



United States Department of Agriculture

# Food and Nutrition Service's Financial Statements for Fiscal Years 2019 and 2018



Audit Report 27401-0004-11

November 2019

OFFICE OF INSPECTOR GENERAL





# Food and Nutrition Service's Financial Statements for Fiscal Years 2019 and 2018

## Audit Report 27401-0004-11

OIG audited the consolidated financial statements of FNS for fiscal years 2019 and 2018.

### 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.

### RECOMMENDS

This report does not include any recommendations.

### WHAT OIG FOUND

The Food and Nutrition Service (FNS) received an unmodified opinion from the Office of Inspector General's audits of FNS' consolidated financial statements. We determined that the agency's financial statements present FNS' financial position as of September 30, 2019, and 2018, fairly, in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This included 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 of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012. Additionally, this report recognizes that the U.S. Government Accountability Office cited FNS for a potential Antideficiency Act violation with regard to the early payment of February 2019 benefits for FNS' Supplemental Nutrition Assistance Program.





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



DATE: November 15, 2019

AUDIT  
NUMBER: 27401-0004-11

TO: Pamilyn Miller  
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 2019  
and 2018

This report presents the results of our audits of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2019, and 2018. 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. Your response is included in its entirety in Exhibit A.

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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Pamilyn Miller  
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 2019 and 2018. 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 presents FNS' response in its entirety.

## **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, 2019 and 2018, 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 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-03 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FNS, as of September 30, 2019 and 2018, 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**

#### **Interactive Data**

Management has elected to reference information on websites of interactive data outside FNS' Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites or the other interactive data has not been subjected to any of our auditing procedures and, accordingly, we do not express an opinion or provide any assurance on it.

### **Required Supplementary Information**

Accounting principles generally accepted in the U.S. issued by the 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 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

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

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

In planning and performing our audit of the financial statements, we considered FNS' internal control over financial reporting 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 19-03 requires us to describe significant deficiencies and material weaknesses identified during our audit, and in the event that no material weaknesses were identified, to so report. We did not identify any deficiencies in internal control that were considered to be material weaknesses during our audit.

### **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 audit 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 50024-0014-11, *U.S. Department of Agriculture's Fiscal Year 2018 Compliance with Improper Payment Requirements*, issued May 2019, OIG identified that FNS did not fully comply with two of six Improper Payments Elimination and Recovery Act of 2010 requirements. Specifically, FNS' School Breakfast Program did not achieve an improper payment rate of less than 10 percent and its Special Supplemental Nutrition Program for Women, Infants, and Children did not meet the program's annual reduction target for improper payments. Additionally, in a legal opinion dated September 5, 2019, the U.S. Government Accountability Office cited FNS for a potential Antideficiency Act violation for providing early payment of February 2019 benefits for its Supplemental Nutrition Assistance Program during the lapse in appropriations starting in December 2018.<sup>2</sup> FNS, in consultation with the U.S. Department of Agriculture's Office of the General Counsel, maintains that the agency complied with all provisions of law that are associated with the Antideficiency Act.

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

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

## **Auditor's Responsibilities**

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

We did not evaluate all internal controls relevant to operating objectives as broadly established by FFMIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

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<sup>2</sup> U.S. Government Accountability Office Decision B-331094, *U.S. Department of Agriculture—Early Payment of SNAP Benefits*, September 5, 2019.

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, 2019. We caution that noncompliance may occur and not be detected by these tests.

### **Management's Response**

Management's response to the report is presented in Exhibit A. We did not audit FNS' response and, accordingly, we express no opinion on it.

### **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 6, 2019

## 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
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
RSI .....	Required Supplementary Information
U.S. ....	United States of America



## **Exhibit A: Agency's Response**

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# **Food and Nutrition Service's Response to Audit Report**

**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

3101 Park  
Center Drive

Alexandria, VA  
22302-1500



DATE: November 8, 2019

**AUDIT**

NUMBER: 27401-0004-11

TO: Gil H. Harden  
Assistant Inspector General for Audit

FROM: Pamilyn Miller /s/  
Administrator  
Food and Nutrition Service

SUBJECT: Food and Nutrition Services Financial Statements for Fiscal Years 2019  
and 2018

This letter responds to the discussion draft report issued on November 5, 2019, for audit number 27401-0004-11, Food and Nutrition Services Financial Statements for Fiscal Years 2019 and 2018. FNS has reviewed the draft and has no questions or concerns with the language presented.

We appreciate the opportunity to review the draft report and would also like to extend our appreciation to the audit team for their continued partnership on this annual audit.

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

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**Food and Nutrition Service's  
Fiscal Years 2019 and 2018 Financial Statements  
Prepared by Food and Nutrition Service**

# MANAGEMENT DISCUSSION AND ANALYSIS

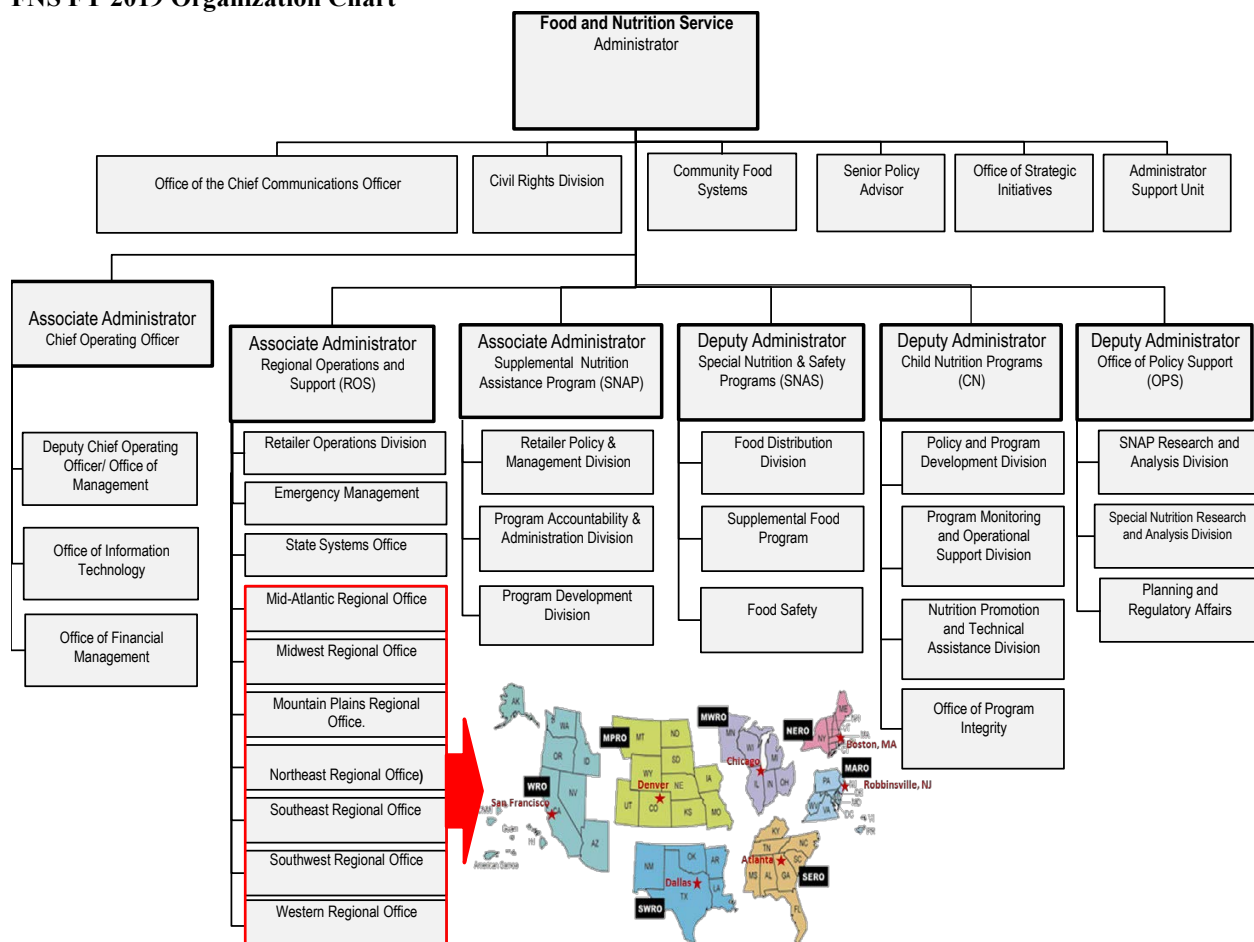
## SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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 2019 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 promote food security and healthy nutritious diets among low-income families and individuals as they seek self-sufficiency. 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 38 million Americans each month. 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. Dual participation in SNAP and FDPIR is not permitted. 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 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. Participants receive a monthly food package of USDA Foods, State agencies are provided funding to cover State and local administrative costs such as nutrition education, warehousing, food delivery, and participation certification, States work with local agencies to distribute the monthly food packages 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, herbs and honey at farmers' market, roadside stands, and community-supported agriculture programs.
- *Farmers' Market Nutrition Program (FMNP)*: FMNP provides WIC participants, including women, infants older than 4 months, and children up to age of 5 with special coupons to purchase and consume fresh, locally grown fruits, vegetables, and herbs directly from farmers' markets and roadside stands.
- *Pacific Island and Disaster Assistance*: Pacific Island Assistance includes assistance to the nuclear-affected islands of the Republic of the Marshall Islands (RMI) in the form of cash-in-lieu of food and administrative funds through the Special Food Assistance Program and is authorized under the Compact of Free Association Amendments Act of 2003 (P.L. 108-188). Disaster relief in the form of USDA Foods can be provided to the RMI and Federated States of Micronesia for use in Presidential Disaster Declaration.

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:**

FNS employees 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 program appropriations.

FNS staff is funded primarily out of the Nutrition Programs Administration account, which represents approximately two-tenths 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 experts, communication experts, communications professionals, 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 14 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 253,118 stores and other outlets as of June 30, 2019 authorized to redeem SNAP benefits.

As of July 31, 2019, there were approximately 1,362 full-time permanent employees in the agency. There were 532 employees in the Washington headquarters office and 830 in the field. The chart below displays staff year utilization.

STAFF YEAR DISTRIBUTION (From All Sources of Funds)					
FNS Projects and CNPP	2018 Actual	2019 Enacted	2020 Estimate	Change	2021 Estimate
Supplemental Nutrition Assistance Program	362	375	376	0	376
Child Nutrition Programs	276	293	293	0	293
Commodity Assistance Program	3	3	0	+3	3
Special Supplemental Nutrition Program for Women, Infants and Children	40	44	44	0	44
Nutrition Programs Administration	789	816	815	0	815
Center for Nutrition Policy and Promotion*	23	26	26	0	26
Total Available	1,493	1,557	1,554	+3	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 2019. 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 2019, 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 2019, 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.

<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

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

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 2018 (88.9 percent) increased significantly from 2017 (88.2 percent), and reached pre-recession levels (88.9 percent in 2007).

Annual Performance Goals, Indicators and Trends	2014	2015	2016	2017	2018	Fiscal Year 2019		
						Target	Actual	Result
7.2.1 Percentage of American households with consistent dependable access to food	86.0%	87.3%	87.7%	88.2%	88.9%	87.9%	Not Available	Deferred
	FY 2019 data will be available in September 2020							
	<b>Rationale for Met Range:</b> The standard error around the measure (88.9 percent) is $\pm 0.2080$ .							
	<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 50,000 households and is representative at the State and national level of the civilian non-institutionalized U.S. population. In December 2018, 37,300 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 2018.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>— The US Census Bureau conducted cognitive and field tests of the food security questionnaire before it was finalized and included as a supplement to the CPS in April 1995. Minor modifications were made to the format and screening procedures during the first years of administration. In 1998 the screener and format were substantially revised to reduce respondent burden and improve the quality of the data. However, the content of the 18 food security questions has remained constant. In 2003-2006 an expert panel convened by the Committee on National Statistics (CNSTAT) of the National Academy of Sciences reviewed the food security measurement methodology. This expert panel concluded that the general methodology for measuring food insecurity was appropriate.</p> <p><input type="checkbox"/> <b>Quality of Data</b>— The food security statistics are based on a nationally representative food security survey conducted as an annual supplement to the monthly CPS by the U.S. Census Bureau for the Bureau of Labor Statistics. The CPS provides data for the monthly U.S. unemployment statistics and annual income and poverty statistics.</p>							

## Challenges for the Future

Although, the prevalence of food secure households continued to increase in 2018 and reached pre-recession levels of 2007 (88.9 percent), 56 percent of households that participated in SNAP, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) or the National School Lunch Program reported being food insecure 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 ten 2014 Farm Bill Employment and Training (E&T) Pilots is examining the impact of pilot participation on food security, as well as employment and earnings. Interim findings from the E&T pilots' evaluations are expected in FY 2020.

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 2019 will be released in September 2020.

## 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 \$123.9 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 *Using “intermediaries” to Streamline Operations and Support Expanded SNAP E&T programs, and Participant Engagement Strategies for SNAP E&T*. It hosted two SNAP E&T State Institutes that provides States with training and expertise on how to grow and build an effective SNAP E&T program. 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 7,000 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. In order to improve the quality of the data and better understand what services SNAP E&T participants are actually receiving, FNS changed the way States report on component participation, setting a new baseline of 25.5%. 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.

Annual Performance Goals, Indicators and Trends	2014	2015	2016	2017	2018	Fiscal Year 2019		
						Target	Actual	Result
7.2.2 Percentage of SNAP Education & Training participants engaged in education and skills-based training	Not Available	33%	33%	Not Available	25.5%	27.5	Not Available	Deferred
<b>Rationale for Met Range:</b> FY 2019 data will be available in FY 2020.								
<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>□ <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 2018</p> <p>□ <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>□ <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. To improve the quality of the data and better understand what services SNAP E&amp;T participants are actually receiving, FNS changed the way States report on component participation, setting a new baseline of 25.5%.</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.

The Agriculture Improvement Act of 2018 made many changes to the SNAP E&T program. In FY 2020 States will be required to implement many of these changes. FNS will continue to provide technical assistance to States to ensure the quality and reliability of the data.

## 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 may also be determined categorically eligible for free meals through participation in certain Federal assistance programs, such as the Supplemental Nutrition Assistance Program, or based on their status as a homeless, migrant, runaway, or foster child. Children enrolled in a federally -funded Head Start Program, or a comparable State-funded pre-kindergarten program, are also categorically eligible for free meals. 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 the school districts meet minimum Federal requirements for paid lunch pricing.

## Analysis of Results

Over 51 million children attend schools that operate the NSLP. More than 30 million children participate in the NSLP each school day, with over 22 million receiving their lunch at no cost or at a reduced price. Provisions designed to improve access, streamline administration, and enhance operational flexibility have helped USDA reach more of the nation’s children in recent years. In fact, NSLP 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.

- Recently, USDA has taken measurable steps to help school food professionals overcome specific challenges in meeting the school breakfast and lunch nutrition standards, which were updated in 2012. While many schools successfully implemented the nutrition standards in a way that encourages healthy eating and participation, some schools required additional flexibility and support from USDA to meet the standards. On December 12, 2018, USDA published a final rule increasing local flexibility for the milk, whole grains, and sodium standards. This action underscored the Department’s commitment to customer service by assisting schools in overcoming operational challenges in implementing the school meals regulations. Specifically, the final rule:
  - Broadened the milk options by allowing schools to permanently offer flavored, low-fat milk.
  - Required that half of the weekly grains in the school lunch and breakfast menu be whole grain-rich, ending the need for the whole grain exemption process.
  - Provided schools more time for gradual sodium reduction by retaining Sodium Target 1 through the end of School Year (SY) 2023-2024, continuing to Target 2 in SY 2024-2025, and eliminating the Final Target that would have gone into effect in SY 2022-2023.
- In FY 2019, USDA expanded menu planning options for school food professionals by updating its food crediting guidance. Crediting guidelines specify how individual food items contribute to the program meal patterns. In response to public comments submitted to a Request for Information (published in December 2017), USDA issued guidance expanding crediting to the following food items: coconut; hominy; popcorn; surimi seafood; tempeh; shelf-stable, dried, and semi-dried meat, poultry, and seafood products; and noodles or pasta made from vegetables. These changes provide exciting, new options for children and reflect the Department’s commitment to staying up-to-date with an evolving and expanding nutrition environment.
- Section 9(b)(4)(F) of the Richard B. Russell National School Lunch Act requires States to directly certify 95 percent of children in families receiving SNAP benefits. In SY 2016-2017, 28 States met or exceeded the 95 percent requirement, an increase of 16 States since SY 2013-2014.

It is the first time that the majority of States met the performance target. Each State that does not meet the benchmark is required to develop and implement a Continuous Improvement Plan (CIP) to improve its direct certification procedures and meet the statutory benchmark 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 provides 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	2014	2015	2016	2017	2018	Fiscal Year 2019		
						Target	Actual	Result
7.3.1 Annual percentage of eligible children participating in the NSLP	54.8%	55.4%	55.5%	54.5%	57.8%	59%	56.5%	Met
	<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 2019, this percentage range allows for actual performance did meet the target in the range of 56.1 - 62.0 percent.							
	<b>Data Assessment of Performance Measure 7.3.1</b> * In FY 2018 there was 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>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>□ <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, 2019, as available August 2019. Figures for enrollment in NSLP participating schools are reported in October of each year.</p> <p>□ <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>□ <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

USDA will continue to listen to State and local program operators and hear their input regarding any future changes that may enhance flexibility and expand the options available in the school lunch program. USDA is committed to taking meaningful steps to aid school food professionals in their efforts to build nutritious meals that children enjoy. In the near term, USDA will focus on helping program operators overcome the challenges outlined below.

- School food authorities are required to increase the prices charged for paid lunches to ensure adequate revenue is generated to cover production costs. 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. FNS has recognized that not all school food authorities need the additional revenue, and has provided an exemption 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.
- Consistent with Section 770 of the Consolidated Appropriations Act, 2019 (Public Law 116-6) (the Appropriations Act), FNS issued guidance in April 2019 exempting any school food authority with a positive or zero balance in its school food service account as of December 31, 2018 from paid lunch equity requirements for SY 2019-2020. School food authorities maintain the discretion to adjust their paid lunch price for SY 2019-2020 accordingly. To demonstrate State oversight of this provision, FNS recommended that State agencies maintain documentation for any school food authorities using this exemption.
- 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.

### 7.3.2 Annual Percentage of Eligible Children Participating in the School Breakfast Program (SBP)

#### Overview

The School Breakfast Program (SBP) is a federally assisted meal program operating in public and non-profit private schools and residential child care institutions. School districts and institutions that choose to participate in the SBP 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 may not charge children more than 30 cents for a reduced price breakfast. Children may be determined categorically eligible for free meals through participation in certain Federal assistance programs, such as the Supplemental Nutrition Assistance Program, or based on their status as a homeless, migrant, runaway, or foster child. Children enrolled in a federally-funded Head Start Program, or a comparable State-funded pre-kindergarten program, are also categorically eligible for free meals. Children who do not qualify for free or reduced price meals may purchase a breakfast at the “paid” rate.

## Analysis of Results

Over 49.6 million children attend schools that operate the SBP. Nearly 14.6 million children participate in the SBP each school day, with 12.5 million children receiving their breakfast at no cost or at a reduced price. SBP free participation has increased by over 57 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.

- Recently, USDA has taken measurable steps to help school food professionals overcome specific challenges in meeting the school breakfast and lunch nutrition standards, which were updated in 2012. While many schools successfully implemented the nutrition standards in a way that encourages healthy eating and participation, some schools required additional flexibility and support from USDA to meet the standards. On December 12, 2018, USDA published a final rule increasing local flexibility for the milk, whole grains, and sodium standards. This action underscored the Department's commitment to customer service by assisting schools in overcoming operational challenges in implementing the school meals regulations. Specifically, the final rule:
  - Broadened the milk options by allowing schools to permanently offer flavored, low-fat milk.
  - Required that half of the weekly grains in the school lunch and breakfast menu be whole grain-rich, ending the need for the whole grain exemption process.
  - Provided schools more time for gradual sodium reduction by retaining Sodium Target 1 through the end of SY 2023-2024, continuing to Target 2 in SY 2024-2025, and eliminating the Final Target that would have gone into effect in SY 2022-2023.
- Recognizing that some children face barriers to SBP participation due to the timing of the meal, which often takes place before the regular school day, USDA has encouraged alternative breakfast models to improve access, streamline administration, and eliminate barriers to participation. Local schools are encouraged to adopt the breakfast service model that works best for them, which could be serving breakfast in the classroom, offering a grab-and-go breakfast, or serving breakfast on a school bus. According to the School Nutrition and Meal Cost Study (published in April 2019), among participating children, ease/convenience was the most commonly reported reason for SBP participation. Alternative breakfast models give schools more convenient options, helping to connect more children with a wholesome morning meal.

Annual Performance Goals, Indicators and Trends	2014	2015	2016	2017	2018	Fiscal Year 2019		
						Target	Actual	Result
7.3.2 Annual percentage of eligible children participating in the SBP	28.3%	29.0%	30.2%	30.1%	30.1%	30%	29.6%	Met
	<b>Rationale for Met Range:</b> Thresholds for 7.3.2 reflect the margin of error in forecasts of future participation, estimated at 5 percent for school meals programs. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2019, this percentage range allows for actual performance did meet the target in the range of 28.5 - 31.5 percent.							
	<b>Data Assessment of Performance Measure 7.3.2</b>  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 SBP participating in the program.  SBP 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.							
	<input type="checkbox"/> <b>Completeness of Data—</b> Figures for SBP 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, 2019, as available August 2019. Figures for enrollment in SBP participating schools are reported in October of each year.  <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.  <input type="checkbox"/> <b>Quality of Data—</b> As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.							

## Challenges for the Future

USDA will continue to listen to State and local program operators, and hear their input regarding any future changes that may enhance flexibility and expand the options available in the SBP. USDA is committed to taking meaningful steps to aid program operators in their efforts to build breakfast 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.

## **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, 2019. 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, no new significant deficiencies, and four new control deficiencies were identified for FY 2019.

### **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, 2019. The assessment followed USDA guidance, Office of Management and Budget (OMB) Circular A-123, Appendix A 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 Control Management: Budget Authority
- i. Funds Control Management: Transfers
- j. Funds Management: Funds Balance with Treasury Reconciliation
- k. Grants Management: Awards and Modifications (Entitlement Grants)
- l. Grants Management: Closeout (Entitlement Grants)
- m. Grants Management: Draws and Expenditures (Entitlement Grants)
- n. Grants Management: Monitoring (Discretionary and Entitlement Grants)



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, 2019. FNS provides an unmodified statement of assurance that the internal controls over external financial reporting for FY 2019 are operating effectively.

In addition, there were no new material weaknesses or significant deficiencies identified in FNS' Business Process Controls (BPC). FNS accepted the risk for three BPC control deficiencies and seven BPC control deficiencies remain. Corrective action plans for four control deficiencies have been developed and submitted in the A-123 Compliance Reporting Tool (ACRT). Three corrective plans are in the process of being created. 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 (ADA). The GAO Accountability Office (GAO) cited FNS for a potential ADA violation. USDA's Office of the General Counsel (OGC) has reviewed the issue and determined that no violation occurred.

### **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 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 respect to payroll, large contracts, and purchase and travel cards. For risk and vulnerabilities with respect to grants to State agencies, and beneficiary payments made by those program partners, the Agency mitigation strategies are in place.
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, 2019.
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.

**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).
2. We are responsible for implementing and maintaining financial management systems that

comply substantially with Federal financial management systems requirements, Federal accounting standards (U.S. GAAP), and the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level.

3. We have assessed the financial management systems to determine whether they comply substantially with Federal financial management systems requirements, Federal accounting standards, and the application of the USSGL at the transaction level. Our assessment was based on OMB guidance.
4. The FNCS financial management systems substantially complied with the Federal financial management systems requirements, Federal accounting standards, and application of the USSGL at the transaction level, as of September 30, 2019.

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
27601-0001-31	7-31-13	Controls for Authorizing SNAP Retailers	2-28-20	Recs. 9, 10, 11: Proposed rule that will enable FNS to move forward with these recommendations has a targeted publication date of late calendar year 2019.
27601-0002-41	9-23-15	SNAP Error Rates	11-30-19	Rec. 1: Recommendation requires feasibility study on creating a one-tier Quality Control (QC) system. Report on this study is expected to be released in the Fall of 2019. The results, once analyzed, will inform the cost/benefit analysis and what a realistic timeline would look like for implementing a one-tier QC system. Rec. 11: FNS met with OIG twice in March 2019 to brief them on developments in the area associated with this recommendation. FNS inquired to see if work plan and Request for Information (RFI) associated with rule would be enough to obtain final action, but OIG wants to see the rule. The rule was recently designated as significant by OMB and has a targeted publication date of October 2019.
27601-0003-10	9-27-16	New Mexico's Compliance with SNAP Certification of Eligible Households Requirements	10-31-19	Supporting documentation still being collected for some cases questioned by OIG.
27601-0010-10	8-9-17	Pennsylvania's Compliance with SNAP	12-31-19	This recommendation requires FNS Civil Rights Division

		Requirements for Participating State Agencies		(CRD) to make updates to the FNS Instruction 113-1, <i>Civil Rights Compliance and Enforcement Manual</i> . The Department is currently in the process of updating the guiding regulation (4330-02) which holds up the clearance process for the 113-1. FNS wants to make sure the 113-1 aligns properly with the Departmental regulation.
27601-0011-10	9-14-17	South Carolina's Compliance with SNAP Requirements for Participating State Agencies	12-31-19	Rec. 1: This recommendation requires FNS CRD to make updates to the FNS Instruction 113-1, <i>Civil Rights Compliance and Enforcement Manual</i> . The Department is currently in the process of updating the guiding regulation (4330-02) which holds up the clearance process for the 113-1. FNS wants to make sure the 113-1 aligns properly with the Departmental regulation. Rec. 5: Prisoner Verification System (PVS) guidance associated with this recommendation is going through the final stages of FNS internal clearance. Rec. 8: Deceased Matching System (DMS) guidance associated with this recommendation is going through the final stages of FNS internal clearance.
27601-0012-10	9-28-17	Washington's Compliance with SNAP Requirements for Participating State Agencies	12-31-19	Rec. 6: In association with this recommendation, during a 2019 FNS Management Evaluation (ME) the FNS Western Regional Office (WRO) determined that the notice of match results as required by FNS and this recommendation are still not being sent. FNS WRO also made this a finding in their ME report, and will work toward closure of both through the ME corrective action validation process. Rec. 7: This recommendation requires the State to display PVS results in their eligibility system at application and recertification. The change request for this system change has been assigned

				and promoted based on priority, with an expected implementation date of late 2019.
27601-0013-10	12-19-17	Compilation Report of States' Compliance with SNAP Requirements for Participating State Agencies	12-31-19	<p>Rec. 1: This recommendation requires FNS CRD to make updates to the FNS Instruction 113-1, <i>Civil Rights Compliance and Enforcement Manual</i>. The Department is currently in the process of updating the guiding regulation (4330-02) which holds up the clearance process for the 113-1. FNS wants to make sure the 113-1 aligns properly with the Departmental regulation.</p> <p>Rec. 2: Portions of this recommendation are complete, but the PVS guidance and DMS guidance associated with OIG 27601-0011-10 (South Carolina) and recommendations 3 and 5 of this same audit are going through the final stages of FNS internal clearance. Rec. 3: PVS guidance associated with this recommendation is going through the final stages of FNS internal clearance. Rec. 5: DMS guidance associated with this recommendation is going through the final stages of FNS internal clearance.</p>

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 2019.

	Auditor	Agency	Audit Number	Audit Name	Status
1	OIG	FNS	27099-49-TE	Disaster Food Stamp Program for Hurricanes Katrina and Rita	CLOSED – November 2018
2	OIG	FNS	27401-0003-11	Food and Nutrition Service's Financial Statements for Fiscal Years 2018 and 2017	CLOSED – November 2018
3	OIG	FNS	27004-0001-22	State Agencies' Food Costs for FNS' Special Supplemental Nutrition Program for WIC	CLOSED – March 2019

4	OIG	FNS	27601-0003-10	SNAP Administrative Costs	CLOSED – May 2019
5	OIG	FNS	27601-0004-10	Michigan’s Compliance with SNAP Certification of Eligible Households Requirements	CLOSED – May 2019
6	OIG	FNS	27004-0001-1-1	Florida’s Controls Over the Summer Food Service Program – Interim Report	CLOSED – May 2019
7	OIG	FNS	50024-0014-11	USDA’s Fiscal Year 2018 Compliance with Improper Payment Requirements	CLOSED – May 2019
8	OIG	FNS	27004-0001-23-1	New York’s Controls Over the Summer Food Service Program – Interim Report	CLOSED – July 2019
9	OIG	FNS	27601-0014-10	Illinois’ Compliance with Requirements for the Issuance and Use of SNAP Benefits (7 CFR 274)	CLOSED – July 2019
10	OIG	FNS	27901-0002-13	Detecting Potential Trafficking Using Data Analysis	CLOSED – August 2019
11	OIG	FNS	81099-0001-12	Audit of Food, Nutrition, and Consumer Services’ Fiscal Year 2015 Firm-Fixed Price Contract Award Price Reasonableness Determinations	CLOSED – August 2019
12	OIG	FNS	27601-0015-10	Iowa’s Compliance with Requirements for the Issuance and Use of SNAP Benefits (7 CFR 274)	CLOSED – August 2019
13	OIG	FNS	27601-0017-10	Maryland’s Compliance with Requirements for the Issuance and Use of SNAP Benefits (7 CFR 274)	CLOSED – August 2019
14	GAO	OCFO-Lead *	GAO-19-112	Improper Payments: Selected Agencies Need Improvements in Their Assessments to Better Determine and Document Risk Susceptibility	CLOSED – January 2019
15	GAO	FNS-Lead	GAO-19-200	Employment and Training Programs: Department of Labor Should Assess Efforts to Coordinate Services Across Programs	CLOSED – March 2019

16	GAO	FSA-Lead *	GAO-19-479	2017 Disaster Relief Oversight: Strategy Needed to Ensure Agencies' Internal Control Plans Provide Sufficient Information	CLOSED – June 2019
17	GAO	OCE Lead *	GAO-19-391	Food Loss and Waste: Building on Existing Federal Efforts Could Help to Achieve National Reduction Goal	CLOSED – June 2019
18	GAO	FNS	GAO-15-94	Nutrition Assistance: Additional Guidance Could Assist States in Addressing Online Sale of Infant Formula	CLOSED – August 2019

\* 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 2018 Compliance with Improper Payment Requirements – Audit Report 50024-0014-11), 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 completion dates for becoming compliant with IPERA.

Outstanding Initiatives to Achieve Compliance			
Initiative	Non-compliance	Agency	Target Completion Date
Improper Payments Elimination and Recovery Act of 2010 (IPERA)	Has not met annual reduction targets for Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).	FNS	WIC – 12/2019
	Reported a gross improper payment error rate of greater than 10 percent for 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 outlays and \$10,000,000 and \$10,000,000 of all program or activity payments made during the fiscal year reported or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays). 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 and is called the SNAP Quality Control (QC) system. 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 reviews its guidance prior to the start of each fiscal year and implements any necessary revisions.

SNAP takes seriously its responsibility to reduce improper payments. As SNAP is a state administered Federal program and errors occur within each State's eligibility process, FNS works directly with State partners to help them implement strategies to reduce payment errors. These include:

- FNS has a statutorily mandated liability system that sanctions States for poor performance and assesses financial liabilities for payment error rates in excess of the national average and that are above six percent. In July 2019, FNS issued over \$26 million in sanctions to high-error states to ensure they are working diligently to improve accuracy. States must either pay the full amount immediately to the U.S. Treasury, or promptly reinvest half of these funds in FNS-approved actions to reduce errors, and pay the remainder if accuracy does not improve.
- FNS also has established a regulatory process for requiring States to implement robust corrective action plans to reduce payment errors. FNS requires States to submit corrective action plans for review and approval if any of the following conditions are met:
  - The State's payment error rate is six percent or greater,
  - The State's negative error rate is above the national average,
  - Any deficiencies identified by a GAO, OIG, or FNS review or audit,
  - If five percent or more of the State's QC caseload is marked as incomplete,
  - Any improper payments caused by State rules, practices, or procedures.
- FNS monitors State corrective action plans and provides technical assistance as necessary to help remedy deficiencies. FNS regulations require State corrective action plans to remain in effect until all deficiencies in program operations have been reduced substantially or eliminated.
- FNS operates a robust management evaluation process that regularly reviews State operations and compliance with Federal regulations. FNS issues reports that provide findings and outline management deficiencies which may lead to payment errors. States must enter into corrective actions to address deficiencies.
- FNS requires States to conduct a root cause analysis of what contributes to payment errors to aid in corrective action planning. FNS provides technical assistance to States that need help with their root cause analysis. SNAP's quality control system codes errors to allow a root cause analysis in sufficient detail to identify whether the primary contributing factors are specific to policies or procedures; or whether they are statewide or limited in scope (such as concentrated in a single local office or county).
- SNAP has an active payment accuracy workgroup that meets regularly to discuss the outcomes of on-going technical assistance and to share best practices among FNS Regional Offices to ensure a consistent approach with State partners.
- FNS has an internal process to categorize States to clearly identify those that pose the greatest risk for Federal dollar losses due to payment errors. This helps to ensure FNS technical assistance resources are targeted effectively. As part of this process, FNS uses an early warning system to monitor preliminary state reported data in order to identify deteriorating performance and to initiate actions to help States make improvements at the earliest opportunity.
- FNS continues to work with State partners to expand requirements for data matching and to ensure share best practices are disseminated as data matching is a proven strategy that can reduce payment errors. FNS currently requires States to conduct data matches prior to certification and recertification with Social Security Administration's (SSA) Death Match, SSA's Prisoner Verification System, the National Directory for New Hires, and FNS's

electronic Disqualified System. State partners also work with commercial data brokers to help verify identity, income, and assets; all of which can contribute to payment errors. Additionally, as part of the 2018 Farm Bill, FNS is currently working to expand the National Accuracy Clearinghouse (NAC) nationwide. The NAC was a successful pilot among five States that reduced instances of duplicate participation across State lines, where an individual applies to receive benefits in more than one State at the same time.

- Nationally, 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 which are intended to reduce state caused errors.
  - FNS providing \$5 million in annual 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.
- In FYs 16-18, FNS provided contract support to assist States with business process re-engineering efforts to streamline and add effective controls in their case management processes. While these projects' primary goal was to improve application processing timeliness, indirectly such efforts likely helped prevent improper payments before they occurred.
- 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.
  - Client caused errors can often occur when requirements are not communicated clearly and clients do not easily understand what documentation they must submit in order to verify their application. In FY 2019, FNS conducted a pilot project with a few States in our Mountain Plains Regional Office to improve the readability and accuracy of notices issued to clients. Based on this pilot, FNS is expanding this project into ten additional States in FY 2020 in order to reduce client caused errors.

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 addition to taking steps to reduce payment errors, FNS takes seriously its responsibility under IPIA to regularly assess and improve the measurement of payment errors. This includes exploring ways to make the measures into more actionable intelligence for program administrators. FNS activities to assess and improve our measurement of payment errors include:

- In FY 2017, SNAP released guidance that included substantial new policy revisions, that ensure payment error determinations align with IPIA and OMB circulars, and typically issues modest updates reflecting any new policy changes regularly.

- 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 later in FY 2020. The study assessed the current QC system and recommends alternatives that may strengthen the process for measuring payment errors.
- In FY 2018, FNS released a Request for Information (RFI) 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.
- In FY 2019, FNS issued a revision to its Handbook 315, which outlines procedures for Federal reviewers who sub-sample and review State QC findings. Changes were implemented to improve the accuracy and consistency of Federal reviews.
- In FY 2020, FNS expects to release proposed and interim-final regulations that seek to reform the SNAP QC system. The rule includes interim-final provisions from the 2018 Farm Bill that strengthen the integrity of the measurement system. The proposed provisions of the rule are intended to modernize the QC system to improve transparency, accuracy, and alignment with the expectations of IPIA and OMB circulars. FNS utilized comments received from the FY 2018 RFI to inform these changes.
- 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* 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 WIC State agencies was used to estimate and report a payment error rate for each subsequent year until the next vendor study. The WIC Vendor Management Study was replicated in FY 2012 with results available in late FY 2013. Beginning in FY 2013, FNS estimated the payment error rate by applying the average annual percent change in the rates from the 2005 and 2012 studies to the estimated rate obtained in 2012.
  - 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.

To estimate and report a payment error rate each subsequent year until the next NSWP, FNS “aged” the 2009 estimate using a three-stage model that results in population-adjusted estimates of the annual incidence of certification errors and dollar impact. Data collection is currently underway for NSWP-III.

## Child and Adult Care Food Program (CACFP)

The Child and Adult Care Food Program provides federal reimbursement to State administering agencies for program meals served to adults and children in day care centers and family day care homes. State agencies pass those payments to independent centers and to the sponsoring organizations that monitor operation of the CACFP at most centers and at all homes. Day care providers and program sponsors generate claims for reimbursement consistent with participant eligibility and meal pattern requirements. They communicate claims on a monthly basis to the States for submission to FNS for payment. Each step in the generation and communication of those claims presents a risk for improper payments. For this reason, a comprehensive assessment of improper payments in the CACFP is necessarily complex and potentially very costly.

Recognizing that the agency has limited resources to develop a measurement of program-wide erroneous payments in CACFP, FNS submitted a budget request for resources in FY 2006. The goal of the funding request was to conduct a nationally representative, program-wide CACFP erroneous payments study 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. Funds for such a study were not provided by Congress.

In the absence of funding for a comprehensive study, FNS has undertaken the following activities to develop improper payment estimates for the 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 serious program management and integrity problems that had been uncovered in the 1990s. FNS collected data in 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 day care homes, it also raised questions about State and Federal oversight – 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 levels of program reimbursement (Tier I and Tier II). FNS reports improper payments due to tiering errors annually based on the results of these studies. The estimates of misclassification in rates, the cost of misclassification, and the meals reimbursed in error for the 2015 assessment were the lowest measured in 11 years. The 2015 report, released in 2017, is at <https://www.fns.usda.gov/child-and-adult-care-food-program-cacfp-assessment-sponsor-tiering-determinations-2015>.
- 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 explored the feasibility of developing a statistical model to project annual error estimates in between study years. See <https://fns-prod.azureedge.net/sites/default/files/resource-files/CACFPSponsor-Tiering-Aging-Summary.pdf>. The 2019 report summarizing that effort concluded that such a model cannot generate estimates of sufficient quality for IPERA reporting. For the FY 2019 Financial Report FNS applied the 2017 study-based error rate to current year program outlays to estimate the dollar value of tiering error.

- Claiming error measurement – FNS has continued to explore potential methodologies to develop other measures of high-risk program components – in particular, the accuracy of meal claims in day care homes. FNS studied the feasibility of three data collection methods for validating homes’ meal reimbursement claims in the 2000s. 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>.
- FNS conducted an expanded feasibility study in FY 2013 and FY 2014 to assess the validity of using parent-recall telephone interviews to develop and compare estimates of meals served against meals claimed by day care home providers. This assessment found that parental recall of meals served to their children while in attendance at the day care home was unreliable due to a low match to actual meals served. The study concluded that it was not feasible to use parent recall data for specific meals or snacks to estimate erroneous claims.
- FNS initiated an additional day care home meal claim study in FY 2014. This effort is testing the feasibility, cost, and validity of two mobile applications for validating day care home meal reimbursement claims. In one app, home providers enter the time of meal service in real time – not after the fact, and not simply transferred from the home’s prepared schedule. In the other app, parents enter the times that they drop off and pick up their children from care – again, as close to real time as possible. The agency expects to finalize results of that feasibility study in late 2019 or 2020.
- Comprehensive measure of error in child care centers. FNS completed data collection in SY 2017-2018 to measure the level of improper payments (dollars and rates) due to certification and aggregation error in CACFP centers. The study is also examining centers’ compliance with regulatory meal pattern standards. The study builds on the methods developed for school meals in the Access, Participation, Eligibility and Certification (APEC) study series. Like APEC, this study will produce a set of nationally representative estimates of improper payments and information on error sub-components to support a limited analysis of root causes. Estimates will meet IPERA measurement requirements and will complement the annual measure of reimbursement tiering errors in day care homes. FNS expects to finalize the results of this study in late 2019 or 2020.

Improper CACFP 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. Program regulations allow States to waive claims against a single institution for improper payments of up to \$600 in a single fiscal year. Current statutes only provide authority to recover improper payments identified through reviews, audits or other operational oversight activity. CACFP does not have authority to pursue collection of improper payments identified on the basis of a statistical sample or estimation procedure.

### **National School Lunch Program and School Breakfast Program**

The National School Lunch Program (NSLP) and School Breakfast Program (SBP) 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 collected data in School Year 2017-2018; the results of that study are not yet available.

APEC provides a national estimate of error 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;
- ***Aggregation errors*** occur when a school or SFA tallies the number of reimbursable meals incorrectly and then claims the wrong number of meals for reimbursement.
- ***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 reported improper payments. These standard of service errors, unlike certification and aggregation error, do not result in federal payment for services not delivered or for services delivered to ineligible recipients.

Study design:

- The APEC studies use a multistage-clustered sample design that first sample SFAs, then schools served by the SFAs, and finally students who attend the sampled schools. The most recent studies in the series include two independent samples: (1) a base sample that includes schools and districts that did not participate in the Community Eligibility Provision (CEP), and (2) a smaller sample that includes SFAs and schools that did participate in the CEP.
- Base sample SFAs are stratified by State, the number of schools in the SFA that participate in the NSLP, the proportion of schools using Provision 2 or Provision 3, and the proportion of directly certified students. SFAs are selected using a probability proportional to size method.
- APEC-II, released in 2015, is the most recent completed study in the series. The APEC-II base sample included data from 130 SFAs, 387 public schools, and 5 private schools. The APEC-II CEP sample collected data from 45 SFAs and 135 schools in 5 states.
- Students were selected for the APEC-II 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:
  1. A SFA director survey,
  2. A household survey completed through field interviews with the parent or guardian of students sampled,
  3. In-school review of applications and direct certification documents,
  4. Collection of student participation data from SFA records, and

5. Meal counting and claiming data during weeklong visits at SFAs through on-site observations.

The three types of error identified in the APEC studies differ significantly in their program impact. Certification errors result in families receiving benefits they are not entitled to or being denied benefits they should receive. 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.

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 in the FY 2019 Agency Financial Report (AFR).

As part of the APEC-II study, FNS developed statistical models to project national improper payment rates using the APEC findings and district-level administrative data in non-APEC study years. FNS uses this model to report annual error rates in the AFR.

Improper payment summary:

- Certification Error:

As reported in USDA's FY 2019 AFR, NSLP improper payments due to misclassification of student eligibility for program benefits (free, reduced-price, or paid) totaled \$1.0 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 processing error at the school or school district. The estimated certification error reported in the FY 2019 AFR for SBP is \$408 million.

- Non-Certification (Aggregation) Error:

In FY 2019, the submission of inaccurate counts of reimbursable meals to FNS totaled approximately \$102 million. These are errors in the aggregation and submission of meal counts by schools to school districts and by school districts to State agencies. The estimate for aggregation error in the SBP is \$54 million.

Upcoming research – APEC-III:

- 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. APEC-III will compare the latest finding to those from the earlier studies in the series.
- The APEC-III contract also calls for re-estimating APEC-II's statistical model to project improper payment rates in non-APEC study years.
- FNS expects to finalize results of the APEC-III study in 2020.



Additional information on FNS's IPIA activities can be found in the FY 2019 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 7/31/19 – FNS Measures for IPIA Reporting  
2019 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
4,395	N/A	N/A	12,577	59,104	Current Year (CY) Outlays \$
90%	N/A	N/A	91%	93.20%	CY Properly Paid %
11%	3.70%	5.38%	9.08%	6.80%	CY IP %
3,934	N/A	N/A	11,434	55,083	CY Properly Paid \$
461	466	677	1,142	4,022	CY IP \$
297	374	437	811	3,306	CY Overpayments \$
165	92	240	331	716	CY Underpayment \$
4,534	N/A	N/A	12,790	59,104	CY +1 Est. Outlays \$
10.18%	N/A	N/A	8.80%	6.80%	CY + 1 Est. IP %
462	N/A	N/A	1,125	4,022	CY + 1 Est. IP \$

**Preliminary Data as of 7/31/19 – FNS Measures for IPIA Reporting  
2019 Agency Financial Report**

Program	FNS SBP Certification Error	FNS SBP Counting/Claiming Error	FNS Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	FNS WIC Certification Error	FNS WIC Vendor Error
Current Year (CY Outlays \$)	N/A	N/A	3,376	N/A	N/A
CY Properly Paid %	N/A	N/A	97.97%	N/A	N/A
CY IP%	5.92%	4.57%	2.03%	2.03%	N/A
CY Properly Paid \$	N/A	N/A	3,308	N/A	N/A
CY IP \$	260	201	68	68	N/A
CY Overpayment \$	150	147	68	68	N/A
CY Underpayment \$	110	55	N/A	N/A	N/A
CY +1 Est. Outlays \$	N/A	N/A	3,393	N/A	N/A
CY + 1 Est. IP %	N/A	N/A	2.03%	N/A	N/A
CY + 1 Est. IP \$	N/A	N/A	68	N/A	N/A

**Preliminary Data as of 7/31/19 – FNS Measures for IPIA Reporting  
2019 Agency Financial Report**

Program	FNS Child and Adult Care Food Program (CACFP) Total Program	FNS CACFP FDCH – Tiering Decisions	FNS CACFP FDCH – Meal Claims
Current Year (CY) Outlays \$	682	N/A	N/A
CY Properly Paid %	99.46%	N/A	N/A
CY IP %	0.54%	N/A	N/A
CY Properly Paid \$	679	N/A	N/A
CY IP \$	4	N/A	N/A
CY Overpayment \$	3	N/A	N/A
CY Underpayment \$	1	N/A	N/A
CY +1 Est. Outlays \$	656	N/A	N/A
CY + 1 Est. IP %	0.54%	N/A	N/A
CY + 1 Est. IP \$	4	N/A	N/A

## SECTION 5. LIMITATIONS OF FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from the books and records of Federal entities in accordance with Federal GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

## SECTION 6. FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS

FNS' FY 2019 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 experienced by the populations we serve.

### Balance Sheet

	2019		2018	
	Dollars (mil)	Percent	Dollars(mil)	Percent
Fund Balance With Treasury	53,687	99.42%	54,009	99.40%
Accounts Receivable	312	0.58%	326	0.60%
General PP& E	-	0.00%	-	0.00%
Other	-	0.00%	-	0.00%
<b>Total Assets</b>	<b>53,999</b>	<b>100.00%</b>	<b>54,335</b>	<b>100.00%</b>
Intragovernmental: Other	67	0.12%	59	0.11%
Accounts Payable	6	0.01%	8	0.01%
Federal Employee and Veterans Benefits	7	0.01%	9	0.02%
Benefits Due and Payable	5,147	9.53%	5,074	9.34%
Other Liabilities	2,458	4.55%	2,494	4.59%
<b>Total Liabilities</b>	<b>7,685</b>	<b>14.22%</b>	<b>7,644</b>	<b>14.07%</b>
Unexpended Appropriations	46,010	85.21%	46,391	85.38%
Cumulative Results of Operations	304	0.56%	300	0.55%
<b>Total Net Position</b>	<b>46,314</b>	<b>85.77%</b>	<b>46,691</b>	<b>85.93%</b>
<b>Total Liabilities &amp; Net Position</b>	<b>53,999</b>	<b>100%</b>	<b>54,335</b>	<b>100%</b>

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2019 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - 99% in FY 2019 and 99% in FY 2018. 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.

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 2019 and FY 2018 Net Position of the agency is concentrated in Unexpended Appropriations.

### Statement of Net Cost

	2019		2018	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Gross Cost	93,573	100.05%	98,792	100.06%
Less: Earned Revenue	(48)	-0.05%	(57)	-0.06%
Net Cost of Operations	93,525	100.00%	98,735	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 \$98,792 million in FY 2018 to \$93,573 million in FY 2019, 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 \$98,735 million in FY 2018 to \$93,525 million in FY 2019.

**Statement of Changes in Net Position**

	2019		2018	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Unexpended Appropriations</b>				
Beginning Balance	46,391		42,329	
<b>Budgetary Financing Sources:</b>				
Appropriations Received	94,760		96,102	
Appropriations Transferred in/out	-		(1)	
Other Adjustments	(11,815)		(3,063)	
Appropriations Used	(83,326)		(88,976)	
Total Budgetary Financing Sources	(381)		4,062	
Total Unexpended Appropriations	46,010		46,391	
<b>Cumulative Results from Operations:</b>				
Beginning Balance	300		116	
<b>Budgetary Financing Sources:</b>				
Other Adjustments	(1)	0.00%	(1)	0.00%
Appropriations Used	83,326	89.09%	88,976	89.95%
Transfers In (Out) without Reimbursements	9,290	9.93%	9,193	9.29%
<b>Other Financing Sources(Non Exchange):</b>				
Imputed Financing	914	0.98%	751	0.76%
Total Financing Sources	93,529	100.00%	98,919	100.00%
Net Cost of Operations	(93,525)		(98,735)	
Net Change	4		184	
Cumulative Results of Operations	304		300	
Net Position	46,314		46,691	

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 2019 appropriations used was \$83,326 million, which decreased \$5,650 million from FY 2018, based on actual participation levels and food costs.

Unexpended Appropriations decreased from \$46,391 million in FY 2018 to \$46,010 million in FY 2019 as more carryover appropriation balances were expended in the current year. Adjustments which increased from \$3,063 million in FY 2018 to \$11,815 million in FY 2019 are due to permanent reductions and cancellations of expired accounts.

Cumulative Results of Operations increased \$4 million, from \$300 million in FY 2018 to \$304 million in FY 2019, 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 2018 to FY 2019. Transfers are largely made up a single large transfer made in the annual appropriations act from funds available to the Secretary under Section 32 of the Act of 1935 for support of Child Nutrition programs. Additionally, FNS received transfers from the Commodity Credit Corporation for the Senior Farmers Market Program. Transfers represented ten percent of total financing sources in FY 2019 and nine percent in FY 2018.

### Statement of Budgetary Resources

	2019		2018	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Budgetary Resources</b>				
Unobligated Balance from prior year budget authority, net (discretionary and mandatory)	34,903	25.20%	39,173	27.26%
Appropriations (discretionary and mandatory)	103,536	74.76%	104,479	72.70%
Spending Authority from Offsetting Collections (discretionary and mandatory)	49	0.04%	59	0.04%
<b>Total Budgetary Resources</b>	<b>138,488</b>	<b>100.00%</b>	<b>143,711</b>	<b>100.00%</b>
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments	94,763	68.43%	99,734	69.40%
Apportioned, Unexpired Accounts	16,742	12.09%	8,012	5.58%
Unapportioned, Unexpired Accounts	3,268	2.36%	6,179	4.30%
Expired, Unobligated Balance End of Year	23,715	17.12%	29,786	20.72%
<b>Total Budgetary Resources</b>	<b>138,488</b>	<b>100%</b>	<b>143,711</b>	<b>100%</b>
Agency Outlays, Net (discretionary and mandatory)	92,577	66.85%	97,229	67.66%

Appropriations were decreased from \$104,479 million in FY 2018 to \$103,536 million in FY 2019. Total budgetary resources were lesser than the prior year due primarily to a change in unobligated balances from the prior year. FNS had \$138,488 million in total budgetary resources during FY 2019, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods.

At fiscal yearend 2019, most \$94,763 million or 68% of those resources were obligated, though \$16,742 million or 12% remained unobligated and available, and another \$26,983 million was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2019, Net Outlays represented 67% of Total Budgetary Resources, compared to 68% in FY 2018.



## Food and Nutrition Service

**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2019 (CY) and 2018 (PY)  
(Dollars in Millions)

	FY 2019 (CY)	FY 2018 (PY)
<b>Assets (Note 2):</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 53,687	\$ 54,009
Other	-	-
Total Intragovernmental	53,687	54,009
Accounts Receivable, net (Note 4)	312	326
General Plant, Property, and Equipment, net	-	-
Other	-	-
<b>Total Assets</b>	<b>\$ 53,999</b>	<b>\$ 54,335</b>
<b>Liabilities (Note 5):</b>		
Intragovernmental:		
Accounts Payable	\$ -	\$ -
Other (Note 6)	67	59
Total Intragovernmental	67	59
Accounts Payable	6	8
Federal Employee and Veterans Benefits	7	9
Benefits Due and Payable	5,147	5,074
Other (Note 6)	2,458	2,494
<b>Total Liabilities</b>	<b>7,685</b>	<b>7,644</b>
<b>Net Position:</b>		
Unexpended Appropriations - Other Funds	46,010	46,391
Cumulative Results of Operations - Other Funds	304	300
<b>Total Net Position</b>	<b>\$ 46,314</b>	<b>\$ 46,691</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 53,999</b>	<b>\$ 54,335</b>

The accompanying notes are an integral part of these statements.

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

Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF NET COST  
 For the Years Ended September 30, 2019 (CY) and 2018 (PY)  
 (Dollars in Millions)

	FY 2019 (CY)	FY 2018 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 7)	\$ 93,573	\$ 98,792
Less: Earned Revenue	<u>48</u>	<u>57</u>
Net Program Costs	<u>93,525</u>	<u>98,735</u>
Net Cost of Operations	<u>\$ 93,525</u>	<u>\$ 98,735</u>

The accompanying notes are an integral part of these statements.

Food and Nutrition Service  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**  
 For the Years Ended September 30, 2019 (CY) and 2018 (PY)  
 (Dollars in Millions)

	FY 2019 (CY)	FY 2018 (PY)
<b>Unexpended Appropriations:</b>		
Beginning Balance	\$46,391	\$42,329
<b>Adjustments:</b>		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning Balance, as Adjusted	46,391	42,329
<b>Budgetary Financing Sources:</b>		
Appropriations Received	94,760	96,102
Appropriations Transferred in/out	-	(1)
Other Adjustments	(11,815)	(3,063)
Appropriations Used	(83,326)	(88,976)
Total Budgetary Financing Sources	(381)	4,062
Total Unexpended Appropriations	46,010	46,391
<b>Cumulative Results from Operations:</b>		
Beginning Balances	300	116
<b>Adjustments:</b>		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning Balance, as Adjusted	300	116
<b>Budgetary Financing Sources:</b>		
Other Adjustments	(1)	(1)
Appropriations Used	83,326	88,976
Nonexchange Revenue	-	-

Donations and Forfeitures of Cash and cash Equivalents	-	-
Transfers-In/Out Without Reimbursement (+/-)	9,290	9,193
Other (+/-)	-	-
<b>Other Financing Sources (NonExchange):</b>		
Donations and Forfeitures of Property	-	-
Transfers-In/Out Without Reimbursement	-	-
Imputed Financing	914	751
Other	-	-
Total Financing Sources	<u>93,529</u>	<u>98,919</u>
Net Cost of Operations (+/-)	(93,525)	(98,735)
Net Change	<u>4</u>	<u>184</u>
Cumulative Results of Operations	304	300
Net Position	<u>46,314</u>	<u>46,691</u>

The accompanying notes are an integral part of these statements

Food and Nutrition Service  
 COMBINED STATEMENTS OF BUDGETARY RESOURCES  
 For the years ended September 30, 2019 (CY) and 2018 (PY)  
 (Dollars in Millions)

	FY 2019 (CY)	FY 2018 (PY)
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 34,903	\$ 39,173
Appropriations (discretionary and mandatory)	103,536	104,479
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending authority from offsetting collections (discretionary and mandatory)	49	59
Total Budgetary Resources	<u>138,488</u>	<u>143,711</u>
Status of Budgetary Resources:		
New Obligations and upward adjustments (total)	94,763	99,734
Unobligated Balance, end of year:		
Apportioned, unexpired accounts	16,742	8,012
Exempt from apportionment, unexpired accounts	-	-
Unapportioned, unexpired accounts	3,268	6,179
Unexpired, unobligated balance, end of year	20,010	14,191
Expired, unobligated balance, end of year	23,715	29,786
Unobligated balance, end of year (total)	<u>43,725</u>	<u>43,977</u>
Total budgetary resources	<u>138,488</u>	<u>143,711</u>
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	92,579	97,235
Distributed offsetting receipts (-)	<u>(2)</u>	<u>(6)</u>

Agency outlays, net  
(discretionary and  
mandatory)

92,577

97,229

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 June 28, 2019. They have been prepared from the books and records of FNS in accordance with the Generally Accepted Accounting Principles (GAAP) as applied to the Federal Government. GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body.

#### B. Reporting Entity

FNS, including the Center for Nutrition Policy and Promotion (CNPP), is under the jurisdiction of the Under Secretary for Food and Nutrition Consumer Service of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia. 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 2019 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 \$312 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. 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	
	2019	2018
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. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

## K. Parent Child Reporting

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. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) 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 2019 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 2019, FNS estimates that an adjustment of \$482 is needed in total disbursements related to SNAP benefit redemptions from the FY 2019 SNAP appropriation to the FY 2018 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 2019	FY 2018
Intragovernmental:		
Fund balance with Treasury	\$0	\$0
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
Total Intragovernmental	-	-
With The Public		
Cash and other monetary assets	-	-
Accounts receivable	53	50
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related property	-	-
Other	-	-
Total With the Public	53	50
Total non-entity assets	53	50
Total entity assets	53,946	54,285
Total assets	\$ 53,999	\$ 54,335

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

Note 3. Fund Balance with Treasury

	FY2019	FY 2018
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	16,742	8,012
Unavailable	26,983	35,965
Obligated Balance not yet Disbursed	9,904	9,997
Non-Budgetary Fund Balance with Treasury:	58	35
Total	\$ 53,687	\$ 54,009

Note 4. Accounts Receivable, Net

FY 2019	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 331	\$ 19	\$ 312
Total	\$ 331	\$ 19	\$ 312

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

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.

Note 5. Liabilities Not Covered by Budgetary Resources

	FY 2019		FY 2018	
Intragovernmental:				
Accounts payable	\$	-	\$	-
Debt		-		-
Other		1		1
Total Intragovernmental		1		1
With the Public:		-		-
Accounts Payable		-		-
Debt held by the public		-		-
Federal employee and veterans' benefits		7		9
Environmental and disposal liabilities		-		-
Benefits due and payable		-		-
Other		15		14
Total With the Public		22		23
 Total liabilities not covered by budgetary resources		23		24
 Total liabilities covered by budgetary resources		7,556		7,537
 Total liabilities not requiring budgetary resources		106		83
 Total liabilities	\$	7,685	\$	7,644

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.

Note 6. Other Liabilities

FY 2019	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	\$ -
Other Liabilities with Related Budgetary Obligations		-		12	12
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		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		-		52	52
Other Liabilities without Related Budgetary Obligations		-		-	-
Total Intragovernmental		-		67	67
With the Public:					
Contract Holdbacks		-		-	-
Other Liabilities with Related Budgetary Obligations		-		2,380	2,380
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		-		(1)	(1)
Liab. for nonfiduciary deposit funds & undeposited collections		-		55	55
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Custodial Liability		-		-	-
Other Liabilities without Related Budgetary Obligations		-		-	-
Total With the Public		-		2,458	2,458
Total Other Liabilities	\$	-	\$	2,525	\$ 2,525

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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		-		-	-
Total Intragovernmental		-		59	59
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		-		-	-
Total With the Public		-		2,494	2,494
Total Other Liabilities	\$	-	\$	2,553	\$ 2,553

Note 7. Program Costs By Segment

For the year ended September 30, 2019

	CHILD NUTRITION	SNAP	WIC	CAP	OTHER	Consolidated Total
<b>Total Gross Costs</b>	23,715	63,941	5,341	412	164	93,573
<b>Less Earned Revenue:</b>	0	47	0	0	1	48
<b>Net Goal Costs:</b>	23,715	63,894	5,341	412	163	<u>93,525</u>
<b>Net Cost of Operations</b>						<u>93,525</u>

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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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Note 8. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$47 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 2019, one State participated in this program, which generated earned revenues of \$47.

Note 9. Inter-Entity Costs

Goods and services are received from Agriculture Marketing Service (AMS) at no cost to FNS. Consistent with accounting standards, FNS recognized imputed cost of \$914 in the Statement of Net Cost for commodities, and these costs are offset by imputed financing in the Statement of Changes in Net Position.

Note 10. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2019 were as follows:

	Federal	Non Federal
Paid	\$ -	\$ -
Unpaid	\$ 36	\$ 2,319
Total	\$ 36	\$ 2,319

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

	Federal	Non Federal
Paid	\$ -	\$ -
Unpaid	\$ 35	\$ 2,431
Total	\$ 35	\$ 2,431

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

Differences exist between FNS' FY 2018 Statement of Budgetary Resources (as provided to the Department for consolidation purposes) and the FY 2018 actual numbers presented in the FY 2020 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2018 SBR	\$143,711	\$97,234
Less: Expired Accounts not Included in Budget	\$29,871	\$-
Add: Parent Child Relationship (NIFA)	\$9	\$7
Add: Differences due to Rounding	\$1	\$1
Less: Permanent Reduction Error	\$-	\$-
Budget of the U.S. Government	\$113,850	\$97,242

The actual numbers for the FY President's Budget have not yet been published as of FNS' FY 2019 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at [www.whitehouse.gov](http://www.whitehouse.gov).

Note 12. Incidental Custodial Collections

Revenue Activity:	FY 2019	FY 2018
Sources of Cash Collections:		
Miscellaneous	\$ 7	\$ 18
Total Cash Collections	7	18
Accrual Adjustments (+/-)	2	5
Total Custodial Revenue	9	23
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
( Increase )/Decrease in Amounts Yet to be Transferred (+/-)	(9)	(23)
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2019 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.

Note 13. Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net costs, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

**Food and Nutrition Services**  
**Consolidated Budget and Accrual Reconciliation**  
**Period Ending September 30, 2019**

	Intragovernmental	with the public
Net Operating Cost (SNC)	1,317	92,208
<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. Year-end credit reform subsidy re-estimates	0	0
5. Other	0	0
<b>Increase/(decrease) in assets:</b>		
6. Accounts Receivable	0	-15
7. Loans receivable	0	0
8. Other assets	0	0
9. Investments	0	0
<b>(Increase)/decrease in liabilities not affecting Budget Outlays:</b>		
10. Accounts payable	0	-71
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)	-6	59
<b>Other financing sources:</b>		
15. Federal employee retirement benefit costs paid by OPM and imputed to the agency	-914	0
16. Other imputed finance	0	0
17. Total Components of Net Cost That Are Not Part of the Budget Outlays	<b>-920</b>	<b>-28</b>
<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	-1
25. Total Components of Budgetary Outlays That Are Not Part of Net Operating Cost	<b>0</b>	<b>0</b>
26. Other Temporary Timing Differences	0	0
28. NET OUTLAYS	<b>397</b>	<b>92,180</b>
29. Outlays, gross	0	92,627
30. Actual offsetting collections	0	-48
31. Distributed offsetting receipts	0	-2
32. Outlays, Net	<b>0</b>	<b>92,577</b>

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

Net Operating Cost (SNC)	Intragovernmental 1,135	with the public 97,600
<b>Components of Net Operating Cost Not Part of the Budgetary 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>
<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>2019</u>	<u>2018</u>
1. ADP Equipment & Systems	\$51	\$15

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 third quarter for FNS' FY 2019 financial statements.

## 2. A. Special Supplemental Nutrition Program for Women, Infants and Children (WIC)

B. Program Expense	<u>2019</u>	<u>2018</u>
1. ADP Equipment & Systems	\$7	\$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>2019</u>	<u>2018</u>
1. Employment and Training	\$103	\$85

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 130,714 work registrants subject to the 3 - month SNAP participant limit and 789,709 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.



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