 2009 Appropriations, FNS has included in the FY 2009 financial statements the supplemental appropriations used to stimulate the U.S. economy. The ARRA appropriations for FY 2009 totaled \$5.9 billion.

#### B. Reporting Entity

FNS, including the Center for Nutrition Policy and Promotion (CNPP), is under the jurisdiction of the Under Secretary for Food and Nutrition Service of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia, and implemented through seven regional offices and 67 field offices, four Supplemental Nutrition Assistance Program (SNAP) compliance offices, one computer support center in Minneapolis, Minnesota. State departments of education have responsibility for food programs serving children in schools, child care centers, and summer recreation centers. State departments of health, welfare, and agriculture usually have responsibility for programs providing SNAP benefits or supplemental foods. For the FY 2009 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 \$324 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 SNAP 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 SNAP 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 SNAP 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 SNAP issuance and net claims collections for prior years. The forecasting model draws its predictive power from the strong historical relationship between the level of SNAP benefit issuance and the level of recipient claims collections by States. Applying the model to actual data covering the periods FY 1984 through FY 2009, 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 SNAP 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 SNAP 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 SNAP QC estimate of SNAP benefits overissued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 2008 QC error rates were announced in June 2009. Using this methodology, FNS estimates the value of benefit overissuance in Fiscal Year 2008 (the most recent year for which data are available) at \$1.387 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 SNAP 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 SNAP as reflected in the Statement of Net Cost. A material amount of the estimate would be bad debt expense if the amount of this estimate pertaining to accounts receivable could be quantified.

FNS does not receive information to calculate States' QC liabilities for approximately 7 months after the end of the fiscal year, therefore, current information is not available for the FY 2009 financial statements. For FY 2008, three States were assessed liabilities for having excessive error rates for two consecutive years. The aggregate total of the liability was \$980 thousand. The three States signed payment

agreements in lieu of immediately repaying in cash. The agreements called for each State to invest 50 percent of its liability in program improvement activities. The remaining 50 percent of the liability was placed at risk pending future improved performance.

<b>The QC over Issuance error rate data for the past 3 years follows:</b>		
<b>Fiscal Year</b>	<b>Rate Amount</b>	<b>Total \$ (Billions)</b>
2008	4.01 %	\$ 1.387
2007	4.58 %	\$ 1.392
2006	4.82 %	\$ 1.453

**E. Grants and Program Benefits**

FNS records grant obligations based on the grant awards and SNAP benefits based on the issuance of benefits to recipients. Funds for FNS grant programs and SNAP 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 SNAP EBT transactions at retailers. This allows FNS to hold funds until the grantees need the funds to pay program expenses or until the SNAP 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	
	2009	2008
CSRS/Transitional retirement contributions - Civil Service	\$0.4	\$0.3
FERS regular contributions	\$7.9	\$7.3
Thrift Savings Plan contributions	\$3.1	\$2.8
<b>TOTAL</b>	<b>\$11.4</b>	<b>\$10.4</b>

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. Direct vs Reimbursable Obligations Incurred

As of fiscal year 2009 FNS' direct and reimbursable obligations incurred are represented as amounts apportioned under category A and B. The amounts apportioned by Fiscal Quarter consist of FNS' category A obligations and the amounts apportioned for Special Activities consist of category B

obligations as reported on the agency's year-end SF133s, Report on Budget Execution and Budgetary Resources, and lines 8a and 8b of the Statement of Budgetary Resources.

Note 2. Non-Entity Assets

	FY 2009	FY 2008
<u>Intragovernmental:</u>		
Fund balance with Treasury	\$0	\$1
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
<u>Total Intragovernmental</u>	<u>-</u>	<u>1</u>
<u>With The Public</u>		
Cash and other monetary assets	-	-
Accounts receivable	29	34
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related porperty	-	-
Other	-	-
<u>Total With the Public</u>	<u>29</u>	<u>34</u>
<u>Total non-entity assets</u>	<u>29</u>	<u>35</u>
<u>Total entity assets</u>	<u>21,560</u>	<u>19,091</u>
<u>Total assets</u>	<u>\$ 21,589</u>	<u>\$ 19,126</u>

FNS' Non-Entity Assets related to Accounts Receivable consists of FNS' Miscellaneous Receipts, Interest, Fines & Penalties, and Miscellaneous Receipts for Cancelled Years.

Note 3. Fund Balance with Treasury

Fund Balances:	FY 2009	FY 2008
Trust Funds	\$ -	-
Revolving Funds	-	-
Appropriated Funds	20,820	18,545
Other Fund Types	-	1
<b>Total</b>	<b>20,820</b>	<b>18,546</b>

Status of Fund Balance with Treasury:

Unobligated Balance:

Available	1,520	974
Unavailable	13,953	13,283
Obligated Balance not yet Disbursed	5,347	4,288

Non-Budgetary Fund Balance with Treasury:

Clearing Account Balances	-	1
Borrowing Authority not Yet Converted to Fund Balance	-	-
<b>Total</b>	<b>\$ 20,820</b>	<b>\$ 18,546</b>

Note 4. Accounts Receivable, Net

FY 2009	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 327	\$ 3	\$ 324
<b>Total</b>	<b>\$ 327</b>	<b>\$ 3</b>	<b>\$ 324</b>

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

(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 2009 FNS' capitalization threshold for property and equipment is \$25 thousand. FNS' capitalization threshold for internal-use software is \$100 thousand. FNS owns no buildings or land. FNS follows recognition and measurement criteria in SFFAS No. 6 as amended by SFFAS No. 11 and 23, and USDA Departmental Regulation 2200-002, dated December 24, 2003. At year end, balances for Property, Plant, and Equipment were as follows:

FY 2009 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	3	2
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	29	2
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
<b>Total</b>		<b>\$ 36</b>	<b>\$ 32</b>	<b>\$ 4</b>

FY 2008 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	3	2
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	23	8
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
<b>Total</b>		<b>\$ 36</b>	<b>\$ 26</b>	<b>\$ 10</b>

Note 6. Other Assets

	FY 2009	FY 2008
Intragovernmental:		
Advances to Others	\$ -	\$ -
Prepayments	-	-
Other Assets	441	309
<b>Total Intragovernmental</b>	<b>441</b>	<b>309</b>
With the Public:		
Advances to Others	-	-
Prepayments	-	-
Other Assets	-	-
<b>Total With the Public</b>	<b>-</b>	<b>-</b>
<b>Total Other Asssets</b>	<b>\$ 441</b>	<b>\$ 309</b>

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

Note 7. Liabilities Not Covered by Budgetary Resources

	FY 2009	FY 2008
Intragovernmental:		
Accounts payable	\$ -	\$ -
Debt	-	-
Other	1	1
<b>Total Intragovernmental</b>	<b>1</b>	<b>1</b>
With the Public:		
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	6	7
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	11	10
<b>Total With the Public</b>	<b>17</b>	<b>17</b>
<b>Total liabilities not covered by budgetary resources</b>	<b>18</b>	<b>18</b>
<b>Total liabilities covered by budgetary resources</b>	<b>4,278</b>	<b>3,574</b>
<b>Total liabilities</b>	<b>\$ 4,296</b>	<b>\$ 3,592</b>

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

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**Note 8. Other Liabilities**

FY 2009	Non-Current	Current	Total
<b>Intragovernmental:</b>			
Contract Holdbacks	\$ -	\$ -	\$ -
Other Accrued Liabilities	-	1	1
Employer Contributions and Payroll Taxes	-	1	1
Other Post-Employment Benefits Due and Payable	-	-	-
Unfunded FECA Liability	-	1	1
Other Unfunded Employment Related Liability	-	-	-
Advances from Others	-	-	-
Deferred Credits	-	-	-
Liability for Deposit Funds, Clearing Accounts	-	-	-
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Resources Payable to Treasury	-	-	-
Custodial Liability	-	29	29
Other Liabilities	-	-	-
<b>Total Intragovernmental</b>	<b>-</b>	<b>32</b>	<b>32</b>
<b>With the Public:</b>			
Contract Holdbacks	-	-	-
Other Accrued Liabilities	-	1,117	1,117
Accrued Funded Payroll and Leave	-	6	6
Withholdings Payable	-	-	-
Employer Contributions and Payroll Taxes Payable	-	-	-
Other Post-Employment Benefits Due and Payable	-	-	-
Pension Benefits Due and Payable to Beneficiaries	-	-	-
Benefit Premiums Payable to Carriers	-	-	-
Life Insurance Benefits Due and Payable	-	-	-
Unfunded Leave	-	11	11
Other Unfunded Employment Related Liability	-	-	-
Advances from Others	-	-	-
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	-	-	-
<b>Total With the Public</b>	<b>-</b>	<b>1,134</b>	<b>1,134</b>
<b>Total Other Liabilities</b>	<b>\$ -</b>	<b>\$ 1,166</b>	<b>\$ 1,166</b>

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NOTES TO THE FINANCIAL STATEMENTS

FY 2008	Non-Current		Current		Total
<b>Intragovernmental:</b>					
Contract Holdbacks	\$	-	\$	-	-
Other Accrued Liabilities		-		1	1
Employer Contributions and Payroll Taxes		-		1	1
Other Post-Employment Benefits Due and Payable		-		-	-
Unfunded FECA Liability		-		1	1
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		-	-
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		-		34	34
Other Liabilities		-		-	-
<b>Total Intragovernmental</b>		-		37	37
<b>With the Public:</b>					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		-		770	770
Accrued Funded Payroll and Leave		-		-	-
Withholdings Payable		-		-	-
Employer Contributions and Payroll Taxes Payable		-		-	-
Other Post-Employment Benefits Due and Payable		-		-	-
Pension Benefits Due and Payable to Beneficiaries		-		-	-
Benefit Premiums Payable to Carriers		-		-	-
Life Insurance Benefits Due and Payable		-		-	-
Unfunded Leave		-		10	10
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		-	-
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		1	1
Prior Liens Outstanding or Acquired Collateral		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Custodial Liability		-		-	-
Other Liabilities		-		-	-
<b>Total With the Public</b>		-		781	781
<b>Total Other Liabilities</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>818</b>	<b>\$ 818</b>

Note 9. Leases

Entity as Lessee:

Operating Lease (amounts shown are in thousands):

Description of Lease Arrangements: FNS' operating lease includes office space. The office space is lease from May 1, 2009 through April 30, 2019 at a cost of \$609 per year until May 1, 2014. From May 1, 2014 through April 30, 2019 the office space annual rent is reduced to \$390 per year. The lease may be renewed at the option of the Government for one 5 year term with the Government having right to terminate, in whole or in part, at anytime, by giving at least 120 days notice in writing to the Lessor.

Future Payments Due:

<u>Fiscal Year</u>	<u>Asset Category</u>
	<u>Office Space</u>
Year 1	\$355
Year 2	\$609
Year 3	\$609
Year 4	\$609
Year 5	\$609
After 5 years	<u>\$1,948</u>
Total future lease payments	\$4,739
	====

**Note 10. Intragovernmental Cost and Exchange Revenue**

<b>Child Nutrition</b>	FY 2009	FY 2008
Intragovernmental Costs	\$ 655	\$ 602
Public Costs	\$ 15,327	\$ 13,892
Total Costs	\$ 15,982	\$ 14,494
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ -
<b>SNAP</b>		
Intragovernmental Costs	\$ 321	\$ 81
Public Costs	\$ 55,602	\$ 39,095
Total Costs	\$ 55,923	\$ 39,176
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ 40	\$ 27
Total Earned Revenue	\$ 40	\$ 27
<b>Other</b>	FY 2009	FY 2008
Intragovernmental Costs	\$ 116	\$ 121
Public Costs	\$ 281	\$ 275
Total Costs	\$ 397	\$ 396
Intragovernmental Earned Revenue	\$ 2	\$ 1
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ 2	\$ 1
<b>Women, Infants &amp; Children</b>		
Intragovernmental Costs	\$ -	\$ -
Public Costs	\$ 6,813	\$ 6,251
Total Costs	\$ 6,813	\$ 6,251
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ -

Commodity Assistance Program	FY 2009		FY 2008	
Intragovernmental Costs	\$	5	\$	12
Public Costs	\$	310	\$	223
Total Costs	\$	315	\$	235
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-

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 11. Program Costs By Segment

For the year ended September 30, 2009

	CHILD NUTRITION	SNAP	women Infants &	Communit y Assistanc	OTHER	Consolidated Total
<b>Total Gross Costs</b>	15,982	55,923	6,813	315	397	79,430
<b>Less Earned Revenue:</b>	0	40	0	0	2	42
<b>Net Goal Costs:</b>	15,982	55,883	6,813	315	395	<u>79,388</u>
<b>Net Cost of Operations</b>						<u>79,388</u>

For the year ended September 30, 2008

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

**Note 12. Exchange Revenues**

FNS' earned revenue from nonfederal parties consists largely of the \$39 from the state option Supplemental Nutrition Assistance Program.

On June 12, 1997, the President signed into law the Supplemental Appropriations Act, Public Law 105-18. This law authorized the state option Supplemental Nutrition Assistance Program. In this program, States issue SNAP 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 Supplemental Nutrition Assistance Program.

States operating a state option Supplemental Nutrition Assistance Program utilize FNS' SNAP infrastructure. That is, they utilized electronic benefits transfer (EBT) issued benefits from FNS which are transacted at FNS authorized SNAP 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 2009, 3 States participated in this program, which generated earned revenues of \$39.

**Note 13. Apportionment Categories of Obligations Incurred: Direct vs Reimbursable Obligations**

FY 2009	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 26,217	\$ 1	\$ 26,218
Apportionment for Special Activities	53,236	41	53,277
Exempt from Apportionment	-	-	-
<b>Total Obligations Incurred</b>	<b>\$ 79,453</b>	<b>\$ 42</b>	<b>\$ 79,495</b>

FY 2008	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 24,161	\$ 1	\$ 24,162
Apportionment for Special Activities	36,441	27	36,468
Exempt from Apportionment	-	-	-
<b>Total Obligations Incurred</b>	<b>\$ 60,602</b>	<b>\$ 28</b>	<b>\$ 60,630</b>

**Note 14. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

Differences exist between FNS' FY 2008 Statement of Budgetary Resources (SBR) (as provided to the Department for consolidation purposes) and the FY 2008 actual numbers presented in the FY 2010 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2008 SBR	\$ 74,888	\$59,773
Less: Expired Accounts not Included in Budget	\$10,876	\$0
Add: Parent Child Relationship (CSREES)	\$2	\$6
Add: Differences due to Rounding	\$(1)	\$0
<b>Budget of the U.S. Government</b>	<b>\$64,013</b>	<b>\$59,779</b>

The actual numbers for the President's Budget has not yet been published as of FNS' FY 2009 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at [www.whitehouse.gov](http://www.whitehouse.gov).

Note 15. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2009 and 2008 was \$1.2 billion and \$780, respectively.

Note 16. Incidental Custodial Collections

Revenue Activity:	FY 2009	FY 2008
Sources of Collections:		
Miscellaneous	\$ 2	\$ (8)
Total Cash Collections	2	(8)
Accrual Adjustments	(5)	-
Total Custodial Revenue	(3)	(8)
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
( Increase )/Decrease in Amounts Yet to be Transferred	3	8
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2009 custodial activity represents all accounts receivable activity related to canceled year appropriations for interest, fines & penalties assessed and collected. For example, civil money penalties, interest, retailer and wholesaler fines and penalties. (See Note 1D., "Accounts Receivable", for further disclosures on FNS' collection activities). FNS transfers these types of collections to the Department of Treasury. FNS' custodial collection activities are considered immaterial and incidental to the mission of FNS.

Note 17. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

Resources Used to Finance Activities:	<u>FY 2009</u>	<u>FY2008</u>
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 79,495	\$ 60,630
Less: Spending authority from offsetting collections and recoveries	591	722
	-----	-----
Obligations net of offsetting collections and recoveries	78,904	59,908
Less: Distributed Offsetting Receipts	-	1
	-----	-----
Net Obligations	78,904	59,907
<b>Other Resources</b>		
Donations and forfeitures of property	-	-
Transfers in (out) without reimbursement	-	-
Imputed financing from costs absorbed by others	1,029	758
Other	-	-
	-----	-----
Net other resources used to finance activities	1,029	758
	<u>FY 2009</u>	<u>FY 2008</u>
Total resources used to finance activities	79,933	60,665
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(483)	(121)
Resources that fund expenses recognized in prior periods	(1)	(1)
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increases liabilities for loan guarantees or allowances for subsidy	-	-
Change in Unfilled Customer Orders	-	-
Decrease in exchange revenue receivable from the public	-	-
Other	-	-
Resources that finance the acquisition of assets	(1)	(1)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	-	2
	-----	-----
Total resources used to finance items not part of the net cost of operations	(485)	(121)
	-----	-----
Total resources used to finance the net cost of operations	79,448	60,544

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	1	-
Increase in environmental and disposal liability	-	-
Upward/Downward reestimates of credit subsidy expense	-	-
Increase in exchange revenue receivable from the public	-	-
Other	(67)	(33)
	-----	-----
Total components of Net Cost of Operations that will require or generate resources in future periods	(66)	(33)
Components not Requiring or Generating Resources:		
Depreciation and amortization	6	6
Revaluation of assets or liabilities	-	-
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	-	12
Cost of Goods Sold	-	-
Other	-	(5)
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources	6	13
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources in the current period	(60)	(20)
	-----	-----
Net Cost of Operations	\$ 79,388	\$ 60,524
	=====	=====

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

**Human Capital**

1. A. Supplemental Nutrition Assistance Program (SNAP).

B. Program Expense	<u>2009</u>	<u>2008</u>
1. Employment and Training	\$19	\$36

FNS' human capital consist of employment and training (E&T) for the Supplemental Nutrition Assistance Program. The E&T program requires recipients of SNAP benefits to participate in an employment and training program as a condition to SNAP 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 955,329 work registrants subject to the 3 - month SNAP participant limit and 1,706,182 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

**Nonfederal Physical Property**

1. A. Supplemental Nutrition Assistance Program

B. Program Expense	<u>2009</u>	<u>2008</u>
1. ADP Equipment & Systems	\$55	\$32

FNS' nonfederal physical property consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Supplemental Nutrition Assistance Program. The total SNAP 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>2009</u>	<u>2008</u>
1. ADP Equipment & Systems	\$15	\$11

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.