



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL

# Food and Nutrition Service's Financial Statements for Fiscal Years 2018 and 2017

## Audit Report 27401-0003-11

OIG audited the consolidated financial statements of FNS for fiscal years 2018 and 2017.

### OBJECTIVE

Our audit objectives were to determine whether: (1) the consolidated 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 FNS Regional Office in San Francisco, California.

### 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 present FNS' financial position as of September 30, 2018 and 2017, fairly, in all material respects, and 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 review of FNS' internal control over financial reporting identified no material weaknesses. However, our review of compliance with laws and regulations identified that FNS' high-risk programs were not compliant with the requirements of the Improper Payments Information Act, as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012.

### RECOMMENDS

This report does not include any recommendations.





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



DATE: November 8, 2018

AUDIT  
NUMBER: 27401-0003-11

TO: Brandon Lipps  
Administrator  
Food and Nutrition Service

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

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Food and Nutrition Service's Financial Statements for Fiscal Years 2018  
and 2017

This report presents the results of our audits of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2018, and 2017. This report contains an unmodified opinion on the financial statements, as well as the results of our assessments of the Food and Nutrition Service's internal control over financial reporting and compliance with laws and regulations.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. 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

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Brandon Lipps  
Administrator  
Food and Nutrition Service

The Department of Agriculture's Office of Inspector General (OIG) audited the consolidated financial statements of the Food and Nutrition Service (FNS) for fiscal years 2018 and 2017. We also considered FNS' internal control over financial reporting and tested FNS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of material financial statement amounts and disclosures on these consolidated financial statements.

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

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of FNS, which comprise the consolidated balance sheets as of September 30, 2018 and 2017, 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 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-01 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, 2018 and 2017, 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. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the Required Supplementary Information (RSI)<sup>1</sup> be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the RSI information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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.

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<sup>1</sup> The RSI presented within consists of Management's Discussion and Analysis, and required supplementary stewardship information.

## **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. Accordingly, we do not express an opinion on the effectiveness of FNS' internal control. 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 purpose 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 19-01 requires us to describe significant deficiencies and material weaknesses identified during our audits, and in the event that no material weaknesses were identified, to so report. We did not identify any deficiencies in internal control that were considered to be material weaknesses during our audits.

### **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

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

We also performed tests of FNS' compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and

accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which FNS' financial management systems did not substantially comply with FFMIA.

In Audit Report 50024-0013-11, *USDA's Fiscal Year 2017 Compliance with Improper Payment Requirements*, issued May 2018, 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 Supplemental Nutrition Assistance Program and the Child and Adult Care Food Program did not publish a comprehensive improper payment gross estimate; National School Lunch Program (NSLP), School Breakfast Program (SBP), and Special Supplemental Nutrition Program for Women, Infants, and Children did not meet annual reduction targets; and SBP and NSLP did not report a gross improper payment rate of less than 10 percent.

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

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

### **Auditor's Responsibilities**

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

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, 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 internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FNS. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements that we deemed applicable to FNS' financial statements for the fiscal year ended September 30, 2018. We caution that noncompliance may occur and not be detected by these tests.

## **Management's Response**

FNS' Chief Financial Officer and Accounting Division management reviewed a draft of this report and, in commenting on such, stated they were in concurrence.

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

We reviewed the status of FNS' corrective actions with respect to the prior year's Independent Auditor's Report, dated November 6, 2017. The status is presented in Exhibit A.

## **Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

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



Gil H. Harden  
Assistant Inspector General for Audit  
Washington, D.C.  
November 7, 2018

## Abbreviations

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FASAB.....	Federal Accounting Standards Advisory Board
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
NSLP.....	National School Lunch Program
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
RSI .....	Required Supplementary Information
SBP .....	School Breakfast Program
U.S. ....	United States of America
USDA.....	United States Department of Agriculture

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

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**Report 27401-0002-11**, Food and Nutrition Service's Financial Statements for Fiscal Years 2017 and 2016.

### **Reported Nonompliance**

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

### **Status**

Closed. Final action on Recommendation 2 to FNS from Audit Report 50024-0011-11, *USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements*, was closed during fiscal year 2018.



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

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**Food and Nutrition Service's  
Fiscal Years 2018 and 2017 Financial Statements  
Prepared by Food and Nutrition Service**

## MANAGEMENT DISCUSSION AND ANALYSIS

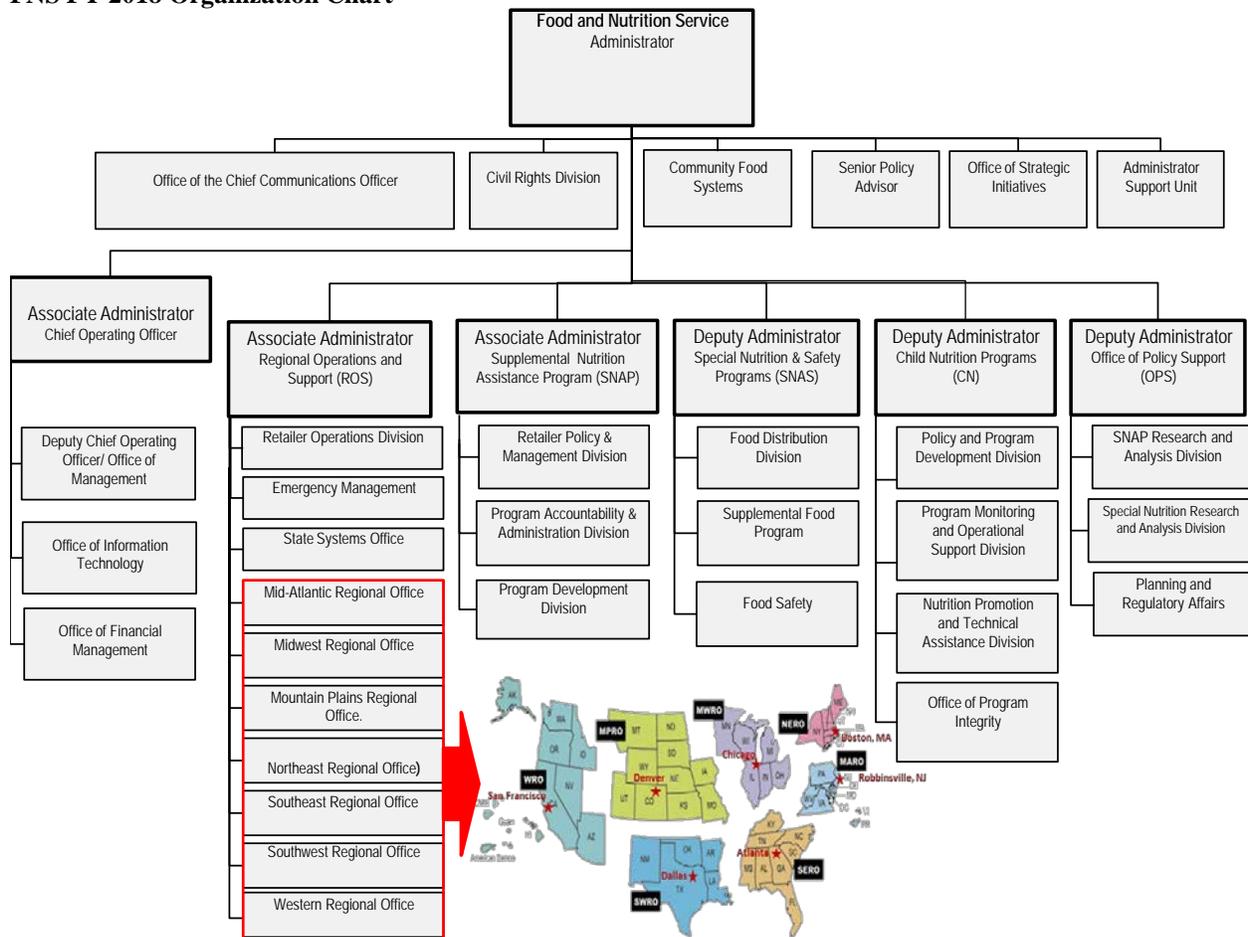
### SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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 scientific research to the nutrition needs of consumers.

**FNS FY 2018 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 nutrition and health of the Nation’s children and other low-income Americans.

- *Supplemental Nutrition Assistance Program (SNAP):* Authorized by the Food and Nutrition Act of 2008, SNAP is the cornerstone of the Nation’s nutrition assistance safety net, touching the lives of more than 42 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 to provide food and nutrition assistance in lieu of SNAP.)

- *Food Distribution Program on Indian Reservations (FDPIR):* FDPIR provides USDA foods to income-eligible households living on Indian reservations, and to American Indian households residing in approved areas near reservations or in Oklahoma. Many households participate in FDPIR as an alternative to SNAP, because they do not have easy access to SNAP offices or authorized food stores. State agencies and Indian Tribal Organizations (ITOs) that operate the program are responsible for eligibility certification, nutrition education, local warehousing and transportation of food, distribution of food to recipient households, and program integrity. The Federal Government pays 100 percent of the cost of USDA foods distributed through the program and provides 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 about 35 million children in schools, child care institutions, summer sites and after school care programs. CACFP also supports meal service in adult day care centers. FNS provides cash and USDA-purchased food on a per-meal basis to offset the cost of food service at the local level and a significant portion of State and local administrative expenses, and provides training, technical assistance, and nutrition education. Payments are substantially higher for meals served free or at a reduced price to children from low-income families.

- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*: WIC addresses the supplemental nutritional needs of at-risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to five years of age. It provides participants monthly supplemental food packages targeted to their dietary needs, breastfeeding support to nursing mothers, nutrition education, and referrals to a range of health and social services – benefits that promote a healthy pregnancy for mothers and a healthy start for their children. Appropriated funds are provided to States agencies for food packages and nutrition services and administration for the program; State agencies operate the program pursuant to plans approved by FNS.
- *The Emergency Food Assistance Program (TEFAP)*: This program supports the emergency food organization network by distributing USDA-purchased, 100 percent domestically grown foods for use by emergency feeding organizations including soup kitchens, food recovery organizations, and food banks. The foods are also provided to other types of local organizations, such as community action agencies, which distribute the foods directly to low-income households. TEFAP also provides administrative funds to defray State and local costs associated with transportation, processing storage, and distribution of USDA Foods or those provided through private donations. The allocation of both Federal food and administrative grants to States is based on a formula that considers the States' unemployment levels and the number of persons with income below the poverty level.
- *The Commodity Supplemental Food Program (CSFP)*: CSFP works to improve the health of low-income elderly persons at least 60 years of age by supplementing their diets with nutritious USDA Foods. Women, infants, and children who were certified and receiving CSFP benefits as of February 6, 2014, can continue to receive assistance until they are no longer eligible under the program rules in effect on February 6, 2014. As required by the Agricultural Act of 2014 (P.L. 113-79), women, infants, and children who apply to participate in CSFP on February 7, 2014, or later cannot be certified to participate in the program. Such individuals may be eligible for other nutrition assistance programs such as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Supplemental Nutrition Assistance Program (SNAP), and other nutrition assistance programs. In FY 2016, elderly participants comprised over 99.5 percent of total participation. Participants receive a monthly food package of USDA Foods. State agencies are provided funding to cover State and local administration costs such as nutrition education, warehousing, food delivery, and participant certification. States work with local agencies to distribute the monthly food package to participants.
- *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 and honey at farmers' market, roadside stands, and community-supported agriculture programs.
- *Pacific Island and Disaster Assistance*: Pacific Island Assistance includes assistance to the nuclear-affected islands of the Republic of the Marshall Islands (RMI) in the form of cash-in-lieu of food and administrative funds through the Special Food Assistance Program and is authorized under the Compact of Free Association Amendments Act of 2003 (P.L. 108-188). Disaster relief in the form of USDA Foods can be provided to the RMI and Federated States of Micronesia for use in 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 for conducting monitoring and evaluation activities to make sure that program structures and policies are properly implemented and effective in meeting program missions. State and local organizations are responsible for delivering benefits efficiently, effectively, and in a manner consistent with federal regulations.

**FNS Staff:**

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

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

Program operations are managed through FNS’ seven regional offices and 19 field offices/satellite locations. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNS programs and conduct on-site management reviews of State operations. The Retailer Operations Division monitors the 260,624 stores and other outlets as of June 30, 2018 authorized to redeem SNAP benefits.

As of September 30, 2018, there were approximately 1,451 full-time permanent employees in the agency. There were 544 employees in the Washington headquarters office and 907 in the field. The chart below displays staff year utilization.

STAFF YEAR DISTRIBUTION (From All Sources of Funds)					
FNS Projects and CNPP	2017 Actual	2018 Enacted	2019 Estimate	Change	2020 Estimate
Supplemental Nutrition Assistance Program	370	376	377	-1	376
Child Nutrition Programs	290	293	290	+3	293
Commodity Assistance Program	3	3	2	+1	3
Special Supplemental Nutrition Program for Women, Infants and Children	44	44	44	0	44
Nutrition Programs Administration	839	815	818	-3	815
Center for Nutrition Policy and Promotion*	28	26	26	0	26
Total Available	1,574	1,557	1,557	0	1,557

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

## SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

The FNS agency goals and objectives are fully integrated into USDA’s Strategic Goal 7 with two related Department Strategic objectives. Each Department Strategic Objective has a key outcome and indicator, as discussed below.

USDA Strategic Goal	USDA Strategic Objective	Programs that Contribute <sup>1</sup>	Key Outcomes	Key Indicators
<b>USDA Goal 7:</b> Provide All Americans Access to A Safe, Nutritious, And Secure Food Supply	<u>USDA Strategic Objective 7.2:</u> Provide access to safe and nutritious food for low-income people while supporting a pathway to self-sufficiency	SNAP, CN, WIC, CAP, FDPIR, TEFAP	<u>Key Outcome 1:</u> Nutrition assistance programs positively impact the communities they serve.	Program Participation Rates as well as annual measure of the proportion of households with ready and reliable access to the food they need.
	<u>USDA Strategic Objective 7.3:</u> Support and encourage healthy dietary choices through data driven, flexible, and customer-focused approaches	CN,SNAP,WIC	<u>Key Outcome 2:</u> Give consumers the tools, skills, and motivation they need to choose a diet that supports a healthy future.	Program Participation Rates.

### STRATEGIC GOAL 7: PROVIDE ALL AMERICANS ACCESS TO A SAFE, NUTRITIOUS, AND SECURE FOOD SUPPLY

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 2018. 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.

In FY 2018, 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 2018, 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

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

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.

Participation in SNAP Employment and Training (E&T) Programs: In partnership with State and local agencies and Federal, public, and private partners, E&T programs are designed to help able-bodied SNAP recipients find work or gain the skills, training, and experience that lead to employment. USDA will continue to work with State agencies to incorporate robust E&T components into SNAP State plans. In addition, USDA will disseminate best practices regarding skills-based training components to State agencies.

## **STRATEGIC GOAL 7: PROVIDE ALL AMERICANS ACCESS TO A SAFE, NUTRITIOUS, AND SECURE FOOD SUPPLY**

### **OBJECTIVE 7.2: PROVIDE ACCESS TO SAFE AND NUTRITIOUS FOOD FOR LOW-INCOME PEOPLE WHILE SUPPORTING A PATHWAY TO SELF-SUFFICIENCY**

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#### **7.2.1 Percentage of American households with Consistent, dependable access to food**

##### **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**

Most U.S. households have access at all times to enough food for an active and healthy life and are food secure. The estimated percentage of households that were food secure in 2017 (88.2 percent) increased significantly from 2016 (87.7 percent), and continued an upward trend from a low in 2011 when only 85.1 percent of households were food secure.

Annual Performance Goals, Indicators and Trends	2013	2014	2015	2016	2017	Fiscal Year 2018		
						Target	Actual	Result
7.2.1 Percentage of American households with consistent dependable access to food	85.7%	86.0%	87.3%	87.7%	88.2%	87.9%	Not Available	Deferred
FY 2018 data will be available in September 2019 <b>Rationale for Met Range:</b> The standard error around the measure (88.2 percent) is $\pm 0.1914$ .								
<b>Data Assessment of Performance Measure 7.2.1</b>								
<p>The data comes from the annual survey conducted by the U.S. Census Bureau as a supplement to the nationally representative Current Population Survey (CPS). The data are collected annually in December.</p> <p><input type="checkbox"/> <b>Completeness of Data</b>—The CPS currently includes about 37,389 households and is representative at the State and national level of the civilian non-institutionalized U.S. population. In December 2017, 41,186 households completed the food security supplement, and data are weighed by the U.S. Census Bureau to provide the national prevalence. The most current data is Calendar Year 2017.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>— The US Census Bureau conducted cognitive and field tests of the food security questionnaire before it was finalized and included as a supplement to the CPS in April 1995. Minor modifications were made to the format and screening procedures during the first years of administration. In 1998 the screener and format were substantially revised to reduce respondent burden and improve the quality of the data. However, the content of the 18 food security questions has remained constant. In 2003-2006 an expert panel convened by the Committee on National Statistics (CNSSTAT) of the National Academy of Sciences reviewed the food security measurement methodology. This expert panel concluded that the general methodology for measuring food insecurity was appropriate.</p> <p><input type="checkbox"/> <b>Quality of Data</b>— The food security statistics are based on a nationally representative food security survey conducted as an annual supplement to the monthly CPS by the U.S. Census Bureau for the Bureau of Labor Statistics. The CPS provides data for the monthly U.S. unemployment statistics and annual income and poverty statistics.</p>								

## Challenges for the Future

Although the prevalence of households that are food secure has continued to increase after reaching its lowest level in 2011, it is still not at the pre-recessionary level of 89 percent (2005-2007). About 58 percent of the food insecure households reported that they participated in SNAP, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) or the National School Lunch Program in the month prior to the survey. Therefore, the need for developing and implementing evidence-based strategies that can further increase the percentage of low-income households with consistent and dependable access to food continues. The evaluation of the Food Insecurity Nutrition Incentives (FINI) grants program is examining the effect on food security of providing incentives to increase fruit and vegetable purchases by SNAP households. The evaluation of the ten 2014 Farm Bill Employment and Training (E&T) Pilots is also examining the impact of pilot participation on food security, as well as employment and earnings. Interim findings from FINI and E&T pilots' evaluations are expected in FY 2019.

The alignment of the timeline for the annual performance measure with the availability of the annual food security statistics continues to be a challenge. In addition, the annual food security statistics are for a calendar year. The actual outcome measure for 2018 will be released in September 2019.

## 7.2.2 Percentage of SNAP Education and Training Participants Engaged in Education and Skills-Based Training

### Overview

FNS supports helping SNAP recipients become self-sufficient. FNS allocates \$90 million to state SNAP agencies to operate employment and training (E&T) programs designed to help SNAP recipients gain skills, education, and work experience that lead to good jobs. In addition, FNS reimburses states 50 percent for costs they incur above that amount. States have discretion regarding whom to serve and where to provide services. They may provide a variety of components such as job search, job search training, workfare, career and technical education, on-the-job training, or apprenticeships. Previously the majority of SNAP participants received light touch services such as job search. The FNS November 2016 SNAP E&T Best Practices Report Study found that stand alone basic skills or job search assistance programs fall short of helping participants achieve lasting self-sufficiency. Whereas, combining these components with more intensive services, or offering programs leading to academic credentials or community college certificates are more often associated with improved outcomes.

Since 2014, FNS has invested significant resources to help states create more evidenced-based, skills-based programs that meet the needs of employers and lead to jobs in the local economy. Given that the 100 percent federal funds and state resources are limited, FNS determined that the best way for states to grow and improve their programs was to leverage the 50 percent reimbursement funds and build third-party partnerships. FNS increased its capacity at the national and regional levels to work directly with all states, and through its SNAP to Skills (S2S) Project provided more targeted technical assistance to 15 States. Through S2S, FNS also created tools and resources that are available to all states and other stakeholders. FNS has disseminated policy briefs on best practices such as *Integrating SNAP E&T into Career Pathway Systems to Boost Outcomes*, and *SNAP E&T and WIOA: Partnering to Raise Skills and Employment*. It has published the *SNAP E&T Operations Handbook: A Step-by-Step Guide to Developing, Implementing, and Growing a SNAP E&T Program*, a “soup to nuts” guide on how to build a SNAP E&T program using third-party partners to deliver services. Other materials include The Employment and Training Review, a monthly newsletter that is disseminated to over 6,000 people, a series of webinars on best practices, and four promotional videos featuring State agencies, E&T providers and SNAP participants.

### Analysis of Results

Every year states report data on the FNS 583 that includes the number of SNAP participants served in each component. Overtime this data should show an increase in the number of participants in more education and skills-based activities. However, there are inherent limitations of this data, including that it is state reported and not verified by FNS. The FY 2017 data showed an extreme deviation from previous years in many of the data fields, including the number of participants in skills-based education and training activities. FNS is working with states to identify the reasons behind these reporting anomalies and to correct the problems. FNS is committed to improving the quality of the state reported data. Moving forward FNS will take action to clarify instructions through webinars and technical assistance packages. In addition, an FY 2019 national target area for management evaluation includes states that have reported significant fluctuations in their FNS 583 data over a three-year period.

Annual Performance Goals, Indicators and Trends	2013	2014	2015	2016	2017	Fiscal Year 2018		
						Target	Actual	Result
7.2.2 Percentage of SNAP Education & Training participants engaged in education and skills-based training	Not Available	Not Available	33%	33%	Not Available	35%	Not Available	Deferred
<b>Rationale for Met Range:</b> FY 2018 data will be available in FY 2019.								
<b>Data Assessment of Performance Measure 7.2.2</b>								
<p>Data is pulled from the FNS-583 SNAP Employment and Training (E&amp;T) Program Activity Report fourth quarter report. The percentage of participants engaged in education and skill-based training is calculated by adding up the total number of participants in education and training activities (job search, job search training, job retention, workfare, and WIOA activities are excluded) and dividing that by the total number of participants.</p> <p><input type="checkbox"/> <b>Completeness of Data</b>— The data is submitted 45 days after the end of the previous fiscal year and is considered “complete” after it is reviewed and approved by FNS regional offices. However, data may be subject to change up to a year after posting if the State or Federal agency identifies an error. The most current data is FY 2016.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>— The data is compiled and submitted by State agencies. While it is reviewed and approved by Federal staff, it is not independently verified. FNS does review data collection methods and samples during Management Evaluations. However, these reviews do not take place in every State each year. FY 2017 data showed wide deviations from previous years. FNS is working with States to identify issues and correct deficiencies in data collection and reporting.</p> <p><input type="checkbox"/> <b>Quality of Data</b>— The data is compiled and submitted by State agencies. While it is reviewed and approved by Federal staff, it is not independently verified. FNS does review data collection methods and samples during Management Evaluations. However, these reviews do not take place in every State each year. FNS is implementing strategies to improve the quality of the data.</p>								

## Challenges for the Future

FNS will continue to provide technical assistance and oversight to ensure States address deficiencies in collecting and reporting data on the FNS 583 reports in order to improve the reliability and quality of the data, including the number of SNAP participants enrolled in education and skills-based training.

## **OBJECTIVE 7.3: SUPPORT AND ENCOURAGE HEALTHY DIETARY CHOICES THROUGH DATA DRIVEN, FLEXIBLE, AND CUSTOMER-FOCUSED APPROACHES**

### **7.3.1 Annual Percentage of Eligible Children Participating in the National School Lunch Program (NSLP)**

#### Overview

The National School Lunch Program (NSLP) is a federally assisted meal program operating in over 99,000 public and non-profit private schools and residential child care institutions. Schools and districts that choose to participate in the NSLP receive cash subsidies and USDA Foods from the U.S. Department of Agriculture (USDA) for each meal they serve that meets the Federal requirements. Generally, children from families with income at or below 130 percent of the Federal poverty level are eligible for free meals, while children from families with incomes between 130 percent and 185 percent are eligible for reduced price meals. Schools can charge no more than 40 cents per reduced price lunch and no more than

30 cents per reduced price breakfast. Children who do not qualify for free or reduced price meals may purchase a lunch at the “paid” rate. Local school districts have discretion in setting the price of a paid lunch, provided they meet minimum Federal requirements.

## Analysis of Results

USDA is working to provide flexibility so that program operators can serve healthy meals that students enjoy. These changes are truly successful only when all of America’s school children eat and enjoy the school meals. While some Program operators have had great success in implementing the updated nutrition standards in a way that encourages healthy eating and participation, some school meal programs require additional flexibility and support from USDA to meet this goal.

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

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

FNS published an interim final rule in response to the Secretary’s Proclamation on November 30, 2017. The interim final rule granted the following flexibilities for SY 2018-2019:

- Allowed State agencies discretion to grant whole grain-rich exemptions to school food authorities that can demonstrate hardship(s) in procuring, preparing, or serving specific products that are acceptable to students and compliant with the whole grain-rich criteria;
- Provided operators the option to offer flavored, low-fat (1 percent fat) milk in the Child Nutrition Programs, without having to document hardship; and
- Retained Sodium Target 1 as the regulatory limit in the school meal programs.

Over 51 million children attend schools that operate the NSLP. More than 30 million children participate in the NSLP each school day, with over 20 million receiving their lunch at no cost or at a reduced price. Provisions designed to improve access, streamline administration, and eliminate barriers to participation have helped USDA reach more of the nation’s children in recent years. In fact, participation among children eligible for free meals has increased by over 34 percent in the last decade. USDA continues to work to connect our nation’s most vulnerable children with the wholesome foods they need to stay healthy and focused during the school day.

- Section 9(b)(4)(F) of the Richard B. Russell National School Lunch Act sets 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. In SY 2016-2017 there were 28 States that met or exceeded the 95 percent requirement, which reflects an additional 16 states meeting the benchmark since SY 2013-2014, and marks the first time that the majority of States met the direct certification performance target. Each State that does not meet the benchmark for a particular school year is required to develop and implement a Continuous Improvement Plan (CIP) to improve its direct certification procedures and fully meet the statutory benchmarks in subsequent school years. To assist in the development and execution of these Plans, as well as direct certification efforts nationally, the

Food and Nutrition Service (FNS) continues to provide guidance and process improvement assistance to State agencies. Technical assistance efforts include on-site visits, conference calls, and written guidance. Due in part to this assistance, it is anticipated that several States will achieve the mandated benchmark rate in subsequent years.

Annual Performance Goals, Indicators and Trends	2013	2014	2015	2016	2017	Fiscal Year 2018*		
						Target	Actual	Result
7.3.1 Annual percentage of eligible children participating in the NSLP	55.7%	54.8%	55.4%	55.5%	54.5%	59%	57.8%	Met
<p><b>Rationale for Met Range:</b> Thresholds for 7.3.1 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 2018, this percentage range allows for actual performance did meet the target in the range of 56.0 - 61.6 percent.</p>								
<p><b>Data Assessment of Performance Measure 7.3.1</b></p> <p>*Starting with FY 2018 there is a change in the methodology to calculate this figure. The figure is now derived from FNS administrative data on participation and enrollment in schools participating in the NSLP. Previously the metric used the Department of Education National Center for Education Statistics (NCES) public and private school enrollment data from the NCES's <i>Projections of Education Statistics</i> report series for the denominator. The old method did not adjust for whether or not the schools in which the children were enrolled participated in the NSLP. The new method uses enrollment data from FNS administrative data on the number of students enrolled in schools that participate in the NSLP. This method measures the actual percent of students that participate in the NSLP that are enrolled in schools operating the NSLP. This is the same metric used in the USDA Strategic Plan.</p>								
<p>The indicator is a ratio of school meals participation and enrollment data, drawn from USDA administrative records. This ratio shows the proportion of children enrolled in schools with the NSLP participating in the program.</p> <p>NSLP administrative data is drawn from State agency reports that are certified as accurate and submitted to FNS Regional Offices. There, the reports are reviewed for completeness and consistency. If the data are acceptable, the FNS Regional Office analyst posts the reports to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, FNS Regional Office personnel reject the report and the State agency is contacted. Data posted by FNS Regional Office 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 FNS 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"/> <b>Completeness of Data</b>— Figures for NSLP participation are based on 9-month (school year) averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through May 30, 2018, as available August 2018. Figures for enrollment in NSLP participating schools are reported in October of each year.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>— Participation and enrollment data reporting are used to support program financial operations. All of the data are used in published analyses, studies and reports. The data 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"/> <b>Quality of Data</b>— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.</p>								

## Challenges for the Future

FNS is in the process of drafting a final regulation that will address the whole grain-rich, flavored milk, and sodium flexibilities in the long term. This final regulation is expected to take effect in SY 2019-2020.

In addition to the meal pattern flexibilities, USDA is committed to finding other ways to simplify menu planning and expand menu choices. In December 2017, FNS issued a Request for Information to gather feedback about current food crediting guidelines from a wide variety of stakeholders. FNS will use this public input to develop new guidance and resources in FY 2019 to enhance flexibility and expand the food options available to menu planners working hard to prepare meals that children enjoy.

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

School food authorities are required to increase the prices charged for paid lunches to ensure adequate revenue is generated to cover the costs of producing these meals. The intent of this requirement is to ensure Federal reimbursements for free and reduced price meals are not used to cover the costs of paid lunches. In some cases, increasing the paid lunch price may impact participation among children participating at the paid rate. FNS has recognized that not all school food authorities need the additional revenue from increasing the paid lunch price, and has provided an exemption from this requirement for school food authorities in good financial standing. School food authorities may also contribute non-Federal funds to meet this requirement in lieu of raising prices.

Further, consistent with Section 776 of the 2018 Consolidated Appropriations Act, FNS issued guidance in April 2018 exempting any school food authority with a positive or zero balance in its school food service account as of January 31, 2018 from paid lunch equity requirements for SY 2018-2019. School food authorities maintain the discretion to determine their target paid lunch price and may adjust their paid lunch price for SY 2018-2019 accordingly. To demonstrate State oversight of this provision, FNS recommended that State agencies maintain documentation for any school food authorities using this exemption.

## **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 2018 financial statements audit report.

### **Federal Managers' Financial Integrity Act (FMFIA Section 2)**

#### **Assurance**

FNS management is responsible for developing and maintaining internal control to ensure the effectiveness of operations, reliability of 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.

FNS management has conducted its annual evaluations of internal control pursuant to Sections 2, for the period ending June 30, 2018. Based on the results of the evaluations, FNS provides an unmodified statement of assurance that internal controls are operating effectively over operations. No new material weaknesses, significant deficiencies, or control deficiencies were identified for FY 2018.

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

FNS conducted its assessment of the effectiveness of internal control over external financial reporting as of June 30, 2018. The assessment followed USDA guidance, Office of Management and Budget (OMB) Circular A-123, Appendix A (revised) and best practices established by the department.

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

#### **Processes**

- a. Charge Card Management: Purchase Cards
- b. Charge Card Management: Travel Cards
- c. Conference Planning and Reporting
- d. Financial Reporting: Period-End Reporting
- e. Financial Reporting: Significant Management Estimates
- f. Financial Reporting: Unliquidated Obligations Review
- g. Financial Reporting: User Access
- h. Funds Management: Fund Balance with Treasury Reconciliation
- i. Grants Management: Awards and Modification (Discretionary and Entitlement Grants)
- j. Grants Management: Closeout (Discretionary and Entitlement Grants)
- k. Grants Management: Draws and Expenditures (Discretionary and Entitlement Grants)
- l. Grants Management: Monitoring (Discretionary and Entitlement Grants)
  
- m. Reimbursable Agreements: Authorizations and Modifications

- n. Reimbursable Agreements: Receivables and Payment Management
- o. Revenue and Receivables: Collections

FNS management recognizes its responsibility for monitoring and correcting control deficiencies assessed as outside of its risk tolerance. With regard to these processes and the internal controls within these processes, management certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2018. FNS provides an unmodified statement of assurance that the internal controls over external financial reporting for FY 2018 are operating effectively.

In addition, there were no new material weaknesses or significant deficiencies identified in FNS' Business Process Controls (BPC). There were six BPC control deficiencies that remained and five control deficiencies that were corrected. Corrective action plans for the six BPC control deficiencies have been developed and submitted in the A-123 Compliance Reporting Tool (ACRT). The approved risk-based decisions have been documented and reported including a listing of deficiencies.

## **Compliance with Laws and Regulations (FFMIA-Section 2)**

### **Anti-Deficiency Act**

1. FNS management has not entered into contracts that exceeded the enacted appropriations for the year or purchased services and merchandise before appropriations are enacted.
2. FNS has maintained compliance with all provisions of law that are associated with the Anti-Deficiency Act.

### **Federal Civil Penalties Inflation Adjustment Act Improvements Act**

1. FNS provides reasonable assurance that controls are in place that align with the requirements set forth in the Act.

### **Supplemental Appropriations for Disaster Relief Requirements, 2017/Additional Supplemental Appropriations for Disaster Relief Act of 2017**

1. FNS has established appropriate policies and controls, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to disaster-related activities for the Commodity Assistance Program, Puerto Rico Nutrition Assistance Program Block Grants, and Special Supplemental Nutrition Program for Women, Infants and Children.
2. FNS management has not identified additional significant deficiencies associated with management for disaster relief and other emergencies.

**Data Act Reporting for USAspending.gov**

1. FNS provides reasonable assurance that data integrity processes and controls align with OMB Circular A-123 and are in place for all reported data. This includes agency financial systems, award management systems, and procurement data reported to the Federal Procurement Data System – Next Generation (FPDS-NG).

**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. FNS management has not identified additional significant deficiencies associated with internal controls for purchase cards, debit cards and travel cards (i.e., centrally billed accounts, individually billed accounts, and declining balance cards).

**Fraud Reduction and Data Analytics Act**

1. FNS has established financial and administrative controls to identify and assess fraud risks and has designed and implemented control activities to prevent, detect and respond to fraud, including improper payments.
2. FNS management has implemented the fraud risk principle in the Standards for Internal Control for Federal Government and OMB Circular A-123 with respect to the leading practices for managing fraud risk.
3. FNS management has not identified risks and vulnerabilities to fraud, including with payroll, beneficiary payments, grants, large contracts, and purchase and travel cards, as applicable.
4. FNS management has established strategies, procedures, and other steps to curb fraud.

**Conformance with Federal Financial Management Systems Requirements (FMFIA – Section 4 and FFMIA)**

1. The FNS Information and Security Office (ISO) management evaluated its financial management systems under FMFIA (section 4) for the period ended June 30, 2018.
2. The FNS ISO information systems conform to financial management system requirements.
3. No new significant or material non-conformance(s) or consolidated non-conformance(s) were identified.
4. A Plan of Action and Milestone was developed and entered into the Cyber Security Assessment and Management (CSAM) system for one control deficiency which has been corrected.

### **Compliance with Section 803 (a) of the Federal Financial Management Improvement Act (FFMIA)**

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

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	9-30-18	Change in management decision (MD) was approved by OIG on 8-22-18. FNS has since completed a reminder memo to all State agencies regarding their D-SNAP responsibilities. Memo is going through the final stages of FNS Senior Management clearance in preparation for release.
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	11-30-18	In May 2018, Economic Research Service (ERS) advised FNS officials that the study needed to satisfy this recommendation was being rolled into a larger project that would significantly extend the completion date. Therefore, a decision was made that, separate from that larger analysis, ERS would draft a memo specifically to address the open rec. That memo will update the findings from the original report done in 2005 on Interstate Variation in WIC Food Package Costs, which meets the intent of the OIG rec. ERS shared a draft of the memo with FNS around the end of July 2018, and the estimated time for making edits and finalizing is three months from that point.
27601-0001-31	7-31-13	Controls for Authorizing SNAP Retailers	TBD	Recs. 9, 10, 11: Resolution of these three recs. hinges on rulemaking that would remove all stores under the same ownership when one store is determined to have trafficked SNAP benefits unless the owner(s) meet the criteria for a trafficking civil money penalty.
27601-0001-22	9-23-15	SNAP Error Rates	8-30-19	Rec. 1: Resolution depends on the results of a feasibility study on creating a Federal one-tier Quality Control (QC) system. The study is underway and expected to be complete by Summer 2019. Rec.

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				<p>11: On June 1, 2018, FNS published a Request for Information (RFI) titled “SNAP Quality Control Integrity and Modernization.” FNS is considering proposals for a regulatory reform of our QC system in order to better align regulations with new policy and procedural requirements. FNS has three objectives for reforming the QC system: (1) Strengthen the integrity and accountability of the system, (2) increase transparency in the process, and (3) use technology to improve improper payment estimates. The intent of the RFI is to obtain the perspectives of State governments and other stakeholders to inform the Agency as it considers how best to proceed with reforming the QC system. Included in the RFI, FNS seeks input from stakeholders on how best to revise the Comparison I and Comparison II process to address this specific OIG rec. FNS filed a work plan for the Fall regulatory agenda and intends to proceed with rulemaking later this year.</p>
27601-0003-10	9-27-16	New Mexico’s Compliance with SNAP Certification of Eligible Households Requirements	10-31-18	<p>FNS and OIG met in April 2018 to discuss some of the challenges associated with closing these recs. given the extensive work FNS has done with the State as well as significant staff changes at the State agency level. FNS and OIG agreed on an action plan for how to best move forward with the recs., and the final collection of supporting documentation from the State agency is underway.</p>
27601-0003-22	9-29-16	SNAP Administrative Costs	10-15-18	<p>Rec. 2: FNS has completed its first annual analysis of existing State-level administrative expense data to monitor State cost-per-case variances and identify trends. However, because the State data could not be easily validated, next steps to complete this rec. took longer than originally anticipated. Documentation demonstrating completion and results of analysis</p>

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				is being finalized.
27601-0004-10	10-25-16	Michigan's Compliance with SNAP Certification of Eligible Households Requirements	10-31-18	As part of the formal final action process, FNS received a request from OCFO for additional documentation on two of the recs. Via the FNS Midwest Regional Office (MRWO) this additional documentation is the process of being collected from the Michigan State agency.
27901-0002-13	1-9-17	Detecting Potential SNAP Trafficking Using Data Analysis	10-31-18	As part of the formal final action process, FNS received a request from OCFO for more detailed information on two of the recs. rather than the summary level information originally provided. Given the volume of the records involved, additional time is needed by FNS to pull this information and present in a clear, concise manner.
27601-0008-10	6-14-17	Georgia's Compliance with SNAP Requirements for Participating State Agencies	11-15-18	One rec. required the Georgia State agency to develop training materials to address a SNAP data matching issue. A system change needed to be implemented first. That system change is scheduled for completion in September 2018, and then the State can proceed with finalizing the associated training materials.

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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 2018.

	Auditor	Agency	Audit Number	Audit Name	Status
1	OIG	FNS	27004-0001-41(1)	California's Controls Over the Summer Food Service Program - Interim Report	CLOSED – October 2017
2	OIG	FNS	27401-0002-11	FNS Financial Statements for FY 2017	CLOSED – November 2017
3	OIG	FNS	27601-0001-10	New Hampshire's Compliance with SNAP Certification of Eligible Households Requirements	CLOSED – February 2018
4	OIG	FNS	27601-0007-10	Compilation Report of State's Compliance with SNAP Certification of Eligible Households Requirements (7 CFR Part 273)	CLOSED – February 2018
5	OIG	FNS	27601-0001-23	National School Lunch Program - Food Service Management Company Contracts	CLOSED – April 2018
6	OIG	FNS	27002-0011-13	Analysis of FNS' Supplemental Nutrition Assistance Program (SNAP) Fraud Prevention and Detection Efforts	CLOSED – April 2018
7	OIG	FNS	27601-0018-10	Massachusetts's Compliance with Requirements for the Issuance and Use of SNAP Benefits (7 CFR 274)	CLOSED – May 2018
8	OIG	FNS	50601-14-AT	Effectiveness and Enforcement of Suspension and Debarment Regulations in the U.S. Department of Agriculture	CLOSED – July 2018
9	OIG	FNS	27601-0002-31	FNS Controls Over SNAP Benefits for Able-Bodied Adults Without Dependents	CLOSED – July 2018
10	OIG	FNS	27601-0006-10	Missouri's Compliance with SNAP Certification of Eligible Households Requirements	CLOSED – July 2018
11	OIG	FNS	27601-0009-10	Nebraska's Compliance with SNAP Requirements for Participating State Agencies	CLOSED – July 2018
12	OIG	FNS	50024-0011-11	USDA's Fiscal Year 2016 Compliance with Improper Payment Requirements	CLOSED – August 2018
13	OIG	FNS	50024-0013-11	USDA's Fiscal Year 2017 Compliance with Improper Payment Requirements	CLOSED – August 2018

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14	OIG	FNS	27601-0005-10	Kentucky's Compliance with SNAP Certification of Eligible Households Requirements	CLOSED – September 2018
15	OIG	FNS	27601-0016-10	Louisiana's Compliance with Requirements for the Issuance and Use of SNAP Benefits (7 CFR 274)	CLOSED – September 2018
16	GAO	FNS-Lead	GAO-18-41SP	Child Well-Being: Key Considerations for Policymakers, Including the Need for a Federal Cross-Agency Priority Goal	CLOSED – November 2017
17	GAO	OBPA-Lead *	GAO-18-22	Federal Regulations: Key Considerations for Agency Design and Enforcement Decisions	CLOSED – November 2017
18	GAO	FNS	GAO-18-125R	WIC: USDA's Review of Vegetables Available under the Program Followed Leading Research Practices	CLOSED – December 2017
19	GAO	FNS-Lead	GAO-18-377	Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes	CLOSED – June 2018
20	GAO	FNS	GAO-14-641	SNAP: Enhanced Detection Tools and Reporting Could Improve Efforts to Combat Recipient Fraud	CLOSED – August 2018
21	GAO	OCFO-Lead *	GAO-17-484	Improper Payments: Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General	CLOSED – August 2018
22	GAO	OCIO-Lead *	GAO-18-381	Paperwork Reduction Act: Agencies Could Better Leverage Review Processes and Public Outreach to Improve Burden Estimates	CLOSED – August 2018
23	GAO	OHRM-Lead *	GAO-18-491	Grants Workforce: Actions Needed to Ensure Staff Have Skills to Administer and Oversee Federal Grants	CLOSED – September 2018

\* Indicates FNS had an active role in the audit, but did not serve as lead agency for USDA.

## **Assurance for Legal Compliance**

The Office of the Inspector General (OIG), in their most recent compliance audit (USDA’s Fiscal Year 2017 Compliance with Improper Payment Requirements – Audit Report 50024-0013-11), found that FNS did not fully comply with two of six Improper Payment Elimination and Recovery Act of 2010 (IPERA) requirements. FNS did not always meet annual reduction targets and report error rates below specific thresholds. Below is a summary of the noncompliance and FNS’ accomplishments with planned actions for becoming compliant with IPERA.

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

## **SECTION 4. IMPROPER PAYMENTS INFORMATION ACT (IPIA)**

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

Appendix C of OMB Circular A-123 defines significant improper payments as an annual amount that exceeds both 1.5% of program payments and \$10,000,000. For programs/payments that fit this description, agencies must:

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

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

- The **Supplemental Nutrition Assistance Program (SNAP)**, sampling and erroneous payment measurement process has been a legislative mandate for more than 30 years. This process compares the certification criteria upon which a household's benefit issuance is determined with the household's circumstances at the time the case is sampled. States pull an initial sample of cases following a standardized methodology required by regulation. State reviewers then follow national guidance in order to complete their case review to determine whether an improper payment occurred. All case results are accumulated by State. FNS then sub samples State review findings and conducts an independent assessment in order to substantiate State reported results. FNS uses a regression analysis to extrapolate the impact of cases where FNS disagrees with State findings to ensure the results are representative of a State's caseload. The validated results are combined into a national cumulative (overpayments plus underpayments) error rate.

While SNAP's improper payment measurement activities predate the passage of IPIA, SNAP routinely assesses its policies to ensure compliance with the most recent improper payment guidance. SNAP updates its guidance prior to the start of each fiscal year. On September 30, 2016, SNAP released guidance that included substantial new policy revisions, that ensure payment error determinations align with IPIA and OMB circulars, and is issuing further, more modest, updates in the annual release of updated guidance for FY 2019.

FNS has also undertaken a number of initiatives to improve the measurement of payment errors and explore ways to make the measures into more actionable intelligence for program administrators. Some activities to assess and improve our measurement of payment errors include:

- In FY 2017 FNS awarded a contract to conduct a feasibility assessment of moving the current two tiered measurement system to a one tier system and expects the study to be released publicly by the summer of 2019. In FY 2015, FNS and OIG found a number of States that were improperly conducting payment error reviews, due to both intentional and unintentional actions, and undertook a number of activities to correct the issues found. One OIG recommendation, to address State introduced bias in the measurement of improper payments, was to determine whether eliminating the States, who OIG and FNS are concerned may have motivations beyond ensuring accurate measurements, from the measurement process to ensure accurate measurements that are free of bias.
- Since FY 2015, FNS has increased the frequency of management evaluations of payment error rate measurement operations and has revised guidance related to these important audits. These audits produce corrective action plans, when deficiencies are found, to help ensure the integrity of the payment error measurement system and rectify ongoing problems. This tool also allows FNS to escalate problems to higher authorities should solutions be problematic and/or when the problem persists despite intervention.
- In FY 2018, FNS released a Request for Information to explore ways to improve FNS regulations pertaining to payment error rate measurement and related oversight activities and to make the data derived from these measurements more actionable for program administrators. Currently, FNS is in the process of analyzing comments and preparing draft revisions of pertinent regulations to leadership and internal stakeholders. FNS expects to release proposed regulations in FY 2019 and final regulations thereafter.

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 60 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 40 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 to determine the case error. Case error was then translated into dollar error by examining actual WIC redemption data. 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 estimating the composition of the WIC population are from the WIC Participant and Program Characteristics data a biennial census of all WIC participants enrolled within a particular target month (April of every even year). The WIC administrative data obtained from the National Data Bank provide monthly information on the number of WIC participants within WIC certification categories 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 annual incidence of eligibility errors and dollar impact.

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

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

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

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

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

- In July 2009, FNS issued the final report of the Child Care Assessment Project (CCAP). This project was designed to measure whether the two interim management improvement rules issued by FNS in 2002 and 2004 had been properly implemented, and whether the rules had effectively addressed the serious program management and integrity problems that had been uncovered in the 1990s. Data were collected by FNS in cooperation with State agencies and sponsors administering the CACFP, during the period 2004-2007, from a broadly representative national sample of sponsors and providers. While the CCAP report identified areas of potential weakness in the local-level management of the CACFP in DCHs, it also raised questions about State and Federal oversight of CACFP—specifically, why existing review mechanisms do not identify some of the serious Program management weaknesses.
- Sponsor error measurement – Beginning in 2005 and annually through 2015, FNS measured the level of erroneous payments due to sponsor error for the two types of

program reimbursement (Tier I and Tier II). Annual reports are available at <http://www.fns.usda.gov/report-finder>.

- To strengthen the financial integrity process and work towards improving the balance of erroneous payments, FNS has conducted 11 assessments of CACFP, since 2005. CACFP Assessment of Sponsors Tiering Determinations is an evaluation that provides a national estimate of the share of CACFP participating DCHs approved for an incorrect level of per meal reimbursement based on sponsor tiering determinations (“Tiering studies”). This study assessed sponsor tiering determinations for DCHs participating in the CACFP. The assessment evaluated DCHs that were misclassified by sponsoring agencies into the wrong tier, and the resulting erroneous payments for meals and snacks reimbursed at the wrong rate. The most recent study, which provides estimates for 2015, was completed in the fall of 2016. The 2015 assessment produced results comparable to those of previous assessments. The estimates of misclassification rates, the cost of misclassification, and the meals reimbursed in error for the 2015 assessment are the lowest in 11 years. The final report is at <https://fns-prod.azureedge.net/sites/default/files/ops/CACFPTiering2015.pdf>.
- Given the low error rates identified by the Tiering studies, the stability of the estimates over time, and the high annual cost of data collection, the FY 2015 report will be the last annual report in the series. FNS will replace the annual series with periodic studies. FNS awarded a contract in FY 2017 to examine the feasibility of developing a statistical model to project annual error estimates in between study years. Conditional on the results of that effort, FNS will report model-based error estimates in future Financial Reports. For the FY 2018 report FNS has applied our most recent study-based error rate to current year program outlays to estimate the dollar value of tiering error.
- FNS released the report for FY 2015 in June 2017.
- Claiming error measurement – In addition to the annual sponsor error assessments, FNS has continued to use its limited available resources to explore potential methodologies to develop other measures of high-risk program components – in particular, the accuracy of meal claims in DCHs participating in CACFP.
  - FNS contracted with Mathematica Policy Research, Inc. (MPR) to evaluate the feasibility of the three different data collection methods for validating FDCHs’ meal reimbursement claims. The pilot-tested methods were based on observations of meal services, analysis of sign-in/sign-out (SISO) logs, and parent interviews. SISO logs were found ineffective for creating a valid indicator of the risk of erroneous payments. The 2009 report is at <http://www.fns.usda.gov/child-and-adult-care-food-program-cacfp-improper-payments-data-collection-pilot-project>.
  - An expanded feasibility study was conducted in FY 2013 and FY 2014 to assess the validity of using parent-recall telephone interviews to develop estimates of the meals served to the children

of the parents against meal claims reimbursed to DCH providers. This assessment found that parental recall of meals served to their children while in attendance at the DCH was unreliable due to a low match rate between parent-recalled meals and actual meals served. The study concluded that it was not feasible to use the parent recall data on specific meals (breakfast, morning snack, lunch, afternoon snack, supper, and evening snack) to estimate erroneous meal claims.

- Two additional CACFP studies related to improper payments were initiated in FY 2014:
  - **CACFP Erroneous Payments in Child Care Centers Study (EPICCS).** This study will provide a comprehensive measure of the level of erroneous payments (dollars and rates) to child care centers and center sponsors participating in CACFP. It builds on the methods developed for school meals in the Access, Participation, Eligibility and Certification (APEC) study series. Estimates will be designed to meet the measurement requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The findings from this study will complement the annual measure of reimbursement “tiering” errors in DCHs for IPERA reporting on CACFP. Data collection was completed in March 2018 and the final report is due to FNS in Spring 2019.
  - **CACFP Day Care Homes Meal Claims Feasibility Study.** This study will examine ways to provide a measure of erroneous payments for meals claimed for reimbursement by DCHs participating in CACFP. Different methods of estimating improper payments and their rates will be developed and a feasibility study will be conducted in an effort to determine the best means to meet requirements under the IPERA. Data collection was completed in February 2018. The study results are expected to be released in late 2019.

Improper payments identified through the course of a review, audit, or through other operational oversight activities can be recovered either through direct billing or through an offset of future program payments earned. Current statutes only provide authority to recover improper payments identified through reviews, audits or other operational oversight activity. Program regulations allow States to waive claims against a single institution for improper payments of up to \$600 in a single fiscal year. CACFP does not have authority to pursue collection of improper payments identified on the basis of a statistical sample or estimation procedure.

The **National School Lunch Program** and **School Breakfast Program** do not have a sampling and erroneous payment measurement process comparable to SNAP. Instead, FNS developed the *Access, Participation, Eligibility and Certification (APEC)* study series, which collects and analyzes data from a nationally representative sample of schools and school food authorities (SFAs) about every 5 years. The APEC-I study, which collected data in School Year 2005-2006, found significant levels of program errors. APEC-II, which collected data in School Year 2012-2013, identified significant improvement in certain types of error, but overall program error remains high. APEC-III started data collection 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. Note the meal claiming errors are not included in FNS's FY 2018 calculation of improper payments, as these errors do not result in a monetary loss; 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, non-applicants and denied applicants. The CEP sample consisted of 3,200 students.

APEC data are collected through multiple means:

- A SFA director survey,
- 1. A household survey completed through field interviews with the parent or guardian of students sampled,
- 2. In-school review of applications and direct certification documents,
- 3. Collection of student participation data from SFA records, and
- 4. 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. 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 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 2018 Agency Financial Report (AFR), NSLP improper payments arising from misclassification of student eligibility for program benefits (free, reduced-price, or paid) totaled \$1.052 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 2018 AFR for SBP is \$420 million.

- **Misreporting Error** – Household misreporting on school meal applications includes understating or overstating household income or household size.
- **Administrative Error** – Administrative errors are mistakes made by school personnel in processing applications, such as misreading the attested income information, or applying the eligibility standards incorrectly. Traditionally, school districts have had significant discretion regarding their internal procedures for application review.

### **Non-Certification Error:**

In FY 2018, NSLP improper payments of approximately \$104 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 reimbursable meals. The remaining non-certification errors arise from errors in the aggregation and submission of meal service data to school districts and State agencies. The estimate for non-certification error in the SBP is \$50 million.

USDA is pursuing the following in this area:

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

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

***Additions to the Annual Estimation Model:*** FNS uses an econometric model to “age” the data from the nationally-representative APEC studies to reflect changes in program size, as well as changes in certification accuracy, based on State-reported administrative data. One of the major sources of non-certification error, the process of identifying reimbursable meals and collecting and reporting meal counts for reimbursement claims, was not built into the initial APEC study model because of data limitations. The agency has placed a major focus on administrative efforts to improve counting and claiming, but has been unable to model the impact of these efforts over time. To the extent that improvements in counting and claiming may have occurred, the annual estimates may overstate the actual level of payment errors. As part of the APEC-II study, the contractor developed statistical models designed to estimate national improper payments due to meal claiming error on an annual basis using district-level data. This will enable the FNS to update its estimates of national improper payment rates for the NSLP and SBP in future years without having to conduct full rounds of primary data collection. As part of the APEC-III study, the contractor will develop statistical models informed by prior APEC studies to estimate certification and meal claiming error rates 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.

Additional information on FNS’s IPIA activities can be found in the FY 2018 USDA Agency Financial Report.

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

**Preliminary Data as of 7/31/18 – FNS Measures for IPIA Reporting  
2018 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
4,252	N/A	N/A	12,250	63,593	<b>Current Year (CY) Outlays \$</b>
89%	N/A	N/A	90.57%	93.70%	<b>CY Properly Paid %</b>
11%	0.85%	8.59%	9.43%	6.30%	<b>CY IP %</b>
3,783	N/A	N/A	11,094	59,585	<b>CY Properly Paid \$</b>
469	104	1,052	1,155	4,008	<b>CY IP \$</b>
299	49	750	799	3,301	<b>CY Overpayments \$</b>
171	54	302	356	707	<b>CY Underpayment \$</b>
4,379	N/A	N/A	12,495	63,593	<b>CY +1 Est. Outlays \$</b>
10.8%	N/A	N/A	9.14%	6.30%	<b>CY + 1 Est. IP %</b>
472	N/A	N/A	1,142	4,007	<b>CY + 1 Est. IP \$</b>

**Preliminary Data as of 7/31/18 – FNS Measures for IPIA Reporting  
 2018 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
3,605	3,605	3,605	4,252	4,252	Current Year (CY) Outlays \$
N/A	N/A	94.61%	N/A	N/A	CY Properly Paid %
2.84%	2.55%	5.39%	1.17%	9.87%	CY IP %
N/A	N/A	3,411	N/A	N/A	CY Properly Paid \$
102	92	194	50	420	CY IP \$
16	92	108	11.4	287	CY Overpayment \$
86	0	86	38.4	132	CY Underpayments \$
N/A	N/A	3,605	N/A	N/A	CY +1 Est. Outlays \$
N/A	N/A	3.88%	N/A	N/A	CY + 1 Est. IP %
N/A	N/A	140	N/A	N/A	CY + 1 Est. IP \$

**Preliminary Data as of 7/31/18 – FNS Measures for IPIA Reporting  
 2017 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	N/A	721	Current Year (CY) Outlays \$
N/A	N/A	99.46%	CY Properly Paid %
N/A	.N/A	0.54%	CY IP %
N/A	N/A	717	CY Properly Paid \$
N/A	N/A	4	CY IP \$
N/A	N/A	3	CY Overpayment \$
N/A	N/A	1	CY Underpayment \$
N/A	N/A	717	CY +1 Est. Outlays \$
N/A	N/A	0.54%	CY + 1 Est. IP %
N/A	N/A	4	CY + 1 Est. IP \$

## 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 2018 financial statements reflect the nutrition assistance programs' responsiveness to the Nation's economic performance. By design, the level of activity within the nutrition assistance programs varies with the level of need experience by the populations we serve.

### Balance Sheet

	2018		2017	
	Dollars (mil)	Percent	Dollars(mil)	Percent
Fund Balance With Treasury	54,009	99.40%	49,011	99.31%
Accounts Receivable	326	0.60%	336	0.68%
General PP& E	-	0.00%	-	0.00%
Other	-	0.00%	3	0.01%
<b>Total Assets</b>	<b>54,335</b>	<b>100.00%</b>	<b>49,350</b>	<b>100.00%</b>
Accounts Payable	8	0.01%	7	0.01%
Federal Employee and Veterans Benefits	9	0.02%	9	0.02%
Benefits Due and Payable	5,074	9.34%	4,564	9.25%
Other Liabilities	2,494	4.59%	2,275	4.61%
<b>Total Liabilities</b>	<b>7,644</b>	<b>13.96%</b>	<b>6,905</b>	<b>13.99%</b>
Unexpended Appropriations	46,391	85.38%	42,329	85.77%
Cumulative Results of Operations	300	0.55%	116	0.24%
<b>Total Net Position</b>	<b>46,691</b>	<b>85.93%</b>	<b>42,445</b>	<b>86.01%</b>
<b>Total Liabilities &amp; Net Position</b>	<b>54,335</b>	<b>100%</b>	<b>49,350</b>	<b>100%</b>

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2018 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - 99% in FY 2018 and 99% in FY 2017. 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” amount decreased by \$3 million, 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 2018 and FY 2017 Net Position of the agency is concentrated in Unexpended Appropriations.

### Statement of Net Cost

	2018		2017	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Gross Cost	98,792	100.06%	99,853	100.06%
Less: Earned Revenue	(57)	-0.06%	(58)	-0.06%
Net Cost of Operations	98,735	100.00%	99,795	100.00%

The FNS mission addresses USDA Strategic Goal 7 “Provide All Americans Access to A Safe, Nutritious, and Secure Food Supply”. All program costs are reported under that strategic goal. Gross Costs decreased from \$99,853 million in FY 2017 to \$98,792 million in FY 2018, reflecting the overall decrease in programs participation levels.

As the chart above displays, Earned Revenue represents an extremely small offset to Gross Costs (less than one percent), in both fiscal years. Earned revenue largely represents funds from the State Option Supplemental Nutrition Assistance Program authorized under P.L. 105-18. One State participating in this program (California) reimburses FNS for benefits paid to legal immigrants who do not qualify for the Federal Supplemental Nutrition Assistance Program to whom the States have “opted” to provide benefits.

The Net Cost of Operations decreased from \$99,795 million in FY 2017 to \$98,735 million in FY 2018.

**Statement of Changes in Net Position**

	2018		2017	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Unexpended Appropriations</b>				
Beginning Balance	42,329		41,817	
<b>Budgetary Financing Sources:</b>				
Appropriations Received	96,102		98,637	
Appropriations Transferred in/out	(1)		0	
Other Adjustments	(3,063)		(8,871)	
Appropriations Used	(88,976)		(89,254)	
Total Budgetary Financing Sources	4,062		512	
Total Unexpended Appropriations	46,391		42,329	
<b>Cumulative Results from Operations:</b>				
Beginning Balance	116		123	
<b>Budgetary Financing Sources:</b>				
Other Adjustments	(1)	0.00%	(1)	0.00%
Appropriations Used	88,976	89.95%	89,254	89.44%
Transfers In (Out) without Reimbursements	9,193	9.29%	9,695	9.72%
<b>Other Financing Sources(Non Exchange):</b>				
Imputed Financing	751	0.76%	840	0.84%
Total Financing Sources	98,919	100.00%	99,787	100.00%
Net Cost of Operations	(98,735)		(99,795)	
Net Change	184		(8)	
Cumulative Results of Operations	300		116	
Net Position	46,691		42,445	

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 Unexpended Appropriations and the Cumulative Results of Operations.

The FY 2018 appropriations used was \$88,976 million, which decreased \$278 million from FY 2017, based on actual participation levels and food costs.

Unexpended Appropriations increased from \$42,329 million in FY 2017 to \$46,391 million in FY 2018 as less carryover appropriation balances were expended in the current year. Adjustments which decreased from \$8,871 million in FY 2017 to \$3,063 million in FY 2018 are due to permanent reductions and cancellations of expired accounts.

Cumulative Results of Operations increased \$184 million, from \$116 million in FY 2017 to \$300 million in FY 2018, 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 2017 to FY 2018. 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 2018 and ten percent in FY 2017.

### Statement of Budgetary Resources

	2018		2017	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Budgetary Resources</b>				
Unobligated Balance from prior year budget authority, net (discretionary and mandatory)	39,173	27.26%	39,105	27.86%
Appropriations (discretionary and mandatory)	104,479	72.70%	107,466	76.55%
Spending Authority from Offsetting Collections (discretionary and mandatory)	59	0.04%	59	0.04%
<b>Total Budgetary Resources</b>	<b>143,711</b>	<b>100.00%</b>	<b>140,384</b>	<b>100.00%</b>
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments	99,734	69.40%	100,988	71.94%
Apportioned, Unexpired Accounts	8,012	5.58%	6,851	4.90%
Unapportioned, Unexpired Accounts	6,179	4.30%	8,889	6.33%
Expired, Unobligated Balance End of Year	29,786	20.72%	23,656	16.85%
<b>Total Budgetary Resources</b>	<b>143,711</b>	<b>100%</b>	<b>140,384</b>	<b>100%</b>
Agency Outlays, Net (discretionary and mandatory)	97,229	67.66%	98,762	70.35%

Appropriations were decreased from \$107,466 million in FY 2017 to \$104,479 million in FY 2018. Total budgetary resources were greater than in the prior year due primarily to a change in unobligated balances from the prior year. FNS had \$143,711 million in total budgetary resources during FY 2018, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods.

At fiscal yearend 2018, most \$99,734 million or 69% of those resources were obligated, though \$8,012 million or 6% remained unobligated and available, and another \$35,965 million was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2018, Net Outlays represented 68% of Total Budgetary Resources, compared to 70% in FY 2017.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2018  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Amounts shown are in Millions except as noted)

Food and Nutrition Service

CONSOLIDATED BALANCE SHEET  
 As of September 30, 2018 (CY) and 2017 (PY)  
 (Dollars in Millions)

	FY 2018 (CY)	FY 2017 (PY)
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 54,009	\$ 49,011
Other	-	3
Total Intragovernmental	54,009	49,014
Accounts Receivable, net (Note 4)	326	336
General Plant, Property, and Equipment, net	-	-
Other	-	-
Total Assets	\$ 54,335	\$ 49,350
Liabilities (Note 5):		
Intragovernmental:		
Accounts Payable	\$ -	\$ -
Other (Note 6)	59	50
Total Intragovernmental	59	50
Accounts Payable	8	7
Federal Employee and Veterans Benefits	9	9
Benefits Due and Payable	5,074	4,564
Other (Note 6)	2,494	2,275
Total Liabilities	7,644	6,905
Net Position:		
Unexpended Appropriations - Other Funds	46,391	42,329
Cumulative Results of Operations - Other Funds	300	116
Total Net Position	\$ 46,691	\$ 42,445
Total Liabilities and Net Position	\$ 54,335	\$ 49,350

The accompanying notes are an integral part of these statements.

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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2018  
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 (Amounts shown are in Millions except as noted)

Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF NET COST  
 For the Years Ended September 30, 2018 (CY) and 2017 (PY)  
 (Dollars in Millions)

	FY 2018 (CY)	FY 2017 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 7)	\$ 98,792	\$ 99,853
Less: Earned Revenue	57	58
Net Program Costs	98,735	99,795
Net Cost of Operations	\$ 98,735	\$ 99,795

The accompanying notes are an integral part of these statements.

Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION  
 As of September 30, 2018 (CY) and 2017 (PY)  
 (Dollars in Millions)

	FY 2018 (CY)	FY 2017 (PY)
<b>Unexpended Appropriations:</b>		
Beginning Balance	\$42,329	\$41,817
<b>Adjustments:</b>		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning Balance, as Adjusted	42,329	41,817
<b>Budgetary Financing Sources:</b>		
Appropriations Received	96,102	98,637
Appropriations Transferred in/out	(1)	-
Other Adjustments	(3,063)	(8,871)
Appropriations Used	(88,976)	(89,254)
 Total Budgetary Financing Sources	 4,062	 512
Total Unexpended Appropriations	46,391	42,329
<b>Cumulative Results from Operations:</b>		
Beginning Balances	116	123
<b>Adjustments:</b>		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning Balance, as Adjusted	116	123
<b>Budgetary Financing Sources:</b>		
Other Adjustments	(1)	(1)

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2018

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Appropriations Used	88,976	89,254
Nonexchange Revenue	-	-
Donations and Forfeitures of Cash and cash Equivalents	-	-
Transfers-In/Out Without Reimbursement (+/-)	9,193	9,695
Other (+/-)	-	-
<b>Other Financing Sources (NonExchange):</b>		
Donations and Forfeitures of Property	-	-
Transfers-In/Out Without Reimbursement	-	-
Imputed Financing	751	840
Other	-	-
Total Financing Sources	<u>98,919</u>	<u>99,787</u>
Net Cost of Operations (+/-)	(98,735)	(99,795)
Net Change	<u>184</u>	<u>(8)</u>
Cumulative Results of Operations	300	116
Net Position	<u>46,691</u>	<u>42,445</u>

The accompanying notes are an integral part of these statements

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2018  
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Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES  
 For the years ended September 30, 2018 (CY) and 2017 (PY)

(Dollars in Millions)

	FY 2018 (CY)	FY 2017 (PY)
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 39,173	\$ 39,105
Appropriations (discretionary and mandatory)	104,479	107,466
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending authority from offsetting collections (discretionary and mandatory)	59	59
Total Budgetary Resources	143,711	140,384
Status of Budgetary Resources:		
New Obligations and upward adjustments (total) (Note 9)	99,734	100,988
Unobligated Balance, end of year:		
Apportioned, unexpired accounts	8,012	6,851
Exempt from apportionment, unexpired accounts	-	-
Unapportioned, unexpired accounts	6,179	8,889
Unexpired, unobligated balance, end of year	14,191	15,740
Expired, unobligated balance, end of year	29,786	23,656
Unobligated balance, end of year (total)	43,977	39,396
Total budgetary resources	143,711	140,384
Outlays, Net:		
Outlays, net (total) (discretionary and	97,235	98,757

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2018

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

mandatory)		
Distributed offsetting receipts (-)	<u>(6)</u>	<u>5</u>
Agency outlays, net (discretionary and mandatory)	<u>97,229</u>	<u>98,762</u>

The accompanying notes are an integral part of these statements

## 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 July 30, 2018. 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 revised OMB Circular A-136, FNS has changed its presentation of the Statement of Changes in Net Position and Statement of Budgetary Resources for FY 2018.

#### 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. 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 2018 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 \$326 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 2018, the model explains 96 percent of the variation in claims collections. Historically, collections projected by the model have proved to be accurate within approximately 4 percent of actual net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNS does not estimate collections after the initial year or discount the estimate produced by the statistical model to its present value.

The Supplemental Nutrition Assistance Program (SNAP) is using data from the Quality Control (QC) system to report SNAP improper payments and to support SNAP administration. The data is based upon a statistically valid methodology and the sampling plan has been approved by the Office of Management and Budget (OMB). The QC system uses a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate consists of over-issuances and under-issuances of SNAP benefits. A regression formula is applied to the results of the reviews to calculate official error rates. State agencies review selected cases monthly to determine the accuracy of the eligibility and benefit-level determination. The process included a client interview and verification of all elements of eligibility and the basis of issuance. Federal reviewers validate a sample of the State's reviews by conducting a re-review.

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

Because reliable data is not available addressing gross FNS accounts receivable, the SNAP QC estimate of SNAP benefits over issued nationwide provided the best statistically valid estimate of invalid program payments. Statement of Federal Financial Accounting Standards (SFFAS) #1 permits Federal entities to estimate its accounts receivable. The QC error rate over issuance estimate is considered the best estimate available. However, since this is an estimate of all SNAP overpayments, the actual State gross account receivable amount would be lower but the variance cannot be quantified. The amount of over issued benefits is included in the total program cost of the SNAP as reflected in the Statement of Net Cost.

#### E. Grants and Program Benefits

The Fund Balance with Treasury represents the aggregate amount of funds in the FNS accounts with Treasury for which the agency is authorized to make expenditures and pay liabilities. The FNS Fund Balance with Treasury is primarily appropriated funds. FNS records grant obligations based on the grant awards and SNAP benefits based on the issuance of benefits to Account Management Agent (AMA). Funds for FNS grant programs and SNAP electronic benefits transfer (EBT) benefits are provided to States through a Letter of Credit process. This process allows the grantees or the EBT processor to draw

on established credit balances, as needed, to pay expenses associated with their grants or SNAP EBT transactions at retailers. This allows the U. S. Treasury to hold funds until the grantees need the funds to pay program expenses or until the SNAP EBT benefits are actually used. Expenses are recognized and obligations liquidated as grantees or EBT processors drawdown on the Letter of Credit.

#### F. Annual, Sick, and Other Leave

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

#### G. Retirement Plan

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

FNS Retirement Contributions (In Millions)		
Type of Contribution	Amount	
	2018	2017
CSRS/Transitional retirement contributions - Civil Service	\$1.0	\$1.0
FERS regular contributions	\$19.0	\$19.0
Thrift Savings Plan contributions	\$6.0	\$6.0
<b>TOTAL</b>	<b>\$26.0</b>	<b>\$26.0</b>

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

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

#### H. Recognition of Financing Sources and Appropriations Used

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

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

#### 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 2018 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 2018, FNS estimates that an adjustment of \$556 is needed in total disbursements related to SNAP benefit redemptions from the FY 2018 SNAP appropriation to the FY 2017 SNAP appropriation. This would bring actual expenditures for those two years into line with anticipated expenditures as authorized by the SNAP appropriations.

Note 2. Non-Entity Assets

	FY 2018	FY 2017
<u>Intragovernmental:</u>		
Fund balance with Treasury	\$0	\$0
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
<u>Total Intragovernmental</u>	<u>-</u>	<u>-</u>
<u>With The Public</u>		
Cash and other monetary assets	-	-
Accounts receivable	50	46
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related property	-	-
Other	-	-
<u>Total With the Public</u>	<u>50</u>	<u>46</u>
<u>Total non-entity assets</u>	<u>50</u>	<u>46</u>
<u>Total entity assets</u>	<u>54,285</u>	<u>49,304</u>
<u>Total assets</u>	<u>\$ 54,335</u>	<u>\$ 49,350</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 3. Fund Balance with Treasury

	FY2018	FY 2017
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	8,012	6,851
Unavailable	35,965	32,545
Obligated Balance not yet Disbursed	9,997	9,583
Non-Budgetary Fund Balance with Treasury:	35	32
<b>Total</b>	<b>\$ 54,009</b>	<b>\$ 49,011</b>

Note 4. Accounts Receivable, Net

FY 2018	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 344	\$ 18	\$ 326
<b>Total</b>	<b>\$ 344</b>	<b>\$ 18</b>	<b>\$ 326</b>

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

FNS's accounts receivable amounts related to criminal restitution orders is currently unavailable and the agency is pursuing efforts in order to obtain the data. See Note 1.D. for further explanation of FNS' accounts receivable activity with the public.

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

Note 5. Liabilities Not Covered by Budgetary Resources

Intragovernmental:	FY 2018	FY 2017
Accounts payable	\$ -	\$ -
Debt	-	-
Other	1	2
<b>Total Intragovernmental</b>	<b>1</b>	<b>2</b>
With the Public:	-	-
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	9	9
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	14	15
<b>Total With the Public</b>	<b>23</b>	<b>24</b>
Total liabilities not covered by budgetary resources	24	26
Total liabilities covered by budgetary resources	7,537	6,879
Total liabilities not requiring budgetary resources	83	-
<b>Total liabilities</b>	<b>\$ 7,644</b>	<b>\$ 6,905</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 6. Other Liabilities

FY 2018	Non-Current	Current	Total
Intragovernmental:			
Contract Holdbacks	\$ -	\$ -	\$ -
Other Liabilities with Related Budgetary Obligations	-	7	7
Employer Contributions and Payroll Taxes	-	2	2
Other Post-Employment Benefits Due and Payable	-	-	-
Unfunded FECA Liability	-	1	1
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	(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	-	50	50
Other Liabilities without Related Budgetary Obligations	-	-	-
<b>Total Intragovernmental</b>	<b>-</b>	<b>59</b>	<b>59</b>
With the Public:			
Contract Holdbacks	-	-	-
Other Liabilities with Related Budgetary Obligations	-	2,438	2,438
Accrued Funded Payroll and Leave	-	9	9
Withholdings Payable	-	-	-
Employer Contributions and Payroll Taxes Payable	-	-	-
Other Post-Employment Benefits Due and Payable	-	-	-
Pension Benefits Due and Payable to Beneficiaries	-	-	-
Benefit Premiums Payable to Carriers	-	-	-
Life Insurance Benefits Due and Payable	-	-	-
Unfunded Leave	-	14	14
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	(1)	(1)
Liab. for nonfiduciary deposit funds & undeposited collections	-	34	34
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Custodial Liability	-	-	-
Other Liabilities without Related Budgetary Obligations	-	-	-
<b>Total With the Public</b>	<b>-</b>	<b>2,494</b>	<b>2,494</b>
<b>Total Other Liabilities</b>	<b>\$ -</b>	<b>\$ 2,553</b>	<b>\$ 2,553</b>

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FY 2017	Non-Current	Current	Total
<b>Intragovernmental:</b>			
Contract Holdbacks	\$ -	\$ -	\$ -
Other Liabilities with Related Budgetary Obligations	-	3	3
Employer Contributions and Payroll Taxes	-	2	2
Other Post-Employment Benefits Due and Payable	-	-	-
Unfunded FECA Liability	-	1	1
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	(2)	(2)
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Resources Payable to Treasury	-	-	-
Custodial Liability	-	46	46
Other Liabilities without Related Budgetary Obligations	-	-	-
<b>Total Intragovernmental</b>	<b>-</b>	<b>50</b>	<b>50</b>
<b>With the Public:</b>			
Contract Holdbacks	-	-	-
Other Liabilities with Related Budgetary Obligations	-	2,218	2,218
Accrued Funded Payroll and Leave	-	9	9
Withholdings Payable	-	-	-
Employer Contributions and Payroll Taxes Payable	-	-	-
Other Post-Employment Benefits Due and Payable	-	-	-
Pension Benefits Due and Payable to Beneficiaries	-	-	-
Benefit Premiums Payable to Carriers	-	-	-
Life Insurance Benefits Due and Payable	-	-	-
Unfunded Leave	-	15	15
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	(3)	(3)
Liab. for nonfiduciary deposit funds & undeposited collections	-	36	36
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Custodial Liability	-	-	-
Other Liabilities without Related Budgetary Obligations	-	-	-
<b>Total With the Public</b>	<b>-</b>	<b>2,275</b>	<b>2,275</b>
<b>Total Other Liabilities</b>	<b>\$ -</b>	<b>\$ 2,325</b>	<b>\$ 2,325</b>

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Note 7. Program Costs By Segment

For the year ended September 30, 2018

	CHILD NUTRITION	SNAP	WIC	CAP	OTHER	Consolidated Total
<b>Total Gross Costs</b>	23,619	69,526	5,089	348	210	98,792
<b>Less Earned Revenue:</b>	0	57	0	0	0	57
<b>Net Goal Costs:</b>	23,619	69,469	5,089	348	210	<u>98,735</u>
<b>Net Cost of Operations</b>						<u>98,735</u>

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For the year ended September 30, 2017

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

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Note 8. Exchange Revenues

FNS’ earned revenue from nonfederal parties consists largely of the \$57 from the state option Supplemental Nutrition Assistance Program.

On June 12, 1997, the President signed into law the Supplemental Appropriations Act, Public Law 105-18. This law authorized the state option Supplemental Nutrition Assistance Program. In this program, States issue SNAP benefits through the Federal government for use in a State-funded food assistance program for legal immigrants, and childless, able-bodied adults ineligible for the Supplemental Nutrition Assistance Program.

States operating a state option Supplemental Nutrition Assistance Program utilize FNS’ SNAP infrastructure. That is, they utilized electronic benefits transfer (EBT) issued benefits from FNS which are transacted at FNS authorized SNAP retailers. These benefits are subsequently redeemed through the Federal Reserve Banking (FRB) system.

Prior to issuance, States are required to remit payment to FNS for the amount of the benefits issued as well as reimburse FNS for the costs of redeeming benefits. During fiscal year 2018, one State participated in this program, which generated earned revenues of \$57.

Note 9. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

FY 2018	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 34,089	\$ 1	\$ 34,090
Apportionment for Special Activities	65,586	58	65,644
Exempt from Apportionment	-	-	-
<b>Total Obligations Incurred</b>	<b>\$ 99,675</b>	<b>\$ 59</b>	<b>\$ 99,734</b>

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

Note 10. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2018 were as follows:

	Federal	Non Federal
Paid	\$ -	\$ -
Unpaid	\$ 35	\$ 2,431
<b>Total</b>	<b>\$ 35</b>	<b>\$ 2,431</b>

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

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Note 11. Explanation of Differences between the SBR and the Budget of the US Government

Differences exist between FNS’ FY 2017 Statement of Budgetary Resources (as provided to the Department for consolidation purposes) and the FY 2017 actual numbers presented in the FY 2019 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2017 SBR	\$140,384	\$98,762
Less: Expired Accounts not Included in Budget	\$23,879	\$-
Add: Parent Child Relationship (NIFA)	\$9	\$-
Add: Differences due to Rounding	\$1	\$1
Less: Permanent Reduction Error	\$-	\$-
Budget of the U.S. Government	\$116,515	\$98,763

The actual numbers for the FY President’s Budget have not yet been published as of FNS’ FY 2018 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at [www.whitehouse.gov](http://www.whitehouse.gov).

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Note 12. Incidental Custodial Collections

Revenue Activity:	FY 2018	FY 2017
Sources of Cash Collections:		
Miscellaneous	\$ 18	\$ 15
Total Cash Collections	18	15
Accrual Adjustments (+/-)	5	5
Total Custodial Revenue	23	20
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
( Increase )/Decrease in Amounts Yet to be Transferred (+/-)	(23)	(20)
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2018 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.

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Note 13. Budget and Accrual Reconciliation

**Food and Nutrition Services  
 Budget and Accrual Reconciliation  
 Period Ending September 30, 2018**

	Intragovernmental	with the public
Net Operating Cost (SNC)	1,135	97,600
<b>Components of Net Operating Cost Not Part of the Budgetary</b>		
<b>Outlays:</b>		
1. Property, plant, and equipment depreciation	0	1
2. Property, plant, and equipment disposal & revaluation	0	0
3. Unrealized valuation loss/(gain) on investments in GSE's	0	0
4. Yearend credit reform subsidy re-estimates	0	0
5. Other	0	0
<b>Increase/(decrease) in assets:</b>		
6. Accounts Receivable	0	(13)
7. Loans receivable	0	0
8. Other assets	(3)	0
9. Investments	0	0
<b>(Increase)/decrease in liabilities not affecting Budget Outlays:</b>		
10. Accounts payable	0	(511)
11. Salaries and benefits	0	0
12. Insurance and guarantee program liabilities	0	0
13. Environmental and disposal liabilities	0	0
14. Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	(5)	(221)
<b>Other financing sources:</b>		
15. Federal employee retirement benefit costs paid by OPM and imputed to the agency	(751)	0
16. Other imputed finance	0	0
17. Total Components of Net Cost That Are Not Part of the Budget Outlays	<b>(759)</b>	<b>(744)</b>
<hr/> <b>Components of the Budget Outlays That Are Not Part of Net Operating Cost:</b>		
18. Effect of prior year agencies credit reform subsidy re-estimates	0	0
19. Acquisition of capital assets	0	(1)
20. Acquisition of inventory	0	0
21. Acquisition of other assets	0	0
22. Debt and Equity Securities	0	0
23. Transfers out (in) without reimbursement	0	0
24. Other	0	(2)
25. Total Components of Budgetary Outlays That Are Not Part of Net Operating Cost	<b>0</b>	<b>(3)</b>
26. Other Temporary Timing Differences	0	0
28. NET OUTLAYS	<b>376</b>	<b>96,853</b>
29. Outlays, gross	0	97,294
30. Actual offsetting collections	0	(59)
31. Distributed offsetting receipts	0	(6)
32. Outlays, Net	<b>0</b>	<b>97,229</b>

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

**Nonfederal Physical Property**

1. A. Supplemental Nutrition Assistance Program (SNAP)

B. Program Expense	<u>2018</u>	<u>2017</u>
1. ADP Equipment & Systems	\$15	\$21

FNS' nonfederal physical property consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the 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>2018</u>	<u>2017</u>
1. ADP Equipment & Systems	\$6	\$6

FNS' nonfederal physical property also consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Special Supplemental Nutrition Program for Women, Infants and Children.

**Human Capital**

1. A. Supplemental Nutrition Assistance Program

B. Program Expense	<u>2018</u>	<u>2017</u>
1. Employment and Training	\$85	\$83

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 241,898 work registrants subject to the 3 - month SNAP participant limit and 906,410 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

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