



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL

# Food and Nutrition Service's Financial Statements for Fiscal Years 2017 and 2016

## Audit Report 27401-0002-11

OIG audited the consolidated financial statements of FNS for fiscal years 2017 and 2016.

### OBJECTIVE

Our audit objectives were to determine whether (1) the financial statements present information fairly, in all material respects, and in accordance with generally accepted accounting principles; (2) the internal control objectives over financial reporting were met; (3) FNS complied with applicable laws and regulations; and (4) information was materially consistent with other sources.

### WHAT OIG FOUND

Food and Nutrition Service (FNS) received an unmodified opinion from the Office of Inspector General's audit of FNS' consolidated financial statements. We determined that the agency's financial statements for the fiscal years 2017 and 2016 present FNS' financial position as of September 30, 2017 and 2016 fairly, in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources and related notes to the financial statements.

### REVIEWED

We conducted our audits at FNS' Headquarters in Alexandria, Virginia, and the Federal Reserve Bank in Richmond, Virginia.

Our consideration of FNS' internal control over financial reporting identified no material weaknesses. However, our consideration of compliance with laws and regulations identified that FNS' high-risk programs were not compliant with the requirements of the Improper Payments Information Act, as amended by the Improper Payment Elimination and Recovery Act of 2010.

### RECOMMENDS

This report does not include any recommendations.





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



DATE: November 8, 2017

AUDIT  
NUMBER: 27401-0002-11

TO: Brandon Lipps  
Administrator  
Food and Nutrition Service

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

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Food and Nutrition Service's Financial Statements for  
Fiscal Years 2017 and 2016

This report represents the results of our audit of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2017, and 2016. The report contains an unmodified 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 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.

This report contains publicly available information and will be posted in its entirety to our website <http://www.usda.gov/oig> in the near future.



## **Table of Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Report on the Financial Statements.....</b>	<b>1</b>
<b>Opinion on the Financial Statements.....</b>	<b>2</b>
<b>Other Matters.....</b>	<b>2</b>
<b>Report on Internal Control Over Financial Reporting .....</b>	<b>3</b>
<b>Report on Compliance and Other Matters .....</b>	<b>3</b>
<b>Status of Prior Year Noncompliance Finding.....</b>	<b>5</b>
<b>Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters .....</b>	<b>5</b>
<b>Abbreviations .....</b>	<b>6</b>
<b>Exhibit A: Status of Prior Year Noncompliance Finding .....</b>	<b>7</b>
<b>Exhibit B: Agency's Financial Report .....</b>	<b>8</b>



## **Independent Auditor's Report**

---

Brandon Lipps  
Administrator  
Food and Nutrition Service

The Department of Agriculture's Office of Inspector General (OIG) audited the consolidated financial statements of the Food and Nutrition Service (FNS) for fiscal years 2017 and 2016. We also considered FNS' internal control over financial reporting and tested FNS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of material financial statement amounts and disclosures on these consolidated financial statements.

Exhibit A of this report provides the status of the prior noncompliance with laws and regulations.

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of FNS, which comprise of the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost and changes in net position; and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements (hereinafter referred to as the "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); and the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 17-03 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures, as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FNS, as of September 30, 2017 and 2016, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the U.S. require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, RSSI, and RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic 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.

### **Other Information**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The "Other Information" section is presented for purposes of additional analysis, and is not a required part of the basic financial statements or the required supplementary information. This information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion and provide no assurance on it.

## **Other Reporting Required by Government Auditing Standards**

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered FNS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FNS' internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of FNS' internal control or on management's assertion on the internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FNS' financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

OMB Bulletin 17-03 requires us to describe significant deficiencies and material weaknesses identified during our audits, and in the event that no material weaknesses were identified, to so report. We did not identify any deficiencies in internal control that were considered to be material weaknesses during our audits.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether FNS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct effect on the determination of material amounts and disclosures in the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion.

We also performed tests of FNS' compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which FNS' financial management systems did not substantially comply with FFMIA.

In Audit Report 50024-0011-11, *USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements*, issued May 2017, OIG identified that FNS' high-risk programs were not compliant with the requirement of the Improper Payments Information Act of 2002, as amended by the Improper Payment Elimination and Recovery Act of 2010 (IPERA). Specifically, OIG reported FNS' non-compliances with IPERA because Supplemental Nutrition Assistance Program and Child and Adult Care Food Program did not publish a comprehensive improper payment gross estimate; National School Lunch Program (NSLP), School Breakfast Program (SBP), and Special Supplemental Nutrition Program for Women, Infants, and Children did not meet annual reduction targets; and SBP and NSLP did not report a gross improper payment rate of less than 10 percent.

### **Management's Responsibility for Internal Control and Compliance**

FNS' management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under FFMIA, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring FNS' financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

### **Auditor's Responsibilities**

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether FNS' financial management systems substantially comply with FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FFMIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to a risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FNS. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements that we deemed applicable to FNS' financial statements for the fiscal year ended September 30, 2017. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

### **Status of Prior Year Noncompliance Finding**

We reviewed the status of FNS' prior year's finding on noncompliance with IPERA as of September 30, 2017. The status is presented in Exhibit A.

### **Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters**

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance and Other Matters" sections of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FNS' internal control or compliance. These reports are an integral part of an audit performed in accordance with government auditing standards in considering FNS' internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



Gil H. Harden  
Assistant Inspector General for Audit  
Washington, D.C.  
November 6, 2017

## **Abbreviations**

---

FFMIA .....	Federal Financial Management Improvement Act of 1996
FMFIA .....	Federal Managers Financial Integrity Act of 1982
FNS .....	Food and Nutrition Service
IPERA .....	Improper Payments Elimination and Recovery Act of 2010
MD&A .....	Management Discussion and Analysis
NSLP .....	National School Lunch Program
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
RSI .....	Required Supplementary Information
RSSI .....	Required Supplementary Stewardship Information
SBP .....	School Breakfast Program
U.S. ....	United States of America

## **Exhibit A: Status of Prior Year Noncompliance Finding**

---

The status of the prior year noncompliance finding as of the year ended September 30, 2017, is summarized below:

<b>Reported Condition Fiscal Year 2016</b>	<b>Fiscal Year 2017 Status</b>
1. FNS Noncompliant with IPERA	Open— OIG will complete a follow-up audit in May 2018

**Exhibit B: Agency's Financial Report**

---

**Food and Nutrition Service's  
Fiscal Years 2017 and 2016  
Financial Statements  
Prepared by  
Food and Nutrition Service**

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

## MANAGEMENT DISCUSSION AND ANALYSIS

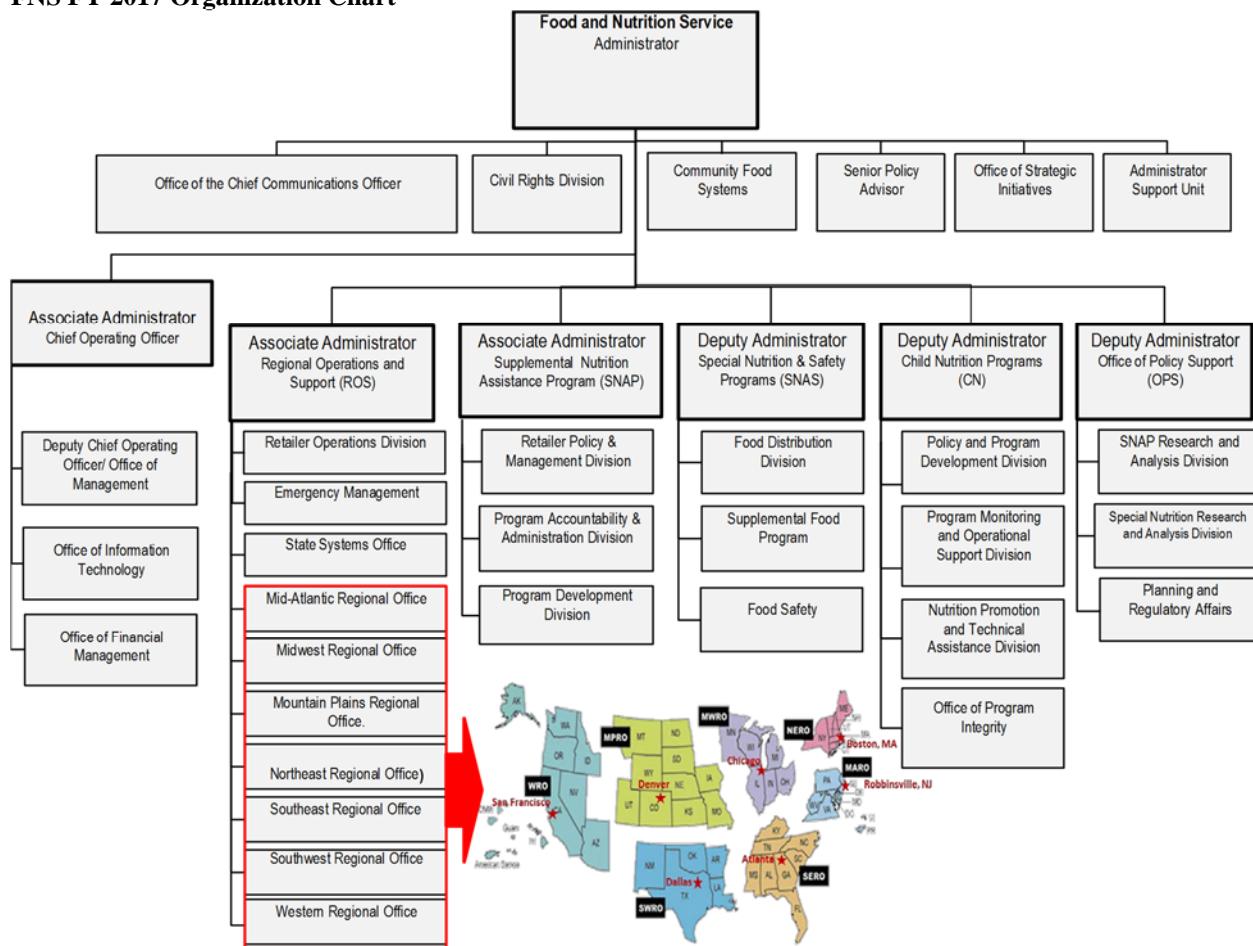
### SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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 15 domestic nutrition assistance programs. Its mission is to increase food security and reduce hunger in partnership with cooperating organizations by providing children and other low-income Americans access to food, a healthful diet, and nutrition education.

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's mission is to improve the health of Americans by developing and promoting dietary guidance that links scientific research to the nutrition needs of consumers.

**FNS FY 2017 Organization Chart**



FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

## **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, these 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 four Americans over the course of a year.

The nutrition assistance programs described below work both individually and in concert with one another to improve the nutrition and health of the Nation's children and other low-income Americans.

- *Supplemental Nutrition Assistance Program (SNAP):* Authorized by the Food and Nutrition Act of 2008, SNAP is the cornerstone of the Nation's nutrition assistance safety net, touching the lives of 46 million Americans. It provides nutrition assistance to participants, the majority of whom are children, the elderly, or people with disabilities, helping them put food on the table using benefits that can be redeemed at authorized food retailers 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. The Food and Nutrition Service is responsible for authorizing and monitoring participating retailers. 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, American Samoa, and the Commonwealth of the Northern Mariana Islands receive grant funds with which to provide food and nutrition assistance in lieu of SNAP.)

- *Food Distribution Program on Indian Reservations (FDPIR):* FDPIR provides USDA foods to income-eligible households living on Indian reservations, and to American Indian households residing in approved areas near reservations or in Oklahoma. Many households participate in FDPIR as an alternative to SNAP, because they do not have easy access to SNAP offices or authorized food stores. State agencies and Indian Tribal Organizations (ITOs) that operate the program are responsible for eligibility certification, 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 USDA foods 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 34 million children in schools, child care institutions, summer sites and after school care programs. CACFP also supports meal service in adult day care centers. 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 expenses, 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.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

- *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 agencies for food packages and nutrition services and administration for the program; State agencies operate the program pursuant to plans approved by FNS. The WIC food package benefit 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 WIC participants with coupons to purchase additional fresh produce at farmers markets and roadside stands.
- *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 USDA Foods or those provided through private donations. 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):* CSFP works to improve the health of low-income elderly persons at least 60 years of age by supplementing their diets with nutritious USDA Foods. Women, infants, and children who were certified and receiving CSFP benefits as of February 6, 2014, can continue to receive assistance until they are no longer eligible under the program rules in effect on February 6, 2014. As required by the Agricultural Act of 2014 (P.L. 113-79), women, infants, and children who apply to participate in CSFP on February 7, 2014, or later cannot be certified to participate in the program. Such individuals may be eligible for other nutrition assistance programs such as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Supplemental Nutrition Assistance Program (SNAP), and other nutrition assistance programs. In FY 2015, elderly participants comprised over 99.5 percent of total participation. CSFP foods are distributed through State agencies to supplement food acquired by recipients from other sources. CSFP is operated as a Federal/State partnership under agreements between FNS and State health care, agricultural or education agencies. In FY 2015, 46 States, the District of Columbia, and two Indian reservations operated CSFP.
- *Senior Farmers' Market Nutrition Program (SFMNP):* This program provides coupons to low-income seniors that can be exchanged for fresh, nutritious, unprepared, locally grown fruits, vegetables and herbs at farmers' market, roadside stands, and community-supported agriculture programs.
- *Pacific Island and Disaster Assistance:* Pacific Island Assistance includes assistance to the nuclear-affected islands of the Republic of the Marshall Islands (RMI) in the form of cash-in-lieu of food and administrative funds through the Special Food Assistance Program and is authorized under the Compact of Free Association Amendments Act of 2003 (P.L. 108-188). Disaster relief in the form of USDA Foods can be provided to the RMI and Federated States of Micronesia for use in Presidential declared disasters.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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, if not all, 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 evaluation 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 federal regulations.

### **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-tenth 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 19 field offices/satellite locations. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNS programs and conduct on-site management reviews of State operations. The Retailer Operations Division monitors the 265,276 stores and other outlets as of June 30, 2017 authorized to redeem SNAP benefits.

As of September 30, 2017, there were approximately 1,551 full-time permanent employees in the agency. There were 591 employees in the Washington headquarters office and 960 in the field. The chart below displays staff year utilization.

STAFF YEAR DISTRIBUTION (From All Sources of Funds)					
FNS Projects and CNPP	2016 Actual	2017 Enacted	2018 Estimate	Change	2019 Estimate
Supplemental Nutrition Assistance Program	316	372	372	+13	385
Child Nutrition Programs	282	289	289	+2	291
Commodity Assistance Program	2	2	2	+1	3
Special Supplemental Nutrition Program for Women, Infants and Children	46	44	44	0	44
Nutrition Programs Administration	857	852	822	-16	806
Center for Nutrition Policy and Promotion*	27	28	28	0	28
Total Available	1,530	1,587	1,557	0	1,557

\*CNPP Staff Year Distribution includes NPA and four program funding in the Child Nutrition Programs

## 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 <sup>1</sup>	Key Outcomes	Key Indicators
<b>USDA Goal 4:</b> 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, FDPIR, 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 <sup>2</sup>	<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 2017. 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 2017 accomplishments include:

**Promoting access to the Supplemental Nutrition Assistance Program (SNAP).** SNAP is the Nation's largest nutrition assistance program, serving 41.3 million people in June 2017. The latest information on the rate of participation among eligible people showed that in 2015, 83 percent of all who were eligible participated.

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

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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

- **Improving the reliability of State reported data.** In a September 2015 report, the USDA Office of Inspector General raised a number of concerns regarding the reliability of State reported data into FNS's Quality Control (QC) system. Prior to the report, in April 2015, FNS initiated a thorough review of the Quality Control system in all 53 State agencies. Those reviews were completed in September 2016. In November 2016, FNS did not issue a payment error rate due to the data reliability issues found in 42 of 53 SNAP State agencies. FNS required all 42 SNAP State agencies with deficiencies to implement a corrective action plan. Furthermore, FNS implemented a robust package of new policies, training, and procedural modifications to strengthen the controls over state error rate reporting in order to report a FY 2017 payment error rate by June 30, 2018. These activities include: In September 2015, FNS sent a letter to each State Commissioner encouraging them to initiate an internal review of State procedures to ensure QC procedures were free of bias. FNS issued guidance to all States reiterating expectations to ensure the highest program integrity, including restating prohibited practices.
- On January 20, 2016, FNS issued policy clarifications to States that:
  - Identified prevalent noncompliant measurement practices to avoid;
  - Restricted the use of error review committees only for future corrective action planning;
  - Reminded States of the requirement to provide Federal reviewers with full access to certification files; and
  - Reminded States of the requirement to refer all error cases for restoration if an under-issuance occurred or for the establishment of a claim if an over-issuance occurred.
- The January 20, 2016, guidance also requires States to submit contracts with a third party consultant on QC issues for FNS approval at least 30 days in advance of entering into the contract, to ensure the contract activities proposed adhere to Federal regulatory and policy requirements. States are also required to provide all deliverables and training materials created by a third party consultant to FNS.
- In April 2016, FNS obtained new data sources, such as the Work Number, to help federal QC reviewers validate and verify state review findings.
- In September 2016, FNS issued a new guidance package, Handbook 310, which provides new procedures for conducting QC reviews of SNAP cases to improve the reliability of state error rate reporting.
- In October 2016, FNS completed a new Management Evaluation guide to strengthen regular oversight of the integrity of SNAP's quality control system.
- From October 2016 through May 2017, FNS provided training to Federal and State QC staff regarding new internal oversight and corrective action procedures. Approximately nine separate training sessions occurred. The training also resulted in over two hundred additional written questions and answers that were provided to State agencies by FNS.
- In December 2016, FNS implemented a formal training program for new Federal QC staff. The training program is intended to improve the quality, consistency, and accuracy of the case review process. All Federal QC staff completed the training by March 31, 2017.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

- FNS continues to provide on-going reviews of all State agency QC systems and offers technical assistance as necessary. If FNS identifies procedures that do not meet Federal requirements, States are required to undertake specific corrective action and FNS monitors their progress. If a State does not meet these corrective actions to FNS' satisfaction, it may result in possible suspension or disallowance of Federal cost share funding for State administrative expenses.

**Help Americans eat smart and maintain a healthy weight.** In FY 2017, 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 2017, 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 Annual percentage of eligible people participating in the SNAP**

**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 its income, expenses, and household size.

**Analysis of Results**

USDA and its State partners sustained effective access to SNAP.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

USDA's efforts included:

- Continued efforts with States to develop outreach strategies. The Agricultural Act of 2014, Section 4018 made several changes that affect outreach. Some of the changes were implemented immediately by States, whereas others required rulemaking before implementation. The final rule implementing Section 4018 was finalized December 20, 2016.
- Support for innovative State practices to promote access by simplifying the application process. As of October 1, 2016, 43 State agencies provide SNAP applicants the opportunity to apply for benefits online and 38 States use call centers, either regionally or State-wide.
- Provided waivers, guidance, and technical assistance to help States manage workloads.

USDA 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 2015, of approximately 50 million individuals eligible for SNAP benefits in an average month in FY 2015, approximately 41.6 million participated (83 percent).

Annual Performance Goals, Indicators and Trends	2012	2013	2014	2015	2016	Fiscal Year 2017		
						Target	Actual	Result
4.1.1 Annual percentage of eligible people participating in the SNAP	83.0%	85.0%	83.0%	83.0%	Not Available	85.0%	Not Available	Deferred
FY 2016 data will be available in 2018 <b>Rationale for Met Range:</b> The 90% confidence interval around the FY 2015 participation rate of 83% is $\pm$ 1.1percent.								
<b>Data Assessment of Performance Measure 4.1.1</b> The SNAP individual participation rate represents the ratio of SNAP participants to SNAP-eligible individuals. Eligible individual counts are based on the Census Bureau's Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) data <input type="checkbox"/> <b>Completeness of Data</b> —The most current data available for this measure are for FY 2015. <input type="checkbox"/> <b>Reliability of Data</b> —QC data is validated and accepted by State SNAP agencies as a basis for performance measures. The CPS ASEC is collected by the Census Bureau and is likewise a valid source of income and poverty data. <input type="checkbox"/> <b>Quality of Data</b> —As described above, the data used to develop this measure are used widely within and outside USDA. The SNAP participation rate is frequently cited as an important, high-quality indicator of program performance.								

## Challenges for the Future

USDA will continue its efforts to reduce hunger and improve nutrition. Continued efforts will be made to ensure proper program administration by States, including timely determination of eligibility.

### 4.1.2 Annual percentage of eligible people participating in the NSLP

#### Overview

The National School Lunch Program (NSLP) is a federally assisted meal program operating in over 99,000 public and non-profit private schools and residential child care institutions. Schools and districts that choose to participate in the NSLP receive cash subsidies and USDA foods from the U.S. Department of Agriculture (USDA) for each meal they serve that meet the Federal requirements. Children from families with income at or below 130 percent of the Federal poverty level are eligible for free meals,

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

while children from families with incomes between 130 percent and 185 percent are eligible for reduced price meals, for which schools can charge no more than 40 cents. Children who do not qualify for free or reduced price meals may purchase a lunch at the “paid” rate. Local school districts have discretion in setting the price of a paid lunch, provided they meet minimum Federal requirements.

## Analysis of Results

During the school day over 51 million children attend schools operating the National School Lunch Program with over 30 million children participating each day. Of the 30 million children participating, over 20 million are receiving free or reduced price lunches each day. In recent years, participation among the nation’s neediest children has substantially increased due to provisions designed to improve access, streamline administrative requirements for local school officials, and eliminate barriers to participating in the school meal programs. Participation among children eligible for free meals has increased by over 34 percent in the last decade, helping to connect our nation’s most vulnerable youth with the nutritious foods they need to focus during the school day.

- The Healthy, Hunger-Free Kids Act (HHFKA) implemented benchmark rates for States to meet in directly certifying children in families receiving SNAP benefits--80 percent in School Year (SY) 2011-2012, 90 percent in SY 2012-2013, and 95 percent in SY 2013-2014 and future years. As of SY 2015-16, 96 percent of school districts used direct certification, and 92 percent of SNAP children were directly certified for free meals. This is a notable increase from 2009-10 (prior to implementation of HHFKA), with only 83 percent of school districts using direct certification and 72 percent of SNAP children directly certified for free meals. Each State that does not meet the benchmark for a particular school year is required to develop and implement a Continuous Improvement Plan (CIP) to improve its direct certification procedures and fully meet the benchmarks set forth in the HHFKA in subsequent school years. To assist in these the development and execution of these Plans, the FNS Direct Certification Training and Technical Assistance Team provided guidance during FY 2017 to the 29 State under the requirement. Technical Assistance provided included on-site visits, conference calls, and written guidance. Due in part to this assistance, it is anticipated that several States will achieve the mandated benchmark rate in subsequent years.
- Unpaid meal charges occur when children who are not eligible for free meals do not have money to cover the cost of a breakfast or lunch. This creates financial challenges for schools because schools rely on student payments, in addition to Federal reimbursements, to provide healthy, appealing, and affordable meals to all children. In 2016, after completing a review of unpaid meal charges required by Congress, FNS issued a policy memorandum requiring all school food authorities operating the NSLP to develop and communicate a local charge policy to address the issue of unpaid meal charges. Because solutions vary based on local conditions and available resources, the requirement is simply to develop and communicate a policy; the details of the policy are left to local discretion. This requirement promotes effective financial management of the NSLP, helping to ensure school food authorities have the funds needed to provide high-quality meals to all participating children. FNS also developed a best practice guide outlining effective strategies to prevent unpaid meal charges. The guide, released in September 2016 and updated in May 2017, shares specific strategies local program operators can use to connect all eligible children with free or reduced price school meals and assist families with the school meal application.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Annual Performance Goals, Indicators and Trends	2012	2013	2014	2015	2016	Fiscal Year 2017			
						Target	Actual	Result	
4.1.2 Annual percentage of eligible people participating in the NSLP	57.6%	55.7%	54.8%	55.4%	55.5%	58.3%	54.5%	Did not Meet	
		<b>Rationale for Met Range:</b> Thresholds for 4.1.2 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 2017, this percentage range allows for actual performance that did not meet the target in the range of 55.4-61.2 percent. NSLP participation rates did not rebound as robustly as anticipated.							
		<p><b>Data Assessment of Performance Measure 4.1.2</b></p> <p>The indicator is a ratio of school meals participation data, drawn from USDA administrative records, as a proportion of total public and private school enrollment, projected by the Department of Education's National Center for Education Statistics (NCES), and reported in NCES's <i>Projections of Education Statistics to 2024</i> report.</p> <p>NSLP administrative data is drawn from State agency reports 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.</p> <p>NCES projections of public and private school enrollment are constructed using the Common Core of Data (CCD), "State Non fiscal Survey of Public Elementary/Secondary Education," 1999–00 through 2012–13; Private School Universe Survey (PSS), selected years 1999–2000 through 2011–12; and National Elementary and Secondary Enrollment Model, 1972–2024. Detailed explanation of these sources is available on the web at <a href="http://files.eric.ed.gov/fulltext/ED569143.pdf">http://files.eric.ed.gov/fulltext/ED569143.pdf</a>.</p> <ul style="list-style-type: none"> <li>□ <b>Completeness of Data</b>— Figures for NSLP participation 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 30, 2017, as available August 2017. NCES projections are based on nationally-representative surveys.</li> <li>□ <b>Reliability of Data</b>— 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. Survey data supporting NCES projections are conducted using high-quality, well-documented methodologies.</li> <li>□ <b>Quality of Data</b>— 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. Survey data supporting NCES projections are conducted using high-quality, well-documented methodologies.</li> </ul>							

## Challenges for the Future

In May 2017, Secretary Perdue issued a Proclamation directing FNS to begin drafting regulations allowing:

- State agencies to continue to offer exemptions from the whole grain-rich requirement where schools can demonstrate hardship in procuring, preparing, or serving compliant products that are acceptable to students;
- Schools to continue to plan menus that meet Sodium Target 1; and
- Schools to serve 1 percent flavored milk in the school meal programs without requiring State agency approval or documentation of hardship.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FNS is in the process of drafting a regulation that will address these issues highlighted by the Secretary and is expected to take effect for school year 2018-2019. In the interim, the Consolidated Appropriations Act, 2017, provided similar flexibilities for school year 2017-2018.

These meal pattern flexibilities will give program operators greater decision-making power at the local level. These flexibilities will facilitate easier menu planning; allow school nutrition professionals to better accommodate local and cultural preferences and adjust based on student feedback; and will provide more options for operators.

FNS also provides operators with extensive support through grants, training, a searchable collection of recipes, and technical assistance and educational resources. Schools that face operational challenges receive targeted technical assistance, training, and peer mentoring to support strong student participation.

USDA is committed to working with program operators, school nutrition professionals, industry, and other stakeholders to develop a forward-thinking strategy that ensures school nutrition standards are both healthful and practical.

The HHFKA also enacted the requirement for districts to increase the prices charged for paid lunches to ensure adequate revenue is generated to cover the costs of producing these meals and Federal reimbursements provided for free and reduced price meals are not used. The increase in paid lunch prices may have impacted participation in some districts and may continue to be a challenge for districts to maintain participation among their paid students. Districts may also decide to contribute non Federal funds to meet the requirement in lieu of raising prices. FNS recognized that not all districts need the additional revenue from increasing prices and provided flexibilities. Districts in good financial standing may be exempt from the requirement and not have to increase paid lunch prices.

Although State agencies continue to improve their direct certification performance, meeting the 95 percent benchmark may remain a challenge. States have frequently cited difficulties inherent in matching data from different sources. States have also cited the inability of direct certification improvement measures to account for children who receive SNAP benefits but who are not enrolled in schools.

Sustaining participation of Residential Child Care Institutions (RCCIs) is also a challenge. In FY 2016 to FY 2017, the number of RCCIs decreased by 370 and has consistently dropped by 100 or more institutions since FY 2007. RCCIs often are small institutions that do not have the expertise and resources to operate the NSLP successfully. FNS plans to develop user-friendly guidance to ensure RCCIs have the tools they need to effectively operate the NSLP.

#### **4.1.3 Annual percentage of children participating in the free/reduced price school lunch program that participate in summer feeding programs**

##### **Overview**

The summer meal programs are part of the 15 USDA nutrition assistance programs that provide healthy meals to those in need. When school lets out, millions of children no longer have access to healthy free or reduced school breakfast or lunch through the School Breakfast and National School Lunch Programs. USDA's summer meal programs help children and their families who depend on free and reduced price meals when they are in school. The Summer Food Service Program (SFSP) and the National School

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Lunch Program Seamless Summer Option (SSO) provide meals to children in low-income areas during the summer months.

## Analysis of Results

To reach children during the summer, FNS has made efforts to ensure access to summer meals for children through legislative, policy, research, targeting and partnership efforts. Through these efforts, 179 million meals were served at over 50,000 sites in low income areas in 2016. This represents 14 million more meals served over the 2009 levels, a 9 percent increase. This summer, USDA set a goal of sustaining Program operations by developing State agencies' capacities to continue efficient and effective administration of the SFSP. As in previous years, FNS continues to look to other Departments, including Education, Housing and Urban Development, and Defense, to act as champions for children in summer 2017.

- Since 2013, FNS has provided targeted technical assistance to States and coordinated with State and elected leaders and partners to leverage resources and optimize outreach efforts. This target State model focused on intensive technical assistance and advanced training for State Agency staff.
- Strategies for increasing sponsor retention and other best practices were developed, promoted, and published in an online toolkit and USDA agencies and partners, such as Rural Development, Housing and Urban Development (HUD), libraries, faith based institutions, and Feed the Children, were leveraged to address rural poverty and child hunger.
- Specific issues that were targeted in these efforts included delivery of meals in rural and tribal areas, transportation to meal sites, informing low-income families about the availability of summer meals, and increasing the number of sites in underserved areas, schools, and in healthcare settings, including Women, Infants, and Children (WIC) clinics.
- In 2017, FNS broadened the State-driven strategic improvement of the summer meals program while enhancing the existing resources available to families, Program operators, and State agencies. Specifically, FNS enhanced a routing tool that allows for better delivery of meals and serves as a planning tool for efficient site monitoring. Significant efforts were made to educate providers about improving summer meal quality and integrating local foods into meals.

Over the past few years, FNS has also tested innovative ways to serve children who are difficult to reach through traditional summer meal programs including those who live in rural and tribal areas, and communities in which summer-time transportation options are limited. FNS created the Summer Electronic Benefits Transfer for Children (Summer EBT) demonstration to study the use of SNAP and WIC electronic benefits transfer (EBT) technology to provide food assistance to children during the summer by providing their families with more resources to use at retail food stores in their communities. The Summer EBT demonstration projects, through which eligible households receive an EBT card to purchase food, are a highly successful strategy for reaching substantial proportions of eligible children and significantly reducing food insecurity. The demonstration reached about 11,500 children in 2011, 61,000 in 2012, 91,000 in 2013, 17,000 in 2014, 130,000 in 2015 and 209,000 in 2016. The 2017 demonstration is projected to reach a maximum of 331,788 children. Since 2015, FNS has placed a

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

special focus on rural projects because Summer EBT has the potential to most benefit low-income children in populations that have difficulty accessing traditional summer meal programs.

Rigorous evaluations indicate that Summer EBT is a highly effective model for addressing food insecurity among children during the summer months. Results from the evaluations indicate:

- Summer EBT reduced very low food insecurity among children, the most severe form of childhood hunger, by a third. Both the debit card and food package models performed equally well.
- Summer EBT was able to improve the diets of young, low-income Americans during the summer. Participating children in households with Summer EBT ate more fruits and vegetables, whole grains, and dairy foods while consuming fewer sugar-sweetened beverages.
- Providing a \$30 monthly benefit was as effective as a \$60 monthly benefit for reducing Very Low Food Security among Children.

Annual Performance Goals, Indicators and Trends	2012	2013	2014	2015	2016	Fiscal Year 2017		
						Target	Actual	Result
4.1.3 Annual percentage of children participating in the free/reduced price school lunch program that participate in summer feeding programs.	15.5%	16.0%	17.5%	17.1%	17.4%	17.4%	Not Available	Deferred
<b>Rationale for Met Range:</b> Thresholds for 4.1.3 reflect the margin of error in forecasts of future participation, estimated at 5 percent for child nutrition. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2017, the actual performance will be available in FY 2018.								
<b>Data Assessment of Performance Measure 4.1.3</b>								
The measure is calculated through the following equation:								
$\frac{\text{SFSP Average Daily Participation in July} + \text{NSLP Free&RP Participation in July}}{\text{NSLP Free&RP Participation in Previous March}} = \text{Participation Rate}$								
The school and summer meals participation data used in the calculation are drawn from USDA administrative records. The data used for these 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"/> <b>Completeness of Data</b> — Figures for NSLP free/reduced price participation are based participation in the month of March before the summer (i.e. summer feeding participation in July 2015 is compared to NSLP free/reduced price participation in March 2015). Participation data are collected and validated monthly before being declared annual data. Figures for summer feeding participation are drawn from July data; initial reports for 2017 will be available in December 2017.								
<input type="checkbox"/> <b>Reliability of Data</b> — 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"/> <b>Quality of Data</b> — 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

The key factor to ensuring needy children have access to meals in the summer months is the effective and efficient allocation of resources at all levels. FNS will continue to reach out to partners such as schools, parks and recreation departments, libraries, and faith based and other community organizations to encourage local level engagement in summer meal programs. FNS will also continue working with States to support State-driven strategies to target children in underserved areas. Through Geographic Information Systems (GIS) maps that FNS has developed, State agencies will be able to identify low-income areas where there are significant numbers of children and few meal sites.

In addition, FNS will maintain connections with National, State, and local partners to build a knowledge base of existing policy and legislative mandates to leverage resources and encourage collaboration in summer meal efforts.

Although shown to be highly effective in reducing food insecurity, continuation of Summer EBT benefits is dependent on Congressional action. FNS stands ready to oversee the demonstration as funding is appropriated.

### 4.1.4 Prevalence of food insecurity in households with children

#### Overview

Food security is defined as access by all people at all times to enough food for an active, healthy life. Food insecurity is defined as unable to acquire adequate food for one or more household members because they had insufficient money and other resources for food. Federal nutrition assistance programs are an important strategy in the effort to prevent and reduce food insecurity, so USDA monitors food security as an ongoing measure of the effectiveness of these programs in coordination with other public and private initiatives.

The extent and severity of food insecurity in U.S. households is measured through an annual, nationally representative survey sponsored by USDA's Economic Research Service. Specifically, the responses to the Current Population Survey Food Security Supplement (CPS-FSS) questions are used to monitor food security. CPS-FSS has 18 core items for assessing food security of households with children and 10 items for households without children. The CPS-FSS questions ask about experiences in the last 12 months and may also probe about the past 30 days.

#### Analysis of Results

The most recent annual report, Household Food Security in the United States in 2016<sup>3</sup>, notes that 12.3 percent or 15.6 million households were food insecure at some time during 2016.

---

<sup>3</sup> Coleman-Jensen, Alisha, Matthew P. Rabbit, Christian Gregory, and Anita Singh. *Household Food Security in the United States in 2016*, ERR-237, U.S. Department of Agriculture, Economic Research Service, September 2017

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

In calendar year 2016, 16.5 percent of households with children—6.3 million households were food insecure. This prevalence is essentially unchanged from 16.6 percent in 2015. While in many of these households, children are protected from food insecurity, because adults often reduce their own food variety or intake to provide for children, in nearly 3.1 million households, one or more children were food insecure.

Annual Performance Goals, Indicators and Trends	2012	2013	2014	2015	2016	Fiscal Year 2017		
						Target	Actual	Result
4.1.4 Prevalence of food insecurity in households with children.	20.0%	19.5%	19.4%	16.6%	16.5%	18.5%	Not Available	Deferred
<b>Rationale for Met Range:</b> The 90% confidence interval around the measure is $\pm 0.65$ percent.								
<b>Data Assessment of Performance Measure 4.1.4</b>								
<p>The data come from the annual survey conducted by the U.S. Census Bureau as a supplement to the nationally representative Current Population Survey (CPS). The data are collected annually in December.</p> <p><input type="checkbox"/> <b>Completeness of Data</b>—The CPS currently includes about 53,000 households and is representative at the State and national level of the civilian non-institutionalized U.S. population. In December 2016, 41,186 households completed the food security supplement, and data are weighted by the U.S. Census Bureau to provide the national prevalence.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>—The US Census Bureau conducted cognitive and field tests of the food security questionnaire before it was finalized and included as a supplement to the CPS in April 1995. Minor modifications were made to the format and screening procedures during the first years of administration. In 1998 the screener and format were substantially revised to reduce respondent burden and improve the quality of the data. However, the content of the 18 food security questions has remained constant. In 2003-2006 an expert panel convened by the Committee on National Statistics (CNSTAT) of the National Academy of Sciences reviewed the food security measurement methodology. This expert panel concluded that the general methodology for measuring food insecurity was appropriate.</p> <p><input type="checkbox"/> <b>Quality of Data</b>—The food security statistics are based on a nationally representative food security survey conducted as an annual supplement to the monthly CPS by the U.S. Census Bureau for the Bureau of Labor Statistics. The CPS provides data for the monthly U.S. unemployment statistics and annual income and poverty statistics</p>								

## Challenges for the Future

Although, the prevalence of food insecurity in households with children has decreased to 16.5 percent in 2016 and is below the target that was set for FY 2017, it is still higher than the 2007 pre-recessionary level of 15.8 percent. The need for developing and implementing evidence-based strategies to reduce the prevalence of food insecurity in households with children continues. Section 141 of the Healthy Hunger Free Kids Act (HHFKA) of 2010 authorized the development of a research program to study the causes and consequences of childhood hunger and food insecurity. The HHFKA also provided funding to conduct demonstration projects designed to reduce childhood hunger and food insecurity. The demonstration projects are currently underway.

The alignment of the timeline for the annual performance measure with the availability of the annual food security statistics is also a challenge. The actual measure for 2017 will be released in September 2018.

## 4.1.5 SNAP payment accuracy rate

### 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. The Department seeks to increase food security and reduce hunger in a manner that inspires public confidence that taxpayer dollars are used wisely.

USDA remains strongly committed to program integrity. The Department takes its stewardship responsibilities for taxpayer dollars seriously through an established Quality Control (QC) system and long-standing support for payment accuracy initiatives. The Department continually 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 did not report a payment error rate due to concerns regarding the reliability of State reported data. FNS required State agencies to implement corrective actions to address deficiencies in the reporting of quality control data. FNS also implemented robust procedural changes to strengthen the controls over State error reporting. FNS expects to issue the next national and State level payment error rate by June 30, 2018.

Annual Performance Goals, Indicators and Trends	2012	2013	2014	2015	2016	Fiscal Year 2017		
						Target	Actual	Result
4.1.5 Improve SNAP Payment Accuracy Rate Baseline: 2001 = 91.34%	96.58%	96.80%	96.34%	Not Available	Not Available	96.34%	Not Available	Deferred
	FY 2017 data will be available in FY 2018.							
	<b>Data Assessment of Performance Measure 4.1.5</b> <p>For the FY 2017 data, the Supplemental Nutrition Assistance Program (SNAP) is using data from the Quality Control (QC) system to report SNAP improper payments and to support SNAP administration. The data is based upon a statistically valid methodology and the sampling plan has been approved by the Office of Management and Budget (OMB). The QC system uses a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate consists 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 included 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.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Completeness of Data</b>—The FY 2017 payment error rate, including national and State level rates, will be available by June 30, 2018.</li> <li><input type="checkbox"/> <b>Reliability of Data</b>—FNS implemented significant changes to the controls and procedures regarding the reliability of the data that will be reflected in the FY 2017 payment error rate.</li> <li><input type="checkbox"/> <b>Quality of Data</b>—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure serves as an important indicator of program performance.</li> </ul>							

## Challenges for the Future

FNS is continuing to provide technical assistance and oversight to ensure corrective actions implemented to address deficiencies in state error rate reporting are fully addressed in order to preserve the reliability of the FY 2017 payment error rate data, scheduled to be available by June 30, 2018.

## **OBJECTIVE 4.2: PROMOTE HEALTHY DIET AND PHYSICAL ACTIVITY BEHAVIOR**

### **4.2.1 SNAP benefits redeemed at farmers markets and direct marketing (DM) farmers annually**

#### **Overview**

USDA is committed to supporting local food systems and expanding access for SNAP participants' to healthy foods. For that reason, USDA has made it a priority to increase the availability of SNAP at farmers' markets.

In each fiscal year since 2012, Congress has provided FNS with \$4 million in the SNAP account to expand the use of SNAP benefits in farmers' markets. In FYs 2012 through 2017, FNS provided the funds either directly to SNAP State agencies or to a contractor to provide technical assistance and Electronic Benefits Transfer (EBT) equipment to farmers' markets and direct marketing farmers who participate in at least one market.

In FYs 2015 and 2016, FNS used funds to award \$8.68 million in competitive 2- and 3-year grants to 55 entities working with the farmers' market community to provide markets with different types of assistance. These grants address the most commonly requested types of assistance, which are: (1) personnel costs to operate farmers' market; (2) materials to inform SNAP participants of their ability to use their benefits at farmers' markets; and (3) miscellaneous equipment, such as scrip, and technology infrastructure (Wi-Fi hotspots, phone lines, electrical lines, etc.). The projects are designed to expand and promote SNAP at farmers markets in rural and urban areas throughout the country, and exemplify USDA's ongoing commitment to improving the diet and health of all Americans, particularly low-income Americans.

#### **Analysis of Results**

As of August 2017, over 7,300 farmers markets and direct-marketing farmers nationwide are authorized to process SNAP benefits in order to sell local, healthy foods to SNAP shoppers. FNS continues to bolster these numbers through outreach to the farmers' market community. In FY2017, FNS hosted three webinars for the farmers' market community to share best practices and to provide guidance and support. Nearly 400 people, including market managers, community advocates, and State partners, participated in these webinars and provided FNS with positive feedback. SNAP dollars spent on healthy foods purchased from local farmers markets and farm stands totaled over \$12.8 million through the third quarter FY 2017, up from \$12.3 million at this time in FY 2016. This represents a 5 percent increase from purchases for this time period, and a 9 percent increase from FY 2015.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Annual Performance Goals, Indicators and Trends	2012	2013	2014	2015	2016	Fiscal Year 2017		
						Target	Actual	Result
4.2.1 SNAP benefits redeemed at farmers markets and direct marketing farmers annually. (Millions)	\$16.6	\$17.4	\$18.8	\$19.4	\$20.2	\$20.0	Not Available	Deferred
<b>Rationale for Met Range:</b> The target amount was selected based on previous annual changes in the amount of SNAP benefits redeemed at farmers' markets, and inferences regarding the likely decrease for FY 2017 due to improving economic conditions and a decrease in overall SNAP enrollment.								
<b>Data Assessment of Performance Measure 4.2.1</b> The data consist of redemptions reported by benefit providers and fed into our retailer database. FNS performs quarterly searches of the database to ensure that farmers' markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is accurate, reliable and complete. <input type="checkbox"/> <b>Completeness of Data</b> —This is the same data Retailer Policy and Management Division (RPMD) uses when administering this initiative. FNS performs quarterly searches of the database to ensure that farmers' markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is complete and accurate. <input type="checkbox"/> <b>Reliability of Data</b> — This is the same data RPMD uses when administering this initiative. FNS performs quarterly searches of the database to ensure that farmers' markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is accurate and reliable. <input type="checkbox"/> <b>Quality of Data</b> — This is the same data RPMD uses when administering this initiative. FNS performs quarterly searches of the database to ensure that farmers' markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is high quality.								

## Challenges for the Future

After successfully reaching yearly target goals of increasing the number of SNAP-authorized farmers markets and direct marketing farmers, FNS turned its attention to increasing the number of actively redeeming markets in FY 2017. FNS's SNAP at Farmers Markets team has established an ongoing quarterly webinar series for market managers, community advocates, and state partners to help address the challenges faced by markets to attract and keep SNAP customers. So far, nearly 400 people have participated in these webinars to learn promising practices on developing partnerships, enhancing marketing and outreach to SNAP shoppers, and offering fruit and vegetable incentive programs. FNS is also working in collaboration with Regional Offices to tailor strategies and develop success indicators for regional and State needs in helping low- or non-redeeming markets.

## **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 2017 financial statements audit report.

### **Federal Managers' Financial Integrity Act (FMFIA Sections 2&4) Assurance**

Management is responsible for developing and maintaining internal controls to ensure the effectiveness of operations, reliability of financial reporting, compliance with applicable laws and regulations and the 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 annual evaluations of internal control and financial systems pursuant to Sections 2 and Section 4 of FMFIA for the period ending June 30, 2017. Based on the results of the evaluations, FNS can provide an unmodified statement of assurance that internal controls are operating effectively. For FY 2016, FNS had no new material weaknesses or significant deficiencies to report. No new material weaknesses or significant deficiencies were identified for FY 2017.

### **Assurance for Internal Control over Financial Reporting (FMFIA Section 2 and Section 4)**

FNS conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2017, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget (OMB) Circular A-123, Appendix A.

This assessment included risk assessments, process descriptions and documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for control deficiencies. Key controls in the following processes were tested:

#### **Processes**

- a. Conference Planning and Reporting
- b. Financial Reporting: General Ledger and Maintenance
- c. Financial Reporting: Period End Reporting
- d. Financial Reporting: Significant Management Estimates
- e. Financial Reporting: Unliquidated Obligations Review
- f. Financial Reporting: User Access
- g. Funds Management: Fund Balance with Treasury
- h. Grants Management: Awards and Modification (Entitlement Grants)
- i. Grants Management: Closeouts (Entitlement Grants)
- j. Grants Management: Draws and Expenditures (Entitlement Grants)
- k. Monitoring: Purchase Cards
- l. Monitoring: Travel Cards

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

- m. Reimbursable Agreements: Authorizations and Modifications
- n. Reimbursable Agreements: Closeouts
- o. Reimbursable Agreements: Receivables and Payment Management

Management recognizes its responsibility for monitoring and correcting all control deficiencies. With regard to these processes and the internal controls within these processes, management certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2017. FNS provides an unmodified statement of assurance that the internal controls for FY 2017 are operating effectively.

In addition, there were no new material weaknesses or significant deficiencies identified in FNS' Business Process Controls and General Computer Controls.

Corrective action plans have been developed and submitted in the Office of the Chief Financial Officer A-123 SharePoint site. These plans are not included with FNS' certification statement because they are only associated with control deficiencies.

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

Financial systems used by FNS are owned, managed, and evaluated by the Associate Chief Financial Officer – Financial Management Services (ACFO -- FMS).

### **Disaster Relief Appropriations Act (DRAA) (for use by Natural Resources Conservation Service only)**

- 1. FNS is no longer required to provide assertion under DRAA.

### **Data Act Reporting for USA Spending.gov**

- 1. FNS provides reasonable assurance that data integrity processes and controls align with OMB Circular A-123 and are in place for all reported data. This includes agency financial systems, award management systems, and procurement data reported to the Federal Procurement Data System – Next Generation (FPDA-NG).
- 2. The prime Federal award financial data reported on USA Spending.gov is correct at the reported percentage of accuracy.
- 3. FNS has implemented adequate internal controls over underlying spending.
- 4. FNS has implemented processes to ensure data completeness and accuracy on USA Spending.gov by using control totals with financial statement data and comparing sampling of financial data to actual award documents.

### **Government Charge Card Abuse Prevention Act**

- 1. FNS has established appropriate policies and controls and corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.
- 2. Management has not identified additional significant risk associated with internal controls for purchase cards, fleet cards, debit cards, travel cards (i.e., centrally billed accounts, individually billed accounts, and declining balance cards).

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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	Food and Nutrition Service Disaster Food Stamp Program for Hurricanes Katrina and Rita	6-30-18	Pending publication of final rule. Decision still to be made on whether rule will be included in Fall 2017 regulation agenda.
50601-0014-AT	8-16-10	Effectiveness and Enforcement of Suspension and Debarment (S&D) Regulations in the U.S. Department of Agriculture	10-31-17	FNS is finalizing a S&D policy that will satisfy the final piece of the original OIG recommendation.
27002-0011-13	9-28-12	Analysis of FNS' Supplemental Nutrition Assistance Program (SNAP) Fraud Prevention and Detection Efforts	12-31-17	Pending Departmental release of a letter sharing a copy/link of the National Accuracy Clearinghouse (NAC) evaluation report with all States. The letter also details next steps a State should take if they wish to join the NAC.
27601-0012-SF	1-3-13	National School Lunch Program-Food Service Management Company Contracts	10-31-17	Based on June 20, 2017, discussion between FNS and OIG it was decided that FNS was in a position to pursue final action on two of the remaining recommendations and needed to request a change in management decision on the remaining two. All relevant documents have been submitted to OCFO and resolution of rec. 7 will require FNS MARO and the State of New Jersey to complete a review of all contracts held with one Food Service Management Company in the state for School Year 2016-17.
27004-0001-22	9-25-14	State Agencies' Food Costs for the Food and Nutrition Service's Special Supplemental Nutrition Program for Women, Infant, and Children	12-31-17	FNS is working with ERS on its update of the 2005 report, Interstate Variation in WIC Food Package Costs: The Role of Food Prices, Caseload Composition, and Cost-Containment Strategies.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

				This study was delayed at ERS and is now scheduled for completion by the Fall of 2017.
27601-0001-31	7-31-13	Controls for Authorizing SNAP Retailers	6-30-18	Rec. 4: Pending approval of change in management decision by OIG, as it was determined that FNS does not have statutory authority to require SNAP retailers to provide self-initiated background checks to FNS. Recs. 9, 10, 11: Resolution of three recommendations hinges on rulemaking that would remove all stores under the same ownership when one store is determined to have trafficked unless the owner(s) meet the criteria for a trafficking civil money penalty.
27601-0001-22	9-23-15	SNAP Error Rates	6-30-18	Rec. 1: Resolution depends on results of feasibility study on creating a Federal one-tier QC system. Rec. 11: Update to 310 handbook requires an updating of forms that must go through the Information Collection Burden process. Timeline is heavily dependent on OMB action, but FNS expects to submit revised collection forms to OMB during the Fall of 2017. Rec. 14: FNS was delayed in implementing changes to the 315 handbook due to devoting resources to establishing the temporary one tier system in FY 17.
27601-0001-10	7-26-16	New Hampshire's Compliance with SNAP Certification of Eligible Households Requirements	11-30-17	Pending system enhancement in New Hampshire eligibility system.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

The Inspector General Act Amendments of 1988 requires an annual report on the status of audits. In compliance with this Act the below table reflects FNS audits that were closed during FY 2017.

	Auditor	Agency	Audit Number	Audit Name	Status
1	OIG	FNS	27401-0001-11	FNS Financial Statements for FY 2016	CLOSED – November 2016
2	OIG	FNS	50024-0009-11	USDA's Fiscal Year 2015 Compliance with Improper Payment Requirements	CLOSED – January 2017
3	OIG	FNS	27601-0001-22	Healthy, Hunger-Free Kids Act of 2010 (HHFKA) - Controls Over Food Service Account Revenue	CLOSED – February 2017
4	OIG	FNS	50024-0008-11	USDA's Fiscal Year 2015 Compliance with Improper Payment Requirements	CLOSED – March 2017
5	GAO	FNS Lead	GAO-15-368	Regulatory Guidance Processes Selected Departments Could Strengthen Internal Control and Dissemination Practices	CLOSED – July 2017
6	GAO	FNS Lead	GAO-17-463	Early Learning and Child Care: Agencies Have Helped Address Fragmentation and Overlap Through Improved Coordination	CLOSED – July 2017
7	GAO	FNS Lead	GAO-17-558	Federal Low-Income Programs: Eligibility and Benefits Differ for Selected Programs Due to Complex and Varied Rules	CLOSED – July 2017
8	GAO	FNS	GAO-14-262	School Meal Programs: USDA Has Enhanced Controls, but Additional Verification Could Help Ensure Legitimate Program Access	CLOSED – September 2017
9	GAO	FNS	GAO-13-708T	School Lunch: Modifications Needed to Some of the New Nutrition Standards	CLOSED – September 2017

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

## Assurance for Legal Compliance

The Office of the Inspector General (OIG) found that FNS did not fully comply with three of six Improper Payment Elimination and Recovery Act (IPERA) requirements. FNS did not always report complete estimates for high-risk programs, 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.

<b>Outstanding Initiatives to Achieve Compliance</b>			
<b>Initiative</b>	<b>Non-compliance</b>	<b>Agency</b>	<b>Target Completion Date</b>
<b>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</b>	Has not published improper payment estimates for the Supplemental Nutrition Assistance Program (SNAP).	FNS	12/2020
	Has not met annual reduction targets for each program (e.g., Child and Adult Care Program (CACFP), National School Lunch Program (NSLP), School Breakfast Program (SBP), and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) assessed to be at risk and measured for improper payments.	FNS	11/2018
	Reported a gross improper payment error rate of greater than 10 percent for NSLP and SBP.	FNS	12/2020

## 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 1.5% 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)**, sampling and erroneous payment measurement process 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 the case is sampled. States pull an initial sample of cases following a standardized methodology required by regulation. State reviewers then follow national guidance in order to complete their case review to determine whether an improper payment occurred. All case results are accumulated by State. FNS then sub samples State review findings and conducts an independent assessment in order to substantiate State reported results. FNS uses a regression analysis to extrapolate the impact of cases where FNS disagrees with State findings to ensure the results are representative of a State's caseload. The validated results are combined into a national cumulative (overpayments plus underpayments) error rate.

While SNAP's improper payment measurement activities predate the passage of IPIA, SNAP routinely assesses its policies to ensure compliance with the most recent improper payment guidance. SNAP updates its guidance prior to the start of each fiscal year. On September 30, 2016, SNAP released its latest guidance that included new policy revisions to ensure that payment error determinations align with IPIA and OMB circulars.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

SNAP takes seriously its responsibility to reduce improper payments and engages in a number of initiatives to help State agencies. These include:

- Requiring corrective action plans from States with high error rates.
- FNS providing technical assistance to help States conduct a root cause analysis of what contributes to payment errors to aid in corrective action planning.
- As 62 percent of SNAP's payment errors are caused by State agencies, FNS works with States to strengthen the upfront eligibility determination process through system improvements, policy training, improved data matching and verification.
- The remaining 38 percent of payment errors are client caused. FNS works with States to improve client education efforts and the clarity of notices to ensure application and reporting instructions are clearly conveyed.
- FNS providing technology improvement grants to States to help update and strengthen systems. As an example, States are moving towards guided navigation to prompt accurate data entry or verification checks, as well as adding business rules based on policy, to reduce payment errors.
- FNS helping States with business process re-engineering efforts to streamline and add effective controls in their case management processes to help prevent improper payments before they occur.

In addition to FNS's efforts to prevent improper payments, SNAP works closely with State agencies to ensure claims are established and collected from over issuances in order to recoup misspent funds for the federal government. 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.

- 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.
  - Vendor rate: 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 along with information on vendor investigations by State WIC Agencies was used to prepare a statistically estimated improper payment amount for each subsequent year until the next vendor study. The WIC Vendor Management Study was replicated in FY 2012 with results available in late 2013. Beginning in FY 2013, FNS estimated the rates of overpayment and underpayment by applying the average annual percent changed in the rates from 2005 and 2012 to the estimated rates obtained in 2012 and subsequent years.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

- Certification rate: The National Survey of WIC Participants-II (NSWP-II) included a measurement of the amount of erroneous payments associated with certification error in FY 2009. WIC participants were interviewed and the household income at the time of benefit issuance was verified through the review of household income documents. The NSWP-II that contains a final estimate of erroneous payments due to certification error in FY 2009 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 WIC participants enrolled within a particular target month (April of 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.

- The **Child and Adult Care Food Program (CACFP)** include separate requirements for Child Care Centers, Adult Day Care centers, and Day Care Homes (DCHs). Overall program funding is provided to State agencies which, in turn, provide funds to institutions to pay for claims for reimbursable meals served at participating facilities. Institutions can be independent child or adult care centers, or sponsoring organizations of facilities, such as DCHs or child or adult care centers. Institutions and facilities range in size and can be as small as a household (DCHs). Each part of CACFP has its own reimbursement structure.

Payments and claim information are transferred among FNS, State agencies, program sponsor institutions, and program facilities; each such transaction represents a risk for improper payment. However, because requirements vary significantly for each different type of program operator (institutions and facilities), a comprehensive assessment of improper payments is extremely complex.

Recognizing that the agency was limited in resources needed to develop a measurement approach for program-wide erroneous payments in CACFP, FNS submitted a request for resources in the fiscal year (FY) 2006 budget process. The goal of the funding request was to conduct a nationally-representative CACFP erroneous payments program-wide study which would examine reimbursements for meals served and to develop program error measurements that complied with the requirements of the 2002 IPIA. Due to the complexities of the program, FNS estimated that it would cost \$20 million to measure improper payments at the precision required by IPIA. Although the FY 2006 Budget request included funds designated for the nationally-representative CACFP erroneous payments study, funds were not provided by Congress.

FNS has identified the DCH component of CACFP as potentially high risk, and measures error in this part of the program in lieu of the unfunded comprehensive measure. DCHs participate in CACFP through public or private nonprofit sponsoring organizations. DCH improper payments

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

are most likely caused by sponsor error in determining a participating home's reimbursement tier (*a tiering error*) or by DCH error in reporting the number of meals which are eligible for reimbursement (*a claiming error*).

**The following activities have informed FNS on improper payments in the DCH component of CACFP.**

- In July 2009 FNS issued the final report of the Child Care Assessment Project (CCAP). This project 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. Data were collected by FNS in cooperation with State agencies and sponsors administering the CACFP, during the period 2004-2007, from a broadly representative national sample of sponsors and providers. While the CCAP report identified areas of potential weakness in the local-level management of the CACFP in DCHs, it also raised questions about State and Federal oversight of CACFP—specifically, why existing review mechanisms do not identify some of the serious Program management weaknesses.
- Sponsor error measurement – Beginning in 2005 and annually through 2015, FNS measured the level of erroneous payments due to sponsor error for the two types of program reimbursement (Tier I and Tier II). Annual reports are available at <http://www.fns.usda.gov/report-finder>.

FNS released the report for FY 2015 in June 2017.

- Claiming error measurement – In addition to the annual sponsor error assessments, FNS has continued to use its limited available resources to explore potential methodologies to develop other measures of high-risk program components – in particular, the accuracy of meal claims in DCHs participating in CACFP.
- FNS contracted with Mathematica Policy Research, Inc. (MPR) to evaluate the feasibility of the three different data collection methods for validating FDCHs' meal reimbursement claims. The pilot-tested methods were based on observations of meal services, analysis of sign-in/sign-out (SISO) logs, and parent interviews. SISO logs were found ineffective for creating a valid indicator of the risk of erroneous payments. The 2009 report is at <http://www.fns.usda.gov/child-and-adult-care-food-program-cacfp-improper-payments-data-collection-pilot-project>.
- An expanded feasibility study was conducted in FY 2013 and FY 2014 to assess the validity of using parent-recall telephone interviews to develop estimates of the meals served to the children of the parents against meal claims reimbursed to DCH providers. This assessment found that parental recall of meals served to their children while in attendance at the DCH was unreliable due to a low match rate between parent-recalled meals and actual meals served. The study concluded that it was not feasible to use the parent recall data on specific meals (breakfast, morning snack, lunch, afternoon snack, supper, and evening snack) to estimate erroneous meal claims.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

- To strengthen the financial integrity process and work towards improving the balance of erroneous payments, FNS has conducted 11 assessments of CACFP, since 2005. CACFP Assessment of Sponsors Tiering Determinations is an evaluation that provides a national estimate of the share of CACFP participating DCHs approved for an incorrect level of per meal reimbursement based on Sponsor Tiering Determinations. This study assesses Sponsor Tiering Determinations for DCHs participating in the CACFP. The assessment evaluated DCHs that were misclassified by sponsoring agencies into the wrong tier, and the resulting erroneous payments for meals and snacks reimbursed at the wrong rate. The study will provide estimates of the percent of misclassified DCHs and the associated payment errors. The study was completed in the fall of 2016. The number of DCHs misclassified by sponsoring agencies and the resulting erroneous payments for meals and snacks reimbursed at the incorrect rate. The 2015 assessment produced results comparable to those of previous assessments. The estimates of misclassification rates, the cost of misclassification, and the meals reimbursed in error for the 2015 assessment are the lowest in 11 years. The final report is at <https://fns-prod.azureedge.net/sites/default/files/ops/CACFPTiering2015.pdf>.
- Given the low error rates identified by the Tiering studies, the stability of the estimates over time, and the high annual cost of data collection, the FY 2015 report will be the last annual report in the series. FNS will replace the annual series with periodic reports that will be supplemented with model-based estimates in non-study years. FNS awarded a contract in FY 2017, the CACFP Sponsor Tiering Determination Aging Study will use the tiering error estimates and data from previous assessments to “age,” or project the tiering error estimates for each year from 2016 through 2020. This evaluation will be conducted in lieu of new data collections between 2016 and 2020.
- Two additional CACFP studies related to improper payments were awarded in FY 2014:
  - **Erroneous Payments in CACFP Centers Study (EPICCS).** This study will provide a comprehensive measure of the level of erroneous payments (dollars and rates) to child care centers and center sponsors participating in CACFP. It builds on the methods developed for school meals in the Access, Participation, Eligibility and Certification (APEC) study series. Estimates will be designed to meet the measurement requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The findings from this study will complement the annual measure of reimbursement “tiering” errors in DCHs for IPERA reporting on CACFP. The estimated completion date for this study is late 2019.
  - **CACFP Day Care Homes Meal Claims Feasibility Study.** This study will examine ways to provide a measure of erroneous payments for meals claimed for reimbursement to DCHs participating in CACFP. Different methods of estimating improper payments and their rates will be developed and a feasibility study will be conducted in an effort to determine the best means to meet requirements under the IPERA. The estimated completion date for this study is March 2018.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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 developed the *Access, Participation, Eligibility and Certification (APEC)* study series, which collects and analyzes data from a nationally representative sample of schools and school food authorities (SFAs) about every 5 years. The APEC-I study, which collected data in School Year 2005-2006, found significant levels of program errors. APEC-II, which collected data in School Year 2012-2013, identified significant improvement in certain types of error, but overall program error remains high. APEC-III will begin to collect data in School Year 2017-2018. APEC allows FNS to develop a national estimate of erroneous payment rates and amounts in three key areas:

- **Certification errors** occur when a child is placed in the wrong meal reimbursement category, such as when a child who should receive reduced-price meals is certified for free meals;
- **Meal claiming errors** occur when meals are incorrectly categorized as reimbursable or non-reimbursable at the point of sale in the cafeteria, as when a required meal component, such as a carton of milk or a piece of fruit, is missing but the meal is counted as reimbursable; and
- **Aggregation errors** occur when a school or SFA tallies the number of reimbursable meals incorrectly and thus makes an error in the number of meals claimed for reimbursement.

The APEC-II study used a multistage-clustered sample design that first sampled SFAs, then schools served by the SFAs, and finally students who attend the sampled schools. The APEC-II researchers selected two independent samples: (1) a base sample to estimate improper payments in schools and districts that did not participate in the Community Eligibility Provision (CEP), and (2) a sample of SFAs and schools that participated in the CEP.

Base sample SFAs were stratified by State, prevalence of participation in the NSLP, the proportion of schools using Provision 2 or Provision 3, and the proportion of directly certified students. SFAs were selected using a probability proportional to size method. Data were collected from 130 SFAs, 387 public schools, and 5 private schools.

SFAs were selected from 5 States for the CEP sample. CEP SFAs were selected using probability proportional to size. The selection of schools for the CEP sample was done similarly to the selection of schools for the base sample. Data were collected from 45 CEP-participating SFAs and 135 CEP schools.

Students were selected for the base sample from separate frames of those approved for free or reduced-price meals and those who were denied certification. The study collected data from about 3,800 free and reduced-price certified students, and 600 students who were denied benefits.

Students were selected for the CEP sample from three frames: directly certified (“identified”) students, students certified by application, and non-applicants and denied applicants. The CEP sample consisted of 3,200 students.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

APEC data are collected through multiple means:

1. A SFA director survey,
2. A household survey completed through field interviews with the parent or guardian of students sampled,
3. In-school review of applications and direct certification documents,
4. Collection of student participation data from SFA records, and
5. Meal counting and claiming data during weeklong visits at SFAs through on-site observations.

The three types of error identified in the APEC studies differ significantly in their program impact. Certification errors result in families receiving benefits they are not entitled to or being denied benefits they should receive. In contrast, meal claiming errors occur when a meal is missing a required component but the meal is recorded and claimed as reimbursable. Because of the nature of the program reimbursement structure, the full value of a meal is counted as an erroneous payment. Finally, aggregation errors result in schools being reimbursed for too many or too few meals due to incorrect aggregation of the numbers of meals served.

FNS uses the findings from the APEC studies supplemented with administrative and other data to estimate erroneous payments due to certification error and meal counting and claiming 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 recovery of improper payments identified on the basis of a statistical sample or estimation procedure of the type used to develop the periodic APEC estimates and the annual updates to those estimates reported here.

**Certification Error**

As reported in USDA's FY 2016 Agency Financial Report (AFR), NSLP improper payments arising from misclassification of student eligibility for program benefits (free, reduced-price, or paid) totaled \$1.105 billion. Close to 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. The estimated certification error reported in the FY 2016 AFR for SBP is \$411 million.

- Misreporting Error – Household misreporting on school meal applications includes understating or overstating household income or household size.
- Administrative Error – Administrative errors are mistakes made by school personnel in processing applications, such as 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.

**Non-Certification Error:**

In FY 2016, NSLP improper payments of approximately \$715 million were due to the submission of claims for payments reflecting inaccurate counts of reimbursable meals. Most of these non-certification errors result from meals being claimed for reimbursement which do not meet Federal standards for the types and amounts of food served. The remaining non-certification errors arise from errors in the aggregation and submission of meal service data to school districts and State agencies. The estimate for non-certification error in the SBP is \$479 million.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017  
NOTES TO THE FINANCIAL STATEMENTS  
(Amounts shown are in Millions except as noted)

## **1. Measurement Issues**

USDA is pursuing the following in this area:

***Repeat and/or Enhance National Study:*** As part of its multifaceted program integrity initiatives, FNS awarded a contract in FY 2016 to conduct the third study in the APEC series, providing national data on rates and dollar amounts of NSLP and SBP underpayments, overpayments, and gross and net erroneous payments in School Year 2017-2018, using a methodology that will allow longitudinal comparisons among the three studies. APEC-III will replicate APEC-II and provide updated national estimates of erroneous payments in the NSLP and SBP; moreover, APEC-III will include the following additional study components:

1. Robust, statistically reliable national estimates of the annual amount of erroneous payments in NSLP and SBP among FNS-specified sub-groups;
2. A sub-study on the differences in error rates among SFAs using different implementation strategies in their school meals programs.
3. Qualitative data on the causes of erroneous payments.

***Additions to the Annual Estimation Model:*** FNS uses an econometric model to “age” the data from the nationally-representative APEC studies 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, was not built into the initial APEC study model because of data limitations. The Agency has placed a major focus on administrative efforts to improve counting and claiming, but has been 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. As part of the APEC-II study, the contractor developed statistical models designed to estimate national improper payments due to meal claiming error on an annual basis using district-level data. This will enable the FNS to update its estimates of national improper payment rates for the NSLP and SBP in future years without having to conduct full rounds of primary data collection.

## **2. Proposed Short-Term Strategies**

***Explore Data Matching Strategies:*** A recent Government Accountability Office report recommended that USDA explore electronically matching household-application information to other data sources—such as State income databases or public-assistance databases—to verify the accuracy and improve the certification process. FNS commissioned a white paper to review existing data systems and datasets (e.g., U.S. Housing and Urban Development program datasets or Unemployment Insurance data) to determine if any can be linked to application information in a manner that supports timely and accessible certifications and used as the basis for verification for cause and other error-reduction strategies. Only two means-tested programs were identified as potential data sources for improving future matching processes in the school meal programs: (1) the U.S. Department of Housing and Urban Development’s Public Housing Programs, and (2) the U.S. Department of Health and Human Services’ Low Income Home Energy Assistance Program (LIHEAP). However, State Agencies perceived a number of challenges to adding these means-tested programs to current matching processes. Many State Agencies

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

felt that it may not be cost effective to add these programs if there was a substantial overlap between households participating in these two programs and programs currently used in NSLP data matching. Further analysis of Survey of Income and Program Participation (SIPP) data revealed that almost all households with school age children that were receiving housing or energy assistance were also receiving food assistance or Medicaid benefits.

Additional information on FNS's IPIA activities can be found in the FY 2017 USDA Agency Financial Report.

The preceding tables summarize the results of measurement activities for FNS programs identified as subject to a significant risk of improper payments.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

**Preliminary Data as of 7/31/17 – FNS Measures for IPIA Reporting  
2017 Agency Financial Report**

					Program
FNS National School Lunch Program (NSLP) Total Program					FNS Supplemental Nutrition Assistance Program (SNAP)
3,960	11,995	11,995	11,995	N/A	Previous Year (PY) Outlays \$
22.48%	5.96%	9.21%	15.17%	N/A	PY Improper Payment (IP) %
890	715	1,105	1,820	N/A	PY IP \$
4,213	12,258	12,258	12,258	N/A	Current Year (CY) Outlays \$
77.25%	N/A	N/A	84.70%	N/A	CY Properly Paid %
22.75%	6.04%	9.26%	15.30%	N/A	CY IP %
3,254	N/A	N/A	10,383	N/A	CY Properly Paid \$
958	740	1,135	1,875	N/A	CY IP \$

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

760	588	784	1,372	N/A	CY Overpayments \$
79.31%	N/A	N/A	73.17%	N/A	CY % of Overpayment \$
198	152	351	503	N/A	CY Underpayment \$
20.69%	N/A	N/A	26.83%	N/A	CY % of Underpayment \$
4,488	N/A	N/A	12,415	N/A	CY +1 Est. Outlays \$
20.75%	N/A	N/A	14.08%	N/A	CY +1 Est. IP %
931	N/A	N/A	1,748	N/A	CY +1 Est. IP \$

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

**Preliminary Data as of 7/31/17 – FNS Measures for IPIA Reporting**  
**2017 Agency Financial Report**

					Program
					FNS SBP Certification Error
FNS SBP Counting/Claiming Error					
					Previous Year (PY) Outlays \$
N/A	N/A	4,335	3,960	3,960	PY Improper Payment (IP) %
1.91%	2.71%	4.79%	12.10%	10.39%	PY IP \$
87	123	208	479	411	Current Year (CY) Outlays \$
3,949	3,949	3,949	4,213	4,213	CY Properly Paid %
N/A	N/A	95.01%	N/A	N/A	CY IP %
2.49%	2.50%	4.99%	12.16%	10.59%	CY Properly Paid \$
N/A	N/A	3,752	N/A	N/A	CY IP \$
99	99	197	512	446	

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

17	99	115	461	290	CY Overpayment \$
N/A	N/A	58.42%	N/A	N/A	CY % of Overpayments \$
82	0	82	51	147	CY Underpayments \$
N/A	N/A	41.58%	N/A	N/A	CY % of underpayments \$
N/A	N/A	3,811	N/A	N/A	CY +1 Est. Outlays \$
N/A	N/A	3.88%	N/A	N/A	CY + 1 Est. IP %
N/A	N/A	148	N/A	N/A	CY + 1 Est. IP \$

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

**Preliminary Data as of 7/31/17 – FNS Measures for IPIA Reporting  
2017 Agency Financial Report**

			Program
			Previous Year (PY) Outlays \$
			PY Improper Payment (IP) %
			PY IP \$
			Current Year (CY) Outlays \$
			CY Properly Paid %
			CY IP %
			CY Properly Paid \$
			CY IP \$
			CY Overpayment \$
FNS CACFP FDCH – Meal Claims			
N/A	910	N/A	
N/A	.54%	N/A	
N/A	5	N/A	
N/A	845	N/A	
N/A	N/A	N/A	
N/A	.54%	N/A	
N/A	N/A	N/A	
N/A	5	N/A	
N/A	3	N/A	

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

N/A	N/A	N/A	CY % Overpayment
N/A	1	N/A	CY Underpayment \$
N/A	N/A	N/A	CY % Underpayment \$
N/A	N/A	N/A	CY +1 Est. Outlays \$
N/A	N/A	N/A	CY + 1 Est. IP %
N/A	N/A	N/A	CY + 1 Est. IP \$

**Note #1:** The SNAP error rate with reduction targets and root cause categories will be available in FY 2018.

**Note #2:** CACFP currently tests and reports on the Family Day Care Homes (FDCH) tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component. FNS has not set a date for measurement and reporting.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

## 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 2017 financial statements reflect the nutrition assistance programs' responsiveness to the Nation's 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.

### Balance Sheet

	2017		2016	
	Dollars (mil)	Percent	Dollars(mil)	Percent
Fund Balance With Treasury	49,011	99.31%	48,303	99.28%
Accounts Receivable	336	0.68%	346	0.71%
General PP& E	-	0.00%	-	0.00%
Other	3	0.01%	3	0.01%
<b>Total Assets</b>	<b>49,350</b>	<b>100.00%</b>	<b>48,652</b>	<b>100.00%</b>
Accounts Payable	7	0.01%	6	0.01%
Federal Employee and Veterans Benefits	9	0.02%	9	0.02%
Benefits Due and Payable	4,564	9.25%	4,541	9.33%
Other Liabilities	2,275	4.61%	2,098	4.31%
<b>Total Liabilities</b>	<b>6,905</b>	<b>13.99%</b>	<b>6,712</b>	<b>13.80%</b>
Unexpended Appropriations	42,329	85.77%	41,817	85.95%
Cumulative Results of Operations	116	0.24%	123	0.25%
<b>Total Net Position</b>	<b>42,445</b>	<b>86.01%</b>	<b>41,940</b>	<b>86.20%</b>
<b>Total Liabilities &amp; Net Position</b>	<b>49,350</b>	<b>100%</b>	<b>48,652</b>	<b>100%</b>

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2017 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - 99% in FY 2017 and 99% in FY 2016. 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” amounts remained unchanged from the prior year, and all commodity advances are being processed through direct fund cite. Accounts receivable levels remained relatively unchanged from 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 2017 and FY 2016 Net Position of the agency is concentrated in Unexpended Appropriations.

### **Statement of Net Cost**

	2017		2016	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Gross Cost	99,853	100.06%	102,371	100.07%
Less: Earned Revenue	(58)	-0.06%	(76)	-0.07%
Net Cost of Operations	99,795	100.00%	102,295	100.00%

The FNS mission addresses USDA Strategic Goal 4 “Ensure That All of America’s Children Have Access to Safe, Nutritious, and Balanced Meals”. All program costs are reported under that strategic goal. Gross Costs decreased from \$102,371 million in FY 2016 to \$99,853 million in FY 2017, reflecting the overall decrease 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) reimburses 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.

The Net Cost of Operations decreased from \$102,295 million in FY 2016 to \$99,795 million in FY 2017.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Amounts shown are in Millions except as noted)

## Statement of Changes in Net Position

	2017		2016	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Cumulative Results of Operations</b>				
Beginning Balance	123		88	
<b>Budgetary Financing Sources</b>				
Other Adjustments	(1)	0.00%	(2)	0.00%
Appropriations Used	89,253	89.44%	92,314	90.21%
Transfers In (Out) without Reimbursements	9,695	9.72%	9,153	8.94%
<b>Other Financing Sources</b>				
Imputed Financing	840	0.84%	865	0.85%
Total Financing Sources	<u>99,787</u>	<u>100.00%</u>	<u>102,330</u>	<u>100.00%</u>
Less: Net Cost of Operations	99,795		102,295	
<b>Cumulative Results of Operations</b>				
Ending Balance	<u>116</u>		<u>123</u>	
Net Change	(8)		35	
<b>Unexpended Appropriations</b>				
Beginning Balance	41,817		36,811	
Appropriations Received	98,637		101,096	
Appropriations Transferred in/out	0		0	
Adjustments	(8,871)		(3,776)	
Appropriations Used	<u>(89,254)</u>		<u>(92,314)</u>	
Total: Financing Sources	512		5,006	
Ending Balance	<u>42,329</u>		<u>41,817</u>	
Total Net Position	42,445		41,940	

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 2017 appropriations used was \$89,254 million, which decreased \$3,060 million from FY 2016, based on actual participation levels and food costs.

Cumulative Results of Operations decreased \$7 million, from \$123 million in FY 2016 to \$116 million in FY 2017, as the net cost of operations is more than the total financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

relatively unchanged from FY 2016 to FY 2017. 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 ten percent of total financing sources in FY 2017 and nine percent in FY 2016.

Unexpended Appropriations increased from \$41,817 million in FY 2016 to \$42,329 million in FY 2017 as less carryover appropriation balances were expended in the current year. Adjustments which increased from \$3,776 million in FY 2016 to \$8,871 million in FY 2017 are due to permanent reductions and cancellations of expired accounts.

### **Statement of Budgetary Resources**

	2017		2016	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Budgetary Resources</b>				
Unobligated Balance, brought Forward, Oct 1	39,105	27.86%	34,288	24.01%
Recoveries of Unpaid Prior Year Obligations	1,758	1.25%	1,956	1.37%
Other Changes In Unobligated Balances	-8,004	-5.70%	-3,542	-2.48%
Appropriations	107,466	76.55%	110,014	77.04%
Spending Authority from Offsetting Collections	59	0.04%	77	0.05%
Total Budgetary Resources	140,384	100.00%	142,793	100.00%
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments	100,988	71.94%	103,688	72.61%
Apportioned, Unexpired Accounts	6,851	4.90%	6,085	4.26%
Unapportioned, Unexpired Accounts	8,889	6.33%	6,168	4.32%
Expired, Unobligated Balance End of Year	23,656	16.85%	26,852	18.80%
Total Budgetary Resources	140,384	100%	142,793	100%
Net Outlays	98,762	70.35%	101,463	71.06%

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Appropriations were decreased from \$110,014 million in FY 2016 to \$107,466 million in FY 2017. Total budgetary resources were lower than in the prior year due primarily to a decrease in appropriated funds. FNS had \$140,384 million in total budgetary resources during FY 2017, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods.

At fiscal yearend 2017, most \$100,988 million or 72% of those resources were obligated, though \$6,851 million or 5% remained unobligated and available, and another \$32,545 million was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2017, Net Outlays represented 70% of Total Budgetary Resources, compared to 71% in FY 2016.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

## Food and Nutrition Service

CONSOLIDATED BALANCE SHEET  
As of September 30, 2017 (CY) and 2016 (PY)  
(Dollars in Millions)

	FY 2017 (CY)	FY 2016 (PY)
<b>Assets (Note 2):</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 49,011	\$ 48,303
Other (Note 6)	3	3
Total Intragovernmental	<u>49,014</u>	<u>48,306</u>
Accounts Receivable, net (Note 4)	336	346
General Plant, Property, and Equipment, net (Note 5)	-	-
Other (Note 6)	-	-
Total Assets	<u><u>\$ 49,350</u></u>	<u><u>\$ 48,652</u></u>
<b>Liabilities (Note 7):</b>		
Intragovernmental:		
Accounts Payable	\$ -	\$ -
Other (Note 8)	<u>50</u>	<u>58</u>
Total Intragovernmental	<u>50</u>	<u>58</u>
Accounts Payable	7	6
Federal Employee and Veterans Benefits	9	9
Benefits Due and Payable	4,564	4,541
Other (Note 8)	<u>2,275</u>	<u>2,098</u>
Total Liabilities	<u>6,905</u>	<u>6,712</u>
<b>Net Position:</b>		
Unexpended Appropriations -		
Other Funds	42,329	41,817
Cumulative Results of Operations -		
Other Funds	<u>116</u>	<u>123</u>
Total Net Position	<u><u>\$ 42,445</u></u>	<u><u>\$ 41,940</u></u>
Total Liabilities and Net Position	<u><u>\$ 49,350</u></u>	<u><u>\$ 48,652</u></u>

The accompanying notes are an integral part of these statements.

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

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## 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, 2017 (CY) and 2016 (PY)  
(Dollars in Millions)

	FY 2017 (CY)	FY 2016 (PY)
<b>Program Costs:</b>		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 9 and 10)	\$ 99,853	\$ 102,371
Less: Earned Revenue	58	76
Net Program Costs	99,795	102,295
Net Cost of Operations	\$ 99,795	\$ 102,295

The accompanying notes are an integral part of these statements.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## 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, 2017 (CY) and 2016 (PY)  
(Dollars in Millions)

	FY 2017 (CY)	FY 2016 (PY)
<b>Cumulative Results of Operations:</b>		
Beginning Balance	\$ 123	\$ 88
Beginning Balance, as adjusted	123	88
<b>Budgetary Financing Sources:</b>		
Other Adjustments	(1)	(2)
Appropriations Used	89,253	92,314
Transfers in/out without reimbursement	9,695	9,153
Other	-	-
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing	840	865
<b>Total Financing Sources</b>	<hr/> 99,787	<hr/> 102,330
<b>Less: Net Cost of Operations</b>	<hr/> 99,795	<hr/> 102,295
<b>Net Change</b>	<hr/> (8)	<hr/> 35
<b>Cumulative Results of Operations</b>	116	123
<b>Unexpended Appropriations:</b>		
Beginning Balance	41,817	36,811
Beginning Balance, as adjusted:	41,817	36,811
<b>Budgetary Financing Sources:</b>		
Appropriations Received	98,637	101,096
Appropriations Transferred in/out	-	-
Other Adjustments	(8,871)	(3,776)
Appropriations Used	<hr/> (89,254)	<hr/> (92,314)
Total Budgetary Financing Sources	<hr/> 512	<hr/> 5,006
<b>Total Unexpended Appropriations</b>	<hr/> 42,329	<hr/> 41,817
<b>Net Position</b>	<hr/> <b>\$ 42,445</b>	<hr/> <b>\$ 41,940</b>

The accompanying notes are an integral part of these statements.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service  
**CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES**  
For the years ended September 30, 2017 (CY) and 2016 (PY)

(Dollars in Millions)

	FY 2017 (CY)	FY 2016 (PY)
<b>Budgetary Resources:</b>		
Unobligated balance, brought forward, October 1:	\$ 39,105	\$ 34,288
Adjustments to unobligated balance brought forward, October 1	-	-
Unobligated Balance brought forward, October 1, as adjusted	39,105	34,288
Recoveries of unpaid prior year obligations	1,758	1,956
Other Changes in unobligated balance (+ or -)	(8,004)	(3,542)
Unobligated balance from prior year budget authority, net	32,859	32,702
Appropriations (discretionary and mandatory)	107,466	110,014
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending Authority from offsetting collections (discretionary and mandatory)	59	77
<b>Total Budgetary Resources</b>	<b>140,384</b>	<b>142,793</b>
 <b>Status of Budgetary Resources:</b>		
New Obligations and upward adjustments (total) (Note 12)	100,988	103,688
Unobligated balance, end of year	-	-
Apportioned, unexpired accounts	6,851	6,085
Exempt from apportionment, unexpired accounts	-	-
Unapportioned, unexpired accounts	8,889	6,168
Unexpired, unobligated balance, end of year	15,740	12,253
Expired, unobligated balance, end of year	23,656	26,852
<b>Unobligated balance, end of year (total)</b>	<b>39,396</b>	<b>39,105</b>
<b>Total budgetary resources</b>	<b>140,384</b>	<b>142,793</b>

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

## Change in Obligated Balances:

## Unpaid Obligations:

Unpaid obligations, brought forward, October 1	9,173	8,980
Adjustment to unpaid obligated balance, start of year (+ or -)	-	-
New Obligations and upward adjustments	100,988	103,688

Outlays (gross) (-)	(98,816)	(101,539)
Actual transfer, unpaid obligations (net) (+ or -)	-	-
Recoveries of prior year unpaid obligations (-)	(1,758)	(1,956)
Unpaid obligations, end of year	9,587	9,173

## Uncollected payments:

Uncollected payments, Federal sources, brought forward, October 1 (-)	<u>(3)</u>	<u>(2)</u>
Adjustments to uncollected payments, Federal sources, start of year (+ or -)	-	-
Change in uncollected payments, Federal sources (+ or -)	<u>(1)</u>	<u>(1)</u>
Actual transfer, uncollected payments, Federal sources (net) (+ or -)	-	-
Uncollected payments, Federal sources, end of year (-)	<u>(4)</u>	<u>(3)</u>

## Memorandum (non-add) entries:

Obligated balance, start of the year (+ or -)	<u>9,170</u>	<u>8,978</u>
Obligated balance, end of year (+ or -)	<u>9,583</u>	<u>9,170</u>

## Budget Authority and Outlays, Net:

Budget Authority, gross (discretionary and mandatory)	107,525	110,091
Actual offsetting collections (discretionary and mandatory) (-)	<u>(59)</u>	<u>(77)</u>
Change in uncollected payments Federal sources (discretionary and mandatory) (+ or -)	<u>(1)</u>	<u>(1)</u>
Recoveries of prior year paid obligations (discretionary and mandatory)	1	1
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-
Budget Authority, net (total) (discretionary and mandatory)	<u>107,466</u>	<u>110,014</u>

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Outlays, gross (discretionary and mandatory)	98,816	101,539
Actual offsetting collections (discretionary and mandatory) (-)	(59)	(77)
Outlays, net (discretionary and mandatory)	98,757	101,462
Distributed offsetting receipts (-)	<u>5</u>	<u>1</u>
Agency outlays, net (discretionary and mandatory)	<u>98,762</u>	<u>101,463</u>

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017  
NOTES TO THE FINANCIAL STATEMENTS  
(Amounts shown are in Millions except as noted)

## 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 FNS, as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated August 15, 2017. 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.

#### 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 19 field offices/satellite locations. 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 2017 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 \$336 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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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 2017, 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 Supplemental Nutrition Assistance Program (SNAP) is using data from the Quality Control (QC) system to report SNAP improper payments and to support SNAP administration. The data is based upon a statistically valid methodology and the sampling plan has been approved by the Office of Management and Budget (OMB). The QC system uses a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate consists 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 included 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.

In a September 2015 report, the USDA Office of Inspector General raised a number of concerns regarding the reliability of State reported data into FNS's Quality Control (QC) system. Prior to the report, in April 2015, FNS initiated a thorough review of the Quality Control system in all 53 State agencies. Those reviews were completed in September 2016. In November 2016, FNS did not issue a payment error rate due to the data reliability issues found in 42 of 53 SNAP State agencies. FNS required all 42 SNAP State agencies with deficiencies to implement a corrective action plan. Furthermore, FNS implemented a robust package of new policies, training, and procedural modifications to strengthen the controls over state error rate reporting in order to report a FY 2017 payment error rate by June 30, 2018. In September 2015, FNS sent a letter to each State Commissioner encouraging them to initiate an internal review of State procedures to ensure QC procedures were free of bias. FNS issued guidance to all States reiterating expectations to ensure the highest program integrity, including restating prohibited practices. FNS also implemented robust procedural changes to strengthen the controls over State error reporting.

FNS continues to provide on-going reviews of all State agency QC systems and offers technical assistance as necessary. If FNS identifies procedures that do not meet Federal requirements, States are required to undertake specific corrective action and FNS monitors their progress. If a State does not meet these corrective actions to FNS' satisfaction, it may result in possible suspension or disallowance of Federal cost share funding for State administrative expenses.

Because reliable data is not available addressing gross FNS accounts receivable, the SNAP QC estimate of SNAP benefits over issued nationwide provided the best statistically valid estimate of invalid program payments. 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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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.

**E. Grants and Program Benefits**

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. FNS records grant obligations based on the grant awards and SNAP benefits based on the issuance of benefits to Account Management Agent (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 both CSRS and FERS total plans. 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:

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Type of Contribution	FNS Retirement Contributions (In Millions)	
	2017	2016
CSRS/Transitional retirement contributions - Civil Service	\$1.0	\$1.0
FERS regular contributions	\$19.0	\$17.6
Thrift Savings Plan contributions	\$6.0	\$5.7
<b>TOTAL</b>	<b>\$26.0</b>	<b>\$24.3</b>

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

Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. 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.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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

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 obligate 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 2017 financial statements. FNS receives allocation transfers, as the child, from the Agricultural Marketing Service (AMS) and the Commodity Credit Corporation (CCC).

L. Electronic Benefit Transfer (EBT) Fiscal Year Integrity Adjustment

Under the Integrated Program Accounting System (IPAS), FNS developed a methodology to estimate the balance of SNAP benefit funds (undelivered orders) that remained from prior fiscal years due to inactive participant balances. From this estimate, an adjustment, referred to as the EBT Fiscal Year Integrity Adjustment, was made at year-end in IPAS to more accurately reflect the unredeemed EBT benefit balances by fiscal year of issue. This adjustment was necessary to properly match undelivered orders and payments, which may cause SNAP funds to be used differently than authorized by the Appropriation Acts.

In May 2015, FNS switched accounting systems to the Financial Management Modernization Initiative (FMMI) and is without an implemented methodology or procedure to complete this adjustment.

For FY 2017, FNS estimates that an adjustment of \$432 is needed in total disbursements related to SNAP benefit redemptions from the FY 2017 SNAP appropriation to the FY 2016 SNAP appropriation. This would bring actual expenditures for those two years into line with anticipated expenditures as authorized by the SNAP appropriations.

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 2. Non-Entity Assets

	FY 2017	FY 2016
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	46	41
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related property	-	-
Other	-	-
Total With the Public	46	41
Total non-entity assets	46	41
Total entity assets	49,304	48,611
<b>Total assets</b>	<b>\$ 49,350</b>	<b>\$ 48,652</b>

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

	FY 2017	FY 2016
Fund Balances:		
Trust Funds	\$ -	\$ -
Revolving Funds	-	-
Appropriated Funds	48,979	48,275
Other Fund Types	32	28
<b>Total</b>	<b>49,011</b>	<b>48,303</b>

## Status of Fund Balance with Treasury:

## Unobligated Balance:

Available	6,851	6,085
Unavailable	32,545	33,020
Obligated Balance not yet Disbursed	9,583	9,170
Non-Budgetary Fund Balance with Treasury:	32	28
<b>Total</b>	<b>\$ 49,011</b>	<b>\$ 48,303</b>

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 4. Accounts Receivable, Net

FY 2017	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 357	\$ 21	\$ 336
Total	\$ 357	\$ 21	\$ 336

FY 2016	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 353	\$ 7	\$ 346
Total	\$ 353	\$ 7	\$ 346

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

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## 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 2017 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 2017	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	5-20	4	4	-
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5-8	-	-	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 4	\$ 4	\$ -

FY 2016	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	5-20	5	5	-
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5-8	3	3	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
Total		\$ 8	\$ 8	\$ -

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 6. Other Assets

	FY 2017	FY 2016
Intragovernmental:		
Advances to Others	\$ 3	\$ 3
Prepayments	-	-
Other Assets	-	-
Total Intragovernmental	3	3
With the Public:		
Advances to Others	-	-
Prepayments	-	-
Other Assets	-	-
Total With the Public	-	-
<b>Total Other Assets</b>	<b>\$ 3</b>	<b>\$ 3</b>

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

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 7. Liabilities Not Covered by Budgetary Resources

	FY 2017	FY 2016
Intragovernmental:		
Accounts payable	\$ -	\$ -
Debt	- -	- -
Other	2	2
Total Intragovernmental	2	2
With the Public:		
Accounts Payable	- -	- -
Debt held by the public	- -	- -
Federal employee and veterans' benefits	9	9
Environmental and disposal liabilities	- -	- -
Benefits due and payable	- -	- -
Other	15	14
Total With the Public	24	23
 Total liabilities not covered by budgetary resources	 26	 25
 Total liabilities covered by budgetary resources	 6,879	 6,687
 <b>Total liabilities</b>	 <b>\$ 6,905</b>	 <b>\$ 6,712</b>

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

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 8. Other Liabilities

FY 2017	Non-Current	Current	Total
<b>Intragovernmental:</b>			
Contract Holdbacks	\$ -	\$ -	\$ -
Other Liabilities with Related Budgetary Obligations	-	3	3
Employer Contributions and Payroll Taxes	-	2	2
Other Post-Employment Benefits Due and Payable	-	-	-
Unfunded FECA Liability	-	1	1
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	(2)	(2)
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Resources Payable to Treasury	-	-	-
Custodial Liability	-	46	46
<u>Other Liabilities without Related Budgetary Obligations</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Intragovernmental	-	50	50
<b>With the Public:</b>			
Contract Holdbacks	-	-	-
Other Liabilities with Related Budgetary Obligations	-	2,218	2,218
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	-	15	15
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	(3)	(3)
Liab. for nonfiduciary deposit funds & undeposited collections	-	36	36
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Custodial Liability	-	-	-
<u>Other Liabilities without Related Budgetary Obligations</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total With the Public	-	2,275	2,275
<b>Total Other Liabilities</b>	<b>\$ -</b>	<b>\$ 2,325</b>	<b>\$ 2,325</b>

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FY 2016		Non-Current	Current	Total
<b>Intragovernmental:</b>				
Contract Holdbacks	\$ -	\$ -	\$ -	\$ -
Other Liabilities with Related Budgetary Obligations	-	13	-	13
Employer Contributions and Payroll Taxes	-	2	-	2
Other Post-Employment Benefits Due and Payable	-	-	-	-
Unfunded FECA Liability	-	2	-	2
Other Unfunded Employment Related Liability	-	-	-	-
Liability for Advances and Prepayments	-	-	-	-
Deferred Credits	-	-	-	-
Liability for 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	-	41	-	41
<b>Other Liabilities without Related Budgetary Obligations</b>	-	-	-	-
<b>Total Intragovernmental</b>	-	58	-	58
<b>With the Public:</b>				
Contract Holdbacks	-	-	-	-
Other Liabilities with Related Budgetary Obligations	-	2,048	-	2,048
Accrued Funded Payroll and Leave	-	8	-	8
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	-	14	-	14
Other Unfunded Employment Related Liability	-	-	-	-
Liability for Advances and Prepayments	-	-	-	-
Deferred Credits	-	-	-	-
Liability for Clearing Accounts	-	-	-	-
Liab. for nonfiduciary deposit funds & undeposited collections	-	28	-	28
Contingent Liabilities	-	-	-	-
Capital Lease Liability	-	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-	-
Custodial Liability	-	-	-	-
<b>Other Liabilities without Related Budgetary Obligations</b>	-	-	-	-
<b>Total With the Public</b>	-	2,098	-	2,098
<b>Total Other Liabilities</b>	\$ -	\$ 2,156	\$ -	\$ 2,156

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 9. Intragovernmental Cost and Exchange Revenue

<b>Child Nutrition</b>	FY 2017	FY 2016
Intragovernmental Costs	\$ 499	\$ 510
Public Costs	\$ 22,518	\$ 21,989
Total Costs	\$ 23,017	\$ 22,499
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ -
<b>SNAP</b>		
Intragovernmental Costs	\$ 335	\$ 348
Public Costs	\$ 70,034	\$ 72,829
Total Costs	\$ 70,369	\$ 73,177
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ 58	\$ 75
Total Earned Revenue	\$ 58	\$ 75
<b>Other</b>		
Intragovernmental Costs	\$ 116	\$ 123
Public Costs	\$ 106	\$ 105
Total Costs	\$ 222	\$ 228
Intragovernmental Earned Revenue	\$ -	\$ 1
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ 1
<b>Women, Infants &amp; Children</b>		
Intragovernmental Costs	\$ 3	\$ 3
Public Costs	\$ 5,939	\$ 6,169
Total Costs	\$ 5,942	\$ 6,172
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ -

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

<b>Commodity Assistance Program</b>	FY 2017	FY 2016
Intragovernmental Costs	\$ 2	\$ 3
Public Costs	\$ 301	\$ 292
Total Costs	\$ 303	\$ 295
Intragovernmental Earned Revenue	\$ -	\$ -
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ -

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

Note 10. Program Costs By Segment

For the year ended September 30, 2017

	CHILD NUTRITION	SNAP	WIC	CAP	OTHER	Consolidated Total
<b>Total Gross Costs</b>	<b>23,017</b>	<b>70,369</b>	<b>5,942</b>	<b>303</b>	<b>222</b>	<b>99,853</b>
<b>Less Earned Revenue:</b>	<b>0</b>	<b>58</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58</b>
<b>Net Goal Costs:</b>	<b>23,017</b>	<b>70,311</b>	<b>5,942</b>	<b>303</b>	<b>222</b>	<b>99,795</b>
<b>Net Cost of Operations</b>						<b>99,795</b>

For the year ended September 30, 2016

	CHILD NUTRITION	SNAP	WIC	CAP	OTHER	Consolidated Total
<b>Total Gross Costs</b>	<b>22,499</b>	<b>73,177</b>	<b>6,172</b>	<b>295</b>	<b>228</b>	<b>102,371</b>
<b>Less Earned Revenue:</b>	<b>0</b>	<b>75</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>76</b>
<b>Net Goal Costs:</b>	<b>22,499</b>	<b>73,102</b>	<b>6,172</b>	<b>295</b>	<b>227</b>	<b>102,295</b>
<b>Net Cost of Operations</b>						<b>102,295</b>

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 11. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$58 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 2017, one State participated in this program, which generated earned revenues of \$58.

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

FY 2017	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 33,877	\$ -	\$ 33,877
Apportionment for Special Activities	67,053	58	67,111
Exempt from Apportionment	-	-	-
<b>Total Obligations Incurred</b>	<b>\$ 100,930</b>	<b>\$ 58</b>	<b>\$ 100,988</b>

FY 2016	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 32,712	\$ 1	\$ 32,713
Apportionment for Special Activities	70,900	75	70,975
Exempt from Apportionment	-	-	-
<b>Total Obligations Incurred</b>	<b>\$ 103,612</b>	<b>\$ 76</b>	<b>\$ 103,688</b>

Note 13. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2017 and 2016 was \$ 2.8 billion and \$2.6 billion, respectively.

Note 14. Explanation of Differences between the SBR and the Budget of the US Government

Differences exist between FNS' FY 2016 Statement of Budgetary Resources (as provided to the Department for consolidation purposes) and the FY 2016 actual numbers presented in the FY 2018 Budget of the United State Government (Budget). These differences are summarized below:

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Description	Budgetary Resources	Outlays
2016 SBR	\$142,793	\$101,462
Less: Expired Accounts not Included in Budget	\$26,999	\$-
Add: Parent Child Relationship (NIFA)	\$8	\$4
Less: Differences due to Rounding	\$1	\$-
Less: Permanent Reduction Error	\$-	\$24
Budget of the U.S. Government	\$115,801	\$101,442

The actual numbers for the FY President's Budget have not yet been published as of FNS' FY 2017 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at [www.whitehouse.gov](http://www.whitehouse.gov).

#### Note 15. Incidental Custodial Collections

Revenue Activity:	FY 2017	FY 2016
Sources of Cash Collections:		
Miscellaneous	\$ 15	\$ 6
Total Cash Collections	15	6
Accrual Adjustments (+/-)	5	(1)
Total Custodial Revenue	20	5
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
( Increase )/Decrease in Amounts Yet to be Transferred (+/-)	(20)	(5)
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2017 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.

**FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Amounts shown are in Millions except as noted)

**Note 16. Reconciliation of Net Cost of Operations (proprietary) to Budget**

	<u>FY 2017</u>	<u>FY 2016</u>
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 100,988	\$ 103,688
Less: Spending authority from offsetting collections and recoveries	1,819	2,034
	-----	-----
Obligations net of offsetting collections and recoveries	99,169	101,654
Less: Distributed Offsetting Receipts	(5)	-
	-----	-----
Net Obligations	99,174	101,654
	-----	-----
<b>Other Resources</b>		
Donations and forfeitures of property	-	-
Transfers in (out) without reimbursement	-	-
Imputed financing from costs absorbed by others	840	865
Other	-	-
	-----	-----
Net other resources used to finance activities	840	865
	-----	-----
<b>Total resources used to finance activities</b>	<b><u>FY 2017</u></b>	<b><u>FY 2016</u></b>
	100,014	102,519
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(230)	(204)
Resources that fund expenses recognized in prior periods	1	1
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increases liabilities for loan guarantees or allowances for subsidy	-	-
Change in Unfilled Customer Orders	1	1
Decrease in exchange revenue receivable from the public	-	-
Other	-	-
Resources that finance the acquisition of assets	1	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(5)	(1)
	-----	-----
<b>Total resources used to finance items not part of the net cost of operations</b>	<b>(232)</b>	<b>(203)</b>
	-----	-----
<b>Total resources used to finance the net cost of operations</b>	<b>99,782</b>	<b>102,316</b>
<b>Components of the Net Cost of Operations that will not require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		

## FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Increase in annual leave liability	-	1
Increase in environmental and disposal liability	-	-
Upward/Downward re-estimates of credit subsidy expense	-	-
Increase in exchange revenue receivable from the public	(1)	-
Other	1	(8)
	-----	-----
Total components of Net Cost of Operations that will require or generate resources in future periods	-	(7)
Components not Requiring or Generating Resources:		
Depreciation and amortization	-	-
Revaluation of assets or liabilities	-	-
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	13	(14)
Cost of Goods Sold	-	-
Other	-	-
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources	13	(14)
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources in the current period	13	(21)
	-----	-----
Net Cost of Operations	\$ 99,795	\$102,295
	=====	=====

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2017

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

**FOOD AND NUTRITION SERVICE  
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION  
STEWARDSHIP INVESTMENTS**

**Nonfederal Physical Property**

1. A. Supplemental Nutrition Assistance Program (SNAP)

B. Program Expense	<u>2017</u>	<u>2016</u>
1. ADP Equipment & Systems	\$21	\$19

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>2017</u>	<u>2016</u>
1. ADP Equipment & Systems	\$6	\$6

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.

**Human Capital**

1. A. Supplemental Nutrition Assistance Program

B. Program Expense	<u>2017</u>	<u>2016</u>
1. Employment and Training	\$83	\$104

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 369,576 work registrants subject to the 3 - month SNAP participant limit and 947,487 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

**Learn more about USDA OIG**

Visit our website: [www.usda.gov/oig/index.htm](http://www.usda.gov/oig/index.htm)

Follow us on Twitter: @OIGUSDA

**How to Report Suspected Wrongdoing in USDA Programs**

**Fraud, Waste, and Abuse**

File complaint online: [www.usda.gov/oig/hotline.htm](http://www.usda.gov/oig/hotline.htm)

**Monday–Friday, 9:00 a.m.– 3:00 p.m. ET**

In Washington, DC 202-690-1622

Outside DC 800-424-9121

TDD (Call Collect) 202-690-1202

**Bribes or Gratuities**

202-720-7257 (24 hours)



In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET

Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at How to File a Program Discrimination Complaint and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: [program.intake@usda.gov](mailto:program.intake@usda.gov).

USDA is an equal opportunity provider, employer, and lender.