



United States Department of Agriculture
Office of Inspector General





United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: November 8, 2012

AUDIT
NUMBER: 27401-0002-21

TO: Audrey Rowe
Administrator
Food and Nutrition Service

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

FROM: Gil H. Harden
Assistant Inspector General
for Audit

SUBJECT: Food and Nutrition Service Financial Statements for
Fiscal Years 2012 and 2011

This report presents the results of our audit of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2012 and 2011. 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 by members of your staff during our audit fieldwork and subsequent discussion. If you have any questions regarding this report, please contact me at (202) 720-6945 or have a member of your staff contact Don Pfeil at (301) 504-2100.

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Food and Nutrition Service Financial Statements for Fiscal Years 2012 and 2011 (Audit Report 27401-0002-21)

Executive Summary

Purpose

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

Results in Brief

In our opinion, FNS' comparative financial statements for fiscal years 2012 and 2011, including the accompanying notes, present fairly, in all material respects, the financial position of FNS, as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In the section entitled "Internal Controls over Financial Reporting," we report that although FNS reported no material weaknesses in its FY 2012 Federal Managers Financial Integrity Act report, it did report two recurring control deficiencies. One is part of a continuing Department-wide material weakness on unliquidated obligations, which remains a control deficiency in FY 2012. FNS also reported that it had a control deficiency related to the lack of testing of the reimbursable cycle per a Department mandated assessment of the reimbursable agreements business process cycle.

In the section entitled "Compliance and Other Procedures," 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 Information Act of 2002 and the Improper Payments Elimination and Recovery Act of 2010.

Independent Auditor's Report

Audrey Rowe
Administrator
Food and Nutrition Service

We have audited the accompanying balance sheets of the Food and Nutrition Service (FNS), as of September 30, 2012 and 2011, and the related statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "comparative financial statements") for the fiscal years then ended. The objective of our audits was to express an opinion on the fair presentation of these comparative financial statements. In connection with our fiscal year 2012 audit, we also considered FNS' internal control over financial reporting and tested FNS' compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on these comparative financial statements.

The following sections discuss our opinion on FNS' comparative financial statements; our consideration of FNS' internal control over financial reporting; our test of FNS' compliance with certain provision of applicable laws and regulations; and management's, as well as our responsibilities.

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 No. 07-04, *Audit Requirements for Federal Financial Audits*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

Opinion on the Comparative Financial Statements

In our opinion, the comparative financial statements referred to above present fairly, in all material respects, the financial position of FNS, as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information, and Other Accompanying Information be presented to supplement the basic financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential

part of financial reporting for placing the basic general-purpose financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, and other knowledge we obtained during our audit of the basic general-purpose financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

FNS made certain reclassifications to prior year amounts to conform to current year presentation on the Combined Statement of Budgetary Resources. In accordance with new guidance effective for fiscal year 2012, as discussed in Note 1, the Combined Statement of Budgetary Resources was reclassified to better align with the new Standard Form 133, *Report on Budget Execution and Budgetary Resources*.

Internal Control Over Financial Reporting

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 deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

Significant deficiencies are deficiencies, or a combination of deficiencies, in internal control that are less severe than a material weakness, yet important enough to merit attention by those charged with governance. Material weaknesses are deficiencies or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the comparative financial statements being audited will not be prevented, or detected and corrected on a timely basis. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We did not identify any material weaknesses that were not disclosed in FNS' Federal Managers' Financial Integrity Act of 1982 (FMFIA) Report on Management Control. FNS asserted through its FY 2012 FMFIA submission that although no material weaknesses were identified, it did identify recurring control deficiencies. One is a Department-wide material weakness on unliquidated obligations. A Corrective Action Plan to address this deficiency is in place and scheduled for January 2013 completion. The second is a previously identified lack of policies and procedures regarding reimbursable agreements. FNS provided documentation that verified that FNS did complete and distribute the cycle procedures as stated in the FMFIA assurance letter.

Compliance and Other Procedures

We performed tests of FNS' compliance, as described in the Responsibilities section of this report. Our test disclosed two instances of noncompliance with laws and regulations that are

required to be reported under *Government Auditing Standards* and OMB Circular A-136. We found that FNS is not in full compliance with the Improper Payments Information Act (IPIA) of 2002 as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) requirements regarding the design of program internal controls related to payments for all programs susceptible to significant improper payments. FNS reported estimated improper payments for the Special Nutrition Assistance Program (SNAP), the National School Lunch Program (NSLP), the School Breakfast Program (SBP), and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). However, FNS has not reported an estimated improper payment rate for Child and Adult Care Food Program (CACFP) meal claiming. FNS has developed a pilot methodology to estimate meal claim errors with parent recall surveys. FNS is currently assessing the feasibility of using this approach nation-wide. FNS has not established a date for publishing the CACFP claiming error estimate.

OMB Circular A-136 requires that agencies report the amount of improper payments the agency identified and recovered through other than payment recapture audits i.e. state audits. FNS has not reported the amount of improper payments they have recovered for the SNAP, WIC, CACFP, NSLP and SBP. FNS explains in section 4 of its MD&A that the current statute only provides authority to recover improper payments identified through reviews, audits, or other operational oversight activity. FNS further explains that an estimated recovery target amount for the SNAP is not feasible because claim collections are tied to the ability of States to identify, pursue and collect erroneous payments.

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 related to the existence and completeness assertions and determined if they had been in 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.

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

Responsibilities

FNS' management is responsible for (1) preparing the comparative financial statements in conformity with accounting principles generally accepted in the United States of America; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the

broad control objectives of the FMFIA are met; (3) ensuring that FNS' financial management systems substantially comply with FFMIA requirements; and (4) complying with applicable laws and regulations.

Auditor Responsibilities

Our responsibility is to express an opinion on the fiscal years 2012 and 2011 comparative financial statements of the FNS based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the comparative financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FNS' internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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' internal control over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the comparative financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04, as amended and *Government Auditing Standards*. We did not test all internal controls as defined by the FMFIA. The objective of our audit was not to provide an opinion on FNS' internal control. Consequently, we do not provide an opinion on internal control over financial reporting, nor on FNS' assertion on internal control included in its MD&A.

As part of obtaining reasonable assurance about whether the comparative financial statements are free of material misstatement, we performed tests of FNS' compliance with certain provisions of laws and regulations, agreements, and Government-wide policy requirements, noncompliance with which could have a direct and material effect on the determination of the comparative financial statement amounts. We also obtained reasonable assurance that FNS complied with certain provisions of other laws and regulations specified in OMB Bulletin 07-04, as amended, including requirements referred to in the FFMIA, except for those that, in our judgment, were clearly inconsequential. We limited our tests of compliance to 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 audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information of the management of USDA, OMB, the U.S. Government Accountability Office and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than those specified parties.

Gil H. Harden
Assistant Inspector General
for Audit,
November 6, 2012

Abbreviations

CACFP	Child and Adult Care Food Program
FDCH	Family Day Care Home
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Manager's Financial Integrity Act
FNS	Food and Nutrition Service
FY	Fiscal Year
IPIA	Improper Payment Information Act of 2002
IPERA	Improper Payment Elimination and Recovery Act of 2010
MD&A	Management Discussion and Analysis
NSLP	National School Lunch Program
OMB	Office of Management and Budget
OIG	Office of Inspector General
RSSI	Required Supplementary Stewardship Information
SBP	School Breakfast Program
SNAP	Special Nutrition Assistance Program
USDA.....	Department of Agriculture
WIC	Special Supplemental Nutrition Program for Women Infants, and Children

Exhibit A: Financial Statements

USDA
Food and Nutrition Service

Fiscal Years 2012 and 2011
FINANCIAL STATEMENTS

Prepared By
Food and Nutrition Service

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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

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

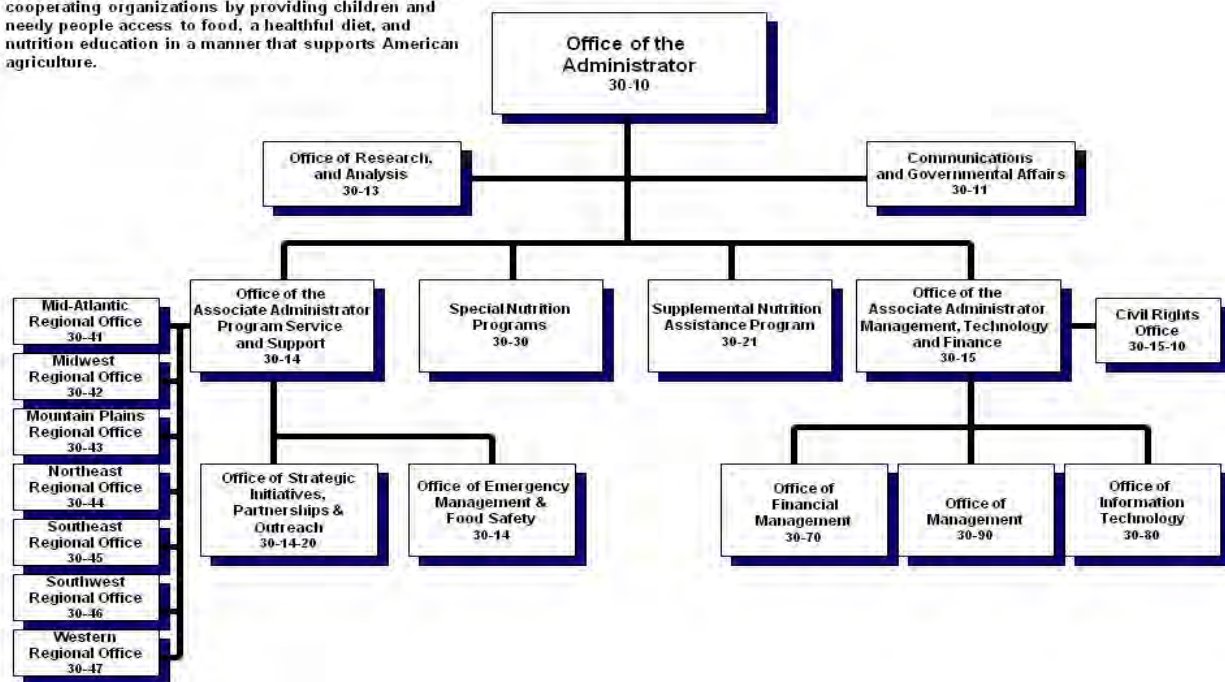
The FNS annual appropriation for administrative funds includes a very small percentage of funds for the administration of the Center for Nutrition Policy and Promotion (CNPP). CNPP links scientific research to the nutrition needs of consumers through science-based dietary guidance, nutrition policy coordination,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

FNS FY 2012 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 43 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 almost 32 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, breastfeeding support to nursing mothers, 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 2009, elderly participation comprised approximately 95 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. In FY 2009, 32 States, the District of Columbia, and two Indian reservations operate CSFP. Beginning in 2010, seven new States were added to the program.
- *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' market, 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 24 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 242,630 stores as of June 30, 2012 authorized to redeem SNAP benefits.

As of September 30, 2012, there were approximately 1,367 full-time permanent employees in the agency. There were 544 employees in the Washington headquarters office; and 823 in the field, which includes seven regional offices; 21 field offices; two SNAP compliance offices and a computer support center. The chart below displays staff year utilization.

Project	2011 Actual	2012 Estimate	2013 Requested
Supplemental Nutrition Assistance Program	125	166	166
Child Nutrition Programs	168	176	176
Commodity Assistance	2	2	2
Supplemental Nutrition Program _WIC	22	23	23
Nutrition Programs Administration	1,021	968	968
Center for Nutrition Policy and Promotion	32	32	32
Total Available	1,370	1,367	1,367

SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

The FNS agency goals and objectives are fully integrated into USDA's Strategic Goal 4 with three related Department Strategic objectives. Each Department Strategic Objective has a key outcome and indicator, as discussed below.

USDA Strategic Goal	USDA Strategic Objective	Programs that Contribute ¹	Key Outcomes	Key Indicators
USDA Goal 4: Ensure That All of America's Children Have Access to Safe, Nutritious, and Balanced Meals	<u>USDA Strategic Objective 4.1:</u> Increase Access to Nutritious Food	SNAP, CN, WIC, CAP, FDIPIR, TEFAP	<u>Key Outcome 1:</u> Reduce hunger and improve nutrition.	Program Participation Rates
	<u>USDA Strategic Objective 4.2:</u> Promote Healthy Diet and Physical Activity Behaviors	SNAP, CN, WIC CNPP ²	<u>Key Outcome 2:</u> Promote more healthful eating and physical activity across the Nation.	Nutrition Guidance Distribution Volume
	<u>USDA Strategic Objective 4.3:</u> Protect Public Health by Ensuring Food is Safe	SNAP, CN, WIC	<u>Key Outcome 3:</u> Maintain a high level of integrity in the nutrition assistance programs.	SNAP Payment Accuracy Rate

Strategic Goal 4: Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals

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 2012. 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 Healthier US initiative. Key 2012 accomplishments include:

Promoting access to the Supplemental Nutrition Assistance Program (SNAP). SNAP is the Nation's largest nutrition assistance program, serving 46.6 million people in June 2012. The latest information on the rate of participation among eligible people showed that in 2009, 72 percent of all who were eligible participated as compared with 54 percent in 2001.

Promoting Nutrition Education by Using the MyPlate Food Guidance System. *MyPlate—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 nutritional well-being and active living. ChooseMyPlate.gov's web-based educational tools help Americans assess and personalize their diet and physical activity plans. . The newest tool was the MyPlate for Preschoolers (ages 2 to 5 years old) to help parents use MyPlate to help their young children eat well,*

¹ 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, FDIPIR = Food Distribution Program on Indian Reservations, TEFAP = The Emergency Food Assistance Program

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

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 2011, transitions occurred with the release of the 2010 Dietary Guidelines for Americans in January 2011 and ChooseMy Plate.gov in May 2011.

Continuing to ensure that SNAP benefits are accurately issued. The SNAP payment accuracy rate for FY 2011, announced in June, 2012, was 96.20 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 2012, 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 2012, 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.

Strategic Goal 4: Ensure that All of America's Children Have Access to Safe, Nutritious and Balanced Meals

Objective 4.1: Increase Access to Nutritious Foods

4.1.1 Participation levels for major Federal nutrition assistance programs SNAP. (Millions per month)

Overview

The Supplemental Nutrition Assistance Program (SNAP) is the foundation of America's nutrition assistance program system. SNAP provides benefits that can be used to purchase food at authorized retailers for preparation and consumption at home. It makes resources that can be used for food available to most households with little income. Benefit levels are based on the Thrifty Food Plan, a representative healthful and minimal cost meal plan that shows how a nutritious diet may be achieved with limited resources. The amount received by a household depends on their income, expenses, and household size.

Analysis of Results

In FY 2012, the Department and its program delivery partners sustained effective access to SNAP. Average monthly participation reached 46.3 million in 2012 (Oct 2011- May 2012), within the range (43.6 million-50.4 million) for the 2012 target of 47.1 million.

Program participation increased by almost 5 percent during the first eight months of FY 2012 as compared to the same period in FY 2011. USDA's efforts to support and encourage SNAP participation included:

- Continued efforts with States to develop outreach strategies. Forty- six out of 53 State agencies – up from 42 in FY 2009 -- now have formal outreach plans or other documented outreach activity;
- Supported innovative State practices to promote access by simplifying the application process. Thirty States use an Internet-based application filing system. A total of 47 States allow telephone interviews. A total of 30 States use call centers;
- Provided numerous strategies to help States manage workloads because of increasing participation and decreasing State resources due to the economic downturn. These strategies include policy waivers; a workload management matrix tool; a program access toolkit; and encouragement of broad-based categorical eligibility (42 States) to improve access to applicants and simplify policies for State administration.

USDA also estimates the number of people eligible for the program along with the rate at which eligible people are participating. The latest study shows that, in 2009, 72 percent of all persons eligible for SNAP participated. While the number of those eligible continued to grow rapidly in 2008, increasing by 5.5 percent over the 2007 level, the number of participants increased by 7 percent. Also in 2009, participants received 91 percent of all benefits available if every eligible person participated. This number indicates that the program is effectively reaching those most in need.

Annual Performance Goals, Indicators and Trends		2007	2008	2009	2010	2011	Fiscal Year 2012		
							Target	Actual	Result
4.1.1	Participation levels for the major Federal nutrition assistance programs (millions per month): Supplemental Nutrition Assistance Program Avg.(Monthly) participation (millions)	26.5	28.4	33.5	40.3	44.3	47.1	46.3	Met
	Rationale for Met Range: Thresholds for 4.1.1 reflect the margin of error in forecasts of future participation. For Supplemental Nutrition Assistance Program (SNAP) participation, results from 2 independent assessments suggest that predictions of the number of SNAP participants are accurate to within plus-or-minus 7.5 percent on average. For 2012, this percentage thus allows for actual performance that meets the target range of 43.6-50.4 million for SNAP.								
	Data Assessment of Performance Measure 4.1.1								
	SNAP participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at FNS. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, the FNS works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible <input type="checkbox"/> Completeness of Data — Final figures represent 12-month, fiscal year averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through May 31, 2012, as available September 2012. <input type="checkbox"/> Reliability of Data — Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability								

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	2011	Fiscal Year 2012		
						Target	Actual	Result
	Office, the Office of Inspector General, and the Office of Management and Budget. <input type="checkbox"/> Quality of Data — As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.							

Challenges for the Future

Studies and analyses show that one reason that SNAP-eligible people who do not participate are that they may not be aware of their eligibility. Efforts to improve access to and promote awareness of SNAP, and seek improvements in policy and operations that make applying easier 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 USDA’s efforts to reduce hunger and improve nutrition. Proper program administration, including timely determination of eligibility, is of special concern.

4.1.2 Improve SNAP payment accuracy

Overview

Ensuring that SNAP and other Federal nutrition assistance programs are administered with integrity is central to USDA’s mission. Waste and abuse draw scarce resources away from those who need them the most. Just as importantly, the programs are ultimately not sustainable without public confidence that benefits go to those who qualify, are used appropriately, and achieve their intended purposes. The Department seeks to increase food security and reduce hunger in a manner that inspires public confidence that taxpayer dollars are used wisely.

Designed to respond to economic conditions, participation in the program has recently grown and benefits have increased, yet USDA remains strongly committed to program integrity. The Department takes its stewardship responsibilities for tax payer dollars seriously through an established Quality Control (QC) system and long-standing support for payment accuracy initiatives. The Department continuously works to improve payment accuracy through partnerships with States, and regulatory and statutory requirements for a system that rewards exemplary program performance while holding low-performing States accountable. It also uses an early detection system to target States that may be experiencing a higher incidence of errors based on preliminary QC data. Actions then are taken by regional offices to address these situations in the individual States.

Analysis of Results

SNAP payment accuracy reached a record-high 96.20 percent in 2011, the latest for which data are available. The number reflects the excellent performance by State agencies in administering the program. This combined rate reflects 2.99 percent in overpayments and .81 percent in underpayments for a total of 3.80 in erroneous payments.

Forty-four States had a payment accuracy rate greater than 94 percent, including 26 States with rates greater than 96 percent. This is three less States with 94 percent accuracy and three more States with 96 percent accuracy from the previous year.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	2011	Fiscal Year 2012		
						Target	Actual	Result
4.1.2 Improve SNAP Payment Accuracy Rate Baseline: 2001 = 91.34%	94.4%	94.3%	94.9%	96.19%	96.2%	96.2%	Not Available	Deferred
	FY 2012 data will be available in 2013. Rationale for Met Range: The 95.0 percent confidence interval around the estimate of payment accuracy is ± 2.0 . • For 2012, this confidence level allows for actual performance that meets the target in the range 95.9 – 96.5 percent.							
	Data Assessment of Performance Measure 4.1.2							
	The Supplemental Nutrition Assistance Program (SNAP), formerly the Food Stamp Program, uses annual payment accuracy data from the Quality Control (QC) process to support SNAP management. The data are based upon statistically valid methodology. The QC process uses a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate is composed of over-issuances and under-issuances of SNAP benefits. A regression formula is applied to the results of the reviews to calculate official error rates. State agencies review selected cases monthly to determine the accuracy of the eligibility and benefit-level determination. The process includes a client interview and verification of all elements of eligibility and the basis of issuance. Federal reviewers validate a sample of the State's reviews by conducting a re-review. The process has proven to be a sound method of calculating reliable data.							
	<input type="checkbox"/> Completeness of Data —The most current data available for this measure are for FY 2011. The payment accuracy rate of 96.20 percent met the performance goal/measure target. FY 2012 performance will be deferred until next year's report. <input type="checkbox"/> Reliability of Data — QC data are valid and accepted by State SNAP agencies as a basis for performance-incentive payments and penalties. The U.S. Government Accountability Office and the Office of Inspector General also use it regularly. <input type="checkbox"/> Quality of Data — As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is frequently cited as an important, high-quality indicator of program performance.							

Challenges for the Future

The most critical challenge impacting future success is continuing resource limitations for State agencies. 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 difficult program environment.

4.1.3 Participation levels for the major Federal nutrition assistance programs (millions per day)

Overview

The National School Lunch Program (NSLP) and the School Breakfast Program (SBP) support schools in ensuring access to nutritious food for the children they serve. The programs provide per-meal reimbursement to State and local Governments for meals and snacks served. All meals must meet Federal nutrition standards to qualify for reimbursement.

In FY 2011, NSLP serves lunches and snacks in more than 100,700 schools and residential child-care facilities. More than 66 percent of meals are served to low-income children for free or at reduced price.

SBP helps school children start the day ready to learn by serving breakfast in more than 88,700 schools and residential child-care facilities. Nearly 84 percent of meals are served free or at reduced price to low-income children.

Analysis of Results

In FY 2012, USDA and its program delivery partners sustained effective access to school meals. The increased use of direct certification for free school meals for children enrolled in means-tested programs such as SNAP or the Temporary Assistance for Needy Families (TANF) program has helped to provide easy access to school meal benefits. During the 2009-10 school year, 82 percent of school districts used direct certification, up from 78 percent in the prior year. TANF provides financial assistance for children and their parents or relatives who are living with them.

NSLP participation levels reached 32.0 million in FY 2012; within the Met range (30.4 million-33.6 million) for the 2012 target of 32.0 million. Participation increased slightly from FY 2011, continuing the trend of increases in recent years. Average SBP participation levels reached 12.8 million in FY 2012; within the Met range (12.1 million – 13.3 million) for the 2012 target of 12.7 million. These numbers also continue a trend of increases during the last several years.

Annual Performance Goals, Indicators and Trends		2007	2008	2009	2010	2011	Fiscal Year 2012		
							Target	Actual	Result
4.1.3	Participation levels for the major Federal nutrition assistance programs (millions per day)								
	• National School Lunch Program	30.5	30.9	31.6	31.7	31.8	32.0	32.0	Met
	• School Breakfast Program	10.1	10.6	11.0	11.7	12.1	12.7	12.8	Met
	Rationale for Met Range: Thresholds for 4.1.3 reflect the margin of error in forecasts of future participation, estimated at 5 percent for school meals programs. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2012, this percentage range allows for actual performance that meets the targets in the range of 30.4-33.6 million for the National School Lunch Program and 12.1-13.3 million for the School Breakfast Program.								
	Data Assessment of Performance Measure 4.1.3								
	School meals participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.								
	<input type="checkbox"/> Completeness of Data — Figures for NSLP and SBP are based on 9-month (school year) averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through May 31, 2012, as available September 2012.								
	<input type="checkbox"/> Reliability of Data — Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.								
	<input type="checkbox"/> Quality of Data — As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.								

Challenges for the Future

While almost all school children have access to Federally-subsidized school lunches, significantly fewer schools operate School Breakfast Programs. USDA will continue to pursue strategies to ensure that all students are able to start the day with a nutritious breakfast, at home or at school.

As with other nutrition assistance programs, the Department relies on its partnerships with third parties—hundreds of thousands of State and local Government workers and their cooperators—to sustain effective school meals program delivery.

4.1.4 Participation levels for the major Federal nutrition assistance programs (millions per month) WIC program average

Overview

The Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is a critical component of the nutrition assistance safety net. WIC's major objective is to address the nutrition needs of low-income pregnant, breastfeeding, and postpartum women, infants, and children up to 5 years of age who are found to be at nutritional risk.

Analysis of Results

In FY 2012, average monthly WIC participation was approximately 8.9 million participants; within the Met range (8.6 million-9.4 million) for the target of 9.0 million. USDA continued to meet its ongoing commitment to provide sufficient program resources to support participation for all eligible people who apply for benefits.

The Department also estimates the number of people eligible for WIC and calculates the rate at which eligible people are participating. The latest study shows that, in 2007, WIC served an estimated 59 percent of the population eligible for benefits. This figure reflects participation by more than 80 percent of eligible infants, 66 percent of eligible pregnant women, more than 85 percent of eligible breastfeeding women, and 71 percent of eligible postpartum women.

Annual Performance Goals, Indicators and Trends		2007	2008	2009	2010	2011	Fiscal Year 2012		
							Target	Actual	Result
4.1.4	Participation levels for the major Federal nutrition assistance programs (millions per month): WIC Program (average)	8.3	8.7	9.1	9.2	8.9	9.0	8.9	Met
	Rationale for Met Range: Thresholds for 4.1.4 reflect the margin of error in forecast of future participation, estimated at 3 percent for the WIC program. This reflects the pattern of variance between actual and target performance over the past 5 years. For FY 2012, this percentage thus allows for actual performance that meets the target in the range of 8.6-9.4 million for WIC.								
	Data Assessment of Performance Measure 4.1.4 WIC participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are								

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	2011	Fiscal Year 2012		
						Target	Actual	Result
	<p>reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.</p> <p><input type="checkbox"/> Completeness of Data— Figures represent 12-month, fiscal year averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through May 31, 2012, as available September 2012.</p> <p><input type="checkbox"/> Reliability of Data— Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.</p> <p><input type="checkbox"/> Quality of Data—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.</p>							

Challenges for the Future

Ensuring that adequate, timely funding is available to USDA's program partners to support participation among all eligible applicants is an ongoing challenge. The Department and its partners must continue to work together to manage funds carefully and maintain efficient operations to serve all those in need.

Objective 4.2: Promote healthy diet and physical activity behavior

4.2.1 Application and usage level of nutritional guidance tools.

Linking science-based information to the needs of consumers through effective translation is an important pillar in policy development and implementation. The Department designed, developed, and implemented the MyPlate food icon, which is supported by a multi-modal, comprehensive communications program to make the 2010 *Dietary Guidelines for Americans* available and operational for all Americans, including children) to achieve healthy diets and lifestyles. The ChooseMyPlate.gov website and its wealth of resources, including the dietary assessment online tool, SuperTracker, promote the personalized application of the Guidelines to empower all consumers to make better food choices balanced with adequate exercise. In FY 2012, the Department released the new SuperTracker and consumer materials, located at www.ChooseMyPlate.gov, to help Americans attain healthy diets and active lifestyles.

Overview

Good nutrition and regular physical activity are important throughout the life cycle and can help reduce the rate of overweight and obesity in the U.S. population, especially among the Nation's children. Both good nutrition and physical activity are also essential to helping prevent diet-related chronic diseases, such as diabetes, cardiovascular disease, and high blood pressure. Thus, achieving and sustaining appropriate body weight across the lifespan is vital to maintaining good health and quality of life.

The Department establishes the *Dietary Guidelines for Americans* jointly with the Department of Health and Human Services (DHHS) to form the basis of Federal nutrition policy, education, outreach, and of food assistance programs. (The *Dietary Guidelines* are available at www.dietaryguidelines.gov.) The Department uses electronic tools, print materials, and other resources to communicate the importance of healthy eating and physical activity to consumers. The MyPlate icon and guidance materials and tools

at www.ChooseMyPlate.gov are important means by which the Department helps empower the American public with actionable information to make healthy food choices and to achieve healthy and active lifestyles. The Department continues also to encourage “information multipliers”—community and national strategic partners—to extend the reach and impact of nutrition guidance messages, both with Federal nutrition assistance programs and with the general public.

The Department is committed to using Federal nutrition policy and information—both based on the most recent, credible science—to encourage the U.S. population to develop and maintain healthy diets and active lifestyles that benefit each individual, each family, and the nation. As the Secretary said at the December 2011 release of the SuperTracker, “Overcoming the health and nutrition challenges we face as a nation is critical and the *SuperTracker* provides consumers with an assortment of tools to do just that. “This easy-to-use website [ChooseMyPlate.gov] will help Americans at all stages of life improve their overall health and well-being as they input dietary and physical activity choices into the tool.

Other key FY 2012 accomplishments include the following:

- The Department released the new SuperTracker located at www.ChooseMyPlate.gov. The SuperTracker consists of a suite of dietary assessment, weight management, and physical tracking tools designed to help Americans by empowering them with means to make healthier choices and develop a healthy dietary habits and lifestyles.
- The Department implemented a communications calendar of selected messages, based on the 2010 *Dietary Guidelines for Americans*, to encourage healthy food and dietary behaviors. The messages released in FY 2012 were “Enjoy your food but eat less,” “Make half your plate fruits and vegetables,” “Drink water instead of sugary drinks,” and “Make at least half your grains whole grains.”
- The Department continues to build its Nutrition Evidence Library by conducting evidence-based systematic review to evaluate scientific evidence to answer precise nutrition policy and nutrition education questions or series of questions.
- The USDA continues to collaborate with partners to increase all communication of guidance messages related to the diet and physical activity. **The USDA/CNPP Nutrition Communicators Network provides an opportunity for different communities and different organizations to join together in helping promote the Dietary Guidelines for Americans. The Nutrition Communicators Network includes over 6,000 community partners and 100 strategic (national) partners.**

Analysis of Results

In FY 2012, the application and usage level of nutrition guidance tools reached 6 billion pieces of electronic and print materials distributed. The Department exceeded its goal of 3.5 to 4.5 billion pieces. USDA continued to meet its commitment to link science-based information to the nutrition needs of Americans across the lifecycle. The Department successfully reached Americans with print materials and electronic tools; the Department used social media and partnerships, as well as ChooseMyPlate.gov, nutritionevidencelibrary.gov, and the Food and Nutrition Information center to provide information that consumers can use to improve their diets and maintain active lifestyles.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Annual Performance Goals, Indicators and Trends		2007	2008	2009	2010	2011	Fiscal Year 2012		
							Target	Actual	Result
4.2.1	Application and usage level of nutrition guidance tools(billions of pieces of nutrition guidance distributed) Baseline 2006 = 1.5	2.6	3.2	3.5	1.7	1.7	4.0	6.6	Exceeded
	Rationale for Met Range: The precision of USDA's tracking system and forecasting allows for determination of the degree to which the 2012 target range of 3.5 to 4.5 billion is met. Thresholds reflect trends of usage levels at ChooseMyPlate.gov, www.nutritionevidencelibrary.gov, other USDA websites such as SNAP-ED Connection, as well as the distribution of MyPlate and Dietary Guidelines print materials.								
	Data Assessment of Performance Measure 4.2.1								
	Data on the application and usage level of nutrition guidance tools are drawn from electronic records associated with ChooseMyPlate.gov, nutritionevidencelibrary.gov, the Food and Nutrition Information Center (FNIC) at the National Agricultural Library and from inventory records of print materials.								
	<input type="checkbox"/> Completeness of Data —Data related to ChooseMyPlate.gov are collected instantaneously, indicating the number of e-hits to the Web site and the number of registrations to the SuperTracker. For print materials, data from national headquarters represent counts of what was distributed among divisions of FNCS and by the FNIC.								
	<input type="checkbox"/> Reliability of Data —The electronic data are instantaneously recorded and the number of distributed print materials is tracked.								
	<input type="checkbox"/> Quality of Data —The data report on the use of information and tools at ChooseMyPlate.gov and nutritionevidencelibrary.gov. Because of the simultaneous recording of data, the Department is able to estimate accurately the degree to which consumers are using or requesting nutrition materials at ChooseMyPlate.gov, nutritionevidencelibrary.gov, and other Department websites that provide materials related to the 2010 <i>Dietary Guidelines for Americans</i> .								

Challenges for the Future

Individuals and families make choices every day about what they will eat and drink and how physically active they will be. Today, Americans must make these choices within an environment that promotes overconsumption of calories and discourages physical activity. The ability of existing nutrition guidance and promotional materials to achieve behavior change remains challenging. Physical activity and other lifestyle issues also significantly impact body weight and health.

Crafting understandable, science-based, consistent, and consumer-friendly nutrition messages and nutrition education programs in ways that promote positive behavioral change to help people make better food choices will continue to be challenging. The relationships between choices people make and their attitudes towards and knowledge of diet/health links are key factors that must be addressed. The data that can address this information gap, however, are limited. Work is planned to develop helpful metrics to measure the success of communications and promotion programs.

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 2012 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, 2012. Based on the results of this evaluation, FNS can provide reasonable assurance that internal controls are operating effectively. For FY 2011, FNS had no existing material weaknesses or significant deficiencies on which to report. No new material weaknesses or significant deficiencies were identified for FY 2012.

Federal Financial Management Improvement Act (FFMIA) Assurance

FNS has evaluated its financial management systems under FFMIA for the period ended September 30, 2012. 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

Assurance for Internal Control over Financial Reporting

FNS conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2012, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, Appendix A.

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

Management recognizes its responsibility for monitoring and correcting all control deficiencies. In our 2011 assurance statement, we reported that the agency's internal controls (i.e., policies, procedures, and methods adopted by FNS management) regarding reimbursable agreements had not yet been tested. In our assessment review of reimbursable agreements we determined that the reimbursable agreement cycle

would fail on test of design because we had no formal policies or procedures in place. As a result this cycle was not tested. We are currently executing a corrective action plan (CAP) for the reimbursable agreement cycle. The CAP was approved last year by the Department's Internal Control Division.

In compliance with the CAP, we recently developed and issued agency procedures on the handling of reimbursable agreements. The agency policy will be distributed no later than September 28, 2012. Any reimbursable agreements that are approved subsequent to the issuance of the agency policy will be reviewed and tested under the FY 2013 OMB A-123 assessment.

With regard to the other cycles (i.e., Financial Reporting, Grants Management, Funds Control, and Funds Management Control) and the internal controls within those cycles, management certifies that there have been no changes in the operations of controls tested from the sample selection date through June 30, 2012.

FNS had one previously existing deficiency which was identified in 2011, as a material weakness at the Department level (i.e. unliquidated obligations). And while not yet fully remediated, FNS continues to work to address this deficiency under CAP established in FY 2011. Under related General Computer Controls testing, no significant deficiencies or material weaknesses were identified.

FNS provides reasonable assurance that the internal controls, financial processes and financial systems are adequate to insure the accuracy of financial reporting for FY 2012, we have identified the following areas of management concern that merit increased scrutiny, and where appropriate corrective action, to mitigate any potential future impact.

- **State Diversion of Federal Recipient (or Sub-grantee) Funding** – FNS continues to be concerned that an increasing number of States are attempting to divert FNS Federal grant funds for purposes other than that intended by appropriations. This involves the garnishment or offset of reimbursement payments due to program sub-grantees to satisfy State tax liabilities or other debts. A memorandum was sent last year from FNS Headquarters Financial Management to all Regional Administrators clarifying Federal authorities and limitations concerning the use of Federal grant funds appropriated for FNS programs. Regional offices shared this information with their respective State agencies to ensure that Federal grant funds appropriated for FNS programs are obligated and expended only for authorized purposes. However, we have reason to believe this practice is still occurring.

The State agencies which administer the nutrition assistance programs and those which actually process program payments and manage State debt are typically separate. This appears to lead to a policy disconnect between the FNS State partners and the entities which are diverting the FNS grant funds – often the State Comptroller's office. We believe that this issue needs to be addressed at a higher level within State government. Additionally, we need to coordinate across USDA and with other Federal partners to determine if other grant-making agencies are experiencing this problem.

- **Program Integrity, Oversight and Technical Assistance** – FNS continues to work aggressively to protect the integrity and effectiveness of its programs. We have sought to leverage our limited staff through the innovative application of new technologies and through the adoption of focused, risk based approaches to program oversight and technical assistance. However, maintaining a critical, minimum level of Federal staff is essential to the agency's ability to effectively assist its State partners and guarantee the integrity of the programs.

As with any Federal agency, ensuring the sustainability of the integrity of the programs is a major responsibility. The bi-partisan support the nutrition assistance programs have long enjoyed is rooted in part in the Agency's reputation for strong program management and fiscal stewardship. We are concerned that further reductions in resources will have a negative impact on the programs administered by the Agency and compromise this reputation. In the Supplemental Nutrition Assistance Program (SNAP), an inability to provide adequate State oversight and technical assistance may result in a higher risk of erroneous payments/benefits to our recipient population. Additionally, efforts to further reduce the already low rate of retailer/recipient trafficking could be compromised. Finally, reducing our oversight and assistance presence in the States diminishes the likelihood of FNS quickly detecting and addressing emerging integrity and effectiveness problems. A recent example of this would be the WIC vendor and redemption challenges discovered in California.

- **Continuity of Operation Plan (COOP)** – The Agency needs to continue to advance its continuity of operations planning (COOP) in key areas including financial management and information technology where activity will likely be concentrated early in a COOP event. Top level and conceptual plans need to be expanded to include process flows, standard operating procedures (SOPS), desktop handbooks, and critical staff cross-training. Plans need to be developed for the testing of devolution through exercises.

Financial Management (FM) made significant progress in the COOP during FY 2012, and intends to further develop SOPS and testing plans. Additional advancements in incorporating technology tools for a shared collaborative workplace for those charged with COOP duties is also needed for more effective use of our available resources and to strengthen communications. The extent to which plans are sufficiently detailed and tested is dependent on resources and management support.

OIT is continuing to improve Disaster Recovery capabilities by reviewing, updating, and testing all IT Disaster Recovery and Contingency Plans for the agency. OIT is working with the Office of Emergency Management to improve the quality of scenario testing, including real life scenarios and live exercises. Failover testing has been completed in 2012 for file shares and voicemail. In addition, a Contingency Plan exercise was completed and periodic Table Top Tests are conducted for multiple FNS systems.

In conclusion, FNS continues to struggle with diminishing staff resources. Any future reductions in FNS resources, any increases in responsibilities or change in program design without compensating Administrative resources increases may compromise the gains we have achieved in the areas of program integrity and FNS' ability to adequately execute internal controls already put in place or to develop any additional controls that may be needed in the future.

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.

Audits Without Final Action More Than One Year Past the Management Decision Date				
Audit Number	Date Issued	Audit Title	Completion Date For Actions (Est)	Reason for Lack of Final Action
27099-49-TE	9-4-07	Disaster Supplemental Nutrition Assistance Program for Hurricanes Katrina and Rita	9-30-13	Pending publication of final regulation.
27601-16-AT	3-31-08	Food Stamp Employment and Training Program	12-31-13	Pending publication of final regulation.
27099-34-SF	8-17-07	Summer Food Service Program California and Nevada	unknown	Pending collection of claim and debt closeout.

In FY 2012, audit numbers 27601-3-CH, Food Stamp Disqualified Recipient System; 27601-32-CH, Food and Nutrition Service compliance with Improper Payments Requirements; and 27010-19-SF, Smart Start, Inc. were closed. The Inspector General Act Amendments of 1988 requires the accompanying data for an annual report on the status of audits.

Assurance for Legal Compliance

The Office of the Inspector General (OIG) found that FNS did not fully comply with four of seven Improper Payment Elimination and Recovery Act (IPERA) requirements. FNS did not always report estimates for high-risk programs, report complete information about programmatic corrective actions, meet annual reduction targets, and report error rates below specific thresholds. Below is a summary of the noncompliance and FNS' accomplishments with planned actions for becoming compliant with IPERA.

Outstanding Initiatives to Achieve Compliance			
Initiative	Section of Non-compliance	Agency	Target Completion Date
Improper Payments Elimination and Recovery Act of 2010 (IPERA)	Published improper payment estimates for all high-risk programs and activities.	FNS	FY 2013
	Published programmatic corrective action plans in the PAR.	FNS	FY 2013
	Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	FNS	FY 2013
	Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR.	FNS	FY 2013

Non-Compliance with Laws and Regulations	IPERA	Overall Estimated Completion Date	FY 2013
	IPERA non-compliance issues. (FNS)		
FY 2012 Accomplishments:		FY 2013 Planned Actions:	
<ul style="list-style-type: none"> Food and Nutrition Service: Non-compliance #1 FNS's FY 2006 Budget request included funds designated for a nationally-representative CACFP erroneous payments study, however, funds were not provided by Congress. FNS reported an estimate of improper payments for the Family Day Care Home Tiering Component. 		<ul style="list-style-type: none"> Food and Nutrition Service: FNS is currently conducting a feasibility evaluation test (CACFP Improper Payment Meal Claim Assessment) to develop an estimate of meal counting/claiming errors based on parent-recall interviews for validating meal claims. The contractor will be entering the data collection phase in the fall of 2012 with findings to be presented in 2012. 	
<ul style="list-style-type: none"> Food and Nutrition Service: Non-compliance #2 FNS has published corrective action plans (CAPs) in our PAR submission for all five of our high-risk program areas – SNAP, NSLP, SBP, CACFP and WIC – for a number of years. 		<ul style="list-style-type: none"> Food and Nutrition Service: Once FNS received guidance from OCFO on including milestone completion dates, we included such dates in our CAPs, starting with the FY 2012 plans. 	
<ul style="list-style-type: none"> Food and Nutrition Service: Non-compliance #3 In three of our programs, the target error rate for FY 2011 (reported in the 2011 PAR) was not reached by the actual FY 2011 error rate reported in the 2012 PAR: SBP - Target – 24.15% Actual - 25.18% 		<ul style="list-style-type: none"> Food and Nutrition Service: These differences (1.03% for SBP, 0.1% for CACFP, and 0.08% for WIC) are within the tolerance level for the estimates of error. OMB would consider these discrepancies to represent negligible variances. 	

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(Amounts shown are in Millions except as noted)

<ul style="list-style-type: none"> • CACFP - Target - 1.48% Actual - 1.58% • WIC - Target - 4.05% Actual - 4.13% 	
<ul style="list-style-type: none"> • Food and Nutrition Service: Non-compliance #4 FNS reported an error rate in excess of 10% for both NSLP and SBP. 	<ul style="list-style-type: none"> • Food and Nutrition Service: • The Healthy, Hunger-Free Kids Act of 2010 included a number of provisions to improve the management and integrity of child nutrition programs, which FNS is in the process of implementing • The methodology for estimating improper payments in NSLP and SBP is based on a 2005 study. FNS has scheduled a new study to update the data, and data collection is scheduled for School Year 2012/2013. This new study will reflect NSLP and SBP current improper payment rates and account for corrective actions implemented since the last study.

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. SNAP processes were 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. Claims collection by States is ongoing, however, success in this area can be challenging, 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 changes in the economy and in the numbers of the recipient population
- 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 study is then 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 study is completed, 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 National Survey of WIC Participants-II (NSWP-II_) included a measurement of the amount of erroneous payments associated with certification error. WIC households were interviewed and compared to the certification criteria upon which a household's benefit issuance was determined with the household's circumstances at the time of issuance. The NSWP-II that contains a final estimate of erroneous payments due to certification error was published in April 2012.
- Because erroneous payment estimates need to be produced annually, and given that surveys such as the NSWP-II are extremely expensive to mount, FNS required a methodology to "age" the estimates produced in that study. The generation of improper payments associated with erroneous WIC eligibility in the years beyond FY 2009, is based on a three-stage model. In the first stage, equations were developed from the NSWP-II survey data to predict the probability that a WIC participant was certified erroneously (i.e., deemed eligible when the participant's actual income was not within eligibility guidelines) and to predict the average annual cost of an erroneous determination for those in error. The second stage of the process focuses on predicting the size and changes in the composition of the WIC population. The files used for gaining the WIC population included WIC Participant Characteristics data (a census of all EIC participants enrolled within a particular target month (April) every even year) and WIC administrative data obtained from the National Data Bank that can provide information on overall trends within WIC certification category and region. The third stage of the process is to apply the predictions generated from the first stage to the second stage population. This approach results in population-adjusted estimates of the incidence of eligibility errors and dollar impact.

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

comprehensive assessment 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 appropriated.

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
- **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 through FY2010 have been reported. FY 2010 estimates were available in September 2011.

- **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 developed and pilot tested 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 evaluation as the method most likely to yield reliable information on improper payments related to meal claiming errors. A report on the feasibility study was released in September 2009.

An expanded feasibility study is currently underway to assess the feasibility of using information from parent-recall interviews in the validation of meal claims submitted for reimbursement by family daycare home providers.

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 does not have 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 relies on nationally representative studies to produce estimates of erroneous payments. The most recent study was USDA's *NSLP/SBP Access, Participation, Eligibility and Certification Study* reported in 2007, which examined improper payments in a nationally-represented sample of schools. An updated study is underway that will collect data in School Year 2012-13. Contingent upon available funding, FNS will continue to produce an erroneous payment measurement by updating this study every five years. FNS also 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.

1. Policy Options for Addressing Improper Payments:

FNS recognizes its fundamental responsibility to promote effective program management and reduce and prevent improper payments. But identifying strategies to address this problem is complicated by the linkages between an environment with management controls, its operation in thousands of schools balancing multiple responsibilities, and the need to avoid barriers to free or reduced price meals for eligible children. To date, proposed strategies have generally been unacceptable to policymakers and other stakeholders unless they:

- *Improve payment accuracy without compromising access for low-income families.* A process that keeps eligible children from participating would undermine the program.
- *Avoid significant new burden on schools.* Many schools consider the program burdensome now; adding burden without offsetting incentives could discourage schools from participating.
- *Are cost-effective.* Improving accuracy is potentially resource-intensive; policymakers must not create a process that increases net program costs.
- *Answer the needs of other users of program data,* which often use certification data to distribute millions of dollars in other kinds of benefits to schools. As these needs contribute to the problem, a solution may also require new commitments from those users.

Program changes to address NSLP payment accuracy; some of which are currently being implemented as a result of the Healthy Hunger- Free Kids Act of 2010.

Certification Error

As reported in USDA's FY 2010 Performance and Accountability Report, there were approximately \$840 million in improper payments in FY 2009 arising from misclassification of student eligibility for the appropriate level of per-meal federal payment (free, reduced-price, or paid). About two-thirds of this "certification error" results from the misreporting of income by households on Program applications. The balance is due to administrative error at the school or school district.

- **Misreporting Error** – Currently, the application process for school meals relies on attestation by households of their income, rather than any documentation by the applicant or use of third-party data to verify claims at certification. Policy reforms to address certification error arising from income misreporting by families have focused on requiring information beyond the applicant's claim to support the application. To date, the most successful of these have been categorical eligibility and direct certification, which rely on participation in means-tested programs that do require income documentation, such as the Supplemental Nutrition Program (SNAP), to ensure eligibility for free meals.

Steps beyond this, to require documentation or increase verification after certification, have largely been opposed in Congress and the advocacy community due to concerns that such requirements would reduce access to meals by low-income families.

- **Administrative Error** – These kinds of certification errors reflect mistakes made by school personnel in processing applications – misreading the attested income information, or applying the eligibility standards incorrectly. Traditionally, school districts have had significant discretion regarding their internal procedures for application review.

Significant reforms to the certification process require legislative action; and some legislative changes in this area were included in the Healthy, Hunger Free Kids Act of 2010 (HHFKA); these are noted when relevant in the descriptions of the options below:

Increase verification: Currently, a small number of household applications (up to 3%) are selected for verification of income after approval. Free or reduced price eligibility status may be changed based on the documentation received, and those who do not respond to the verification request have their eligibility revoked.

During the 2004 reauthorization, the Administration informally offered a proposal for “graduated” verification, which would require larger verification samples (25% or more) in school districts which found significant misreporting in the initial sample. Opponents of expanded verification cited an FNS analysis which found high rates of “nonresponse” to the request for income documentation, resulting in loss of certification, and further found that approximately half of nonrespondents were eligible for free or reduced price benefits. Moreover, a demonstration of graduated verification did not show a measurable reduction in improper payments. In the end, this proposal was rejected on a bipartisan basis, due to concerns about the impact on eligible families, and Congress prohibited school districts from verifying more than the statutorily-required 3 percent, making that requirement both a minimum and a maximum.

We could reconsider the graduated verification approach tested in the pilots, or options such as removing or increasing the 3 percent ceiling. However, as with up-front income documentation, the current impact of any increased verification requirements on program costs or on eligible families is not clear, as direct certification and changes to the verification process in recent years have likely impacted the characteristics of the applications subject to verification. But the requirement of an affirmative response to the documentation request would almost certainly lead some families, including some eligible families, to lose benefits due to non-response. As with the up-front documentation requirement, additional resources would be required at the SFA level to conduct additional verification activities.

Eliminate the reduced-price category: The reduced-price benefit category (between 130 and 185 percent of the poverty level) is considerably more prone to error than the free category, with approximately one-third of students approved for reduced price actually eligible for free meals and another quarter only eligible for the paid reimbursement level. Eliminating this category by making free meals available to these children would eliminate the first category of errors, and also simplify the application approval process at the school level to some degree.

This option has been strongly promoted by some in the advocacy community in prior years as an administrative reform that would also increase access to meals for families that may not be able to afford the charges (up to 40 cents) for reduced-price meals. And authority exists for a pilot to eliminate the reduced-price category (though it has never been funded). However, the cost of this option is significant. Making reduced price meals free will increase Federal reimbursements for lunch and breakfast by an estimated \$250 million in FY 2012 due to the increased costs to the Federal government for meals that are already being served. However, if eliminating the need to pay even a nominal amount encourages more frequent participation by these students, the annual cost could be significantly in excess of this amount.

Establish universal free meal programs: Reimbursing all meals at the free rate would, by definition, eliminate the \$840 million in estimated payment errors associated with the eligibility certification process. This approach would also be welcomed by many in the school nutrition and anti-hunger community, as it would simplify the program; underscore the importance of nutritious school meals for all students, and eliminate stigma associated with receipt of free or reduced-price meals.

However, because this option is so costly, it is not likely to be feasible in the current fiscal environment. When last estimated, it was found that the cost of providing universal free school meals would about double program costs from \$12.6 billion in FY 2009 to \$25 billion.

Enhance local requirements for review of applications: As noted, school districts traditionally have had significant discretion regarding their internal procedures for application review. However, the HHFKA requires school districts at high risk for error (as defined by USDA) to conduct a second-level review of applications prior to notifying families of their eligibility status. FNS will implement this provision through proposed regulation in early 2012. In addition, the frequency of the required State review of local operations will be increased from once every five years to once every three years.

Expand the pool of students certified using non-application based methods: Direct certification with SNAP, FDPIR and TANF records has been shown to be a highly accurate method of identifying eligible students. The HHKFA contained numerous provisions designed to increase direct certification, including rewarding States for improvement in direct certification rates; and establishing a large-scale demonstration project for direct certification with Medicaid.

In addition, the HHFKA provides new alternatives to paper application systems in low-income areas, which will reduce the number of paper applications that are processed manually and establish eligibility criteria based on information other than household reporting.

Non-Certification Error:

Improper payments of approximately \$614 million were due to the submission of claims for payments reflecting inaccurate counts of reimbursable meals. About half of these non-certification errors result from meals being claimed for reimbursement which do not actually meet Federal standards for the types and amounts of food served. The other half arises from errors in the aggregation and submission of meal service data to school districts and State agencies.

Options for reducing non-certification error focus on strengthening capacity at the local level to avoid errors, and strengthening oversight by State agencies to correct errors prior to payment of claims. Both approaches require increased authority and increased administrative resources, some of which were provided by the HHFKA:

Training of school food service personnel: Improved training at the local level would focus on improving understanding of the requirements associated with a reimbursable meal. The HHKFA establishes requirements and modest funding for such training. FNS is currently working in collaboration with professional food service organizations to develop on-line resources. However, improvements in error associated with recognizing reimbursable meals will be made more difficult by the anticipated implementation of major changes in meal requirements anticipated during the next several school years.

Improved technology for counting and claiming of meals: While automated tools for counting and claiming meals exist, they have not been consistently utilized, at either the local or State level. Currently, there is no targeted local level funding for this purpose. At the State level, \$4 million per year is available for grants to improve State oversight, including systems that utilize data mining concepts to identify districts at high risk for errors. FNS has in recent years focused these funds on technology-focused approaches which allow States to identify and correct counting and claiming errors at the school district level and target appropriate action. However, to date, such systems are still largely in the developmental stages and have not been systematically evaluated.

The primary barrier to this approach is cost for evaluation and funding of local-level technology. We believe that \$20-30 million annually would support evaluation efforts at the State and local level (see section 3 below). While we do not have a precise estimate of the cost of funding improved technology at the local level, we believe an investment of several hundred million dollars in targeted grant funding would be required.

Improved oversight and enhanced consequences for repeated failure to correct identified problems: As noted, the HHFKA reduced the cycle for State reviews of local school operations from five years to three. These reviews include non-certification as well as certification error. In addition, the HHFKA provided FNS with new authority to impose fines and penalties against States and local program operators for repeated or willful noncompliance. While this authority can be used to address all types of program error, it is likely that it will be most useful in dealing with serious counting and claiming problems for which little recourse previously existed. USDA will implement this requirement via proposed regulation in early 2012.

Conceptually, systematic penalties for States with performance below required standards in this area (or rewards for those with outstanding performance) are another option for consideration. However, this would require the development of measurement systems yielding reasonably accurate State-level estimates, which are currently not in place. The Quality Control system currently used in SNAP costs in the area of \$200 million per year to operate. We estimate that a similar system for school meals would be at least as costly, given the greater diversity and decentralization of the program at the sub-State level.

Pilot a Recovery Auditing Process: Utilize the upcoming USDA contract for recovery auditing to conduct a pilot study for NSLP to determine if such a process would be feasible and cost-effective. Cost would vary depending on the scale and scope of the pilot.

2. Measurement Issues

USDA identified three actions that we intend to pursue in this area:

Repeat and/or Enhance National Study: FNS completed the initial nationally-representative estimates of NSLP improper payments with the 2007 Access, Participation, Eligibility and Certification (APEC) study, which examined School Year 2005-06. USDA re-programmed funds for APEC II to allow data collection in School Year 2012-13.

Explore Additions to the Annual Estimation Model: FNS uses an econometric model to “age” the data from the APEC study to reflect changes in program size, as well as changes in certification accuracy, based on State-reported administrative data. One of the major sources of non-certification error, the process of identifying reimbursable meals and collecting and reporting meal counts for reimbursement claims, is not currently built into the model because of data limitations. The Agency has placed a major focus on administrative efforts to improve counting and claiming, but is unable to model the impact of these efforts over time. To the extent that improvements in counting and claiming may have occurred, the annual estimates may overstate the actual level of payment errors.

FNS will explore the potential of using data from the Coordinated Review Effort (CRE) process, which includes information on counting and claiming, to improve its modeling. Because the CRE is a Federal-State oversight mechanism for local schools and CRE data is not designed to be representative, this effort

may require changes to that process to make the data usable, and thus may require significant time and resources, and an increase in reporting burden.

Identify and Measure Technical vs. Substantive Errors: OMB noted that one of the strategies frequently used by Federal agencies in reporting improper payments is to distinguish between substantive errors and technical errors. The latter may include:

- payments that were substantively appropriate in amount and to the correct payee, but were incorrect because of application problems or other minor violations of program rules;
- payments that may have been to a correct payee, but incorrect in amount, for which the whole payment is reported as entirely incorrect; and
- payments that are below a threshold or tolerance of errors that can be disregarded.

The APEC study leaves out the first two categories of errors, but provides no threshold of error levels. One question that remains open is whether thresholds that may be different from program policy are acceptable to incorporate into measurement methods.

FNS will identify one or more school-level thresholds for improper payments, and seek to analyze existing data to determine how such thresholds would change the substantive error rate. If existing data does not permit this differentiation, we will incorporate the necessary data elements into the APEC II study to allow this calculation.

3. Proposed Short-Term Strategies

Obtain funding for measurement improvements: FNS re-programmed funds to promptly launch APEC II to allow data collection in School Year 2012-13.

Request \$20-30 million to pilot test and evaluate technology-based program management tools: FNS recommends the establishment of a mandatory annual funding stream in the budget to provide consistent resources to develop and evaluate program integrity tools. This resource would be used to fund and evaluate local-level pilots of comprehensive counting and claiming systems, and analysis techniques (such as data mining). It would also be available to evaluate the effectiveness of State-level oversight systems. These efforts would inform development of future proposals for technology enhancements targeted at the local level, as well as informing future use of existing funds for State systems.

Implement HHFKA provisions: As noted, the HHFKA provides authority for a number of policy changes which will have an impact on improper payments. FNS will continue to move expeditiously to implement these provisions.

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 7/31/12** – FNS Measures for IPIA Reporting 2012 Performance and Accountability Report

Improper Payment Sampling Results (\$ in millions)						
Program	Results Reported in FY 2011			Results Reported in FY 2012		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Supplemental Nutrition Assistance Program, FNS	64,705	3.81%	2,465	71,813	3.80%	2,729
National School Lunch Program, FNS	10,739	15.98%	1,716	10,024	15.53%	1,557
School Breakfast Program, FNS	2,824	24.96%	705	2,987	25.18%	752
Women, Infants and Children, FNS						
Total Program	4,648	N/A	N/A	4,886	4.13%	202
Certification Error Component	N/A	N/A	N/A	N/A	2.98%	146
Vendor Error Component	N/A	N/A	N/A	N/A	1.15%	56
Child and Adult Care Food Program, FNS						
Total Program	2,521	N/A	N/A	2,653	N/A	N/A
FDC Homes – Tiering Decisions	N/A	1.53%	13.7	N/A	1.58%	14
FDC Homes – Meal Claims	N/A	N/A	N/A	N/A	N/A	N/A

Detailed Breakout of Improper Payment Rates reported in FY 2012 (\$ in millions)					
	Total Payments	IP%	Over- payments	Under- payments	Other
Supplemental Nutrition Assistance Program, FNS	2,729	3.80%	2.99%	.81%	N/A
National School Lunch Program, FNS	1,557	15.53%	11.78%	3.74%	N/A
School Breakfast Program, FNS	752	25.18%	21.70%	3.48%	N/A
Women, Infants and Children, FNS	202	4.13%	3.79%	0.34	N/A
Child and Adult Care Food Program, FNS	14	1.58%	1.30%	0.28%	N/A

Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2012 Reporting			FY 2013 Reporting			FY 2014 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Supplemental Nutrition Assistance Program, FNS	71,813	3.80%	2,729	76,030	3.79%	2,897	76,030	3.78%	2,897
National School Lunch Program, FNS	10,024	15.53%	1,557	11,106	15.10%	1,677	11,414	14.67%	1,674
School Breakfast Program, FNS	2,987	25.18%	752	3,467	24.36%	845	3,617	23.57%	853
Women, Infants and Children, FNS	4,886	4.13%	202	4,560	4.00%	182	5,290	3.92%	207
Child and Adult Care Food Program, FNS	2,653	1.58%	14	922	1.53%	14	951	1.48%	14

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 2012 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 experience by the populations we serve. A key determinant of this level of need is the condition of the economy. In FY 2011 the economy performed weaker than was anticipated by the President's FY 2011 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 consisted of Entitlement Benefits and Non Entitlement Benefits. For the FY 2012 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. The classifications of these accruals have no impact on the amounts reported for Total Liabilities.

Balance Sheet

	2012		2011	
	Dollars (mil)	Percent	Dollars(mil)	Percent
Fund Balance With Treasury	25,559	96.86%	17,511	95.98%
Accounts Receivable	356	1.35%	324	1.78%
General PP& E	1	0.01%	1	0.01%
Other	469	1.78%	407	2.23%
Total Assets	26,385	100.00%	18,243	100.00%
Accounts Payable	10	0.04%	8	0.01%
Employee Benefits	7	0.03%	6	0.03%
Benefits Due and Payable	3,837	14.58%	3,500	19.19%
Other Liabilities	1,601	6.08%	1,677	9.19%
Total Liabilities	5,494	20.88%	5,192	28.46%
Unexpended Appropriations	20,514	77.97%	12,775	70.03%

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2012

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Cumulative Results of Operations	378	1.16%	276	1.51%
Total Net Position	20,892	79.12%	13,051	71.54%
Total Liabilities & Net Position	26,385	100%	18,243	100%

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2012 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - approximately 96% in FY 2012 and FY 2011. 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 2012 and FY 2011 Net Position of the agency is concentrated in Unexpended Appropriations.

Statement of Net Cost

	2012		2011	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Gross Cost	106,653	100.06%	103,242	100.05%
Less: Earned Revenue	(69)	-0.06%	(57)	-0.05%
Net Cost of Operations	106,584	100.00%	103,185	100.00%

The FNS mission addresses USDA Strategic Goal 4 “To Improve the Nation’s Nutrition and Health”. All program costs are reported under that strategic goal. Gross Costs increased from \$103,242 million in FY 2011 to \$106,653 million in FY 2012, reflecting the overall increase in programs participation levels.

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. One State participating in this program (California) 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 \$103,185 million in FY 2011 to \$106,584 million in FY 2012.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Statement of Changes in Net Position

	2012		2011	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Cumulative Results of Operations				
Beginning Balance	276		267	
Appropriations Used	99,337	93.18%	97,031	94.03%
Transfers In (Out) without Reimbursements	6,908	6.41%	5,407	5.24%
Other Budgetary Financing Sources	0	0.00%	0	0.00%
Imputed Financing	441	.41%	755	.73%
Total Financing Sources	106,685	100.00%	103,193	100.00%
Less: Net Cost of Operations	106,584		103,185	
Ending Balance	378		276	
Net Change	102		8	
Unexpended Appropriations				
Beginning Balance	12,775		16,393	
Appropriations Received	110,347		99,116	
Adjustments	(3,273)		(5,706)	
Appropriations Used	(99,337)		(97,031)	
Total: Financing Sources	(7,737)		(3,618)	
Ending Balance	20,514		12,775	
Total Net Position	20,892		13,051	

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 2012 appropriations used was \$99,337 million, increased \$2,306 million from FY 2011, based on actual participation levels and food costs.

Cumulative Results of Operations increased \$102 million, from \$276 million in FY 2011 to \$378 million in FY 2012, as the net cost of operations is greater than the total financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained relatively unchanged from FY 2011 to FY 2012. 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 six percent and five percent of total financing sources in FY 2012 and FY 2011 respectively.

Unexpended Appropriations increased from \$13,051 million in FY 2011 to \$20,892 million in FY 2012 as less carryover appropriation balances were expended in the current year. Adjustments decreased from

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

\$5,706 million in FY 2011 to \$3,273 million in FY 2012 are due to permanent reductions and cancellations of expired accounts.

Statement of Budgetary Resources

	2012		2011	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Budgetary Resources				
Beginning Unobligated Balance	10,726	8.54%	14,580	12.73%
Recoveries	817	.65%	1,237	1.07%
Other Changes In Unobligated Balances	-3,262	-2.60%	-5,036	-4.39%
Appropriations	117,371	93.32%	103,731	90.47%
Spending Authority from Offsetting Collections	117	.09%	138	.12%
Total Budgetary Resources	125,769	100.00%	114,650	100.00%
Status of Budgetary Resources				
Obligations Incurred	107,404	85.45%	103,924	90.64%
Apportioned	5,581	4.44%	4,179	3.65%
Unapportioned	12,784	10.11%	6,547	5.71%
Total: Status of Budgetary Resources	125,769	100.00%	114,650	100.00%
Net Outlays	105,935	84.28%	102,161	89.11%

FNS has revised the format for the Statement of Budgetary Resources for FY 2012 in accordance with OMB Circular A-136 dated August 3, 2012. 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 \$103,731 million in FY 2011 to \$117,297 million in FY 2012. Total budgetary resources were higher than prior year due to increase in Appropriations for the year. FNS had \$125,769 million in total budgetary resources during FY 2012, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods. In addition FNS has included in the FY 2012 financial statements the ARRA supplemental appropriations used to stimulate the U.S. economy. The ARRA appropriations for FY 2012 totaled \$8.2 billion

At fiscal yearend 2012, most (\$107,404) million or 85% of those resources were obligated, though \$5,581 million or 4% remained unobligated and available, and another \$12,784 million (10%) was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2012, Net Outlays represented 84% of Total Budgetary Resources, compared to 89% in FY 2011.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service

CONSOLIDATED BALANCE SHEET

As of September 30, 2012 (CY) and 2011 (PY)

(Dollars in Millions)

	FY 2012 (CY)	FY 2011 (PY)
Assets (Note 2):		
Intragovernmental:		
Fund Balance with		
Treasury	\$ 25,559	\$ 17,511
Other (Note 6)	469	407
Total Intragovernmental	26,028	17,918
Accounts Receivable, net (Note 4)	356	324
General Plant, Property, and		
Equipment, net (Note 5)	1	1
Other (Note 6)	-	-
Total Assets	<u>\$ 26,385</u>	<u>\$ 18,243</u>
Liabilities (Note 7):		
Intragovernmental:		
Accounts Payable	\$ 0	\$ 1
Other (Note 8)	38	40
Total Intragovernmental	38	41
Accounts Payable	10	8
Federal Employee and Veterans		
Benefits	7	6
Benefits Due and Payable	3,837	3,500
Other (Note 8)	1,601	1,637
Total Liabilities	<u>5,493</u>	<u>5,192</u>
Net Position:		
Unexpended Appropriations -		
Other Funds	20,514	12,775
Cumulative Results of Operations -		
Other Funds	378	276
Total Net Position	<u>\$ 20,892</u>	<u>\$ 13,051</u>
Total Liabilities and Net Position	<u>\$ 26,385</u>	<u>\$ 18,243</u>

The accompanying notes are an integral part of these statements.

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service
 CONSOLIDATED STATEMENTS OF NET COST
 For the Years Ended September 30, 2012 (CY) and 2011 (PY)
 (Dollars in Millions)

	FY 2012 (CY)	FY 2011 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 10)	\$ 106,653	\$ 103,242
Less: Earned Revenue	<u>69</u>	<u>57</u>
Net Program Costs	<u>106,584</u>	<u>103,185</u>
Net Cost of Operations	<u><u>\$ 106,584</u></u>	<u><u>\$ 103,185</u></u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
 As of September 30, 2012 (CY) and 2011 (PY)
 (Dollars in Millions)

	FY 2012 (CY)	FY 2011 (PY)
Cumulative Results of Operations:		
Beginning Balance	\$ 276	\$ 267
Beginning Balance, as adjusted	276	267
Budgetary Financing Sources:		
Appropriations Used	99,337	97,031
Transfers in/out without reimbursement	6,908	5,407
Other	-	-
Other Financing Sources (Non-Exchange):		
Imputed Financing	441	755
Total Financing Sources	<u>106,685</u>	<u>103,193</u>
Less: Net Cost of Operations	<u>106,584</u>	<u>103,185</u>
Net Change	102	8
Cumulative Results of Operations	378	276
Unexpended Appropriations:		
Beginning Balance	12,775	16,393
Beginning Balance, as adjusted:	12,775	16,393
Budgetary Financing Sources:		
Appropriations Received	110,347	99,116
Appropriations Transferred in/out	2	3
Other Adjustments	(3,273)	(5,706)
Appropriations Used	<u>(99,337)</u>	<u>(97,031)</u>
Total Budgetary Financing Sources	<u>(7,739)</u>	<u>(3,618)</u>
Total Unexpended Appropriations	<u>20,514</u>	<u>12,775</u>
Net Position	<u><u>\$ 20,892</u></u>	<u><u>\$ 13,051</u></u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Services
 CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES
 For the years ended September 30, 2012 (CY) and 2011 (PY)

(Dollars in Millions)

	FY 2012 (CY)	FY 2011 (PY)
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$ 10,726	\$ 14,580
Adjustments to unobligated balance brought forward, October 1	-	-
Unobligated Balance brought forward, October 1, as adjusted	10,726	14,580
Recoveries of prior year unpaid obligations	817	1,237
Other Changes in unobligated balance (+ or -)	(3,262)	(5,036)
Unobligated balance from prior year budget authority, net	8,281	10,781
Appropriations (discretionary and mandatory)	117,371	103,732
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending Authority from offsetting collections (discretionary and mandatory)	117	138
Total Budgetary Resources	<u>125,769</u>	<u>114,650</u>
Status of Budgetary Resources:		
Obligations Incurred	107,404	103,924
Unobligated balance, end of year:	-	-
Apportioned	5,581	4,179
Exempt from apportionment	-	-
Unapportioned	12,784	6,547
Total unobligated balance, end of year	<u>18,365</u>	<u>10,726</u>
Total budgetary resources	<u>125,769</u>	<u>114,650</u>
Change in Obligated Balances:		
Unpaid obligations, brought forward, October 1 (gross)	6,660	6,272
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	-	-
Obligated balance, start of the year (net), before adjustments (+ or -)	6,660	6,272
Adjustment to obligated balance, start of year (net) (+ or -)	-	-

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2012

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Obligated balance, start of the year (net), as adjusted	6,660	6,272
Obligations incurred	107,404	103,924
Outlays gross (-)	(106,052)	(102,299)
Change in uncollected customer payments from Federal sources (+ or -)	-	-
Actual transfers, unpaid obligations (net) (+ or -)	-	-
Actual transfers, uncollected customer payments from Federal sources (net) (+ or -)	-	-
Recoveries of prior year unpaid obligations (-)	(817)	(1,237)
Obligated balance, end of year:	-	-
Unpaid obligations, end of year (gross)	7,195	6,660
Uncollected customer payments from Federal sources, end of year	-	-
Obligated balance, end of year (net)	<u>7,195</u>	<u>6,660</u>
Budget Authority and Outlays, Net:		
Budget Authority, gross	117,487	103,870
Actual offsetting collections (-)	(117)	(138)
Change in uncollected customer payments from Federal sources (+ or -)	-	-
Anticipated offsetting collections (+ or -)	-	-
Budget Authority, net	<u>117,370</u>	<u>103,732</u>
Outlays, gross	106,052	102,161
Actual offsetting collections (-)	(117)	-
Outlays, net	105,935	-
Distributed offsetting receipts (-)	-	-
Agency outlays, net	<u>105,935</u>	<u>102,161</u>

FOOD and NUTRITION SERVICE**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 August 3, 2012. They have been prepared from the books and records of FNS in accordance with the Generally Accepted Accounting Principles (GAAP) as applied to the Federal Government. GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body.

FNS has revised the format for the Statement of Budgetary Resources for FY 2012 in accordance with OMB Circular A-136 dated August 3, 2012. Also, 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 2012 financial statements the supplemental appropriations used to stimulate the U.S. economy. The ARRA appropriations for FY 2012 totaled \$8.2 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 Consumer 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 21 field offices, two Supplemental Nutrition Assistance Program (SNAP) compliance offices, and a computer support center. 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 2012 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 \$356 million recognized as non-federal accounts receivable includes debts owed to 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 over issued food stamp benefits. States are 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 has an 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 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 2012, the model explains 96 percent of the variation in claims collections. Historically, 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 under issuance and over issuance 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 over issued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 2011 QC error rates were announced in June 2012. Using this methodology, FNS estimates the value of benefit over issuance in Fiscal Year 2011 (the most recent year for which data are available) at \$2.148 billion. Statement of Federal Financial Accounting Standards (SFFAS) #1 permits Federal entities to estimate its accounts receivable. The QC error rate over issuance 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 cannot be quantified. The amount of over issued benefits is included in the total program cost of the SNAP as reflected in the Statement of Net Cost.

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 2012 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

For FY 2011, eight States were assessed amounts for having excessive error rates for two consecutive years. The aggregate total of the liability was \$2 million. The eight States signed payment agreements in lieu of immediately repaying in cash. The agreements called for each State to invest 50 percent of its liability in program improvement activities. The remaining 50 percent of the liability was placed at risk pending future improved performance.

The QC over Issuance error rate data for the past 3 years follows:		
Fiscal Year	Rate Amount	Total \$ (Billions)
2011	2.99 %	\$2.148
2010	3.05 %	\$ 1.977
2009	3.53 %	\$ 1.780

E. Grants and Program Benefits

FNS records grant obligations based on the grant awards and SNAP benefits based on the issuance of benefits to AMA. 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 the U. S. Treasury 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 and obligations liquidated 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 current or future financing sources. Sick leave and other types of non-vested 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:

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FNS Retirement Contributions (In Millions)		
Type of Contribution	Amount	
	2012	2011
CSRS/Transitional retirement contributions - Civil Service	\$1.7	\$1.9
FERS regular contributions	\$11.0	\$10.2
Thrift Savings Plan contributions	\$4.1	\$3.9
TOTAL	\$16.8	\$16.0

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

Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. 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 delivered and recognized. FNS recognizes appropriations expended for capitalized property or equipment as expenses when the assets are consumed in operations. Appropriations used are 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 made, FNS records obligations for the full amount of expected 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 the financial statements as accounts payable. At grant closeout, the unused portions of grant awards are deobligated; increasing the unobligated balances and is 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 versus Reimbursable Obligations Incurred

As of FY 2012, 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.

K. Allocation Transfers

FNS is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligated budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. FNS has reported all activity relative to these allocation transfers in the FY 2012 financial statements. FNS receives allocation transfers, as the child, from the Agricultural Marketing Service (AMS) and the Commodity Credit Corporation (CCC).

Note 2. Non-Entity Assets

	FY 2012	FY 2011
Intragovernmental:		
Fund balance with Treasury	\$0	\$0
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
Total Intragovernmental	-	-
With The Public		
Cash and other monetary assets	-	-
Accounts receivable	34	33
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related porperty	-	-
Other	-	-
Total With the Public	34	33
Total non-entity assets	34	33
Total entity assets	26,351	18,210
Total assets	\$ 26,385	\$ 18,243

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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

Note 3 Fund Balance with Treasury

Fund Balances:	FY 2012	FY 2011
Trust Funds	\$ -	\$ -
Revolving Funds	-	-
Appropriated Funds	25,560	17,511
Other Fund Types	(1)	-
Total	25,559	17,511

Status of Fund Balance with Treasury:

Unobligated Balance:

Available	5,581	4,179
Unavailable	12,784	6,672
Obligated Balance not yet Disbursed	7,195	6,660
Non-Budgetary Fund Balance with Treasury:	(1)	-
Clearing Account Balances	-	-
Total	\$ 25,559	\$ 17,511

Note 4. Accounts Receivable, Net

FY 2012	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 365	\$ 9	\$ 356
Total	\$ 365	\$ 9	\$ 356

FY 2011	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 326	\$ 2	\$ 324
Total	\$ 326	\$ 2	\$ 324

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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 2012 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 2012	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Category				
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	4	1
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	31	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 36	\$ 35	\$ 1

FY 2011	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Category				
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	4	1
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	31	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 36	\$ 35	\$ 1

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 6. Other Assets

	FY 2012	FY 2011
Intragovernmental:		
Advances to Others	\$ -	\$ -
Prepayments	-	-
Other Assets	469	407
Total Intragovernmental	469	407
With the Public:		
Advances to Others	-	-
Prepayments	-	-
Other Assets	-	-
Total With the Public	-	-
Total Other Assets	\$ 469	\$ 407

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 2012	FY 2011
Intragovernmental:		
Accounts payable	\$ -	\$ -
Debt	-	-
Other	1	1
Total Intragovernmental	1	1
With the Public:		
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	7	6
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	12	12
Total With the Public	19	18
Total liabilities not covered by budgetary resources	20	19
Total liabilities covered by budgetary resources	5,473	5,173
Total liabilities	\$ 5,493	\$ 5,192

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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2012

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 8. Other Liabilities

FY 2012	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	\$ -
Other Accrued Liabilities		-		1	1
Employer Contributions and Payroll Taxes		-		2	2
Other Post-Employment Benefits Due and Payable		-		-	-
Unfunded FECA Liability		-		1	1
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		1	1
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		(1)	(1)
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		-		34	34
Other Liabilities		-		-	-
Total Intragovernmental		-		38	38
With the Public:					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		-		1,582	1,582
Accrued Funded Payroll and Leave		-		7	7
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		-		12	12
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		-		-	-
Total With the Public		-		1,601	1,601
Total Other Liabilities	\$	-	\$	1,639	\$ 1,639

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2012

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FY 2011	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	\$ -
Other Accrued Liabilities		-		2	2
Employer Contributions and Payroll Taxes		-		2	2
Other Post-Employment Benefits Due and Payable		-		-	-
Unfunded FECA Liability		-		1	1
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		2	2
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		-		33	33
Other Liabilities		-		-	-
Total Intragovernmental		-		40	40
With the Public:					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		-		1,616	1,616
Accrued Funded Payroll and Leave		-		9	9
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		-		12	12
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		-		-	-
Total With the Public		-		1,637	1,637
Total Other Liabilities	\$	-	\$	1,677	\$ 1,677

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 9. Leases

Entity as Lessee:

Operating Lease (amounts shown are in thousands):

Description of Lease Arrangements: FNS' holds one operating lease that includes office space leased from May 1, 2009 through April 30, 2019. The cost of the lease is \$620 per year until May 1, 2014. From May 1, 2014, through April 30, 2019; the office space annual rent is reduced to \$401 per year. The lease may be renewed at the option of the Government for one 5 year term with the Government having the right to terminate, in whole or in part, at any time, by giving at least 120 days notice in writing to the Lessor.

Future Payments Due:

<u>Asset Category</u>	
<u>Fiscal Year</u>	<u>Office Space</u>
2013	\$ 620
2014	\$ 620
2015	\$ 401
2016	\$ 401
2017	\$ 401
After 5 years	<u>\$ 801</u>
Total future lease payments <u>\$3,244</u>	

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 10. Intragovernmental Cost and Exchange Revenue

Child Nutrition	FY 2012		FY 2011	
Intragovernmental Costs	\$	107	\$	447
Public Costs	\$	18,041	\$	17,497
Total Costs	\$	18,148	\$	17,944
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-
SNAP				
Intragovernmental Costs	\$	256	\$	242
Public Costs	\$	80,484	\$	77,563
Total Costs	\$	80,740	\$	77,805
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	67	\$	56
Total Earned Revenue	\$	67	\$	56
<hr/>				
Other	FY 2012		FY 2011	
Intragovernmental Costs	\$	162	\$	168
Public Costs	\$	355	\$	325
Total Costs	\$	517	\$	493
Intragovernmental Earned Revenue	\$	1	\$	1
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	1	\$	1
 Women, Infants & Children				
Intragovernmental Costs	\$	-	\$	-
Public Costs	\$	6,981	\$	6,729
Total Costs	\$	6,981	\$	6,729
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2012

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Commodity Assistance Program	FY 2012	FY 2011
Intragovernmental Costs	\$ -	\$ -
Public Costs	\$ 267	\$ 271
Total Costs	\$ 267	\$ 271
Intragovernmental Earned Revenue	\$ 1	\$ -
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ 1	\$ -

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, 2012

	CHILD NUTRITION	SNAP	women Infants & Children	Communit y Assistanc	OTHER	Consolidated Total
Total Gross Costs	18,148	80,740	6,981	267	517	106,653
Less Earned Revenue:	0	67	0	1	1	69
Net Goal Costs:	18,148	80,673	6,981	266	516	<u>106,584</u>
Net Cost of Operations						<u>106,584</u>

For the year ended September 30, 2011

	CHILD NUTRITION	SNAP	women Infants & Children	Communit y Assistanc	OTHER	Consolidated Total
Total Gross Costs	17,944	77,805	6,729	271	493	103,242
Less Earned Revenue:	0	56	0	0	1	57
Net Goal Costs:	17,944	77,749	6,729	271	492	<u>103,185</u>
Net Cost of Operations						<u>103,185</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 12. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$62 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 2012, one State participated in this program, which generated earned revenues of \$62.

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

FY 2012	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 29,644	\$ 1	\$ 29,645
Apportionment for Special Activities	77,691	68	77,759
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 107,335	\$ 69	\$ 107,404

FY 2011	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 24,263	\$ 1	\$ 24,264
Apportionment for Special Activities	79,604	56	79,660
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 103,867	\$ 57	\$ 103,924

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

Differences exist between FNS' FY 2011 Statement of Budgetary Resources (SBR) (as provided to the Department for consolidation purposes) and the FY 2011 actual numbers presented in the FY 2013 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2011 SBR	\$ 114,650	\$102,161
Less: Expired Accounts not Included in Budget	\$6,681	\$0
Add: Parent Child Relationship (NIFA)	\$5	\$5
Less: Appropriation Transfer not Included in Budget	\$3	\$0
Less: Differences due to Rounding	\$1	\$2

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2012

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Budget of the U.S. Government	\$107.970	\$102,164
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The actual numbers for the FY President's Budget have not yet been published as of FNS' FY 2012 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at www.whitehouse.gov.

Note 15. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2012 and 2011 was \$1.8 billion and \$1.4 billion respectively.

Note 16. Incidental Custodial Collections

Revenue Activity:	FY 2012	FY 2011
Sources of Collections:		
Miscellaneous	\$ 11	\$ 6
Total Cash Collections	11	6
Accrual Adjustments	(3)	(1)
Total Custodial Revenue	8	5
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	(8)	(5)
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2012 custodial activity represents all accounts receivable activity related to cancel 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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

Resources Used to Finance Activities:	<u>FY 2012</u>	<u>FY2011</u>
Budgetary Resources Obligated		
Obligations Incurred	\$ 107,404	\$ 103,924
Less: Spending authority from offsetting collections and recoveries	933	1,375
	-----	-----
Obligations net of offsetting collections and recoveries	106,470	102,549
Less: Distributed Offsetting Receipts	-	-
	-----	-----
Net Obligations	106,470	102,549
	-----	-----
Other Resources		
Donations and forfeitures of property	-	-
Transfers in (out) without reimbursement	-	-
Imputed financing from costs absorbed by others	440	755
Other	-	-
	-----	-----
Net other resources used to finance activities	440	755
	<u>FY 2012</u>	<u>FY 2011</u>
Total resources used to finance activities	106,911	103,304
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(296)	(111)
Resources that fund expenses recognized in prior periods	-	-
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increases liabilities for loan guarantees or allowances for subsidy	-	-
Change in Unfilled Customer Orders	(1)	2
Decrease in exchange revenue receivable from the public	-	-
Other	-	-
Resources that finance the acquisition of assets	-	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations	-	-
	-----	-----
Total resources used to finance items not part of the net cost of operations	(297)	(109)
	-----	-----
-		
Total resources used to finance the net cost of operations	106,614	103,195
Components of the Net Cost of Operations that will not require or		

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:

Increase in annual leave liability	-	-
Increase in environmental and disposal liability	-	-
Upward/Downward re-estimates of credit subsidy expense	-	-
Increase in exchange revenue receivable from the public	-	-
Other	(36)	(13)
	-----	-----

Total components of Net Cost of Operations that will require or generate resources in future periods

(36) (13)

Components not Requiring or Generating Resources:

Depreciation and amortization	1	1
Revaluation of assets or liabilities	-	-

Other Components not Requiring or Generating Resources:

Bad Debt Expense	9	2
Cost of Goods Sold	-	-
Other	(4)	-
	-----	-----

- Total components of Net Cost of Operations that will not require or generate resources

6 3

-

Total components of Net Cost of Operations that will not require or generate resources in the current period

(30) (10)

-

Net Cost of Operations

\$ 106,584 \$103,185

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**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>2012</u>	<u>2011</u>
1. Employment and Training	\$53	\$45

FNS' human capital consists 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 701,721 work registrants subject to the 3 - month SNAP participant limit and 1,670,958 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>2012</u>	<u>2011</u>
1. ADP Equipment & Systems	\$38	\$40

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>2012</u>	<u>2011</u>
1. ADP Equipment & Systems	\$13	\$16

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service
Schedule of Spending
For the year ended September 30, 2012

OTHER ACCOMPANYING INFORMATION

	Budgetary	Non Budgetary Credit Reform Financing Accounts
What Money is Available to Spend?		
Total Resources	\$ 125,695	-
Less Amount Available but Not Agreed to be Spent	5,581	-
Less Amount Not Available to be Spent	12,710	-
Total Amounts Agreed to be Spent	107,404	-
How was the Money Spent?		
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
10 – Personnel Compensation and Benefits	-	-
20 – Contractual Services and Supplies	-	-
30 – Acquisition of Assets	-	-
40 – Grants and Fixed Charges	-	-
90 - Other	-	-
Total	-	-
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
10 – Personnel Compensation and Benefits	-	-
20 – Contractual Services and Supplies	-	-
30 – Acquisition of Assets	-	-
40 – Grants and Fixed Charges	-	-
90 - Other	-	-
Total	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security		
10 – Personnel Compensation and Benefits	-	-
20 – Contractual Services and Supplies	-	-
30 – Acquisition of Assets	-	-
40 – Grants and Fixed Charges	-	-
90 - Other	-	-

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Total	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
10 – Personnel Compensation and Benefits	154	-
20 – Contractual Services and Supplies	1,475	-
30 – Acquisition of Assets	4	-
40 – Grants and Fixed Charges	104,419	-
90 - Other	-	-
Total	106,052	-
Total Spending	106,052	-
Unpaid Obligations, end of year (gross)	7,195	-
Unpaid Obligations, brought forward, October 1 (gross)	6,660	-
Recoveries of prior year unpaid obligations	817	-
Amounts Remaining to be Spent	1,352	-
Total Amounts Agreed to be Spent	107,404	-

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