



United States Department of Agriculture

Food and Nutrition Service's Financial Statements for Fiscal Years 2016 and 2015





Food and Nutrition Service's Financial Statements for Fiscal Years 2016 and 2015 Audit Report 27401-0001-11

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.

REVIEWED

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

RECOMMENDS

This report does not include any recommendations.

OIG audited the consolidated financial statements of FNS for fiscal years 2016 and 2015.

WHAT OIG FOUND

The 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 2016 and 2015 present FNS' financial position as of September 30, 2016 and 2015 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.

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 of 2002, as amended by the Improper Payment Elimination and Recovery Act of 2010.



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



DATE: November 18, 2016

AUDIT
NUMBER: 27401-0001-11

TO: Audrey Rowe
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 2016 and 2015

This report represents the results of our audit of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2016 and 2015. 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.

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Independent Auditor’s Report

Audrey Rowe
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 2016 and 2015. 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 effect on the determination of material financial statement amounts and disclosures on these consolidated financial statements.

Exhibit A of this report provides an update to a previously reported instance of noncompliance with laws and regulations.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of FNS, which are comprised of the consolidated balance sheets as of September 30, 2016 and 2015, 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 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 15-02 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, 2016 and 2015, 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 a 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 15-02 requires us to describe significant deficiencies and material weaknesses identified during our audit; and in the event that no material weaknesses were identified, to so report. Neither FNS' *FMFIA Report on Management Control*, nor our fiscal years 2016 and 2015 financial statement audits identified material weaknesses that relate to financial reporting.

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 financial statement amounts and disclosures. 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 50024-0009-11, *USDA's Fiscal Year 2015 Compliance with Improper Payment Requirements*, issued May 13, 2016, OIG identified that FNS' high-risk programs were not compliant with the requirements of the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, OIG reported FNS' non-compliances with IPERA because the Child and Adult Care Food Program did not publish a comprehensive improper payment estimate, which included the tiering decisions, but not the meal claims component; Supplemental Nutrition Assistance Program, National School Lunch Program (NSLP), and Special Supplemental Nutrition Program for Women, Infants, and Children did not meet annual reduction targets; and School Breakfast Program 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 financial statement amounts and disclosures.

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 financial statement amounts and disclosures that we deemed applicable to FNS' financial statements for the fiscal year ended September 30, 2016. 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, 2016. 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 result 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 4, 2016

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's 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 |
| 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, 2016, is summarized below:

| Reported Condition Fiscal Year 2015 | Fiscal Year 2016 Status |
|--|--|
| 1. FNS Noncompliant with IPERA | Open— OIG will complete a follow-up audit in May 2017 |

**Food and Nutrition Service's
Fiscal Years 2016 and 2015
Financial Statements
Prepared by
Food and Nutrition Service**

MANAGEMENT DISCUSSION AND ANALYSIS

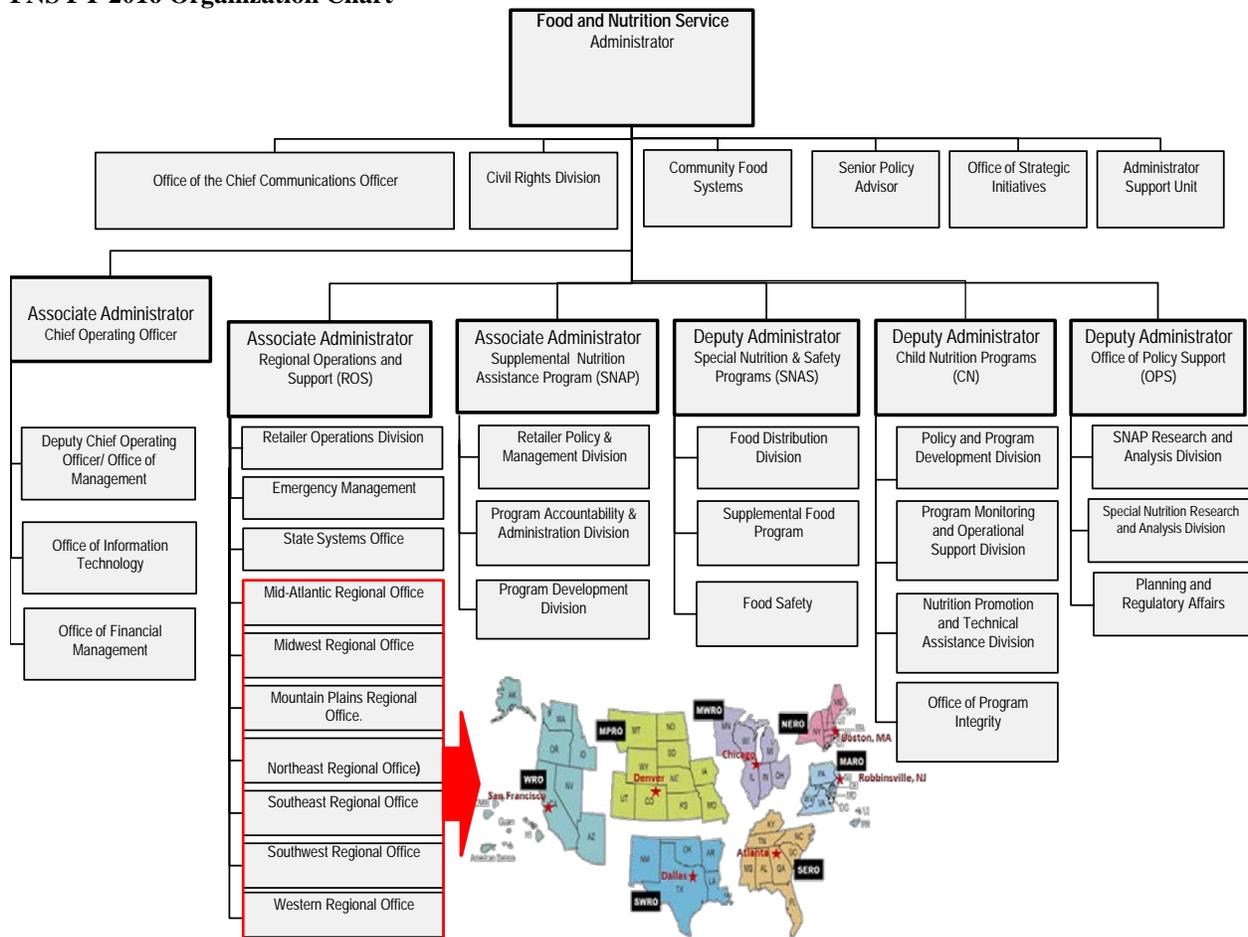
SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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

FNS is the Federal agency responsible for managing the 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 the best evidence-based scientific research to the needs of consumers.

FNS FY 2016 Organization Chart



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 Nation’s nutrition and health of 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 47 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 distributes USDA-purchased foods as an alternative to SNAP for Indian households living on or near reservations. 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 commodities distributed through the program, and cash payments for administrative expenses.
- *Child Nutrition Programs (CNP):* The Child Nutrition Programs - National School Lunch (NSLP), School Breakfast (SBP), Special Milk (SMP), Child and Adult Care Food (CACFP), and Summer Food Service (SFSP) - provide reimbursement to State and local governments for nutritious meals and snacks served to almost 34 million children in schools, child care institutions, 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.
- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC):* WIC addresses the supplemental nutritional needs of at-risk, low-income pregnant, breastfeeding and postpartum

women, infants and children up to five years of age. It provides participants monthly supplemental food packages targeted to their dietary needs, breastfeeding support to nursing mothers, nutrition education, and referrals to a range of health and social services – benefits that promote a healthy pregnancy for mothers and a healthy start for their children. Appropriated funds are provided to States for food packages and nutrition services and administration for the program; States operate the program pursuant to plans approved by FNS. 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 additional fresh produce to WIC participants.

- *The Emergency Food Assistance Program (TEFAP):* This program supports the emergency food organization network by distributing USDA-purchased food for use by emergency feeding organizations including soup kitchens, food recovery organizations, and food banks. TEFAP also provides administrative funds to defray costs associated with processing, repackaging, storage, and distribution of Federal and privately donated food. The allocation of both Federal food and administrative grants to States is based on a formula that considers the States' unemployment levels and the number of persons with income below the poverty level.
- *The Commodity Supplemental Food Program (CSFP):* This program provides foods purchased by USDA to low-income senior citizens and in some cases low-income infants and children up to age six, low-income pregnant and postpartum women. In recent years, there has been a shift towards low-income elderly in this program; in FY 2014, elderly participation comprised almost 98 percent of total participation. The Agriculture Act of 2014 discontinued the admission of new pregnant and postpartum women and children into the program. Those already in the program can continue to receive assistance until they are no longer eligible. Foods are distributed through State agencies to supplement food acquired by recipients from other sources. The CSFP is operated as a Federal/State partnership under agreements between FNS and State health care, agricultural or education agencies. In FY 2014, 39 States, the District of Columbia, and two Indian reservations operate CSFP.
- *Senior Farmers' Market Nutrition Program (SFMNP):* This program provides coupons to low-income seniors that can be exchanged for fresh, nutritious, unprepared, locally grown fruits, vegetables and herbs at farmers' market, roadside stands, and community-supported agriculture programs.
- *Pacific Island and Disaster Assistance:* Pacific Island Assistance includes assistance to the nuclear-affected zones of the Republic of the Marshall Islands in the form of USDA purchased food, or cash-in-lieu of food, and administrative funds and is authorized under the Compact of Free Association Amendments Act of 2003, (P.L. 108-188). Disaster relief funds are provided for use in non-Presidentially declared disasters.

Federal nutrition assistance programs operate as partnerships between FNS and the State and local organizations that interact directly with program participants. States voluntarily enter into agreements with the Federal Government to operate programs according to Federal standards in exchange for program funds that cover all benefit costs, and a significant portion, 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 evaluating to make sure that program structures and policies are properly implemented

and effective in meeting program missions. State and local organizations are responsible for delivering benefits efficiently, effectively, and in a manner consistent with national requirements.

FNS Staff:

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

FNS staff is funded primarily out of the Nutrition Programs Administration account, which represents approximately one-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 18 field offices/satellite locations as well as five SNAP compliance offices. 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 264,683 stores and other outlets as of June 30, 2016 authorized to redeem SNAP benefits.

As of September 30, 2016, there were approximately 1,562 full-time permanent employees in the agency. There were 607 employees in the Washington headquarters office and 955 employees in the field. The chart below displays staff year utilization.

| Project | 2015 Actual | 2016 Enacted | 2017 Estimate |
|---|----------------|-----------------|------------------|
| Supplemental Nutrition Assistance Program | 285 | 373 | 373 |
| Child Nutrition Programs | 268 | 288 | 288 |
| Commodity Assistance | 2 | 3 | 3 |
| Supplemental Nutrition Program -WIC | 37 | 40 | 40 |
| Nutrition Programs Administration | 834 | 958 | 905 |
| Center for Nutrition Policy and Promotion | 31 | 32 | 32 |
| Total Available | 1,457 | 1,694 | 1,641 |

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 | Key Outcomes | Key Indicators |
|--|--|------------------------------------|---|--|
| USDA Goal 4: Ensure That All of America's Children Have Access to Safe, Nutritious, and Balanced Meals | <u>USDA Strategic Objective 4.1:</u> Increase Access to Nutritious Food | SNAP, CN, WIC, CAP, 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 ² | <u>Key Outcome 2:</u> Promote more healthful eating and physical activity across the Nation. | Nutrition Guidance Distribution Volume |
| | <u>USDA Strategic Objective 4.3:</u> Protect Public Health by Ensuring Food is Safe | SNAP, CN, WIC | <u>Key Outcome 3:</u> Maintain a high level of integrity in the nutrition assistance programs. | SNAP Payment Accuracy Rate |

STRATEGIC GOAL 4: ENSURE THAT ALL OF AMERICA’S CHILDREN HAVE ACCESS TO SAFE, NUTRITIOUS, AND BALANCED MEALS

Nutrition is the link between agriculture and the Nation’s health, and the Department made strong progress in advancing our nutrition and health goal in 2016. 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 2016 accomplishments include:

Promoting access to the Supplemental Nutrition Assistance Program (SNAP). SNAP is the Nation’s largest nutrition assistance program, serving 43.4 million people in June 2016. The latest information on the rate of participation among eligible people showed that in 2014, 83 percent of all who were eligible participated.

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

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

Continuing to ensure that SNAP benefits are accurately issued. In a September 2015 report, the USDA Office of Inspector General raised a number of issues with State administration of the quality control system. In April 2015, FNS began a thorough review of the quality control system in all 53 State agencies and completed these reviews by September 2016. Based on an in-depth, systematic review of all State quality control systems, USDA determined it could not release a national SNAP error rate for FY 2015. The SNAP payment accuracy rate for FY 2014, announced in June of 2014, was 96.34 percent, reflecting effective partnerships with State administering agencies and extensive use of policy options to streamline program administration while improving access for working families.

In FY 2016, 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 2016, 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.

USDA's efforts included:

- Continued efforts with States to develop outreach strategies. The Agriculture Act of 2014, Section 4018 makes several changes that affect outreach. Some of the changes were implemented

immediately by States, whereas others require rulemaking before implementation. In particular, States are to implement immediately provisions which state that Federal funds are banned from being used for television, radio, or billboard advertisements that are designed to promote SNAP benefits and enrollment.

- Support for innovative State practices to promote access by simplifying the application process. Forty-two States use an Internet-based application filing system. Thirty-six 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 2014, of nearly 51 million individuals eligible for SNAP benefits in an average month in FY 2014, approximately 42 million participated (83 percent). Nationally, the participation rate among individuals decreased by 2 percentage points between FY 2013 and FY 2014.

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|--|-------|-------|-------|-------|---------------|------------------|---------------|----------|
| | | | | | | Target | Actual | Result |
| 4.1.1 Annual percentage of eligible people participating in the SNAP | 78.0% | 83.0% | 85.0% | 83.0% | Not Available | 85.0% | Not Available | Deferred |
| FY 2015 data will be available in 2017 | | | | | | | | |
| Rationale for Met Range: The 90% confidence interval around the FY 2014 participation rate of 83% is ± 1.0 percent. | | | | | | | | |
| Data Assessment of Performance Measure 4.1.1 | | | | | | | | |
| The SNAP individual participation rate represents the ratio of SNAP participants to SNAP-eligible individuals. Participant counts are based on SNAP Program Operations data and SNAP Quality Control (QC) data. Eligible individual counts are based on the Census Bureau’s Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) data. Both counts are derived from samples of the relevant population. | | | | | | | | |
| <input type="checkbox"/> Completeness of Data —The most current data available for this measure are for FY 2014. <input type="checkbox"/> Reliability of Data —QC data are valid 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"/> Quality of Data — 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 100,000 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. Any child at a participating school may purchase meals through the NSLP and children from families with income at or

below 130 percent of the poverty level are eligible for free meals and families with incomes between 130 percent and 185 percent are eligible for reduced price meals.

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 22 million are receiving free or reduced price lunches each day. Through the implementation of the Healthy Hunger-Free Kids Act (HHFKA), participation among the nation's neediest children has substantially increased due to new provisions designed to improve access and eliminate barriers to participating in the school meal programs. Participation among free students has increased by over 30 percent since 2008.

- The 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 2014-2015, 94 percent of school districts used direct certification, and 91 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.
- HHFKA authorized demonstration projects for selected States and Local Educational Agencies (LEAs) to evaluate the effectiveness of conducting direct certification with the Medicaid Program. During the demonstrations, eligible children are directly certified for free school meals based on income and participation information received from Medicaid agencies through automated data matching processes, with no further action required of the household. The demonstrations were phased in over a three year period in a limited number of LEAs and States across the country. In school year 2016-2017 (beginning July 1, 2016), FNS is conducting additional administrative pilots, under Section 18(c) of the Richard B. Russell National School Lunch Act, to evaluate direct certification for both free and reduced price school meals using Medicaid data. Seven States will participate in the new pilots at the beginning of the school year, with others implementing in later months. Additional State agencies will have the opportunity to apply to begin the demonstration in school year 2017-2018.
- Section 749(h) of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2010 (P.L. 111-80) provided \$22 million for FNS to offer in grants to States for the purpose of improving direct certification rates. Just over \$22 million in grant funds has been awarded since FY 2011, and the remaining funds are expected to be exhausted in FY 2016. FNS will continue to provide opportunities for States to receive grant funds until they are fully expended. A total of 52 direct certification improvement projects have been funded, including both planning and implementation projects. Approximately half of the projects have been completed, with the others in progress.
- In 2011, the Agency began implementation of the Community Eligibility Provision (CEP) which provides an alternative to household applications for free and reduced price meals in high poverty LEAs and schools. In order to be eligible for the CEP, LEAs and schools must meet a minimum identified student percentage (which includes students certified for free school meals without the

use of school meal applications), agree to serve free breakfasts and lunches to all students, and agree to cover with non-Federal funds any costs of providing free meals to all students above amounts provided in Federal assistance. CEP was first implemented in Kentucky, Illinois and Michigan beginning in SY 2011-2012; New York, Ohio, West Virginia, and the District of Columbia in SY 2012-2013; and Florida, Georgia, Maryland, and Massachusetts in SY 2013-2014. As of July 1, 2014, the provision became available nationwide to eligible LEAs and schools. In the first year of nationwide CEP implementation, over 14,000 schools in high-poverty areas offered nutritious meals at no cost to more than 6.8 million students. In its second year of national implementation (SY 2015-16), CEP take-up in eligible schools increased in almost every State that also participated in SY 2014-2015. By April of SY 2015-2016, more than 18,000 schools in high-poverty areas offered nutritious meals at no cost to over 8.6 million students. This is an increase of over 4,000 schools from the first year of national implementation, and represents more than half of all eligible schools. For the first time over 18,000 schools or districts serving more than 8 million students throughout all 50 states and the District of Columbia participated in CEP. LEAs and schools of all sizes have experienced great success with CEP, allowing them to make numerous improvements to their school nutrition programs and connect more low-income children with healthy meals. Several large school districts have elected CEP, including Chicago, Dallas, Philadelphia, Shelby (Tennessee), Houston, and Los Angeles offering more than 100,000 students in each of these districts nutritious meals at no cost.

- The results of the CEP evaluation study found that there was a high take up among eligible districts and participation in both the NSLP and SBP significantly increased through operating CEP with a 5 percent increase in NSLP participation and 9 percent increase in School Breakfast Program (SBP) participation. . The seven States participating in CEP for more than one year experienced a large growth in the number of eligible districts participating in CEP, with three of the seven States doubling or tripling the number of participating districts from the first year.

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | | |
|--|--|-------|-------|-------|-------|------------------|--------|--------|--|
| | | | | | | Target | Actual | Result | |
| 4.1.2 Annual percentage of eligible people participating in the NSLP | 58.0% | 57.6% | 55.7% | 54.8% | 55.4% | 56.8% | 55.5% | Met | |
| | Rationale for Met Range: 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 2016, this percentage range allows for actual performance that meets the targets in the range of 54.0-59.6 percent. | | | | | | | | |
| | Data Assessment of Performance Measure 4.1.2 | | | | | | | | |
| | 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 2023</i> report. | | | | | | | | |
| | NSLP administrative data is drawn from 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. | | | | | | | | |

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|--|------|------|------|------|------|------------------|--------|--------|
| | | | | | | Target | Actual | Result |
| <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,” 1998–99 through 2011–12; Private School Universe Survey (PSS), selected years 1999–2000 through 2011–12; and National Elementary and Secondary Enrollment Model, 1972–2023. Detailed explanation of these sources is available on the web at http://files.eric.ed.gov/fulltext/ED565614.pdf.</p> <p><input type="checkbox"/> Completeness of Data— 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, 2016, as available August 2016. NCES projections are based on nationally-representative surveys.</p> <p><input type="checkbox"/> Reliability of Data— Participation data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget. Survey data supporting NCES projections are conducted using high-quality, well-documented methodologies.</p> <p><input type="checkbox"/> Quality of Data— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance. Survey data supporting NCES projections are conducted using high-quality, well-documented methodologies.</p> | | | | | | | | |

Challenges for the Future

Major changes resulting from the Healthy Hunger-Free Kids Act (HHFKA) may continue to challenge program participation to a lesser degree. The new school meal patterns for lunch went into effect on July 1, 2012 and the standards for all foods served in schools went into effect on July 1, 2014. Gradually, program operators and students are adapting to meal pattern changes and Smart Snacks requirements, and the food industry is assisting by providing appropriate products for operators. The FNS nationwide initiative *Team Up for School Success* is providing technical assistance and peer mentoring to school districts that are still facing challenges. Over 40 training sessions are expected to occur throughout 2016.

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.

Increasing student debt is another challenge. Unpaid meal charges can create financial challenges for schools because they rely on student payments, in addition to Federal reimbursements, to provide healthy, appealing, and affordable meals to all students. FNS is providing best practices and developing technical assistance resources to help school districts address this problem.

Sustaining participation of Residential Child Care Institutions (RCCIs) is also becoming a challenge. From FY 2014 to FY 2015, the number of RCCIs decreased by 379. RCCIs often are small institutions that do not have the expertise and resources to operate the NSLP successfully.

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, while providing nutrition education and expanding employment and training opportunities. When school lets out, millions of children no longer have access to their healthy free or reduced school breakfast or lunch. USDA's summer meals programs help fill the gap for children who depend on free and reduced price meals when they are in school. The Summer Food Service Program and the National School Lunch Program Seamless Summer Option provide meals to children in low-income areas during the summer months.

Analysis of Results

To reach children during the summer, FNS has made extensive efforts to increase access to summer meals for children through legislative, policy, research, targeting and partnership efforts. Through these efforts 191 million meals were served at over 66,000 sites in 2015. This represents a 27 million meal increase over the 2009 levels, a 16 percent increase. This summer, USDA set a goal of serving 200 million meals which is 5 percent more than was served in 2015. Like last year, FNS continues to look to other Departments, including Education, Housing and Urban Development, and Defense, to act as champions for children in summer 2016.

- In 2013, FNS provided targeted technical assistance to 5 selected States to coordinate with State leaders and partners to leverage resources and optimize outreach efforts. Specific issues that were targeted included delivery of meals in rural areas, transportation to meal sites, informing low-income families about the availability of summer meals, and increasing the number of sites in underserved areas. In the 5 target States, the number of meals served increased by 13 percent and the number of sites and sponsors increased by 10 percent and 12 percent.
- FNS expanded this campaign for 2014 and targeted 22 States for increased attention and technical assistance. There was an additional focus on States with lower than average growth rates to provide targeted technical assistance and guidance.
- FNS provided enhanced technical assistance to 13 identified Target States in 2015 and piloted a sustainable growth model in the Northeast region. Additional efforts in 2015 included expanding technical assistance state projects, advancing Geographic Information System (GIS) mapping technologies for strategic targeting for outreach and promotion, continuing year round summer partner engagement and further cultivating the sustainability of the program. Successful partnerships built in 2014 and expanded in 2015 included Rural Development, Housing and Urban Development (HUD), libraries, and Feed the Children.
- In 2016, FNS selected 6 new target States, as well as tribal areas in the Southwest, to coordinate with State leaders and partners to leverage resources and optimize outreach efforts. This target State model focuses on intensive technical assistance and advanced training for State Agency

staff. In addition, FNS selected two Regional Offices representing 16 States and territories to implement a sustainable growth momentum of the summer meal program. Specific issues that were targeted in these expansion 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, in schools and in Women, Infants, and Children (WIC) and healthcare settings.

Over the past few years, FNS looked for ways to feed more eligible children through its summer programs. 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 food stores. The Summer EBT program, where eligible households receive an EBT card to purchase food, is a highly successful strategy for reaching substantial proportions of eligible children and significantly reducing food insecurity. The demonstration reached about 12,500 children in 2011, 68,000 in 2012, 100,000 in 2013, 17,000 in 2014 and 137,000 in 2015.

A rigorous evaluation indicated that Summer EBT is a highly effective model for addressing food insecurity among children. Results from the 2012 implementation indicate:

- Summer EBT can reach a significant proportion of children eligible for free/ reduced price school meals. Summer EBT can reach between 30-75 percent of free/ reduced price lunch children in the summer. Ninety percent of Summer EBT households used their benefits at least once. Summer EBT households redeemed an average of \$250 over the summer, or about 78 percent of their benefits.
- Summer EBT reduced the most severe form of childhood hunger by a third. It also had impressive results for all groups, including households and adults. Both the SNAP and WIC models performed equally well.
- Summer EBT children ate more healthfully. They ate about 13 percent more fruits and vegetables, 30 percent more whole grains, and 10 percent more dairy.

Summer EBT in 2013 tested a new model, examining whether \$30 per child per month was as effective in reducing food insecurity as \$60. Results indicate \$30 was as effective as \$60 for Very Low Food Security among Children, the most severe category of food insecurity, but was not as effective as the \$60 benefit on the other categories of food insecurity.

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|--|-------|-------|-------|-------|-------|------------------|---------------|----------|
| | | | | | | 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% | 15.5% | 16.0% | 17.5% | 17.1% | 17.2% | Not Available | Deferred |
| Rationale for Met Range: 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 | | | | | | | | |

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|--|------|------|------|------|------|------------------|--------|--------|
| | | | | | | Target | Actual | Result |
| FY 2015, this percentage range allows for actual performance that meets the targets in the range of 15.5-17.1 percent. | | | | | | | | |
| Data Assessment of Performance Measure 4.1.3 | | | | | | | | |
| The measure is calculated through the following equation: | | | | | | | | |
| $\frac{\text{SFSP Average Daily Participation in July} + \text{NSLP Free\&RP Participation in July}}{\text{NSLP Free\&RP Participation in Previous March}} = \text{Participation Rate}$ | | | | | | | | |
| <p>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.</p> <p><input type="checkbox"/> Completeness of Data— 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 2016 will be available in December 2016.</p> <p><input type="checkbox"/> Reliability of Data— Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.</p> <p><input type="checkbox"/> Quality of Data— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.</p> | | | | | | | | |

Challenges for the Future

The key factor to serving more children summer meals is expanding the number of sites open for feeding children. FNS will continue to work with schools, parks and recreation departments, libraries, and faith and other community organizations across the nation to encourage participation in summer meal programs. FNS has developed GIS maps that will enable States to identify low-income areas where there are significant numbers of children and few meal sites. This will enable States to better target outreach efforts.

State agency capacity to conduct outreach activities continues to be a challenge as well. As part of the targeted technical assistance project, FNS will continue to work with National, State, and local partners to leverage resources and encourage collaboration in summer meal expansion efforts.

In order to continue the Summer EBT project in any meaningful way in 2017 and beyond, new funding will be necessary. FNS put forward a legislative proposal to create a permanent national Summer EBT program. The proposal would provide an investment of \$12.2 billion dollars over ten years to expand Summer EBT to achieve nationwide access by year 10. States will be phased-in with approximately 10 percent of States participating by Year 1, 25 percent of States participating by Year 5, and all States participating by Year 10. Based on the significant outcomes of the demonstration project during the evaluation years and beyond, FNS is confident that expanding Summer EBT nationwide will make significant strides providing children with access to healthy meals during the summer when school is out of session. Pending enactment of the proposal, FNS has requested \$26 million in additional funding in the 2017 budget. Once a budget is passed, if additional funding is provided, FNS will work with States to implement the project proportionate to the available funding.

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 2015³, notes that 12.7 percent or 15.8 million households were food insecure at some time during 2015.

In calendar year 2015, 16.6 percent of households with children—nearly 6.4 million households were food insecure. This level of declined significantly from the prevalence in 2014 (from 19.4 percent to 16.6 percent). 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 3.0 million households, one or more children were food insecure.

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|---|-------|-------|-------|-------|-------|------------------|---------------|----------|
| | | | | | | Target | Actual | Result |
| 4.1.4 Prevalence of food insecurity in households with children. | 20.6% | 20.0% | 19.5% | 19.4% | 16.6% | 18.8% | Not Available | Deferred |
| Rationale for Met Range: The 90% confidence interval around the measure is ± 0.65 percent. | | | | | | | | |
| Data Assessment of Performance Measure 4.1.4 | | | | | | | | |
| 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. | | | | | | | | |
| <input type="checkbox"/> Completeness of Data — The CPS includes about 54,000 households and is representative at the State and national level of the civilian non-institutionalized U.S. population. About 45,000 households complete the food security module each year, and data are weighted by the U.S. Census Bureau to provide the national prevalence. | | | | | | | | |

³ Coleman-Jensen, Alisha, Matthew P. Rabbit, Christian Gregory, and Anita Singh. *Household Food Security in the United States in 2015*, ERR-215, U.S. Department of Agriculture, Economic Research Service, September 2016.

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|---|------|------|------|------|------|------------------|--------|--------|
| | | | | | | Target | Actual | Result |
| <p><input type="checkbox"/> Reliability of Data—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"/> Quality of Data— 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 16.6 percent in 2015, it is still higher than the 2007 pre-recessional 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 2016 will be released in September 2017.

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 payment accuracy was 96.34 percent in 2014, the latest year for which data are available. This combined rate reflects 2.96 percent in overpayments and 0.70 percent in underpayments for a total of 3.66 percent in erroneous payments.

Forty-five States had a payment accuracy rate greater than 94 percent, including 24 States with rates greater than 96 percent. There were 5 fewer States with greater than 96 percent accuracy from the previous year.

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|--|-------|--------|--------|--------|---------------|------------------|---------------|----------|
| | | | | | | Target | Actual | Result |
| 4.1.5 Improve SNAP Payment Accuracy Rate Baseline: 2001 = 91.34% | 96.2% | 96.58% | 96.80% | 96.34% | Not Available | 96.34% | Not Available | Deferred |
| <p>Rationale for Met Range: FNS does not have the information to calculate confidence intervals for Payment Accuracy. However, FNS does have information on Payment Error. For FY 2014 we had a Payment Accuracy of 96.34 percent and a payment error rate of 3.66 percent (calculated from State Quality Control samples). From the sample data we calculated a 95.0 percent confidence interval of 3.66 plus or minus 0.25 or a range of 3.41-3.91 percent. For FY 2014, our payment error rate from the sample data the target was considered met based on the confidence level.</p> | | | | | | | | |
| <p>Data Assessment of Performance Measure 4.1.5</p> <p>For the FY 2014 data, the Supplemental Nutrition Assistance Program (SNAP) used annual payment accuracy data from the Quality Control (QC) process to support SNAP management. The data was based upon statistically valid methodology. The QC process used a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate was composed of over-issuances and under-issuances of SNAP benefits. A regression formula was applied to the results of the reviews to calculate official error rates. State agencies reviewed 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> <p><input type="checkbox"/> Completeness of Data—The most current data available for this measure are for FY 2014. The payment accuracy rate of 96.34 percent met the performance goal/measure target. FY 2015 performance will be deferred until next year’s report.</p> <p><input type="checkbox"/> Reliability of Data—QC data are valid and accepted by State SNAP agencies as a basis for performance-incentive payments and penalties. The U.S. Government Accountability Office and the Office of Inspector General also use the data regularly.</p> <p><input type="checkbox"/> Quality of Data—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is frequently cited as an important, high-quality indicator of program performance.</p> | | | | | | | | |

Challenges for the Future

In a September 2015 report, the USDA Office of Inspector General raised a number of issues with State administration of the quality control system. FNS takes the OIG findings seriously and has addressed many of them already. In April 2015, FNS began a thorough review of the quality control system in all 53 State agencies. The reviews were completed by September 2016. Based on an in-depth, systematic review of all State quality control systems, USDA determined it could not release a national SNAP error rate for FY 2015.

If FNS uncovers problematic QC procedures during the reviews, States are required to develop robust corrective action plans to remedy the problems. FNS is monitoring implementation of corrective actions to ensure that they are implemented by States on a timely basis.

FNS is also updating its overall QC process to better reflect OIG recommendations. On September 30, 2016, FNS released a revised QC Handbook (310). FNS will be training all Federal and State QC reviewers using a newly developed curriculum during October and November 2016.

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 2014, 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 not currently participating in SNAP and direct-marketing farmers participating at such markets.

In FYs 2015 and 2016, FNS used funds to provide grants to 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.).

For example, in September 2016, FNS announced the provision of over \$500,000 in grants to three non-profit organizations who will work with farmers' markets to make them more accessible to SNAP participants. The three awardees will work to provide technical assistance and training to help the farmers' markets overcome challenges for SNAP participants such as transportation and cost.

Analysis of Results

In July of 2016, FNS exceeded 7,000 total SNAP-authorized farmers' markets and direct-marketing farmers. This represents an increase of 830 percent over the 753 that were SNAP-authorized in 2008. Meanwhile, SNAP redemptions increased 609 percent from FY 2008 to FY2015, from \$2.7 to \$19.4 million.

| Annual Performance Goals, Indicators and Trends | 2011 | 2012 | 2013 | 2014 | 2015 | Fiscal Year 2016 | | |
|--|--------|--------|--------|--------|--------|------------------|---------------|----------|
| | | | | | | Target | Actual | Result |
| 4.2.1 SNAP benefits redeemed at farmers markets and direct marketing farmers annually. (Millions) | \$11.7 | \$16.6 | \$17.4 | \$18.8 | \$19.4 | \$20.0 | Not Available | Deferred |
| FY 2016 data will be available in FY 2017. Rationale for Met Range: 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 increase for FY 2016 due to our continued efforts to increase such redemptions. | | | | | | | | |
| Data Assessment of Performance Measure 4.2.1 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"/> Completeness of Data —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"/> Reliability of Data — 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"/> Quality of Data — 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

FNS has continued to successfully reach yearly target goals of increasing the number of SNAP-authorized farmers markets and direct marketing farmers. For FY 2017, FNS will turn its attention to markets that are authorized but are not actively redeeming SNAP benefits. FNS will work in collaboration with Regional Offices to tailor strategies to individual regional and State needs. In doing this, FNS hopes to increase actively redeeming farmers markets by 5 percent during FY 2017.

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 2016 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 September 30, 2016. Based on the results of the evaluations, FNS can provide reasonable assurance that internal controls are operating effectively. For FY 2015, FNS had no new material weaknesses or significant deficiencies to report. No new material weaknesses or significant deficiencies were identified for FY 2016.

Assurance for Internal Control over Financial Reporting (FMFIA Section 2)

FNS conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2016, 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 an evaluation of entity level controls, risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for control deficiencies. Controls in the following cycles/processes were tested:

Processes

- a. Awards/Modifications - Grants/Entitlements/Cooperative Agreements
- b. Budgetary Authority
- c. Closeout - Grants Management/Entitlements/Cooperative Agreements
- d. Collections
- e. Conference Planning and Reporting
- f. Monitoring – Purchase Card
- g. Monitoring – Travel Card
- h. Period End Reporting
- i. Significant Management Estimates
- j. Transfers
- k. Unliquidated Obligation Review

Management recognizes its responsibility for monitoring and correcting all control deficiencies. With regard to these cycles and the internal controls within these cycles, management certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2016. FNS provides reasonable assurance that the internal controls over financial reporting for FY 2016 are operating effectively.

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

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)

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

Improve Data Quality Reporting for USAspending.gov

1. The prime Federal award financial data reported on USAspending.gov is correct at the reported percentage of accuracy;
2. FNS has implemented adequate internal controls over the underlying spending; and
3. 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 and travel cards (i.e., centrally billed accounts, individually billed accounts, and declining balance cards).

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

OIG Audit Handling Process and Performance

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

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

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

- The amount of time needed to complete certain activities cannot be accurately estimated. Examples of these are:
 - Specific legislation, policy or guidance needs to be developed;
 - An investigation, negotiation, or administrative appeal action must be completed;

- An automated system needs to be developed, implemented, or enhanced;
 - The results of additional monitoring or program review activity must be completed;
 - Disallowed costs must be collected;
 - Legal advice or opinion from the Office of General Counsel is needed; or
 - Certain external (state) or administrative actions must occur.
- Changes that could not be anticipated at the time management decision was reached:
- A change must be made to the management decision agreement. For example, the agreed upon management decision calls on the Agency to publish a regulation, but Congress initiates a moratorium on regulations.
 - Additional information, explanation, advice or action from OIG is needed.

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

| Audits Without Final Action More Than One Year Past the Management Decision Date | | | | |
|--|-------------|---|------------------------------------|---|
| Audit Number | Date Issued | Audit Title | Completion Date For Actions (Est.) | Reason for Lack of Final Action |
| 27099-49-TE | 9-4-07 | Food and Nutrition Service Disaster Food Stamp Program for Hurricanes Katrina and Rita | 11-30-16 | Proposed rule related to this audit was published in May 2016. However, audit requires publication of final rule which is pending publication. |
| 50601-0014-AT | 8-16-10 | Effectiveness and Enforcement of Suspension and Debarment Regulations in the U.S. Department of Agriculture | 10-31-16 | Based on discussions held with OCFO on 8/11/16, final action will be granted once FNS gathers and submits documentation supporting the level of effort put forth to obtain a useful quarterly indictment and conviction report from OIG Investigations. |
| 27002-0011-13 | 9-28-12 | Analysis of FNS' Supplemental Nutrition Assistance Program (SNAP) Fraud Prevention and Detection Efforts | 10-31-16 | The National Accuracy Clearinghouse (NAC) pilot project report was signed by the Secretary and delivered to Congress on May 10, 2016. The FNCS Undersecretary has since made a decision to encourage and support States who wish to join the NAC on a voluntary basis. The NAC team has been informed of the decision, and FNS is |

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| | | | | |
|---------------|---------|--|----------|---|
| | | | | currently preparing to send a letter to all States detailing next steps. |
| 27601-0001-23 | 1-3-13 | National School Lunch Program-Food Service Management Company Contracts | 10-31-16 | Procurement tool associated with many of the open recs. was released for implementation nationwide in SY 16-17. Final action request for all open recs. was submitted to OCFO on 8-15-16 and resent on 9-23-16. Request is currently pending approval. |
| 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 | 9-30-17 | 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. This study is underway, though ERS encountered unanticipated delays and expects the final report to be complete in September 2017. |
| 27601-0001-31 | 7-31-13 | Controls for Authorizing SNAP Retailers | 10-31-17 | Pending publication of two different rules: 1) The "SNAP National Crime Information Center Background Check Requirement for Retailer Authorization and Reauthorization" has a target publication date of March 2017. 2) 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. A work plan for this rule has been completed and the target publication date is October 2017. |

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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 2016.

| | Auditor | Agency | Audit Number | Audit Name | Status |
|---|---------|------------------|---------------|--|------------------------|
| 1 | GAO | USDA/FNS Lead | GAO-15-656 | School Meals Update | CLOSED – October 2015 |
| 2 | OIG | FNS | 27401-0005021 | FNS Financial Statements for FY 2015 | CLOSED – November 2015 |
| 3 | GAO | USDA/FNS Lead | GAO-11-376 | School Meal Programs: More Systematic Development of Specifications Could Improve the Safety of Foods Purchased through USDA’s Commodity Program | CLOSED – November 2015 |
| 4 | GAO | USDA/FNS Lead | GAO-14-104 | School Lunch: Implementing Nutrition Changes was Challenging and Clarification of Oversight Requirements is Needed | CLOSED – March 2016 |
| 5 | OIG | FNS | 27601-16-AT | Food Stamp Employment and Training Program | CLOSED – April 2016 |
| 6 | OIG | FNS | 27601-12-SF | Review of Management Controls for the Child and Adult Care Food Program | CLOSED – May 2016 |
| 7 | OIG | FNS | 27601-0001-41 | FNS National School Lunch and School Breakfast Programs Error Rates | CLOSED – June 2016 |
| 8 | GAO | USDA/FNS Lead | GAO-15-651 | Nutrition Assistance for Active Duty Service Members and Their Families | CLOSED – July 2016 |
| 9 | GAO | USDA/FNS Lead | GAO-12-670 | SNAP: Improved Oversight of State Eligibility Expansions Needed | CLOSED – August 2016 |

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.

| Outstanding Initiatives to Achieve Compliance | | | |
|---|---|---------------|-------------------------------|
| Initiative | Section of Non-compliance | Agency | Target Completion Date |
| Improper Payments Elimination and Recovery Act of 2010 (IPERA) | Published improper payment estimates for all high-risk programs and activities. | FNS | 12/2020 |
| | Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments. | FNS | 11/2016 |
| | Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR. | FNS | 12/2020 |

| | | | |
|---|------------------------------------|--|---------|
| Improper Payment Elimination and Recovery Act of 2010 (IPERA) | IPERA | Overall Estimated Completion Date | FY 2021 |
| | IPERA non-compliance issues. (FNS) | | |
| FY 2015 Accomplishments: | | FY 2016 Planned Actions: | |
| FNS did the following: | | FNS will do the following: | |
| <ul style="list-style-type: none"> Administered a State Exchange Program whereby funds are provided to States to facilitate travel to obtain, observe, and share information on best practices and effective techniques for error reduction. Coalitions have been formed among States to promote partnerships, information exchange, and collaborative efforts which address mutual concerns and support development of effective corrective action. These activities were conducted throughout FY 2015. Convened the Child Nutrition State Systems Workgroup (CNSSW) in FY 2015. CNSSW is a national workgroup of State, FNS regional and national office representatives, which work to identify priorities for State and local automation initiatives to improve program accountability, monitoring, training, data quality, and other program areas where automation is a strong business solution for program integrity. Announced the expansion of the “Team Up for School Nutrition Success Initiative” on March 9, 2015, which provides training, technical assistance, and peer to peer mentorship opportunities to school food service professionals. Held a series of seven regional webinars in FY 2015, which provided training and technical assistance on the Income Eligibility Guidance and addressed specific questions and circumstances raised by WIC State agencies. Provided an overview to State Agencies on April 22, 2015 regarding the new Child and Adult Care Food Program (CACFP) policies, CACFP meal pattern proposed rule, Paperwork Reduction Report for Congress, Team Nutrition updates and resources, and CACFP monitoring issues. | | <ul style="list-style-type: none"> Continue work on publishing the School Nutrition and Meal Cost Study, an examination of the relationships between school environment and school food service operations, nutritional quality of meals offered and served in school meal programs, plate waste, costs to produce reimbursable meals, student participation, participant characteristics, satisfaction and related attitudes toward the school lunch and breakfast programs. Primary data collection occurred in school year 2014-2015. A final report is due in early 2017. Publish a proposed rule in early FY 2016, which will strengthen program compliance by prohibiting any school, institution, or individual that is terminated from one of the Child Nutrition Programs and on a list of disqualified institutions and individuals from participating in, or administering any of the Child Nutrition Programs. Certification Guidance by September 2016 that will provide clarification of policy related to income, identity and residency requirements in a single document. This will provide easy reference for State and local agency use. Publish a proposed rule “Providing Child Nutrition Program Integrity” in early FY 2016. This rule will provide additional CACFP audit funding, making additional monies available to State agencies for Program improvement. | |

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.

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 change in the rates from 2005 and 2012 to the estimated rates obtained in 2012 and subsequent years.
 - 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 Family Day Care Homes (FDCHs). 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. Sites can be as large as an institution or as small as a household. Each part of CACFP has its own reimbursement structure.

Payments and claim information are transferred among FNS, State agencies, program sponsors and program sites; each such transaction represents a risk for improper payment. However, because requirements vary significantly for each different type of program sponsor and site, 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 FDCH component of CACFP as potentially high risk, and measures error in this part of the program in lieu of the unfunded comprehensive measure. FDCHs participate in CACFP through public or private nonprofit sponsoring organizations. FDCH improper payments are most likely caused by sponsor error in determining a participating home’s reimbursement tier (*a tiering error*) or by FDCH 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 FDCH 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 FDCHs, 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 thereafter, FNS has measured the level of erroneous payments due to sponsor error for the two types of program reimbursement (Tier 1 and Tier 2). Annual reports are available at <http://www.fns.usda.gov/report-finder>.

The report for FY 2014 was released in October 2015. FNS’s CACFP Tiering Assessment Project includes options to produce tiering error estimates for 2015, 2016, 2017, and 2018.

- 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 FDCHs 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 FDCH providers. This assessment found that parental recall of meals served to their children while in attendance at the FDCH 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.

The following study strengthens the financial integrity process and work towards improving the balance of erroneous payments:

- CACFP Assessment of Sponsors Tiering Determinations: an evaluation providing a national estimate of the share of CACFP participating FDCHs approved for an incorrect level of per meal reimbursement based on sponsor tiering determinations. This study assesses sponsor tiering determinations for FDCHs participating in the CACFP. The assessment evaluated FDCHs 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 FDCHs and the associated payment errors. The estimated completion date for the study is fall 2016.

There are two additional CACFP studies awarded in FY 2014 that are related to CACFP improper payments:

- 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 would complement the annual measure of reimbursement “tiering” errors in FDCHs for IPERA reporting on CACFP. The estimated completion date for this study is late 2019.
- CACFP Family Day Care Homes Meal Claims Feasibility Study. The study would examine ways to provide a measure of erroneous payments for meals claimed for reimbursement to FDCHs 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.

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 in each of these three categories. 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 is scheduled 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.

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 2015 Agency Financial Report (AFR), NSLP improper payments arising from misclassification of student eligibility for program benefits (free, reduced-price, or paid) totaled \$1.098 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 2015 AFR for SBP is \$414 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 – 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 2015, NSLP improper payments of approximately \$675 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 arises 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 \$461 million.

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, gross and net erroneous payments in school year 2017-18 and 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.

In addition, FNS completed data collection and is now in the analysis phase of its School Nutrition and Meal Cost Study, an examination of the relationships between school environment and school food service operations, nutritional quality of meals offered and served in school meal programs, plate waste, costs to produce reimbursable meals, student participation, participant characteristics, satisfaction and related attitudes toward the school lunch and breakfast programs. Primary data collection occurred in SY 2014-2015. A final report is due in early 2017.

Explore 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 model of the initial APEC study 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. Promising approaches identified through this review, if any, may be piloted under a separate contract in a limited number of States and Local Educational Authorities (LEAs) to test their feasibility, as well as their impact on program participation and improper payments

Additional information on FNS’s IPIA activities can be found in the FY 2016 USDA Agency Financial Report.

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

**Preliminary Data as of 7/31/16 – FNS Measures for IPIA Reporting
 2016 Agency Financial Report**

| FNS School Breakfast Program (SBP) Total Program | FNS NSLP Counting/Claiming Error | FNS NSLP Certification Error | FNS National School Lunch Program (NSLP) Total Program | FNS Supplemental Nutrition Assistance Program (SNAP) | Program |
|--|----------------------------------|------------------------------|--|--|----------------------------|
| 3,812 | N/A | N/A | 11,319 | 70,022 | Previous Year (PY) Outlays |
| 22.95% | 5.96% | 9.70% | 15.66% | 3.66% | PY Improper Payment (IP) % |
| 875 | 675 | 1,098 | 1,773 | 2,563 | PY IP \$ |
| 3,960 | 11,995 | 11,995 | 11,995 | N/A | Current Year (CY) Outlays |
| 22.48% | 5.96% | 9.21% | 15.17% | N/A | CY IP % |
| 890 | 715 | 1,105 | 1,820 | N/A | CY IP \$ |
| 723 | 582 | 787 | 1,369 | N/A | CY Over-payment \$ |
| 167 | 132 | 319 | 451 | N/A | CY Under – payment \$ |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| | | | | | |
|--------|-----|-----|--------|-----|----------------------------|
| 4,339 | N/A | N/A | 12,154 | N/A | CY +1 Est. Outlays |
| 21.46% | N/A | N/A | 14.43% | N/A | CY + 1 Est. IP % |
| 931 | N/A | N/A | 1,754 | N/A | CY + 1 Est. IP \$ |
| 4,470 | N/A | N/A | 12,340 | N/A | CY +2 Est. Outlays |
| 20.75% | N/A | N/A | 14.08% | N/A | CY +2 Est. IP % |
| 928 | N/A | N/A | 1,737 | N/A | CY + 2 Est. IP \$ |
| 4,667 | N/A | N/A | 13,508 | N/A | CY + 3 Est. Outlays |
| 20.07% | N/A | N/A | 14.00% | N/A | CY + 3 Est. IP % |
| 938 | N/A | N/A | 1,891 | N/A | CY + 3 Est. IP \$ |

**Preliminary Data as of 7/31/16 – FNS Measures for IPIA Reporting
2016 Agency Financial Report**

| FNS WIC Vendor Error | FNS WIC Certification Error | FNS Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) | FNS SBP Counting/Claiming Error | FNS SBP Certification Error | Program |
|----------------------|-----------------------------|---|---------------------------------|-----------------------------|----------------------------|
| N/A | N/A | 4,542 | N/A | N/A | Previous Year (PY) Outlays |
| 1.91% | 2.71% | 4.62% | 12.10% | 10.86% | PY Improper Payment (IP) % |
| 87 | 123 | 210 | 461 | 414 | PY IP \$ |
| N/A | N/A | 4,335 | 3,960 | 3,960 | Current Year (CY) Outlays |
| 1.91% | 2.71% | 4.79% | 12.10% | 10.39% | CY IP % |
| 87 | 123 | 208 | 479 | 411 | CY IP \$ |
| N/A | N/A | 130 | 434 | 288 | CY Over-payment \$ |
| N/A | N/A | 78 | 45 | 122 | CY Under – payment \$ |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| | | | | | |
|-----|-----|-------|-----|-----|----------------------------|
| N/A | N/A | 4,310 | N/A | N/A | CY +1 Est. Outlays |
| N/A | N/A | 3.98% | N/A | N/A | CY + 1 Est. IP % |
| N/A | N/A | 172 | N/A | N/A | CY + 1 Est. IP \$ |
| N/A | N/A | 4,244 | N/A | N/A | CY +2 Est. Outlays |
| N/A | N/A | 3.88% | N/A | N/A | CY +2 Est. IP % |
| N/A | N/A | 165 | N/A | N/A | CY + 2 Est. IP \$ |
| N/A | N/A | 4,333 | N/A | N/A | CY + 3 Est. Outlays |
| N/A | N/A | 3.78% | N/A | N/A | CY + 3 Est. IP % |
| N/A | N/A | 164 | N/A | N/A | CY + 3 Est. IP \$ |

**Preliminary Data as of 7/31/16 – FNS Measures for IPIA Reporting
 2016 Agency Financial Report**

| FNS CACFP FDCH – Meal Claims | FNS CACFP FDCH – Tiering Decisions | FNS Child and Adult Care Food Program (CACFP) Total Program | Program |
|------------------------------|------------------------------------|---|----------------------------|
| N/A | 930 | N/A | Previous Year (PY) Outlays |
| N/A | .84% | N/A | PY Improper Payment (IP) % |
| N/A | 8 | N/A | PY IP \$ |
| N/A | 911 | N/A | Current Year (CY) Outlays |
| N/A | .54% | N/A | CY IP % |
| N/A | 5 | N/A | CY IP \$ |
| N/A | 4 | N/A | CY Over-payment \$ |
| N/A | 1 | N/A | CY Under – payment \$ |
| 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 \$ |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

| | | | |
|-----|-----|-----|------------------------|
| N/A | N/A | N/A | CY +2 Est. Outlays |
| N/A | N/A | N/A | CY +2 Est. IP % |
| N/A | N/A | N/A | CY + 2 Est. IP \$ |
| N/A | N/A | N/A | CY + 3 Est. Outlays |
| N/A | N/A | N/A | CY + 3 Est. IP % |
| N/A | N/A | N/A | CY + 3 Est. IP \$ |

Based on an in-depth, systematic review of all State quality control systems, USDA determined it could not release a national SNAP error rate for FY 2015. USDA is unable to calculate an FY 2015 national error rate due to the unreliability of some State reported data.

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 2016 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. A key determinant of this level of need is the condition of the economy. In FY 2015 the economy performed weaker than was anticipated by the President's FY 2015 budget request. As a result, program participation and costs, as reflected in the financial statements are, on average, higher than was anticipated.

In accordance with the US Standard General Ledger and the Treasury Financial Manual 1TFM 4700, in FY 2008 FNS clarified its reporting of the Grant Award (GAD) Accrual. FNS performed an analysis of the GAD Accrual and determined that the GAD Accrual consisted of Entitlement Benefits and Non Entitlement Benefits. For the FY 2016 Financial Statements FNS will report Entitlement Benefits as "Benefits Due and Payable" and report Non Entitlement Benefits as "Other Liabilities" on the Balance Sheet and related footnotes. The classifications of these accruals have no impact on the amounts reported for Total Liabilities.

Balance Sheet

| | 2016 | | 2015 | |
|--|---------------|---------|--------------|---------|
| | Dollars (mil) | Percent | Dollars(mil) | Percent |
| Fund Balance With Treasury | 48,303 | 99.28% | 43,278 | 99.09% |
| Accounts Receivable | 346 | 0.71% | 325 | 0.75% |
| General PP& E | - | 0.00% | - | 0.00% |
| Other | 3 | 0.01% | 71 | 0.16% |
| Total Assets | 48,652 | 100.00% | 43,674 | 100.00% |
| Accounts Payable | 6 | 0.01% | 5 | 0.01% |
| Federal Employee and Veterans Benefits | 9 | 0.02% | 8 | 0.02% |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| | | | | |
|----------------------------------|--------|--------|--------|--------|
| Benefits Due and Payable | 4,541 | 9.33% | 4,835 | 11.07% |
| Other Liabilities | 2,098 | 4.31% | 1,886 | 4.32% |
| Total Liabilities | 6,712 | 13.80% | 6,775 | 15.51% |
| Unexpended Appropriations | 41,817 | 85.95% | 36,811 | 84.29% |
| Cumulative Results of Operations | 123 | 0.25% | 88 | 0.20% |
| Total Net Position | 41,940 | 86.20% | 36,899 | 84.49% |
| Total Liabilities & Net Position | 48,652 | 100% | 43,674 | 100% |

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2016 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - 99% in FY 2016 and 99% in FY 2015. 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 were changed significantly 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 2016 and FY 2015 Net Position of the agency is concentrated in Unexpended Appropriations.

Statement of Net Cost

| | 2016 | | 2015 | |
|------------------------|--------------|---------|--------------|---------|
| | Dollars(mil) | Percent | Dollars(mil) | Percent |
| Gross Cost | 102,371 | 100.07% | 104,971 | 100.07% |
| Less: Earned Revenue | (76) | -0.07% | (73) | -0.07% |
| Net Cost of Operations | 102,295 | 100.00% | 104,898 | 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 \$104,971 million in FY 2015 to \$102,371 million in FY 2016, 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.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

Additional earned revenue is received from other Federal agencies for reimbursement of expenses related to information technology services and facility-related services including WBSCM, Commodity Improvement Initiative and Whole Grain Study.

The Net Cost of Operations decreased from \$104,898 million in FY 2015 to \$102,295 million in FY 2016.

Statement of Changes in Net Position

| | 2016 | | 2015 | |
|---|--------------|---------|--------------|---------|
| | Dollars(mil) | Percent | Dollars(mil) | Percent |
| Cumulative Results of Operations | | | | |
| Beginning Balance | 88 | | 199 | |
| Budgetary Financing Sources | | | | |
| Other Adjustments | (2) | 0.00% | (2) | 0.00% |
| Appropriations Used | 92,314 | 90.21% | 95,378 | 91.02% |
| Transfers In (Out) without Reimbursements | 9,153 | 8.94% | 8,535 | 8.15% |
| Other Financing Sources | | | | |
| Imputed Financing | 865 | 0.85% | 876 | 0.83% |
| Total Financing Sources | 102,330 | 100.00% | 104,787 | 100.00% |
| Less: Net Cost of Operations | 102,295 | | 104,898 | |
| Cumulative Results of Operations | | | | |
| Ending Balance | 123 | | 88 | |
| Net Change | | | | |
| | 35 | | (111) | |
| Unexpended Appropriations | | | | |
| Beginning Balance | 36,811 | | 31,300 | |
| Appropriations Received | 101,096 | | 101,846 | |
| Appropriations Transferred in/out | 0 | | 4 | |
| Adjustments | (3,776) | | (961) | |
| Appropriations Used | (92,314) | | (95,378) | |
| Total: Financing Sources | 5,006 | | 5,511 | |
| Ending Balance | 41,817 | | 36,811 | |
| Total Net Position | | | | |
| | 41,940 | | 36,899 | |

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 2016 appropriations used was \$92,314 million, which decreased \$3,064 million from FY 2015, based on actual participation levels and food costs.

Cumulative Results of Operations increased \$35 million, from \$88 million in FY 2015 to \$123 million in FY 2016, as the net cost of operations is less than the total financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained relatively unchanged from FY 2015 to FY 2016. 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 nine percent of total financing sources in FY 2016 and eight percent in FY 2015.

Unexpended Appropriations increased from \$36,811 million in FY 2015 to \$41,817 million in FY 2016 as less carryover appropriation balances were expended in the current year. Adjustments which increased from \$961 million in FY 2015 to \$3,776 million in FY 2016 are due to permanent reductions and cancellations of expired accounts.

Statement of Budgetary Resources

| | 2016 | | 2015 | |
|--|----------------|----------------|----------------|----------------|
| | Dollars(mil) | Percent | Dollars(mil) | Percent |
| Budgetary Resources | | | | |
| Unobligated Balance, brought Forward, Oct 1 | 34,288 | 24.01% | 29,250 | 20.87% |
| Recoveries of Unpaid Prior Year Obligations | 1,956 | 1.37% | 1,406 | 1.00% |
| Other Changes In Unobligated Balances | -3,542 | -2.48% | -947 | -0.68% |
| | | | | |
| Appropriations | 110,014 | 77.04% | 110,369 | 78.75% |
| Spending Authority from Offsetting Collections | 77 | 0.05% | 81 | 0.06% |
| | | | | |
| Total Budgetary Resources | <u>142,793</u> | <u>100.00%</u> | <u>140,159</u> | <u>100.00%</u> |
| Status of Budgetary Resources | | | | |
| Obligations Incurred | 103,688 | 72.61% | 105,871 | 75.54% |
| Apportioned Unapportioned, Unexpired | 6,085 | 4.26% | 4,293 | 3.06% |
| Unapportioned, Unexpired Accounts | 6,168 | 4.32% | 5,218 | 3.72% |
| Expired, Unobligated Balance End of Year | <u>26,852</u> | <u>18.80%</u> | <u>24,777</u> | <u>17.68%</u> |
| Total: Status of Budgetary Resources | <u>142,793</u> | <u>100%</u> | <u>140,159</u> | <u>100%</u> |
| | | | | |
| Net Outlays | 101,463 | 71.06% | 103,938 | 74.16% |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
NOTES TO THE FINANCIAL STATEMENTS
(Amounts shown are in Millions except as noted)

In accordance with the revised OMB Circular A-136, FNS has revised its presentation of the Statement of Budgetary Resources. The Statement of Budgetary Resources (SBR) displays the source of all budgetary resources for the fiscal year as well as the status of those resources as of the end of the fiscal year.

Appropriations were decreased from \$110,369 million in FY 2015 to \$110,014 million in FY 2016. Total budgetary resources were higher than in the prior year due primarily to an increase in the unobligated balance brought forward from the previous year. FNS had \$142,793 million in total budgetary resources during FY 2016, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods.

At fiscal yearend 2016, most (\$103,688) million or 73% of those resources were obligated, though \$6,085 million or 4% remained unobligated and available, and another \$33,020 million was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2016, Net Outlays represented 71% of Total Budgetary Resources, compared to 74% in FY 2015.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service

CONSOLIDATED BALANCE SHEET
As of September 30, 2016 (CY) and 2015 (PY)
(Dollars in Millions)

| | FY 2016 (CY) | FY 2015 (PY) |
|---|------------------|------------------|
| Assets (Note 2): | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | \$ 48,303 | \$ 43,278 |
| Other (Note 6) | 3 | 71 |
| Total Intragovernmental | 43,306 | 43,349 |
| Accounts Receivable, net (Note 4) | 346 | 325 |
| General Plant, Property, and Equipment, net (Note 5) | - | - |
| Other (Note 6) | - | - |
| Total Assets | \$ 48,652 | \$ 43,674 |
| Liabilities (Note 7): | | |
| Intragovernmental: | | |
| Accounts Payable | \$ - | \$ - |
| Other (Note 8) | 58 | 41 |
| Total Intragovernmental | 58 | 41 |
| Accounts Payable | 6 | 5 |
| Federal Employee and Veterans Benefits | 9 | 8 |
| Benefits Due and Payable | 4,541 | 4,835 |
| Other (Note 8) | 2,098 | 1,886 |
| Total Liabilities | 6,712 | 6,775 |
| Net Position: | | |
| Unexpended Appropriations - Other Funds | 41,817 | 36,811 |
| Cumulative Results of Operations - Other Funds | 123 | 88 |
| Total Net Position | \$ 41,940 | \$ 36,899 |
| Total Liabilities and Net Position | \$ 48,652 | \$ 43,674 |

The accompanying notes are an integral part of these statements.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

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

Food and Nutrition Service
 CONSOLIDATED STATEMENTS OF NET COST
 For the Years Ended September 30, 2016 (CY) and 2015 (PY)
 (Dollars in Millions)

| | FY 2016 (CY) | FY 2015 (PY) |
|--|-----------------|-----------------|
| Program Costs: | | |
| Strategic Goal: | | |
| Improve the Nation's Nutrition and Health: | | |
| Gross Costs (Note 10 and 11) | \$ 102,371 | \$ 104,971 |
| Less: Earned Revenue | 76 | 73 |
| Net Program Costs | 102,295 | 104,898 |
| Net Cost of Operations | \$ 102,295 | \$ 104,898 |

The accompanying notes are an integral part of these statements.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
 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, 2016 (CY) and 2015 (PY)
 (Dollars in Millions)

| | FY 2016 (CY) | FY 2015 (PY) |
|---|-----------------|-----------------|
| Cumulative Results of Operations: | | |
| Beginning Balance | \$ 88 | \$ 199 |
| Beginning Balance, as adjusted | 88 | 199 |
| Budgetary Financing Sources: | | |
| Other Adjustments | (2) | (2) |
| Appropriations Used | 92,314 | 95,378 |
| Transfers in/out without reimbursement | 9,153 | 8,535 |
| Other | - | - |
| Other Financing Sources (Non-Exchange): | | |
| Imputed Financing | 865 | 876 |
| Total Financing Sources | 102,330 | 104,787 |
| Less: Net Cost of Operations | 102,295 | 104,898 |
| Net Change | 35 | (111) |
| Cumulative Results of Operations | 123 | 88 |
| Unexpended Appropriations: | | |
| Beginning Balance | 36,811 | 31,300 |
| Beginning Balance, as adjusted: | 36,811 | 31,300 |
| Budgetary Financing Sources: | | |
| Appropriations Received | 101,096 | 101,846 |
| Appropriations Transferred in/out | - | 4 |
| Other Adjustments | (3,776) | (961) |
| Appropriations Used | (92,314) | (95,378) |
| Total Budgetary Financing Sources | 5,006 | 5,511 |
| Total Unexpended Appropriations | 41,817 | 36,811 |
| Net Position | \$ 41,940 | \$ 36,899 |

The accompanying notes are an integral part of these statements.

Food and Nutrition Service
CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES
 For the years ended September 30, 2016 (CY) and 2015 (PY)

(Dollars in Millions)

| | FY 2016 (CY) | FY 2015 (PY) |
|--|-----------------|-----------------|
| Budgetary Resources: | | |
| Unobligated balance, brought forward, October 1: | \$ 34,288 | \$ 29,250 |
| Adjustments to unobligated balance brought forward, October 1 | - | - |
| Unobligated Balance brought forward, October 1, as adjusted | 34,288 | 29,250 |
| Recoveries of unpaid prior year obligations | 1,956 | 1,406 |
| Other Changes in unobligated balance (+ or-) | (3,542) | (947) |
| Unobligated balance from prior year budget authority, net | 32,702 | 29,709 |
| Appropriations (discretionary and mandatory) | 110,014 | 110,369 |
| Borrowing authority (discretionary and mandatory) | - | - |
| Contract authority (discretionary and mandatory) | - | - |
| Spending Authority from offsetting collections (discretionary and mandatory) | 77 | 81 |
| Total Budgetary Resources | <u>142,793</u> | <u>140,159</u> |
| Status of Budgetary Resources: | | |
| New Obligations and upward adjustments (total) (Note 13) | 103,688 | 105,871 |
| Unobligated balance, end of year | - | - |
| Apportioned, unexpired accounts | 6,085 | 4,293 |
| Exempt from apportionment, unexpired accounts | - | - |
| Unapportioned, unexpired accounts | 6,168 | 5,218 |
| Unexpired, unobligated balance, end of year | 12,253 | 9,511 |
| Expired, unobligated balance, end of year | 26,852 | 24,777 |
| Unobligated balance, end of year (total) | <u>39,105</u> | <u>34,288</u> |
| Total budgetary resources | <u>142,793</u> | <u>140,159</u> |

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 | 8,980 | 8,532 |
| Adjustment to unpaid obligated balance, start of year (+ or -) | - | - |
| New Obligations and upward adjustments | 103,688 | 105,871 |

| | | |
|--|-----------|-----------|
| Outlays (gross) (-) | (101,539) | (104,017) |
| Actual transfer, unpaid obligations (net) (+ or -) | - | - |
| Recoveries of prior year unpaid obligations (-) | (1,956) | (1,406) |
| Unpaid obligations, end of year | 9,173 | 8,980 |

Uncollected payments:

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

Memorandum (non-add) entries:

| | | |
|---|-------|-------|
| Obligated balance, start of the year (+ or -) | 8,978 | 8,532 |
| Obligated balance, end of year (+ or -) | 9,170 | 8,978 |

Budget Authority and
Outlays, Net:

| | | |
|--|---------|---------|
| Budget Authority, gross (discretionary and mandatory) | 110,091 | 110,450 |
| Actual offsetting collections (discretionary and mandatory) (-) | (77) | (79) |
| Change in uncollected payments Federal sources (discretionary and mandatory) (+ or -) | (1) | (2) |
| Recoveries of prior year paid obligations (discretionary and mandatory) | 1 | - |
| Anticipated offsetting collections (discretionary and mandatory) (+ or -) | - | - |
| Budget Authority, net (total) (discretionary and mandatory) | 110,014 | 110,369 |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| | | |
|---|----------------|----------------|
| Outlays, gross (discretionary and mandatory) | 101,539 | 104,017 |
| Actual offsetting collections (discretionary and mandatory) (-) | (77) | (79) |
| Outlays, net (discretionary and mandatory) | 101,462 | 103,938 |
| Distributed offsetting receipts (-) | <u>1</u> | <u>-</u> |
| Agency outlays, net (discretionary and mandatory) | <u>101,463</u> | <u>103,938</u> |

FOOD and NUTRITION SERVICE

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report significant assets, liabilities, net cost of operations, changes in net position, and budgetary resources for FNS, as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated October 7, 2016. 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.

In accordance with the revised OMB Circular A-136, FNS has revised its presentation of the Statement of Budgetary Resources for the FY 2016 financial statements.

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, 18 field offices/satellite locations as well as five Supplemental Nutrition Assistance Program (SNAP) compliance offices. 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 2016 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 \$346 million recognized as non-federal accounts receivable includes debts owed to FNS by individuals, businesses, States and local governments. The largest single component of this item consists of SNAP recipient claims. States establish claims against households to recover over issued food stamp benefits. States are responsible for pursuing collection of such claims.

Collections, less an authorized State retention amount, are remitted to FNS. The portion of total net realizable receivables consisting of SNAP recipient claims is the expected amount of such remittance from States. The data generated by the State systems of gross account receivables has been determined to be unreliable. Accordingly, FNS does not know what the State gross account receivable is. FNS has an alternative method for acquiring reliable State receivable information.

FNS estimates net realizable SNAP accounts receivable through a regression-based statistical model. This model estimates future collections by the States, which the States will remit to the Federal Government as of the end of the accounting period based on the actual SNAP issuance and net claims collections for prior years. The forecasting model draws its predictive power from the strong historical relationship between the level of SNAP benefit issuance and the level of recipient claims collections by States. Applying the model to actual data covering the periods FY 1984 through FY 2016, the model explains 96 percent of the variation in claims collections. Historically, collections projected by the model have proved to be accurate within approximately 4 percent of actual net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNS does not estimate collections after the initial year or discount the estimate produced by the statistical model to its present value.

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

In a September 2015 report, the USDA Office of Inspector General raised a number of issues with State administration of the quality control system. FNS takes the OIG findings seriously and has addressed many of them already. In April 2015, FNS began a thorough review of the quality control system in all 53 State agencies. The reviews were completed by September 2016. Based on an in-depth, systematic review of all State quality control systems, USDA determined it could not release a national SNAP error rate for FY 2015.

If FNS uncovers problematic QC procedures during the reviews, States are required to develop robust corrective action plans to remedy the problems. FNS is monitoring implementation of corrective actions to ensure that they are implemented by States on a timely basis.

FNS is also updating its overall QC process to better reflect OIG recommendations. On September 30, 2016, FNS released a revised QC Handbook (310). FNS will be training all Federal and State QC reviewers using a newly developed curriculum during October and November 2016.

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. Fiscal Year 2014 QC error rates were announced in June 2015. Using this methodology, FNS estimates the value of benefit over issuance in Fiscal Year 2014 (the most recent year for which data are available) at \$2.076 billion. Statement of Federal Financial Accounting Standards (SFFAS) #1 permits Federal entities to estimate its accounts receivable. The QC error rate over issuance estimate is considered the best estimate available. However,

since this is an estimate of all SNAP overpayments, the actual State gross account receivable amount would be lower but the variance cannot be quantified. The amount of over issued benefits is included in the total program cost of the SNAP as reflected in the Statement of Net Cost.

FNS does not receive information to calculate States' QC liabilities for approximately 7 months after the end of the fiscal year; therefore, current information is not available for the financial statements. For FY 2014, six States were assessed amounts for having excessive error rates for two consecutive years. The aggregate total of the liability was \$3 million. The six States signed payment agreements in lieu of immediately repaying in cash. The agreements called for each State to invest 50 percent of its liability in program improvement activities. The remaining 50 percent of the liability was placed at risk pending future improved performance.

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:

| FNS Retirement Contributions (In Millions) | | |
|--|---------------|---------------|
| Type of Contribution | Amount | |
| | 2016 | 2015 |
| CSRS/Transitional retirement contributions - Civil Service | \$1.0 | \$1.1 |
| FERS regular contributions | \$17.6 | \$15.5 |
| Thrift Savings Plan contributions | \$5.7 | \$5.3 |
| TOTAL | \$24.3 | \$21.9 |

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

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

H. Recognition of Financing Sources and Appropriations Used

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

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

I. Fund Balance with Treasury Accounts

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

J. Direct versus Reimbursable Obligations Incurred

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 2016 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 2016, FNS estimates that an adjustment of \$337 is needed in total disbursements related to SNAP benefit redemptions from the FY 2016 SNAP appropriation to the FY 2015 SNAP appropriation. This would bring actual expenditures for those two years into line with anticipated expenditures as authorized by the SNAP appropriations.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 2. Non-Entity Assets

| | FY 2016 | FY 2015 |
|---|------------------|------------------|
| 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 | 41 | 42 |
| Taxes receivable | - | - |
| Loan receivable and related foreclosed property | - | - |
| Inventory and related property | - | - |
| Other | - | - |
| Total With the Public | 41 | 42 |
| Total non-entity assets | 41 | 42 |
| Total entity assets | 48,611 | 43,632 |
| Total assets | \$ 48,652 | \$ 43,674 |

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 2016 | FY 2015 |
|--|------------------|------------------|
| Fund Balances: | | |
| Trust Funds | \$ - | \$ - |
| Revolving Funds | - | - |
| Appropriated Funds | 48,275 | 43,266 |
| Other Fund Types | 28 | 12 |
| Total | 48,303 | 43,278 |
| Status of Fund Balance with Treasury: | | |
| Unobligated Balance: | | |
| Available | 6,085 | 4,293 |
| Unavailable | 33,020 | 29,995 |
| Obligated Balance not yet Disbursed | 9,170 | 8,978 |
| Non-Budgetary Fund Balance with Treasury: | 28 | 12 |
| Total | \$ 48,303 | \$ 43,278 |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

Note 4. Accounts Receivable, Net

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

| FY 2015 | Gross Accounts Receivable | Allowance for Uncollectible Accounts | Accounts Receivable, Net |
|-------------------|------------------------------|--|-----------------------------|
| Intragovernmental | \$ - | \$ - | \$ - |
| With the Public | \$ 343 | \$ 18 | \$ 325 |
| Total | \$ 343 | \$ 18 | \$ 325 |

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 5. General Property, Plant and Equipment

Property and equipment are depreciated over their useful economic lives, which average 5-10 years, using the straight-line method. For FY 2016 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 2016 | Useful Life | Cost | Accumulated Depreciation | Net Book Value |
|---|----------------|-------------|-----------------------------|----------------------|
| Category | (Years) | | | |
| 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 | \$ - |

| FY 2015 | Useful Life | Cost | Accumulated Depreciation | Net Book Value |
|---|----------------|-------------|-----------------------------|----------------------|
| Category | (Years) | | | |
| 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 | \$ - |

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 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

Note 6. Other Assets

| | FY 2016 | FY 2015 |
|--------------------------------|-------------|--------------|
| Intragovernmental: | | |
| Advances to Others | \$ 3 | \$ 71 |
| Prepayments | - | - |
| Other Assets | - | - |
| Total Intragovernmental | 3 | 71 |
| With the Public: | | |
| Advances to Others | - | - |
| Prepayments | - | - |
| Other Assets | - | - |
| Total With the Public | - | - |
| Total Other Asssets | \$ 3 | \$ 71 |

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 2016
 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

Note 7. Liabilities Not Covered by Budgetary Resources

| Intragovernmental: | FY 2016 | FY 2015 |
|--|-----------------|-----------------|
| 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 | 8 |
| Environmental and disposal liabilities | - | - |
| Benefits due and payable | - | - |
| Other | 14 | 13 |
| Total With the Public | 23 | 21 |
| | | |
| Total liabilities not covered by budgetary resources | 25 | 23 |
| | | |
| Total liabilities covered by budgetary resources | 6,687 | 6,752 |
| | | |
| Total liabilities | \$ 6,712 | \$ 6,775 |

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 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 8. Other Liabilities

| FY 2016 | Non-Current | Current | Total |
|--|-------------|-----------------|-----------------|
| Intragovernmental: | | | |
| 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 |
| Other Liabilities without Related Budgetary Obligations | - | - | - |
| Total Intragovernmental | - | 58 | 58 |
| With the Public: | | | |
| 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 | - | - | - |
| Other Liabilities without Related Budgetary Obligations | - | - | - |
| Total With the Public | - | 2,098 | 2,098 |
| Total Other Liabilities | \$ - | \$ 2,156 | \$ 2,156 |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| FY 2015 | Non-Current | | Current | | Total |
|--|-------------|----------|-----------|--------------|-----------|
| Intragovernmental: | | | | | |
| Contract Holdbacks | \$ | - | \$ | - | - |
| Other Liabilities with Related Budgetary Obligations | | - | 3 | | 3 |
| Employer Contributions and Payroll Taxes | | - | 1 | | 1 |
| Other Post-Employment Benefits Due and Payable | | - | - | | - |
| Unfunded FECA Liability | | - | 1 | | 1 |
| Other Unfunded Employment Related Liability | | - | - | | - |
| Liability for Advances and Prepayments | | - | 1 | | 1 |
| Deferred Credits | | - | - | | - |
| Liability for Clearing Accounts | | - | (1) | | (1) |
| Contingent Liabilities | | - | - | | - |
| Capital Lease Liability | | - | - | | - |
| Liability for Subsidy Related to Undisbursed Loans | | - | - | | - |
| Accounts Payable from Canceled Appropriations | | - | - | | - |
| Resources Payable to Treasury | | - | - | | - |
| Custodial Liability | | - | 36 | | 36 |
| Other Liabilities without Related Budgetary Obligations | | - | - | | - |
| Total Intragovernmental | | - | 41 | | 41 |
| With the Public: | | | | | |
| Contract Holdbacks | | - | - | | - |
| Other Liabilities with Related Budgetary Obligations | | - | 1,848 | | 1,848 |
| Accrued Funded Payroll and Leave | | - | 6 | | 6 |
| Withholdings Payable | | - | - | | - |
| Employer Contributions and Payroll Taxes Payable | | - | - | | - |
| Other Post-Employment Benefits Due and Payable | | - | - | | - |
| Pension Benefits Due and Payable to Beneficiaries | | - | - | | - |
| Benefit Premiums Payable to Carriers | | - | - | | - |
| Life Insurance Benefits Due and Payable | | - | - | | - |
| Unfunded Leave | | - | 13 | | 13 |
| Other Unfunded Employment Related Liability | | - | - | | - |
| Liability for Advances and Prepayments | | - | - | | - |
| Deferred Credits | | - | - | | - |
| Liability for Clearing Accounts | | - | - | | - |
| Liab. for nonfiduciary deposit funds & undeposited collections | | - | 13 | | 13 |
| Contingent Liabilities | | - | - | | - |
| Capital Lease Liability | | - | - | | - |
| Accounts Payable from Canceled Appropriations | | - | - | | - |
| Custodial Liability | | - | 6 | | 6 |
| Other Liabilities without Related Budgetary Obligations | | - | - | | - |
| Total With the Public | | - | 1,886 | | 1,886 |
| Total Other Liabilities | \$ | - | \$ | 1,927 | \$ |
| | | - | | 1,927 | |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
NOTES TO THE FINANCIAL STATEMENTS
(Amounts shown are in Millions except as noted)

Note 9. Leases

Entity as Lessee:

Operating Lease (amounts shown are in thousands):

Description of Lease Arrangements: FNS holds one operating lease that includes office space leased from May 1, 2009 through April 30, 2019. In FY 2016 additional office space was added to the existing lease for the duration of the office space lease. The lease may be renewed at the option of the Government for one 5 year term with the Government having the right to terminate, in whole or in part, at anytime, by giving at least 120 days' notice in writing to the Lessor.

Future Payments Due for Cancellable Operating Leases:

| <u>Fiscal Year</u> | <u>Asset Category</u> |
|-----------------------------|-----------------------|
| | <u>Office Space</u> |
| 2017 | \$ 488 |
| 2018 | \$ 494 |
| 2019 | <u>\$ 290</u> |
| Total future lease payments | <u>\$1,272</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 10. Intragovernmental Cost and Exchange Revenue

| Child Nutrition | FY 2016 | | FY 2015 | |
|--------------------------------------|---------|--------|---------|--------|
| Intragovernmental Costs | \$ | 510 | \$ | 574 |
| Public Costs | \$ | 21,989 | \$ | 21,100 |
| Total Costs | \$ | 22,499 | \$ | 21,674 |
| Intragovernmental Earned Revenue | \$ | - | \$ | - |
| Public Earned Revenue | \$ | - | \$ | - |
| Total Earned Revenue | \$ | - | \$ | - |
| SNAP | | | | |
| Intragovernmental Costs | \$ | 348 | \$ | 244 |
| Public Costs | \$ | 72,829 | \$ | 76,424 |
| Total Costs | \$ | 73,177 | \$ | 76,668 |
| Intragovernmental Earned Revenue | \$ | - | \$ | - |
| Public Earned Revenue | \$ | 75 | \$ | 73 |
| Total Earned Revenue | \$ | 75 | \$ | 73 |
| Other | | | | |
| Other | | | | |
| Intragovernmental Costs | \$ | 123 | \$ | 152 |
| Public Costs | \$ | 105 | \$ | 110 |
| Total Costs | \$ | 228 | \$ | 262 |
| Intragovernmental Earned Revenue | \$ | 1 | \$ | 1 |
| Public Earned Revenue | \$ | - | \$ | - |
| Total Earned Revenue | \$ | 1 | \$ | 1 |
| Women, Infants & Children | | | | |
| Intragovernmental Costs | \$ | 3 | \$ | 2 |
| Public Costs | \$ | 6,169 | \$ | 6,086 |
| Total Costs | \$ | 6,172 | \$ | 6,088 |
| Intragovernmental Earned Revenue | \$ | - | \$ | - |
| Public Earned Revenue | \$ | - | \$ | - |
| Total Earned Revenue | \$ | - | \$ | - |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| Commodity Assistance Program | FY 2016 | | FY 2015 | |
|-------------------------------------|----------------|------------|----------------|------------|
| Intragovernmental Costs | \$ | 3 | \$ | 8 |
| Public Costs | \$ | 292 | \$ | 271 |
| Total Costs | \$ | 295 | \$ | 279 |
| 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 11. Program Costs By Segment

For the year ended September 30, 2016

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

For the year ended September 30, 2015

| | CHILD NUTRITION | SNAP | WIC | CAP | OTHER | Consolidated Total |
|-------------------------------|------------------------|-------------|------------|------------|--------------|---------------------------|
| Total Gross Costs | 21,674 | 76,668 | 6,088 | 279 | 262 | 104,971 |
| Less Earned Revenue: | 0 | 73 | 0 | 0 | 0 | 73 |
| Net Goal Costs: | 21,674 | 76,595 | 6,088 | 279 | 262 | <u>104,898</u> |
| Net Cost of Operations | | | | | | <u>104,898</u> |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

Note 12. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$75 from the state option Supplemental Nutrition Assistance Program.

In addition, earned revenue is received from other Federal agencies for reimbursement of expenses related to information technology services and facility-related services including WBSCM, Commodity Improvement Initiative and Whole Grain Study totaling \$1.

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 2016, one State participated in this program, which generated earned revenues of \$75.

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

| 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 | - | - | - |
| Total Obligations Incurred | \$ 103,612 | \$ 76 | \$ 103,688 |

| FY 2015 | Direct | Reimbursable | Total |
|--------------------------------------|-------------------|--------------|-------------------|
| Apportionment by Fiscal Quarter | \$ 32,042 | \$ - | \$ 32,042 |
| Apportionment for Special Activities | 73,756 | 73 | 73,829 |
| Exempt from Apportionment | - | - | - |
| Total Obligations Incurred | \$ 105,798 | \$ 73 | \$ 105,871 |

Note 14. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2016 and 2015 was \$ 2.6 billion and \$2.3 billion, respectively.

Note 15. Explanation of Differences between the SBR and the Budget of the US Government

Differences exist between FNS' FY 2015 Statement of Budgetary Resources (as provided to the Department for consolidation purposes) and the FY 2015 actual numbers presented in the FY 2017 Budget of the United State Government (Budget). These differences are summarized below:

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| Description | Budgetary Resources | Outlays |
|---|---------------------|-----------|
| 2015 SBR | \$140,159 | \$103,938 |
| Less: Expired Accounts not Included in Budget | \$24,886 | \$- |
| Add: Parent Child Relationship (NIFA) | \$9 | \$5 |
| Less: Differences due to Rounding | \$2 | \$2 |
| Add: Permanent Reduction Error | \$25 | \$25 |
| Add: Direct Fund Cite | \$8 | (\$8) |
| Budget of the U.S. Government | \$115,313 | \$103,958 |

The actual numbers for the FY President’s Budget have not yet been published as of FNS’ FY 2016 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at www.whitehouse.gov.

Note 16. Incidental Custodial Collections

| Revenue Activity: | FY 2016 | FY 2015 |
|--|---------|---------|
| Sources of Cash Collections: | | |
| Miscellaneous | \$ 6 | \$ 2 |
| Total Cash Collections | 6 | 2 |
| Accrual Adjustments (+/-) | (1) | 6 |
| Total Custodial Revenue | 5 | 8 |
| Disposition of Collections: | | |
| Transferred to Others: | | |
| Treasury | - | - |
| States and Counties | - | - |
| (Increase)/Decrease in Amounts Yet to be Transferred (+/-) | (5) | (8) |
| Refunds and Other Payments | - | - |
| Retained by the Reporting Entity | - | - |
| Net Custodial Activity | \$ - | \$ - |

FNS’ FY 2016 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 2016
 NOTES TO THE FINANCIAL STATEMENTS
 (Amounts shown are in Millions except as noted)

Note 17. Reconciliation of Net Cost of Operations (proprietary) to Budget

| | <u>FY 2016</u> | <u>FY2015</u> |
|---|----------------|----------------|
| Resources Used to Finance Activities: | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$ 103,688 | \$ 105,871 |
| Less: Spending authority from offsetting collections and recoveries | 2,034 | 1,487 |
| | ----- | ----- |
| Obligations net of offsetting collections and recoveries | 101,654 | 104,384 |
| Less: Distributed Offsetting Receipts | - | - |
| | ----- | ----- |
| Net Obligations | 101,654 | 104,384 |
| | ----- | ----- |
| Other Resources | | |
| Donations and forfeitures of property | - | - |
| Transfers in (out) without reimbursement | - | - |
| Imputed financing from costs absorbed by others | 865 | 876 |
| Other | - | - |
| | ----- | ----- |
| Net other resources used to finance activities | 865 | 876 |
| | <u>FY 2016</u> | <u>FY 2015</u> |
| Total resources used to finance activities | 102,519 | 105,260 |
| Resources Used to Finance Items not Part of the Net Cost of Operations: | | |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided | (204) | (366) |
| Resources that fund expenses recognized in prior periods | 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 | 2 |
| Decrease in exchange revenue receivable from the public | - | - |
| Other | - | - |
| Resources that finance the acquisition of assets | - | - |
| Other resources or adjustments to net obligated resources that do not affect net cost of operations | (1) | - |
| | ----- | ----- |
| Total resources used to finance items not part of the net cost of operations | (203) | (364) |
| | ----- | ----- |
| Total resources used to finance the net cost of operations | 102,316 | 104,896 |
| Components of the Net Cost of Operations that will not require or Generate Resources in the Current Period: | | |
| Components Requiring or Generating Resources in Future Periods: | | |

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

| | | |
|--|------------|-----------|
| Increase in annual leave liability | 1 | 1 |
| Increase in environmental and disposal liability | - | - |
| Upward/Downward re-estimates of credit subsidy expense | - | - |
| Increase in exchange revenue receivable from the public | - | - |
| Other | (8) | (13) |
| | ----- | ----- |
| Total components of Net Cost of Operations that will require or generate resources in future periods | (7) | (12) |
| Components not Requiring or Generating Resources: | | |
| Depreciation and amortization | - | - |
| Revaluation of assets or liabilities | - | - |
| Other Components not Requiring or Generating Resources: | | |
| Bad Debt Expense | (14) | 14 |
| Cost of Goods Sold | - | - |
| Other | - | - |
| | ----- | ----- |
| Total components of Net Cost of Operations that will not require or generate resources | (14) | 14 |
| | ----- | ----- |
| Total components of Net Cost of Operations that will not require or generate resources in the current period | (21) | 2 |
| | ----- | ----- |
| Net Cost of Operations | \$ 102,295 | \$104,898 |
| | ===== | ===== |

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

Nonfederal Physical Property

1. A. Supplemental Nutrition Assistance Program (SNAP)

| | | |
|----------------------------|-------------|-------------|
| B. Program Expense | <u>2016</u> | <u>2015</u> |
| 1. ADP Equipment & Systems | \$19 | \$25 |

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>2016</u> | <u>2015</u> |
| 1. ADP Equipment & Systems | \$6 | \$10 |

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>2016</u> | <u>2015</u> |
| 1. Employment and Training | \$104 | \$90 |

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 662,005 work registrants subject to the 3 - month SNAP participant limit and 1,067,825 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2016
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 (Amounts shown are in Millions except as noted)

OTHER INFORMATION

Food and Nutrition Service
 Combined Schedule of Spending
 For the Years Ended September 30, 2016 (CY) and 2015 (PY)

| | FY 2016 | | FY 2015 | |
|--|----------------|--|----------------|--|
| | Budgetary | Non-budgetary Credit Reform Financing Accounts | Budgetary | Non-budgetary Credit Reform Financing Accounts |
| What Money is Available to Spend? | | | | |
| Total Resources | \$ 142,793 | \$ - | \$ 140,159 | \$ - |
| Less Amount Available but Not Agreed to be Spent | 6,085 | - | 4,293 | - |
| Less Amount Not Available to be Spent | 33,020 | - | 29,995 | - |
| Total Amounts Agreed to be Spent | 103,688 | - | 105,871 | - |
| How was the Money Spent/Issued? | | | | |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | |
| 11, 12, 13 - Personnel Compensation and Benefits | - | - | - | - |
| 21, 22 - Travel and transportation | - | - | - | - |
| 23 - Rent, communications, and utilities | - | - | - | - |
| 24, 25 - Other contractual services | - | - | - | - |
| 26 - Supplies and materials | - | - | - | - |
| 31, 32 - Equipment, land, and structures | - | - | - | - |
| 33 - Investments and loans | - | - | - | - |
| 41 - Grants, subsidies, and contributions | - | - | - | - |
| 42 - Insurance claims and indemnities | - | - | - | - |
| 43, 44 - Interest, dividends, and refunds | - | - | - | - |
| 90 - Other | - | - | - | - |
| Total | - | - | - | - |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | |
| 11, 12, 13 - Personnel Compensation and Benefits | - | - | - | - |
| 21, 22 - Travel and transportation | - | - | - | - |
| 23 - Rent, communications, and utilities | - | - | - | - |
| 24, 25 - Other contractual services | - | - | - | - |
| 26 - Supplies and materials | - | - | - | - |
| 31, 32 - Equipment, land, and structures | - | - | - | - |
| 33 - Investments and loans | - | - | - | - |
| 41 - Grants, subsidies, and contributions | - | - | - | - |
| 42 - Insurance claims and indemnities | - | - | - | - |
| 43, 44 - Interest, dividends, and refunds | - | - | - | - |
| 90 - Other | - | - | - | - |
| Total | - | - | - | - |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | |
| 11, 12, 13 - Personnel Compensation and Benefits | - | - | - | - |
| 21, 22 - Travel and transportation | - | - | - | - |
| 23 - Rent, communications, and utilities | - | - | - | - |
| 24, 25 - Other contractual services | - | - | - | - |
| 26 - Supplies and materials | - | - | - | - |
| 31, 32 - Equipment, land, and structures | - | - | - | - |
| 33 - Investments and loans | - | - | - | - |
| 41 - Grants, subsidies, and contributions | - | - | - | - |
| 42 - Insurance claims and indemnities | - | - | - | - |
| 43, 44 - Interest, dividends, and refunds | - | - | - | - |
| 90 - Other | - | - | - | - |
| Total | - | - | - | - |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | |
| 11, 12, 13 - Personnel Compensation and Benefits | 203 | - | 186 | - |
| 21, 22 - Travel and transportation | 10 | - | 8 | - |
| 23 - Rent, communications, and utilities | 17 | - | 12 | - |
| 24, 25 - Other contractual services | 206 | - | 259 | - |
| 26 - Supplies and materials | 1,782 | - | 1,571 | - |
| 31, 32 - Equipment, land, and structures | 3 | - | 2 | - |
| 33 - Investments and loans | - | - | - | - |
| 41 - Grants, subsidies, and contributions | 101,245 | - | 103,831 | - |
| 42 - Insurance claims and indemnities | - | - | - | - |
| 43, 44 - Interest, dividends, and refunds | - | - | - | - |
| 90 - Other | 222 | - | 2 | - |
| Total | 103,688 | - | 105,871 | - |
| Total Amounts Agreed to be Spent | 103,688 | - | 105,871 | - |

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Who did the Money go to?

| | | | | |
|---|----------------|----------|----------------|----------|
| Federal | 146 | - | 96 | - |
| Non-Federal | 103,542 | - | 105,775 | - |
| Total Amounts Agreed to be Spent | <u>103,688</u> | <u>-</u> | <u>105,871</u> | <u>-</u> |

The Schedule of Spending (SOS) presents an overview of how and where FNS is spending (i.e. obligating) money for the reporting period. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). The “Total Amounts Agreed to be Spent” line item of the schedule is reconciled to the “Obligations Incurred” line in the SBR. These amounts may not reconcile to USAspending.gov because the SOS and website have different reporting requirements.

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