



United States Department of Agriculture  
Office of Inspector General





## FNS Financial Statements for Fiscal Year 2015 and 2014

Audit Report 27401-0005-21

### What Were OIG's

#### Objectives

Our objectives were to determine whether: (1) FNS' comparative financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles; (2) FNS met internal control objectives over financial reporting; (3) transactions and events with direct and material effect on the financial statements were compliant with applicable laws and regulations; and (4) the information presented in the Management's Discussion and Analysis was materially consistent with the information in the comparative financial statements.

#### What OIG Reviewed

We performed tests at the FNS Headquarters in Alexandria, Virginia, and the Federal Reserve Bank in Richmond, Virginia, to assess whether information in the underlying accounting records and other sources was reliable and sufficient to serve as the basis for FNS' financial statements.

#### What OIG Recommends

This report does not include any recommendations.

### **OIG audited the comparative financial statements of FNS for fiscal years 2015 and 2014.**

#### What OIG Found

The Food and Nutrition Service (FNS) received an unmodified opinion from the Office of Inspector General's (OIG) audit of the FNS comparative financial statements. We determined that the agency's financial statements for the fiscal years 2015 and 2014 present fairly, in all material respects, FNS' financial position as of September 30, 2015, and 2014, and that they conform with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources.

Our consideration of FNS' internal control over financial reporting identified no significant deficiencies or material weaknesses. However, our consideration of compliance with laws and regulations identified that FNS' high-risk programs were not compliant with the requirements of the Improper Payments Information Act, as amended by the Improper Payment Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012.





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



DATE: November 5, 2015

AUDIT  
NUMBER: 27401-0005-21

TO: Audrey Rowe  
Administrator  
Food and Nutrition Service

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

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Food and Nutrition Service's Financial Statements for  
Fiscal Years 2015 and 2014

This report represents the results of our audit of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2015 and 2014. The report contains an unmodified opinion on the financial statements, as well as the results of our assessment of the Food and Nutrition Service's internal controls over financial reporting and compliance with laws and regulations.

Based on information provided during the audit, we are making no further recommendations within this report. We appreciate the courtesies and cooperation extended to us by members of your staff during our audit.

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



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## **Independent Auditor's Report**

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Audrey Rowe  
Administrator  
Food and Nutrition Service

The Office of Inspector General (OIG) audited the comparative financial statements of the Food and Nutrition Service (FNS) for fiscal years 2015 and 2014. The objective of the audit was to determine whether: (1) the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles as of September 30, 2015; (2) FNS met internal control objectives over financial reporting; (3) transactions and events with direct and material effect on the financial statements were compliant with applicable laws and regulations; and (4) the information presented in the Management's Discussion and Analysis (MD&A) was materially consistent with the information in the comparative financial statements.

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

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

We have audited the accompanying comparative financial statements of FNS, which were comprised of the consolidated balance sheets as of September 30, 2015, and 2014, and the related statements of net cost; 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 audit was to express an opinion on the fair presentation of these financial statements.

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

FNS' 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 audit 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 reasonable 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, 2015, and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

### **Other Matters**

### **Required Supplementary Information**

*Accounting Principles Generally Accepted in the U.S.*, and issued by the Federal Accounting Standards Advisory Board (FASAB), require that the information in the MD&A, Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, which considers it 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 MD&A, RSSI, and RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

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

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

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

In planning and performing our audit of the comparative financial statements, we considered FNS’ internal control over financial reporting to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FNS’ internal control or on management’s assertion on the internal control included in the MD&A.

Accordingly, we do not express an opinion on the effectiveness of FNS’ internal control nor on management’s assertion on the internal control included in the MD&A.

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

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

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

OMB Bulletin 15-02 requires us to describe significant deficiencies and material weaknesses identified during our audit; and in the event that no material weaknesses were identified, to so report. For both our fiscal years 2015 and 2014 financial statement audits, we did not identify and report any material weaknesses or significant deficiencies not identified by FNS in its annual assurance statements.

We noted certain matters with no material effect on the financial statements involving internal control over financial reporting that we will report to FNS’ management in a separate letter.

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

As part of obtaining reasonable assurance about whether FNS' financial statements were free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, grant agreements, and Government-wide policy requirements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 No. 50024-0008-11, *USDA's Fiscal Year 2014 Compliance with Improper Payment Requirements*, issued May 15, 2015, OIG identified that FNS' high-risk programs were not compliant with the requirements of the Improper Payments Information Act of 2002, as amended by the Improper Payment Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). Specifically, the non-compliance for IPERA included that the Child and Adult Care Food Program did not publish a comprehensive improper payment estimate, which included the tiering decisions, but not the meal claims component; the National School Lunch Program (NSLP) and School Breakfast Program (SBP) did not report a gross improper payment rate of less than 10 percent; and SBP and the Special Supplemental Nutrition Program for Women, Infants, and Children did not meet annual reduction targets. For IPERIA, OIG noted that FNS did not have procedures for gathering and reporting recaptured Supplemental Nutrition Assistance Program and NSLP overpayment dollars in the Agency Financial Report; and also, supplemental measures for high-priority programs were not reported on [paymentaccuracy.gov](http://paymentaccuracy.gov) since 2012.

## **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 the Federal Managers Financial Integrity Act of 1982 (FMFIA); (2) providing a statement of assurance on the overall effectiveness on 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 to plan the audit, (2) testing whether FNS’ financial management systems substantially comply with the FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws.

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

We did not test compliance with all laws and regulations applicable to FNS. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements that we deemed applicable to FNS’ financial statements for the fiscal year ended September 30, 2015. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

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

The purpose of the “Report on Internal Control Over Financial Reporting” and the “Report on Compliance and Other Matters” sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FNS’ internal control or compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FNS’ internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Gil H. Harden  
Assistant Inspector General for Audit

Washington, D.C.  
November 5, 2015

## Abbreviations

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FASAB.....	Federal Accounting Standards Advisory Board
FFMIA .....	Federal Financial Management Improvement Act of 1996
FMFIA .....	Federal Managers Financial Integrity Act of 1982
FNS .....	Food and Nutrition Service
IPERA.....	Improper Payment Elimination and Recovery Act of 2010
IPERIA.....	Improper Payments Elimination and Recovery Improvement Act of 2012
MD&A .....	Management Discussion and Analysis
NSLP.....	National School Lunch Program
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
RSI .....	Required Supplementary Information
RSSI.....	Required Supplementary Stewardship Information
SBP .....	School Breakfast Program
U.S. ....	United States of America

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

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The status of the prior year noncompliance finding as of the year ended September 30, 2015, is summarized below:

<b>Reported Condition Fiscal Year 2014</b>	<b>Fiscal Year 2015 Status</b>
1. FNS Noncompliant With IPERA	Open— OIG will Complete a Follow-up Audit in May 2016

**Food and Nutrition Service  
Fiscal Years 2015 and 2014  
Financial Statements  
Prepared by  
Food and Nutrition Service**



## MANAGEMENT DISCUSSION AND ANALYSIS

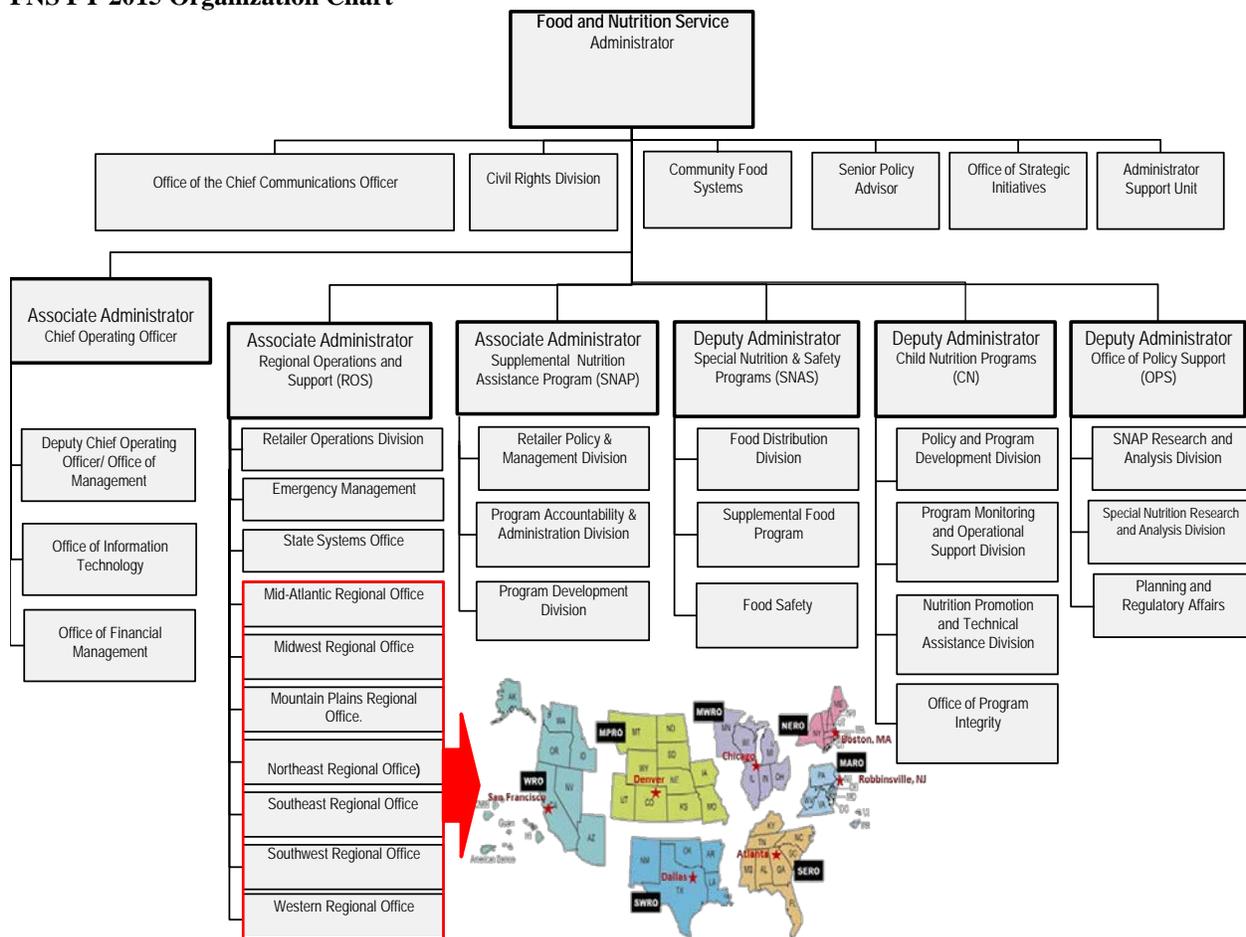
### SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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

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

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

**FNS FY 2015 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, the current programs form a nationwide safety net supporting low-income families and individuals in their efforts to escape food insecurity and hunger and achieve healthy, nutritious diets. Currently, the programs administered by FNS touch the lives of one in four Americans over the course of a year.

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

- *Supplemental Nutrition Assistance Program (SNAP):* Authorized by the Food and Nutrition Act of 2008, SNAP is the cornerstone of the Nation’s nutrition assistance safety net, touching the lives of 47 million Americans. It provides nutrition assistance to participants, the majority of whom are children, the elderly, or people with disabilities, helping them put food on the table using benefits that can be redeemed at retail stores across the country. State agencies are responsible for the administration of the program according to national eligibility and benefit standards set by Federal law and regulations. Benefits are 100 percent Federally-financed, while administrative costs are shared between the Federal and State Governments.

SNAP provides the basic nutrition assistance benefit for low-income people in the United States; other FNS programs supplement this program with benefits targeted to special populations, dietary needs and delivery settings. (Puerto Rico, American Samoa, and the Commonwealth of the Northern Mariana Islands receive grant funds with which to provide food and nutrition assistance in lieu of SNAP.)

- *Food Distribution Program on Indian Reservations (FDPIR):* FDPIR distributes USDA-purchased foods as an alternative to SNAP for Indian households on or near reservations. State agencies and Indian Tribal Organizations (ITOs) that operate the program are responsible for eligibility certification, nutrition education, local warehousing and transportation of food, distribution of food to recipient households, and program integrity. The Federal Government pays 100 percent of the cost of commodities distributed through the program, and cash payments for administrative expenses.
- *Child Nutrition Programs (CNP):* The Child Nutrition Programs - National School Lunch (NSLP), School Breakfast (SBP), Special Milk (SMP), Child and Adult Care Food (CACFP), and Summer Food Service (SFSP) - provide reimbursement to State and local governments for nutritious meals and snacks served to almost 34 million children in schools, child care institutions, and after school care programs. CACFP also supports meal service in adult day care centers. FNS provides cash and USDA-purchased food on a per-meal basis to offset the cost of food service at the local level and a significant portion of State and local administrative expenses, and provides training, technical assistance, and nutrition education. Payments are substantially higher for meals served free or at a reduced price to children from low-income families.
- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC):* WIC addresses the supplemental nutritional needs of at-risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to five years of age. It provides participants monthly supplemental

food packages targeted to their dietary needs, breastfeeding support to nursing mothers, nutrition education, and referrals to a range of health and social services – benefits that promote a healthy pregnancy for mothers and a healthy start for their children. Appropriated funds are provided to States for food packages and nutrition services and administration for the program; States operate the program pursuant to plans approved by FNS. WIC is augmented in some localities by the Farmers' Market Nutrition Program, funded within the Commodity Assistance Program account, and authorized by the WIC Farmers' Market Nutrition Act of 1992, which provides additional fresh produce to WIC participants.

- *The Emergency Food Assistance Program (TEFAP):* This program supports the emergency food organization network by distributing USDA-purchased food for use by emergency feeding organizations including soup kitchens, food recovery organizations, and food banks. TEFAP also provides administrative funds to defray costs associated with processing, repackaging, storage, and distribution of Federal and privately donated food. The allocation of both Federal food and administrative grants to States is based on a formula that considers the States' unemployment levels and the number of persons with income below the poverty level.
- *The Commodity Supplemental Food Program (CSFP):* This program provides foods purchased by USDA to low-income senior citizens and in some cases low-income infants and children up to age six, low-income pregnant and postpartum women. In recent years, there has been a shift towards low-income elderly in this program; in FY 2013, elderly participation comprised almost 97 percent of total participation. The Agriculture Act of 2014 discontinued the admission of new pregnant and postpartum women and children into the program. Foods are distributed through State agencies to supplement food acquired by recipients from other sources. The CSFP is operated as a Federal/State partnership under agreements between FNS and State health care, agricultural or education agencies. In FY 2013, 39 States, the District of Columbia, and two Indian reservations operate CSFP.
- *Senior Farmers' Market Nutrition Program (SFMNP):* This program provides coupons to low-income seniors that can be exchanged for fresh, nutritious, unprepared, locally grown fruits, vegetables and herbs at farmers' market, roadside stands, and community-supported agriculture programs.
- *Pacific Island and Disaster Assistance:* Pacific Island Assistance includes assistance to the nuclear-affected zones of the Republic of the Marshall Islands in the form of USDA purchased food, or cash-in-lieu of food, and administrative funds and is authorized under the Compact of Free Association Amendments Act of 2003, (P.L. 108-188). Disaster relief funds are provided for use in non-Presidentially declared disasters.

Federal nutrition assistance programs operate as partnerships between FNS and the State and local organizations that interact directly with program participants. States voluntarily enter into agreements with the Federal Government to operate programs according to Federal standards in exchange for program funds that cover all benefit costs, and a significant portion, if not all, of administrative expenses.

Under these agreements, FNS is responsible for implementing statutory requirements that set national program standards for eligibility and benefits, providing Federal funding to State and local partners, and monitoring and evaluating to make sure that program structures and policies are properly implemented and effective in meeting program missions. State and local organizations are responsible for delivering benefits efficiently, effectively, and in a manner consistent with national requirements.

**FNS Staff:**

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

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

Program operations are managed through FNS' seven regional offices and 18 field offices/satellite locations as well as four SNAP compliance offices. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNS programs and conduct on-site management reviews of State operations. The Retailer Policy and Management Division monitor the 257,932 stores and other outlets as of June 30, 2015 authorized to redeem SNAP benefits.

As of September 30, 2015, there were approximately 1,446 full-time permanent employees in the agency. There were 564 employees in the Washington headquarters office and 882 employees in the field. The chart below displays staff year utilization.

Project	2014 Actual	2015 Estimate	2016 Requested
Supplemental Nutrition Assistance Program	238	285	373
Child Nutrition Programs	249	271	288
Commodity Assistance	2	2	3
Supplemental Nutrition Program -WIC	32	36	40
Nutrition Programs Administration	777	833	962
Center for Nutrition Policy and Promotion	27	31	38
Total Available	1,325	1,458	1,704

## SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

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

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

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

Nutrition is the link between agriculture and the Nation’s health, and the Department made strong progress in advancing our nutrition and health goal in 2015. USDA’s leadership of the Federal nutrition assistance programs made a healthier diet available for millions of children and low-income families. And the cutting-edge nutrition promotion efforts of the Center for Nutrition Policy and Promotion harnessed interactive technologies to motivate all Americans to make positive dietary behavioral changes consistent with the *Dietary Guidelines for Americans* and the Healthier US initiative. Key 2015 accomplishments include:

**Promoting access to the Supplemental Nutrition Assistance Program (SNAP).** SNAP is the Nation’s largest nutrition assistance program, serving 45.5 million people in June 2015. The latest information on the rate of participation among eligible people showed that in 2013, 85 percent of all who were eligible participated.

**Continuing to ensure that SNAP benefits are accurately issued.** The SNAP payment accuracy rate for FY 2014, announced in June 2014, was 96.34 percent, reflecting effective partnerships with State administering agencies and extensive use of policy options to streamline program administration while improving access for working families.

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

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

In FY 2015, 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 2015, USDA pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to support and encourage good nutrition choices.

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

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

### **OBJECTIVE 4.1: INCREASE ACCESS TO NUTRITIOUS FOODS**

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#### **4.1.1 Annual percentage of eligible people participating in the SNAP**

##### **Overview**

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

##### **Analysis of Results**

USDA and its State partners sustained effective access to SNAP.

USDA's efforts included:

- Continued efforts with States to develop outreach strategies. The Agriculture Act of 2014, Section 4018 makes several changes that affect outreach. Some of the changes were implemented immediately by States, whereas others require rulemaking before implementation. In particular, States are to implement immediately provisions which state that Federal funds are banned from being used for television, radio, or billboard advertisements that are designed to promote SNAP benefits and enrollment.
- Support for innovative State practices to promote access by simplifying the application process. Forty-three States use an Internet-based application filing system. Thirty-four States use call centers, either regionally or State-wide.
- Provided waivers, guidance, and technical assistance to help States manage workloads.

USDA estimates the number of people eligible for the program along with the rate at which eligible people are participating. The latest study shows that in 2013, of nearly 51 million individuals eligible for SNAP benefits in an average month in FY 2013, approximately 43 million participated (85 percent), and more than 7 million did not. Nationally, the participation rate among individuals increased by 2 percentage points between FY 2012 and FY 2013. From FY 2012 to FY 2013, the number of SNAP participants increased by about 3 percent and the number of eligible individuals remained about the same.

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
4.1.1 Annual percentage of eligible people participating in the SNAP	72.0%	78.0%	83.0%	85.0%	85.0%	85.0%	Not Available	Deferred
FY 2015 data will be available in 2017 <b>Rationale for Met Range:</b> The 90% confidence interval around the FY 2013 participation rate of 85% is ± 1.0 percent.								
<b>Data Assessment of Performance Measure 4.1.1</b>								
The SNAP individual participation rate represents the ratio of SNAP participants to SNAP-eligible individuals. Participant counts are based on SNAP Program Operations data and SNAP Quality Control (QC) data. Eligible individual counts are based on the Census Bureau’s Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) data. Both counts are derived from samples of the relevant population.								
<input type="checkbox"/> <b>Completeness of Data</b> —The most current data available for this measure are for FY 2013. The SNAP individual participation rate of 85 percent met the performance goal/measure target.								
<input type="checkbox"/> <b>Reliability of Data</b> —QC data are valid and accepted by State SNAP agencies as a basis for performance measures. The CPS ASEC is collected by the Census Bureau and is likewise a valid source of income and poverty data.								
<input type="checkbox"/> <b>Quality of Data</b> — As described above, the data used to develop this measure are used widely within and outside USDA. The SNAP participation rate is frequently cited as an important, high-quality indicator of program performance.								

## Challenges for the Future

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

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

#### Overview

The National School Lunch Program (NSLP) is a federally assisted meal program operating in almost 100,000 public and non-profit private schools and residential child care institutions. Schools and districts that choose to participate in the NSLP receive cash subsidies and USDA foods from the U.S. Department of Agriculture (USDA) for each meal they serve that meet the Federal requirements. Any child at a participating school may purchase meals through the NSLP and children from families with income at or below 130 percent of the poverty level are eligible for free meals and families with incomes between 130 percent and 185% are eligible for reduced price meals.

## Analysis of Results

During the school day over 51 million children attend schools operating the National School Lunch Program with over 30 million children participating each day. Of the 30 million children participating, over 21 million are receiving free or reduced price lunches each day. Through the implementation of the Healthy Hunger-Free Kids Act (HHFKA), participation among the nation's neediest children has substantially increased due to new provisions designed to improve access and eliminate barriers to participating in the school meal programs. Participation among free students has increased by nearly 25% since 2008.

- The HHFKA implemented benchmark rates for States to meet in directly certifying children in families receiving SNAP benefits--80 percent in School Year (SY) 2011-2012, 90 percent in SY 2012-2013, and 95 percent in SY 2013-2014 and future years. As of SY 2013-2014, 93 percent of school districts used direct certification, and 87 percent of SNAP children were directly certified for free meals. This is a notable increase from 2009-10 (prior to implementation of HHFKA), with only 83 percent of school districts using direct certification and 72 percent of SNAP children directly certified for free meals.
- HHFKA authorized demonstration projects for selected States and Local Educational Agencies (LEAs) to evaluate the effectiveness of conducting direct certification with the Medicaid Program. During the demonstrations, eligible children will be directly certified for free school meals based on income and participation information received from Medicaid agencies through automated data matching processes, with no further action required of the household. The demonstrations were phased in over a three year period in a limited number of LEAs and States across the country. Section 749(h) of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2010 (P.L. 111-80) provided \$22 million for FNS to offer in grants to States for the purpose of improving direct certification rates. Over \$18.9 million in grant funds has been awarded since FY 2011. FNS will continue to provide opportunities for States to receive grant funds until they are fully expended. A total of 44 direct certification improvement projects have been funded, including both planning and implementation projects. Approximately half of the projects have been completed, with the others in progress. Currently, the demonstrations operate in selected LEAs that collectively serve ten percent of children in low-income families.
- In 2011, the Agency began implementation of the Community Eligibility Provision (CEP) which provides an alternative to household applications for free and reduced price meals in high poverty LEAs and schools. In order to be eligible for the CEP, LEAs and schools must meet a minimum level of identified students for free meals, agree to serve free lunches and breakfasts to all students, and agree to cover with non-Federal funds any costs of providing free meals to all students above amounts provided in Federal assistance. CEP has already been implemented in Kentucky, Illinois and Michigan beginning in SY 2011-2012; New York, Ohio, West Virginia, and the District of Columbia in SY 2012-2013; and Florida, Georgia, Maryland, and Massachusetts in SY 2013-2014. As of July 1, 2014, the provision became available nationwide to eligible LEAs. In the first year of nationwide CEP implementation, over 14,000 schools in high-poverty areas offered nutritious meals at no cost to more than 6.8 million students. Beginning in SY 2015-16, schools or districts in all 50 states and the District of Columbia will participate in CEP. Two-thirds of the 75 largest, most eligible school districts elected CEP for some or all schools in their district. Several large school districts elected CEP, including Chicago,

Dallas, Philadelphia, Shelby (Tennessee), and Houston, offering more than 100,000 students in each of these districts nutritious meals at no cost.

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

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
4.1.2 Annual percentage of eligible people participating in the NSLP	57.9%	58.0%	57.6%	55.7%	54.8%	57.2%	55.4%	Met
	<p><b>Rationale for Met Range:</b> Thresholds for 4.1.2 reflect the margin of error in forecasts of future participation, estimated at 5 percent for school meals programs. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2015, this percentage range allows for actual performance that meets the targets in the range of 54.3-60.1 percent.</p>							
	<p><b>Data Assessment of Performance Measure 4.1.2</b></p> <p>The indicator is a ratio of school meals participation data, drawn from USDA administrative records, as a proportion of total public and private school enrollment, projected by the Department of Education’s National Center for Education Statistics (NCES), and reported in NCES’s <i>Projections of Education Statistics to 2022</i> report.</p> <p>NSLP administrative data is drawn from State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.</p> <p>NCES projections of public and private school enrollment are constructed using the Common Core of Data (CCD), “State Non fiscal Survey of Public Elementary/Secondary Education,” 1997–98 through 2011–12; Private School Universe Survey (PSS), selected years 1997–98 through 2011–12; and National Elementary and Secondary Enrollment Model, 1972–2011. Detailed explanation of these sources is available on the web at <a href="http://files.eric.ed.gov/fulltext/ED544761.pdf">http://files.eric.ed.gov/fulltext/ED544761.pdf</a>.</p> <p><input type="checkbox"/> <b>Completeness of Data</b>— Figures for NSLP participation are based on 9-month (school year) averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through May 30, 2015, as available August 2015. NCES projections are based on nationally-representative surveys.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>— Participation data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget. Survey data supporting NCES projections are conducted using high-quality, well-documented methodologies.</p> <p><input type="checkbox"/> <b>Quality of Data</b>— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance. Survey data supporting NCES projections are conducted using high-quality, well-documented methodologies.</p>							

## Challenges for the Future

Major changes resulting from the Healthy Hunger-Free Kids Act (HHFKA) may continue to challenge program participation. The new school meal patterns for lunch went into effect on July 1, 2012 and the standards for all foods served in schools went into effect on July 1, 2014. Anytime major changes are implemented disruptions in the system can be expected as schools and students adapt to the healthier standards. FNS has and will continue to listen to stakeholders and provide guidance and technical assistance resources to support schools in creating a healthy environment for children.

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

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

#### Overview

The summer meal programs are part of the 15 USDA nutrition assistance programs that provide healthy meals to those in need, while providing nutrition education and expanding employment and training opportunities. When school lets out, millions of children no longer have access to their healthy free or reduced school breakfast or lunch. USDA's summer meal programs help fill the gap for children who depend on free and reduced price meals when they are in school. The Summer Food Service Program and the National School Lunch Program Seamless Summer Option provide meals to children in low-income areas during the summer months.

#### Analysis of Results

To reach children during the summer, FNS has made extensive efforts to increase access to summer meals for children through legislative, policy, research, targeting and partnership efforts. Through these efforts 187 million meals were served at over 50,000 sites in 2014 which is 19 million meals over the previous summer. This exceeded the goal set forth at the beginning of the summer to serve 10 million more meals than the previous year. This summer, to mark the 40<sup>th</sup> anniversary of the program, USDA has set a goal of serving 200 million meals.

- In 2013, FNS provided targeted technical assistance to 5 selected States to coordinate with State leaders and partners to leverage resources and optimize outreach efforts. Specific issues that were targeted included delivery of meals in rural areas, transportation to meal sites, informing low-income families about the availability of summer meals, and increasing the number of sites in underserved areas. In the 5 target States, the number of meals served increased by 13% and the number of sites and sponsors increased by 10% and 12%.

- FNS expanded this campaign for 2014 and targeted 22 States for increased attention and technical assistance. There was an additional focus on States with lower than average growth rates to provide targeted technical assistance and guidance.
- FNS provided enhanced technical assistance with 13 identified Target States in 2015. Additional efforts in 2015 included expanding technical assistance state projects, advancing Geographic Information System (GIS) mapping technologies for strategic targeting for outreach and promotion, continuing year round summer partner engagement and further cultivating the sustainability of the program. Successful partnerships built in 2014 and expanded in 2015 included Rural Development, Housing and Urban Development (HUD), libraries, and Feed the Children.

Over the past few years, FNS has looked for ways to feed more eligible children through its summer programs. FNS created the Summer Electronic Benefits Transfer for Children (SEBTC) demonstration to study the use of SNAP and WIC electronic benefits transfer (EBT) technology to provide food assistance to children during the summer by providing their families with more resources to use at food stores. The Summer EBT program, where eligible households receive a supplement to their SNAP or WIC EBT card, is a highly successful strategy for reaching substantial proportions of eligible children and significantly reducing food insecurity. The demonstration reached about 12,500 children in 2011, 68,000 in 2012, and 100,000 in 2013.

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

- SEBTC can reach a significant proportion of children eligible for free/ reduced price school meals. SEBTC can reach between 30-75% of free/ reduced price lunch children in the summer. 90% of SEBTC households used their benefits at least once. SEBTC households redeemed an average of \$250 over the summer, or about 78% of their benefits.
- SEBTC reduced the most severe form of childhood hunger by a third. It also had impressive results for all groups, including households and adults. Both the SNAP and WIC models performed equally well.
- SEBTC children ate more healthfully. They ate about 13% more fruits and vegetables, 30% more whole grains, and 10% more dairy.

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

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
4.1.3 Annual percentage of children participating in the free/reduced price school lunch program that participate in summer feeding programs.	16.3%	15.5%	15.5%	16.0%	17.5%	18.5%	Not Available	Deferred
<p><b>Rationale for Met Range:</b> Thresholds for 4.1.3 reflect the margin of error in forecasts of future participation, estimated at 5 percent for child nutrition. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2015, this percentage range allows for actual performance that meets the targets in the range of 15.5-17.1 percent.</p>								
<p><b>Data Assessment of Performance Measure 4.1.3</b></p> <p>The measure is calculated through the following equation:</p> $\frac{\text{SFSP Average Daily Participation in July} + \text{NSLP Free\&RP Participation in July}}{\text{NSLP Free\&RP Participation in Previous March}} = \text{Participation Rate}$ <p>The school and summer meals participation data used in the calculation are drawn from USDA administrative records. The data used for these State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.</p> <p><input type="checkbox"/> <b>Completeness of Data</b>— Figures for NSLP free/reduced price participation are based participation in the month of March before the summer (i.e. summer feeding participation in July 2014 is compared to NSLP free/reduced price participation in March 2014). Participation data are collected and validated monthly before being declared annual data. Figures for summer feeding participation are drawn from July data; initial reports for 2015 will be available in December 2015.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>— Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.</p> <p><input type="checkbox"/> <b>Quality of Data</b>— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.</p>								

## Challenges for the Future

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

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

In order to continue the Summer EBT project in any meaningful way in 2016 and beyond, new funding will be necessary. FNS has requested \$66.9 million in additional funding in the 2016 budget. Once a budget is passed, if additional funding is provided, FNS will work with States to implement the project proportionate to the available funding.

## 4.1.4 Prevalence of food insecurity in households with children

### Overview

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

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

### Analysis of Results

The most recent annual report, Household Food Security in the United States in 2013<sup>3</sup>, notes that 14.3 percent or 17.5 million households were food insecure at some time during 2013.

In calendar year 2013, 19.5 percent of households with children—over 7.5 million households were food insecure. This level of prevalence has remained relatively unchanged since 2008. While in many of these households, children are protected from food insecurity, because adults often reduce their own food variety or intake to provide for children, in over 3.8 million households, one or more children were food insecure.

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
4.1.4 Prevalence of food insecurity in households with children.	20.2%	20.6%	20.0%	19.5%	19.4%	19.1%	Not Available	Deferred
<b>Rationale for Met Range:</b> The 90% confidence interval around the measure is $\pm 0.65$ percent.								
<b>Data Assessment of Performance Measure 4.1.4</b>								
The data come from the annual survey conducted by the U.S. Census Bureau as a supplement to the nationally representative Current Population Survey (CPS). The data are collected annually in December.								
<input type="checkbox"/> <b>Completeness of Data</b> — The CPS includes about 54,000 households and is representative at the State and national level of the civilian non-institutionalized U.S. population. About 45,000 households complete the food security module each year, and data are weighted by the U.S. Census Bureau to provide the national prevalence.								
<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								

<sup>3</sup> Coleman-Jensen, Alisha, Christeen Gregory, and Anita Singh. *Household Food Security in the United States in 2013*, ERR-173, U.S. Department of Agriculture, Economic Research Service, September 2014.

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
<p>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

The prevalence of food insecurity in households with children has remained relatively constant since rising to 21 percent in 2008 from 15.8 percent in 2007. There is a need for developing and implementing evidence-based strategies to reduce the prevalence of food insecurity in households with children. Section 141 of the Healthy Hunger Free Kids Act (HHFKA) of 2010 authorized the development of a research program to study the causes and consequences of childhood hunger and food insecurity. The HHFKA also provided funding to conduct demonstration projects designed to reduce childhood hunger and food insecurity.

The alignment of the timeline for the annual performance measure with the availability of the annual food security statistics is also a challenge. The actual measure for 2015 will be released in September 2016.

### 4.1.5 SNAP payment accuracy rate

#### Overview

Ensuring that SNAP and other Federal nutrition assistance programs are administered with integrity is central to USDA’s mission. Waste and abuse draw scarce resources away from those who need them the most. The Department seeks to increase food security and reduce hunger in a manner that inspires public confidence that taxpayer dollars are used wisely.

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

#### Analysis of Results

SNAP payment accuracy was 96.34 percent in 2014, the latest year for which data are available. The number reflects the excellent performance by State agencies in administering the program. This combined rate reflects 2.96 percent in overpayments and 0.70 percent in underpayments for a total of 3.66 percent in erroneous payments.

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

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
4.1.5 Improve SNAP Payment Accuracy Rate Baseline: 2001 = 91.34%	96.19%	96.2%	96.58%	96.80%	96.34%	96.30%	Not Available	Deferred
FY 2015 data will be available in 2016. <b>Rationale for Met Range:</b> FNS does not have the information to calculate confidence intervals for Payment Accuracy. However, FNS does have information on Payment Error. In FY 2014 we had a Payment Accuracy of 96.34 percent and a payment error rate of 3.66 percent (calculated from State Quality Control samples). From the sample data we can calculate a 95.0 percent confidence interval of 3.66 plus or minus 0.25 or a range of 3.41-3.91 percent. For FY 2014, based on this confidence level of our payment error rate from the sample data the target is considered met.								
<b>Data Assessment of Performance Measure 4.1.5</b> The Supplemental Nutrition Assistance Program (SNAP) uses annual payment accuracy data from the Quality Control (QC) process to support SNAP management. The data are based upon statistically valid methodology. The QC process uses a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate is composed of over-issuances and under-issuances of SNAP benefits. A regression formula is applied to the results of the reviews to calculate official error rates. State agencies review selected cases monthly to determine the accuracy of the eligibility and benefit-level determination. The process includes a client interview and verification of all elements of eligibility and the basis of issuance. Federal reviewers validate a sample of the State's reviews by conducting a re-review. The process has proven to be a sound method of calculating reliable data.								
<input type="checkbox"/> <b>Completeness of Data</b> —The most current data available for this measure are for FY 2014. The payment accuracy rate of 96.34 percent met the performance goal/measure target. FY 2015 performance will be deferred until next year's report. <input type="checkbox"/> <b>Reliability of Data</b> —QC data are valid and accepted by State SNAP agencies as a basis for performance-incentive payments and penalties. The U.S. Government Accountability Office and the Office of Inspector General also use the data regularly. <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 frequently cited as an important, high-quality indicator of program performance.								

## Challenges for the Future

The most critical challenge impacting future success is continuing resource limitations for State agencies. State budgets have been and will continue to be extremely tight. This factor could hurt State performance in payment accuracy. USDA will continue to provide technical assistance and support to maintain payment accuracy in the context of this difficult program environment.

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

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

## Overview

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

In fiscal year (FY) 2012, FNS provided \$4 million to SNAP State agencies to provide wireless Electronic Benefits Transfer (EBT) equipment to farmers’ markets not currently participating in SNAP and direct-marketing farmers participating at such markets. States were able to retain and use these funds through FY 2013 and FY 2014, and will be allowed to retain and use them through FY 2016.

In FY 2013, FNS received an additional \$4 million to provide EBT equipment for farmers’ markets not currently participating in SNAP. These funds were awarded to a contractor, who was tasked with identifying and recruiting eligible farmers’ markets and direct-marketing farmers to become SNAP-authorized, assisting them through that process, and providing them with such equipment. That contract has been extended through the end of FY 2015.

In FY 2014, FNS received an additional \$4 million to “support the participation of farmers’ markets in SNAP by providing equipment and support grants to new markets and those currently participating in the program.” With funds provided in previous years still available, FNS expects to have sufficient funds to satisfy demand for SNAP EBT equipment by newly-authorized markets through FY 2015.

FNS will use FY 2015 funds to provide grants to entities working with the farmers’ market community to provide markets with different types of assistance. These grants would address the most commonly requested types of assistance, which are: (1) personnel costs to operate farmers’ markets; (2) materials to inform SNAP participants of their ability to use their benefits at farmers’ markets; (3) miscellaneous equipment, such as scrip, and technology infrastructure (wifi hotspots, phone lines, electrical lines, etc.); and (4) replacement equipment for existing markets and farmers that are in situations of hardship.

## Analysis of Results

In July of 2015, FNS exceeded 6,400 total SNAP-authorized farmers’ markets and direct-marketing farmers. This represents an increase of 750 percent over the 753 that were SNAP-authorized in 2008. Meanwhile, SNAP redemptions increased 337% from FY 2008 to FY2014, from \$4.3 to \$18.8 million.

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
4.2.1 SNAP benefits redeemed at farmers markets and direct marketing farmers annually. (Millions)	\$7.5	\$11.7	\$16.6	\$17.4	\$18.8	\$19.7	Not Available	Deferred
FY 2015 data will be available in 2016.								
<b>Rationale for Met Range:</b> The target amount was selected based on previous annual changes in the amount of SNAP benefits redeemed at farmers’ markets, and inferences regarding the likely increase for FY 2015 due to our continued efforts to increase such redemptions.								

Annual Performance Goals, Indicators and Trends	2010	2011	2012	2013	2014	Fiscal Year 2015		
						Target	Actual	Result
<b>Data Assessment of Performance Measure 4.2.1</b>								
<p>The data consist of redemptions reported by benefit providers and fed into our retailer database. FNS performs quarterly searches of the database to ensure that farmers’ markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is accurate, reliable and complete.</p> <p><input type="checkbox"/> <b>Completeness of Data</b>—This is the same data Retailer Policy and Management Division (RPMD) uses when administering this initiative. FNS performs quarterly searches of the database to ensure that farmers’ markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is complete and accurate.</p> <p><input type="checkbox"/> <b>Reliability of Data</b>— This is the same data RPMD uses when administering this initiative. FNS performs quarterly searches of the database to ensure that farmers’ markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is accurate and reliable.</p> <p><input type="checkbox"/> <b>Quality of Data</b>— This is the same data RPMD uses when administering this initiative. FNS performs quarterly searches of the database to ensure that farmers’ markets and direct-marketing farmers are correctly coded in the system and to confirm that the data reported is high quality.</p>								

### Challenges for the Future

FNS continues to face several challenges to increasing the availability of SNAP at farmers’ markets. For example, FNS must identify farmers’ markets and direct-marketing farmers who are eligible to participate in SNAP; successfully encourage markets and farmers to become SNAP-authorized; and provide technical assistance (to complete the application process, securing EBT equipment, operating that equipment, etc.). FNS may also encounter additional, unforeseen challenges once it determines the disposition of the \$4 million FY 2016 funding.

## 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 2015 financial statements audit report.

### Federal Managers’ Financial Integrity Act (FMFIA) Assurance

Management is responsible for developing and maintaining internal controls to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations and safeguarding of assets. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas as well as accounting and financial management.

FNS has conducted its assessment of internal control and financial systems pursuant to Sections 2 and 4 of FMFIA, for the period ending September 30, 2015. FNS tested key internal controls over the Integrated Program Accounting System (IPAS) for the period July 2014 through March 2015. Based on the results of this evaluation, FNS can only provide assertions over internal controls and financial management systems through March 2015. (See Section 3- Assurance of Internal Control over Financial Reporting,

for further explanation of FNS' Assurance Statement). For FY 2014, FNS had no existing material weaknesses or significant deficiencies on which to report. No new material weaknesses or significant deficiencies were identified for FY 2015.

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

FNS has evaluated its financial management systems under FFMIA for the period ended September 30, 2015. FNS tested key internal controls over IPAS for the period July 2014 through March 2015. Based on the results of this evaluation, FNS can only provide assertions over internal controls and financial management systems through March 2015. (See Section 3- Assurance of Internal Control over Financial Reporting, for further explanation of FNS' Assurance Statement). Based on the result of our evaluation, the agency is in substantial compliance with the FFMIA for the following sections:

1. Federal Financial Systems Requirements,
2. Applicable Federal Accounting Standards,
3. Standard General Ledger at the Transaction Level, and
4. Information Security, Policies, Procedures, and Practices

## **Assurance for Internal Control over Financial Reporting**

FNS conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2015, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget (OMB) Circular A-123, Appendix A.

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

### **Processes**

- a. Authorization/Modification - Reimbursable Agreements
- b. Awards/Modifications - Grants/Entitlements/Cooperative Agreements
- c. Closeout - Grants Management/Entitlements/Cooperative Agreements
- d. Collections
- e. Conference Planning and Reporting
- f. Draws and Expenditures
- g. Fund Balance with Treasury Reconciliation
- h. General Ledger Maintenance and Interfaces
- i. Monitoring – Charge Card
- j. Period End Reporting
- k. Receivable and Payment Management – Reimbursable Agreements
- l. Significant Management Estimates
- m. User Access

Management recognizes its responsibility for monitoring and correcting all control deficiencies. FNS tested key internal controls over IPAS for the period July 2014 through March 2015. On May 13, 2015, FNS implemented a new accounting system – the Financial Management Modernization (FMMI). FNS was not required to test OMB Circular A-123 controls over FMMI for fiscal year 2015, but plans to do so for the fiscal year 2016 testing cycle. Thus, FNS can only provide assertions over internal controls and financial management systems through March 2015.

FNS has identified control deficiencies in the Fund Balance with Treasury Reconciliation process and the General Computer Controls (GCC). Corrective action plans will be submitted in the OCFO's A-123 Document Tracking System (ADTS) for the identified control deficiencies.

### **Disaster Relief Appropriations Act**

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 Hurricane Sandy and other disaster-related activities for the Temporary Emergency Food Assistance Program (TEFAP);
2. Management has not identified additional significant risk associated with management or payment of Disaster Relief Act funds.

### **Improve Data Quality Reporting for USAspending.gov**

1. The prime Federal award financial data reported on USAspending.gov is correct at the percentage of accuracy;
2. The agency has implemented adequate internal controls over the underlying spending; and
3. The agency has implemented processes to ensure data completeness and accuracy on USA.Spending.gov by using control totals with financial statement data and comparing sampling of financial data to actual award documents.

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*

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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.)	Final Action Status
27099-49-TE	9-4-07	Food and Nutrition Service Disaster Food Stamp Program for Hurricanes Katrina and Rita	10-31-15	Proposed rule pending publication. The rule was re-designated to non-significant and is now #24 on the SNAP rule priority list.
27601-16-AT	3-31-08	Food Stamp Employment and Training Program	10-31-15	The E&T rule is an interim final rule and is still being discussed with OMB. The new target publication date is October 2015.
27601-12-SF	11-18-11	Review of Management Controls for the Child and Adult Care Food Program	7-31-16	Recs. 1 and 2: As of June 2015 the Child Nutrition Integrity Rule is now on hold and management is exploring the option of issuing other guidance to meet the requirements of these recommendations. Recs. 3 and 4: OCFO has been provided with copies of the notification letters from OIG investigations instructing FNS to pursue administrative action with the two sponsors in question. FNS HQ is currently working with appropriate FNS regional offices to obtain

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				documentation demonstrating disposition of the disallowed costs for the two sponsors.
27601-0001-23	1-3-13	National School Lunch Program-Food Service Management Company Contracts	6-30-16	Recs. 1, 2, and 11: The working group formed in January 2014 focused on three objectives, and upon assessment of the objectives developed a plan for more effectively addressing procurement issues, to include possible changes to the review process. Plan is currently under review by Child Nutrition management. Recs. 7, 8, and 12: Additional documentation received from OIG is under review and discussions are taking place between FNS HQ and FNS regional offices to determine the next course of action. Rec. 13: Determination needs to first be made on recs. 7, 8, and 12 before FNS can proceed with requesting that the State review remaining 182 School Food Authorities (SFAs). Rec. 15: Subset of original workgroup developed procurement tool for use by State Agencies (SAs) in their local reviews of SFAs. This tool will be tested in the Fall of 2015 and then FNS will work with contractor to make user friendly improvements.
27002-0011-13	9-28-12	Analysis of FNS' Supplemental Nutrition Assistance Program (SNAP) Fraud Prevention and Detection Efforts	12-31-15	The National Accuracy Clearinghouse (NAC) pilot project completed its evaluation period on May 31, 2015. FNS received the draft report in August 2015 and is circulating/reviewing the report for internal comments. The final report will be issued within 30 days of issuance of the draft. After allowing up to ninety days for internal clearance of the final report, FNS expects to deliver the report to Congress before the end of the calendar year and on target by the deadline established in Section 4032 of the Agricultural Act of 2014.
50601-0014-AT	8-16-10	Effectiveness and Enforcement of Suspension and Debarment Regulations in the U.S. Department of Agriculture	11-30-15	Recs. 11 and 12: FNS determined that OIG reports did not contain enough information to allow FNS to identify store owners against whom suspension and debarment actions should be initiated. A meeting was held with OIG in March 2015 and

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				request was made for OIG to add additional information to the quarterly indictment and conviction report in order for FNS to complete the requirements of the open recommendations. The revised report was received from OIG in late May and after additional discussion the final policy to complete the requirements of these two remaining recommendations is in draft form and under review by the Office of General Counsel (OGC).
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The Inspector General Act Amendments of 1988 requires an annual report on the status of audits. In compliance with this Act the below table reflects FNS audits that were closed during FY 2015.

	Auditor	Agency	Audit Number	Audit Name	Status
1	OIG	FNS	27401-0004-21	FNS Financial Statements for FYs 2014-2013	CLOSED – November 2014
2	OIG	FNS	27703-01-22	FNS Recovery Act Impacts on the SNAP – Phase II	CLOSED – April 2015
3	GAO	USDA/FNS Lead	GAO-15-203	Prenatal Drug Use and Newborn Health: Federal Efforts Need Better Planning and Coordination	CLOSED – February 2015
4	GAO	USDA/FNS Lead	GAO-15-190	Older Adults: Federal Strategy Needed to Help Ensure Efficient and Effective Delivery of Home and Community Based Services and Support	CLOSED – May 2015
5	GAO	USDA/FNS Lead	GAO-15-516	Federal Programs for Low-Income Families and Individuals	CLOSED – August 2015

## **Assurance for Legal Compliance**

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

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

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

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

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

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

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

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

- **The Supplemental Nutrition Assistance Program (SNAP)** – formerly known as the Food Stamp Program), sampling and erroneous payment measurement processes, [the accepted hallmark of the IPIA environment] has been a legislative mandate for more than 30 years. This process compares the certification criteria upon which a household's benefit issuance is determined with the household's circumstances at the time of issuance. All case results are accumulated by state. The State results are validated and the validated results are combined into a national cumulative (overpayments plus underpayments) error rate. No other payment lifecycle steps are included. Improper payment measurement activities predate the passage of the IPIA. SNAP processes were compliant with the intent of the law when it was passed. State agencies are required to establish and collect SNAP claims in accordance with the requirements found in the Program regulations. Debts that become delinquent are subsequently submitted by the State agencies for collection through the Treasury Offset Program. In past years, FNS has used target measures to gauge the success of recipient claims activity. Claims collection by States is ongoing, however, success in this area can be challenging, since collections are to a large extent tied to the ability of each individual State to pursue and collect erroneous payments.
- In the **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**, work is underway to report improper payment error rates on two segments of the program: certification error and vendor error.

- FNS first reported a *vendor* improper payment error rate in FY 2006. Over and under payment rates for FY 2005 were developed through a nationally representative study of a probability sample of WIC vendors. Data from this study along with information on vendor investigations by State WIC Agencies is used to prepare a statistically estimated improper payment amount for each subsequent year. The WIC Vendor Management Study was replicated in FY 2012 with results available in late 2013. For the FY 2013 error rate, FNS estimated the rates of overpayment and underpayment by applying the average annual percent change in the rates from 2005 and 2012 to the estimated 2012 rates.
- Certification rate: The National Survey of WIC Participants-II (NSWP-II\_) included a measurement of the amount of erroneous payments associated with certification error in FY 2009. WIC participants were interviewed and the household income at the time of benefit issuance was verified through the review of household income documents. The NSWP-II that contains a final estimate of erroneous payments due to certification error in FY 2009 was published in April 2012.
- Because erroneous payment estimates need to be produced annually, and given that surveys such as the NSWP-II are extremely expensive to mount, FNS required a methodology to “age” the estimates produced in that study. The generation of improper payments associated with erroneous WIC eligibility in the years beyond FY 2009, is based on a three-stage model. In the first stage, equations were developed from the NSWP-II survey data to predict the probability that a WIC participant was certified erroneously (i.e., deemed eligible when the participant’s actual income was not within eligibility guidelines) and to predict the average annual cost of an erroneous determination for those in error. The second stage of the process focuses on predicting the size and changes in the composition of the WIC population. The files used for gaining the WIC population included WIC Participant Characteristics data a census of all WIC participants enrolled within a particular target month (April of every even year) and WIC administrative data obtained from the National Data Bank that can provide information on overall trends within WIC certification category and region. The third stage of the process is to apply the predictions generated from the first stage to the second stage population. This approach results in population-adjusted estimates of the incidence of eligibility errors and dollar impact.
- The **Child and Adult Care Food Program (CACFP)** has three distinct parts: Child Care Centers, Adult Day Care facilities and Family Day Care Homes (FDCHs). Overall program funding is provided to State agencies which in turn, provide funds to sponsoring organizations to pay for claims for reimbursable meals served at provider sites. Sites can be as large as an institution or as small as a household. Each part of CACFP has its own reimbursement structure.

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

Recognizing that the agency was limited in resources needed to develop a measurement approach for program-wide erroneous payments in CACFP, FNS submitted a request for resources in the fiscal year (FY) 2006 budget process. The goal of the funding request was to conduct a

nationally-representative CACFP erroneous payments program-wide study which would examine reimbursements for meals served and to develop program error measurements that complied with the requirements of the 2002 IPIA. Due to the complexities of the program, FNS estimated that it would cost \$20 million to measure improper payments at the precision required by IPIA. Although the FY 2006 Budget request included funds designated for the nationally-representative CACFP erroneous payments study, funds were not provided by Congress.

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

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

- In July 2009 FNS issued the final report of the Child Care Assessment Project (CCAP). This project was designed to measure the effectiveness of efforts to improve the integrity of CACFP FDCHs and provide information from a broadly representative national sample of sponsors and providers. Data were collected by FNS in cooperation with State agencies and sponsors administering the CACFP, during the period 2004-2007. The CCAP process was designed to measure whether the two interim management improvement rules issued by FNS in 2002 and 2004 had been properly implemented, and whether the rules had effectively addressed the serious program management and integrity problems that had been uncovered in the 1990s. While the CCAP report identified areas of potential weakness in the local-level management of the CACFP in FDCHs, it indirectly raised questions about State and Federal oversight of CACFP—specifically, why existing review mechanisms do not identify some of the serious Program management weaknesses.
- Sponsor error measurement – Beginning in 2005 and annually thereafter, FNS has measured the level of erroneous payments due to sponsor error for the two types of program reimbursement (Tier 1 and Tier 2). Annual reports are available at <http://www.fns.usda.gov/report-finder>.

The report for FY 2013 was released in September 2014. FNS awarded the 2014 CACFP Tiering Assessment Project and plans to exercise options to produce tiering error estimates for 2015, 2016, 2017, and 2018.

- Claiming error measurement – In addition to the annual sponsor error assessments, FNS has continued to use its limited available resources to explore potential methodologies to develop other measures of high-risk program components – in particular, the accuracy of meal claims in FDCHs participating in CACFP.
- FNS contracted with Mathematica Policy Research, Inc. (MPR) to evaluate the feasibility of the three different data collection methods for validating FDCHs' meal reimbursement claims. The pilot-tested methods were based on observations of meal services, analysis of sign-in/sign-out (SISO) logs, and parent interviews.

SISO logs were found ineffective for creating a valid indicator of the risk of erroneous payments. The 2009 report is at <http://www.fns.usda.gov/child-and-adult-care-food-program-cacfp-improper-payments-data-collection-pilot-project>.

- An expanded feasibility study was conducted in FY 2013 and FY 2014 to assess the validity of using parent-recall telephone interviews to develop estimates of the meals served to the children of the parents against meal claims reimbursed to FDCH providers. This assessment found that parental recall of meals served to their children while in attendance at the FDCH was unreliable due to a low match rate between parent-recalled meals and actual meals served. The study concluded that it was not feasible to use the parent recall data on specific meals (breakfast, morning snack, lunch, afternoon snack, supper, and evening snack) to estimate erroneous meal claims.

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

- **Improper Payments in CACFP Centers.** This study will provide a comprehensive measure of the level of erroneous payments (dollars and rates) to child care centers and center sponsors participating in CACFP. It builds on the methods developed for school meals in the Access, Participation, Eligibility and Certification (APEC) study series. Estimates will be designed to meet the measurement requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The findings from this study would complement the annual measure of reimbursement “tiering” errors in FDCHs for IPERA reporting on CACFP.
- **CACFP Family Day Care Homes Meal Claims Feasibility Study.** The study would examine ways to provide a measure of erroneous payments to FDCHs participating in CACFP. Different methods of estimating improper payments and their rates will be developed and a feasibility study will be conducted in an effort to determine the best means to meet requirements under the IPERA.

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

The **National School Lunch Program** and **School Breakfast Program** do not have a sampling and erroneous payment measurement process comparable to SNAP. Instead, FNS developed the *Access, Participation, Eligibility and Certification (APEC)* study series, which collects and analyzes data from a nationally representative sample of schools and school food authorities (SFAs) about every 5 years. APEC allows FNS to develop a national estimate of erroneous payment rates and amounts in three key areas:

- **Certification errors** occur when a child is placed in the wrong meal reimbursement category, such as when a child who should receive reduced-price meals is certified for free meals;

- **Meal claiming errors** occur when meals are incorrectly categorized as reimbursable or nonreimbursable at the point of sale in the cafeteria, as when a required meal component, such as a carton of milk or a piece of fruit, is missing but the meal is counted as reimbursable; and
- **Aggregation errors** occur when a school or SFA tallies the number of reimbursable meals incorrectly and thus makes an error in the number of meals claimed for reimbursement.

These three types of error differ significantly in their program impact. Certification errors result in families receiving benefits they are not entitled to or being denied benefits they should receive. In contrast, meal claiming errors occur when a meal is missing a required component but the meal is recorded and claimed as reimbursable. Because of the nature of the program reimbursement structure, the full value of a meal is counted as an erroneous payment. Finally, aggregation errors result in schools being reimbursed for too many or too few meals due to incorrect aggregation of the numbers of meals served. The APEC I study, which collected data in School Year 2005-2006, found significant levels of program errors in each of these three categories. APEC II, which collected data in School Year 2012-2013, identified significant improvement in certain types of error, but overall program error remains high. FNS uses the findings from the APEC studies supplemented with administrative and other data to estimate erroneous payments due to certification error and meal counting and claiming error on an annual basis. Current statutory authority allows USDA to recover improper payments from state agencies when identified through review, audits or other operational oversight activities. Current statutory authority does not support recovery of improper payments identified on the basis of a statistical sample or estimation procedure of the type used to develop the periodic APEC estimates and the annual updates to those estimates reported here.

### **1. Actions Taken to Address Improper Payments in NSLP/SBP:**

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

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

FNS has adopted a data and evidence-driven approach to error reduction and a commitment to the development and testing of scalable initiatives that can be implemented within the existing program structure. In collaboration with our State partners, FNS is:

- Addressing certification error by expanding the use of direct certification, increasing the number of SFAs and schools participating in the Community Eligibility Provision, and improving the application for free and reduced-price meals in partnership with researchers and innovators in technology and design to make it easier to complete and process the application.
- Developing and implementing training programs, and establishing professional certification standards for school food service workers that are helping schools add to the tools and strengthen the skills necessary to reduce meal claiming error.
- Continuing to reduce aggregation error with investments in States' technology improvements that ensure reimbursement numbers are transferred correctly between schools, SFAs, States, and the Federal level.

A key component of FNS's strategy is the creation of the new Office of Program Integrity for Child Nutrition Programs, which was established in late 2014. The new office draws on the expertise of FNS research and policy staff, as well as its operational and oversight experience. This office will lead error-reduction initiatives and continually assess program policies, operations, and procedures for opportunities to improve program accuracy and performance. More broadly, FNS and its partners are developing and implementing new tools for improving business processes and increasing accountability, including a new administrative review process. These reforms will reduce the risk of all three types of error measured in the APEC studies.

In addition, FNS continues to implement the HHFKA program changes with a potential to improve NSLP payment accuracy.

### **Certification Error**

As reported in USDA's FY 2014 Agency Financial Report (AFR), NSLP improper payments arising from misclassification of student eligibility for program benefits (free, reduced-price, or paid) totaled \$959 million. This is a reduction from the \$996 million in NSLP improper payments reported in the FY 2013 AFR. About two-thirds of this "certification error" results from the misreporting of income by households on program applications. The balance is due to administrative error at the school or school district. The estimated certification error for SBP is \$354 million in SY 2012-2013, as reported in the FY 2014 AFR.

- Misreporting Error – Household misreporting on school meal applications includes understating or overstating household income or household size.

For SY 2015-2016, FNS completed a significant revision to its *Prototype Application for Free and Reduced Price School Meals* and accompanying instructional documents. The new application prototype materials, available for use or adaptation by State and local program officials, are designed to minimize the risk of unintentional misreporting of income by households. The application materials were designed in collaboration with the Innovation Lab at the Office of Personnel Management, which assisted in program and field research efforts, in addition to organizing focus testing groups conducted with parents/guardians.

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

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

Significant reforms to the certification process require legislative action; and some legislative changes in this area were included in the HHFKA; these are noted when relevant in the descriptions of the options below:

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

In addition, the HHFKA established the Community Eligibility Provision (CEP), which provides an alternative to paper application systems in low-income areas. CEP relies on data obtained from direct certification for claiming federal reimbursement, in lieu of paper applications and household reporting. CEP was phased in over a three year period in a limited number of States, and became available in eligible local educational agencies in all States beginning July 1, 2014. USDA reimburses participating schools and school districts according to a free/paid claiming percentage derived from their number of directly certified children. Certification error in CEP schools is tied to the accuracy of their direct certification process. Given the low error associated with direct certification, APEC II found that certification error in CEP schools and school districts was far lower than certification error in non-CEP institutions.

During SY 2014-2015, CEP was adopted in over 14,000 schools nationwide, serving nutritious meals to approximately 6.8 million children daily. Elections of CEP are expected to substantially increase again during SY 2015-2016. CEP is attractive to school districts for a variety of reasons; the elimination of income applications enhances cost effectiveness while reducing paperwork and other administrative burdens, the use of direct certification is expected to increase payment accuracy, and access barriers are lowered as students in CEP schools are no longer subject to individual eligibility certifications.

Direct certification has also removed the great majority of categorically eligible children from the applicant pool. This reduces but does not eliminate the risk that eligible children will lose program benefits through household non-response to LEA verification requests. The Healthy, Hunger-Free Kids Act of 2010 (HHFKA) established State performance benchmarks for directly certifying children for free school meals under the National School Lunch Program (NSLP) when those children are living in households receiving benefits under the Supplemental Nutrition Assistance Program (SNAP). Per Section 101(b) of the HHFKA and Federal regulations at 7 CFR Section 245.13, each State that does not meet the benchmark for a particular school year is required to develop and implement a Continuous Improvement Plan (CIP) to improve its direct certification procedures and fully meet the benchmarks set forth in the HHFKA in subsequent school years. In the third year of working with States in association with their CIPs, FNS and their State Agency partners have exhibited success. Specifically, for 28 States that developed and submitted CIPs in FY 2014 (SY 2012-2013): 19 of 28 States reported a year-to-year increase in their SNAP-DC rate (SY 2012-2013 vs. SY 2013-2014); 9 States reported a year-to-year increase of 10% or greater; one State reported an increase of 24%; and 4 States met the benchmarks rate of 95%.

**Non-Certification Error:**

In FY 2014, NSLP improper payments of approximately \$789 million were due to the submission of claims for payments reflecting inaccurate counts of reimbursable meals. More than half of these non-certification errors result from meals being claimed for reimbursement which do not actually meet Federal standards for the types and amounts of food served. The remaining arises from errors in the aggregation and submission of meal service data to school districts and State agencies. The estimate for non-certification error in the SBP is \$569 million.

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

***Training of school food service personnel:*** Improved training at the local level will focus on advancing understanding of the requirements associated with a reimbursable meal. Under the HHFKA's Professional Standards provision, SFA directors, managers and other staff are required to have training each year in a variety of topics related to the operation of a school nutrition program. State agency directors are also required to take and to give training each year. The HHKFA establishes requirements and modest funding for such training. FNS is currently working in collaboration with professional food service organizations to develop on-line resources. A final rule implementing the professional standards provisions was published on March 2, 2015 and went into effect on July 1, 2015.

***Improved technology for counting and claiming of meals:*** While automated tools for counting and claiming meals exist, they have not been consistently utilized, at either the local or State level. Currently, there is no targeted local-level funding for this purpose. At the State level, \$4 million per year has been available for grants to improve State oversight, including systems that utilize data mining concepts to identify districts at high risk for errors. FNS has in recent years focused these funds on technology-centered approaches which allow States to identify and correct counting and claiming errors at the school district level and target appropriate action. To date, many such systems are still largely in the different developmental stages and are still being evaluated. However, a few examples of how State agencies have used the grant funding include: Alabama, Iowa and Massachusetts have successfully built online training modules for local program staff in meal counting, meal claiming, certification, verification, meal pattern, financial management, reporting, and other program topics; Indiana has built an online administrative review module to improve their monitoring, fiscal action and corrective action processes; and several States are in the process of replacing full claims systems or modules to build in better edit checks to prevent errors in reporting, and help them collect and monitor program data at more granular level to identify error prone local programs so they can provide appropriate targeted technical assistance and training.

Current discretionary grants represent funding assistance only for State-level activities. A primary barrier to this approach is cost for evaluation and funding of local-level technologies. FNS has proposed that discretionary grant funding for technology improvements be raised to \$14 million annually (an additional \$10 million) for purposes of developing or improving current management information systems and other technologies used for operation, oversight and management of the child nutrition programs. The intent of the grant projects is to allow State agencies to propose and implement innovative technology solutions to incorporate functionality that allows for the seamless flow of program data from the school/site level to the district/sponsor and State levels, and to enable accurate claiming and Federal reporting. The requested funding would allow States to develop statewide systems that potentially could provide

automation to connect State and local levels via web-based software (i.e., point of service, application processing, reporting, etc.), interfaces, equipment or other innovative electronic business solutions to improve program efficiencies, accountability, data accuracy, program performance measurement, training and the capacity to identify and target error prone areas (locations or program functions) across all child nutrition programs.

In addition, we also believe that \$20-30 million annually would support evaluation efforts at the State and local level (see section 3 below and local-level technology improvements in the approximately 100,000 schools participating in school programs). While we do not have a precise estimate of the cost of funding to improve technologies at the local level, we believe an investment of several hundred million dollars in targeted grant funding would be required over several years for local system evaluation and improvements across the nation.

***Improved oversight and enhanced consequences for repeated failure to correct identified problems:***

Section 207 of Public Law 111-296, the Healthy Hunger-Free Kids Act of 2010 (HHFKA), required FNS to develop a unified monitoring process of the school meal programs that includes all elements of the Coordinated Review Effort (CRE) process and the School Meal Initiative (SMI) nutritional review. Additionally, HHFKA reduced the cycle for State reviews of local school operations from five years to three.

This new review process covers all program areas including a review of the eligibility certification and benefit issuance process and compliance with nutrition standards for reimbursable meals. The Administrative Review process strengthens monitoring measures, which directs State agencies' procedures that are used for technical assistance, corrective action and fiscal action, when errors are identified. The review process and these procedures are also critical to prevent future errors in the school meal programs.

In addition, the HHFKA provided FNS with new authority to impose fines and penalties against States and local program operators for repeated or willful noncompliance. While this authority can be used to address all types of program error, it is likely that it will be most useful in dealing with serious counting and claiming problems for which little recourse previously existed. USDA expects to publish a proposed rule on this requirement in late FY 2016.

## **2. Measurement Issues**

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

***Repeat and/or Enhance National Study:*** As part of its multifaceted program integrity initiatives, FNS will award a contract in FY 2016 to conduct the third study in the APEC series ("APEC-III"), providing national data on rates and dollar amounts of NSLP and SBP underpayments, overpayments, gross and net erroneous payments in school year 2017-18 and using a methodology that will allow longitudinal comparisons among the three studies. APEC-III will replicate APEC-II and provide updated national estimates of erroneous payments in the NSLP and SBP; moreover, APEC-III will include the following additional study components:

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

- strategies in their school meals programs.
3. Qualitative data on the causes of erroneous payments.

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

### 3. Proposed Short-Term Strategies

**Explore Data Matching Strategies:** A recent Government Accountability Office report recommended that USDA explore electronically matching household-application information to other data sources—such as State income databases or public-assistance databases—to verify the accuracy and improve the certification process. FNS is initiating a project that would update and expand previous USDA work in this area to determine if data systems and datasets (e.g., Medicaid or Unemployment Insurance) can be linked to application information in a manner that supports timely and accessible certifications and used as the basis for verification for cause and other error-reduction strategies. Promising approaches identified through this review, if any, may be piloted under a separate contract in a limited number of States and Local Educational Authorities (LEAs) to test their feasibility, as well as their impact on program participation and improper payments

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

**Implement annual training for State agencies on technology issues.** This training, “Child Nutrition Access & Accountability through Technology,” was first conducted in September 2015 and will provide an annual venue for training, collaboration and sharing of best practices in the use of technologies at the State and local levels to improve program access and accountability. Examples of training subject matter for State agencies and industry partners include: direct certification technologies, Community Eligibility Provision (CEP) systems for capturing and reporting accurate claiming information, data analytics to improve monitoring and error targeting, program performance measurement methodologies, innovative training techniques, project management and system lifecycle management to ensure quality and accuracy of technology systems used for program operations, and sharing of best practices in use of technologies across child nutrition programs to reduce errors and increase accuracy. New tools and technologies

produced under grant funding, as well as other successful practices, will be showcased and shared during these sessions.

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

Additional information on FNS's IPIA activities can be found in the FY 2015 USDA Agency Financial Report.

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

**Preliminary Data as of 7/31/15 – FNS Measures for IPIA Reporting  
 2015 Agency Financial Report**

FNS School Breakfast Program (SBP) Total Program	FNS NSLP Counting/Claiming Error	FNS NSLP Certification Error	FNS National School Lunch Program (NSLP) Total Program	FNS Supplemental Nutrition Assistance Program (SNAP)	Program
3,605	N/A	N/A	11,463	76,087	Previous Year (PY) Outlays \$
25.61%	6.88%	8.37%	15.25%	3.20%	PY Improper Payment (IP)
923	789	959	1,748	2,437	PY IP \$
3,812	N/A	N/A	11,319	70,022	Current Year (CY)
22.96%	5.96%	9.70%	15.66%	3.66%	CY IP %
875	675	1,098	1,773	2,559	CY IP \$
709	550	782	1,332	2,075	CY Over-payment \$
166	125	316	441	484	CY Under – payment \$
3,937	N/A	N/A	11,834	70,893	CY +1 Est. Outlays \$

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

22.19%	N/A	N/A	14.79%	3.66%	<b>CY + 1 Est. IP %</b>
873	N/A	N/A	1,750	2,595	<b>CY + 1 Est. IP \$</b>
4,189	N/A	N/A	12,293	70,692	<b>CY + 2 Est. Outlays \$</b>
21.46%	N/A	N/A	14.43%	3.66%	<b>CY + 2 Est. IP %</b>
899	N/A	N/A	1,773	2,587	<b>CY + 2 Est. IP \$</b>
4,230	N/A	N/A	12,362	70,387	<b>CY + 3 Est. Outlays \$</b>
20.75%	N/A	N/A	14.08%	3.66%	<b>CY + 3 Est. IP %</b>
877	N/A	N/A	1,740	2,576	<b>CY + 3 Est. IP \$</b>

**Preliminary Data as of 7/31/15 – FNS Measures for IPIA Reporting  
2015 Agency Financial Report**

FNS WIC Vendor Error	FNS WIC Certification Error	FNS Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	FNS SBP Counting/Claiming Error	FNS SBP Certification Error	Program
N/A	N/A	4,517	N/A	N/A	Previous Year (PY) Outlays \$
1.68%	2.87%	4.55%	15.79%	9.81%	PY Improper Payment (IP)
76	130	206	569	354	PY IP \$
N/A	N/A	4,542	N/A	N/A	Current Year (CY)
1.91%	2.71%	4.62%	12.10%	10.86%	CY IP %
87	123	210	461	414	CY IP \$
16	123	139	418	291	CY Over-payment \$
71	0.00	71	43	123	CY Under – payment \$
N/A	N/A	4,778	N/A	N/A	CY +1 Est. Outlays \$

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N/A	N/A	4.08%	N/A	N/A	<b>CY + 1 Est. IP %</b>
N/A	N/A	195	N/A	N/A	<b>CY + 1 Est. IP \$</b>
N/A	N/A	4,842	N/A	N/A	<b>CY + 2 Est. Outlays \$</b>
N/A	N/A	3.98%	N/A	N/A	<b>CY + 2 Est. IP %</b>
N/A	N/A	193	N/A	N/A	<b>CY + 2 Est. IP \$</b>
N/A	N/A	4,918	N/A	N/A	<b>CY + 3 Est. Outlays \$</b>
N/A	N/A	3.88%	N/A	N/A	<b>CY + 3 Est. IP %</b>
N/A	N/A	191	N/A	N/A	<b>CY + 3 Est. IP \$</b>

**Preliminary Data as of 7/31/15 – FNS Measures for IPIA Reporting  
 2015 Agency Financial Report**

FNS CACFP FDCH – Meal Claims	FNS CACFP FDCH – Tiering Decisions	FNS Child and Adult Care Food Program (CACFP) Total Program	Program
N/A	930	N/A	Previous Year (PY) Outlays \$
N/A	1.05%	N/A	PY Improper Payment (IP) %
N/A	10	N/A	PY IP \$
N/A	930	N/A	Current Year (CY) Outlays \$
N/A	0.84%	N/A	CY IP %
N/A	7	N/A	CY IP \$
N/A	6	N/A	CY Over-payment \$
N/A	1	N/A	CY Under – payment \$
N/A	930	N/A	CY +1 Est. Outlays \$
N/A	1.38%	N/A	CY + 1 Est. IP %

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N/A	12	N/A	CY + 1 Est. IP \$
N/A	962	N/A	CY +2 Est. Outlays \$
N/A	1.33%	N/A	CY +2 Est. IP %
N/A	12	N/A	CY + 2 Est. IP \$
N/A	962	N/A	CY + 3 Est. Outlays \$
N/A	1.28%	N/A	CY + 3 Est. IP %
N/A	12	N/A	CY + 3 Est. IP \$

## SECTION 5. LIMITATIONS OF FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Food and Nutrition Services (FNS), an agency of the United States Department of Agriculture, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of FNS in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a Sovereign entity.

## SECTION 6. FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS

FNS' FY 2015 financial statements reflect the nutrition assistance programs' responsiveness to the Nation's economic performance. By design, the level of activity within the nutrition assistance programs varies with the level of need experience by the populations we serve. A key determinant of this level of need is the condition of the economy. In FY 2014 the economy performed weaker than was anticipated by the President's FY 2014 budget request. As a result, program participation and costs, as reflected in the financial statements are, on average, higher than was anticipated.

In accordance with the US Standard General Ledger and the Treasury Financial Manual 1TFM 4700, in FY 2008 FNS clarified its reporting of the Grant Award (GAD) Accrual. FNS performed an analysis of the GAD Accrual and determined that the GAD Accrual consisted of Entitlement Benefits and Non Entitlement Benefits. For the FY 2015 Financial Statements FNS will report Entitlement Benefits as "Benefits Due and Payable" and report Non Entitlement Benefits as "Other Liabilities" on the Balance Sheet and related footnotes. The classifications of these accruals have no impact on the amounts reported for Total Liabilities.

### Balance Sheet

	2015		2014	
	Dollars (mil)	Percent	Dollars(mil)	Percent
Fund Balance With Treasury	43,278	99.09%	37,781	98.96%
Accounts Receivable	325	0.75%	324	0.84%
General PP& E	-	0.00%	-	0.00%
Other	71	0.16%	71	0.20%
<b>Total Assets</b>	<b>43,674</b>	<b>100.00%</b>	<b>38,176</b>	<b>100.00%</b>
Accounts Payable	5	0.01%	102	0.27%
Federal Employee and Veterans Benefits	8	0.02%	8	0.02%
Benefits Due and Payable	4,835	11.07%	4,362	11.43%
Other Liabilities	1,886	4.32%	2,159	5.66%
<b>Total Liabilities</b>	<b>6,775</b>	<b>15.51%</b>	<b>6,677</b>	<b>17.49%</b>

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Unexpended Appropriations	36,811	84.29%	31,300	81.99%
Cumulative Results of Operations	88	0.20%	199	0.52%
Total Net Position	36,899	84.49%	31,499	82.51%
Total Liabilities & Net Position	43,674	100%	38,176	100%

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2015 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - 99% in FY 2015 and approximately 99% in FY 2014. This cash-like account largely represents the aggregate amount of funds in the FNS accounts with the U.S. Treasury from which the agency is authorized to make expenditures and pay liabilities. As financial statement Note 3 presents, a substantial portion of the fund balance is unavailable as they are associated with either expired years or are contingency funds which were not made available.

“Other assets” amounts were unchanged from the prior year, and all commodity advances are being process through direct fund cite. Accounts receivable levels remained relatively unchanged from the prior year.

Benefits Due and Payable represents the largest liability of the agency, typically representing amounts that are currently payable to grantees on Entitlement Benefits Programs. The FY 2015 and FY 2014 Net Position of the agency is concentrated in Unexpended Appropriations.

**Statement of Net Cost**

	2015		2014	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Gross Cost	104,971	100.07%	104,867	100.06%
Less: Earned Revenue	(73)	-0.07%	(65)	-0.06%
Net Cost of Operations	104,898	100.00%	104,802	100.00%

The FNS mission addresses USDA Strategic Goal 4 “Ensure That All of America’s Children Have Access to Safe, Nutritious, and Balanced Meals”. All program costs are reported under that strategic goal. Gross Costs increased from \$104,867 million in FY 2014 to \$104,971 million in FY 2015, reflecting the overall increase in programs participation levels.

As the chart above displays, Earned Revenue represents an extremely small offset to Gross Costs (less than one percent), in both fiscal years. Earned revenue largely represents funds from the State Option Supplemental Nutrition Assistance Program authorized under P.L. 105-18. One State participating in this program (California) 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. Additional earned revenue is received from other Federal agencies for reimbursement of expenses related to information technology services and facility-related services including WBSCM, Commodity Improvement Initiative and Whole Grain Study.

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The Net Cost of Operations increased from \$104,802 million in FY 2014 to \$104,898 million in FY 2015.

**Statement of Changes in Net Position**

	2015		2014	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Cumulative Results of Operations</b>				
Beginning Balance	199		242	
<b>Budgetary Financing Sources</b>				
Other Adjustments	(2)	0.00%	(1)	0.00%
Appropriations Used	95,378	91.02%	95,719	91.37%
Transfers In (Out) without Reimbursements	8,535	8.15%	8,190	7.82%
<b>Other Financing Sources</b>				
Imputed Financing	876	0.83%	851	0.81%
Total Financing Sources	104,787	100.00%	104,759	100.00%
Less: Net Cost of Operations	104,898		104,802	
<b>Cumulative Results of Operations</b>				
Ending Balance	88		199	
<hr/>				
Net Change	(111)		(43)	
<b>Unexpended Appropriations</b>				
Beginning Balance	31,300		22,547	
Appropriations Received	101,846		107,281	
Appropriations Transferred in/out	4		1	
Adjustments	(961)		(2,810)	
Appropriations Used	(95,378)		(95,719)	
Total: Financing Sources	5,511		8,753	
Ending Balance	36,811		31,300	
<hr/>				
Total Net Position	36,899		31,499	

The Statement of Changes in Net Position explains the changes in the two components of Net Position of the Balance Sheet from year to year, the Cumulative Results of Operations and the Unexpended Appropriations.

The FY 2015 appropriations used was \$95,378 million, which decreased \$341 million from FY 2014, based on actual participation levels and food costs.

Cumulative Results of Operations decreased \$111 million, from \$199 million in FY 2014 to \$88 million in FY 2015, as the net cost of operations is greater than the total financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained

relatively unchanged from FY 2014 to FY 2015. 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 eight percent of total financing sources in FY 2015 and FY 2014.

Unexpended Appropriations increased from \$31,300 million in FY 2014 to \$36,811 million in FY 2015 as less carryover appropriation balances were expended in the current year. Adjustments which decreased from \$2,810 million in FY 2014 to \$961 million in FY 2015 are due to permanent reductions and cancellations of expired accounts.

### Statement of Budgetary Resources

	2015		2014	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Budgetary Resources</b>				
Beginning Unobligated Balance	29,250	20.87%	20,210	15.08%
Recoveries	1,406	1.00%	1,011	0.75%
Other Changes In Unobligated Balances	-947	-0.68%	-1,902	-1.42%
Appropriations	110,369	78.75%	114,563	85.47%
Spending Authority from Offsetting Collections	81	0.06%	154	0.12%
Total Budgetary Resources	<u>140,159</u>	<u>100.00%</u>	<u>134,036</u>	<u>100.00%</u>
<b>Status of Budgetary Resources</b>				
Obligations Incurred	105,871	75.54%	104,786	78.18%
Apportioned	4,293	3.06%	11,033	8.23%
Unapportioned	<u>29,995</u>	<u>21.40%</u>	<u>18,217</u>	<u>13.59%</u>
Total: Status of Budgetary Resources	<u>140,159</u>	<u>100.00%</u>	<u>134,036</u>	<u>100.00%</u>
Net Outlays	103,938	74.16%	102,323	76.34%

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The Statement of Budgetary Resources (SBR) displays the source of all budgetary resources for the fiscal year as well as the status of those resources as of the end of the fiscal year.

Appropriations were decreased from \$114,563 million in FY 2014 to \$110,369 million in FY 2015. Total budgetary resources were higher than in the prior year due primarily to an increase in the unobligated balance brought forward from the previous year. FNS had \$140,159 million in total budgetary resources during FY 2015, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods.

At fiscal yearend 2015, most (\$105,871) million or 75% of those resources were obligated, though \$4,293 million or 3% remained unobligated and available, and another \$29,995 million (21%) was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2015, Net Outlays represented 74% of Total Budgetary Resources, compared to 76% in FY 2014.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Amounts shown are in Millions except as noted)

Food and Nutrition Service

CONSOLIDATED BALANCE SHEET  
 As of September 30, 2015 (CY) and 2014 (PY)  
 (Dollars in Millions)

	FY 2015 (CY)	FY 2014 (PY)
<b>Assets (Note 2):</b>		
Intragovernmental:		
Fund Balance with		
Treasury (Note 3)	\$ 43,278	\$ 37,781
Other (Note 6)	71	71
Total Intragovernmental	43,349	37,852
Accounts Receivable, net (Note 4)	325	324
General Plant, Property, and		
Equipment, net (Note 5)	-	-
Other (Note 6)	-	-
<b>Total Assets</b>	<b>\$ 43,674</b>	<b>\$ 38,176</b>
<b>Liabilities (Note 7):</b>		
Intragovernmental:		
Accounts Payable	\$ -	\$ -
Other (Note 8)	41	46
Total Intragovernmental	41	46
Accounts Payable	5	102
Federal Employee and Veterans		
Benefits	8	8
Benefits Due and Payable	4,835	4,362
Other (Note 8)	1,886	2,159
<b>Total Liabilities</b>	<b>6,775</b>	<b>6,677</b>
<b>Net Position:</b>		
Unexpended Appropriations -		
Other Funds	36,811	31,300
Cumulative Results of Operations -		
Other Funds	88	199
<b>Total Net Position</b>	<b>\$ 36,899</b>	<b>\$ 31,499</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 43,674</b>	<b>\$ 38,176</b>

The accompanying notes are an integral part of these statements.

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

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

Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF NET COST  
 For the Years Ended September 30, 2015 (CY) and 2014 (PY)  
 (Dollars in Millions)

	FY 2015 (CY)	FY 2014 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 10 and 11)	\$ 104,971	\$ 104,867
Less: Earned Revenue	73	65
Net Program Costs	104,898	104,802
Net Cost of Operations	\$ 104,898	\$ 104,802

The accompanying notes are an integral part of these statements.

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 NOTES TO THE FINANCIAL STATEMENTS  
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Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION  
 As of September 30, 2015 (CY) and 2014 (PY)  
 (Dollars in Millions)

	FY 2015 (CY)	FY 2014 (PY)
Cumulative Results of Operations:		
Beginning Balance	\$ 199	\$ 242
Beginning Balance, as adjusted	199	242
Budgetary Financing Sources:		
Other Adjustments	(2)	(1)
Appropriations		
Used	95,378	95,719
Transfers in/out		
without reimbursement	8,535	8,190
Other	-	-
Other Financing Sources (Non-Exchange):		
Imputed Financing	876	851
Total Financing Sources	104,787	104,759
Less: Net Cost of Operations	104,898	104,802
Net Change	(111)	(43)
Cumulative Results of Operations	88	199
Unexpended Appropriations:		
Beginning Balance	31,300	22,547
Beginning Balance, as adjusted:	31,300	22,547
Budgetary Financing Sources:		
Appropriations		
Received	101,846	107,281
Appropriations		
Transferred in/out	4	1
Other Adjustments	(961)	(2,810)
Appropriations		
Used	(95,378)	(95,719)
Total Budgetary		
Financing Sources	5,511	8,753
Total Unexpended Appropriations	36,811	31,300
Net Position	\$ 36,899	\$ 31,499

The accompanying notes are an integral part of these statements.

Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES  
 For the years ended September 30, 2015 (CY) and 2014 (PY)

(Dollars in Millions)

	FY 2015 (CY)	FY 2014 (PY)
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$ 29,250	\$ 20,210
Adjustments to unobligated balance brought forward, October 1	-	-
Unobligated Balance brought forward, October 1, as adjusted	<u>29,250</u>	<u>20,210</u>
Recoveries of prior year unpaid obligations	1,406	1,011
Other Changes in unobligated balance (+ or-)	<u>(947)</u>	<u>(1,902)</u>
Unobligated balance from prior year budget authority, net	29,709	19,319
Appropriations (discretionary and mandatory)	110,369	114,563
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending Authority from offsetting collections (discretionary and mandatory)	<u>81</u>	<u>154</u>
Total Budgetary Resources	<u><u>140,159</u></u>	<u><u>134,036</u></u>
Status of Budgetary Resources:		
Obligations Incurred	105,871	104,786
Unobligated balance, end of year:	-	-
Apportioned	4,293	11,033
Exempt from apportionment	-	-
Unapportioned	<u>29,995</u>	<u>18,217</u>
Total unobligated balance, end of year	<u>34,288</u>	<u>29,250</u>
Total budgetary resources	<u><u>140,159</u></u>	<u><u>134,036</u></u>
Change in Obligated Balances:		
Unpaid obligations, brought forward, October 1 (gross)	8,532	7,237
Adjustment to obligated balance, start of year (net) (+ or-)	<u>-</u>	<u>-</u>
Obligated Incurred	105,871	104,786

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Outlays gross (-)	(104,017)	(102,480)
Actual transfer, unpaid obligations (net) (+ or -)	-	-
Recoveries of prior year unpaid obligations (-)	(1,406)	(1,011)
Unpaid obligations, end of year 2015	8,980	8,532
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1 (-)	-	-
Adjustments to uncollected payments, Federal sources, start of year (+ or -)	-	-
Change in uncollected payments, Federal sources, start of year (+ or -)	(2)	-
Actual transfer, uncollected payments, Federal sources (net) (+ or -)	-	-
Uncollected payments, Federal sources, end of year (-)	(2)	-
Memorandum (non-add) entries:		
Obligated balance, start of the year (+ or -)	8,532	7,236
Obligated balance, end of year (+ or -)	8,978	8,532
	<hr/>	<hr/>
Budget Authority and Outlays, Net:		
Budget Authority, gross (discretionary and mandatory)	110,450	114,717
Actual offsetting collections (discretionary and mandatory) (-)	(79)	(154)
Change in uncollected customer payments from Federal sources ( discretionary and mandatory) (+ or -)	(2)	-
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-
Budget Authority, net (discretionary and mandatory)	<hr/> <u>110,369</u>	<hr/> <u>114,563</u>
Outlays, gross (discretionary and mandatory)	104,017	102,480
Actual offsetting collections (discretionary and mandatory) (-)	(79)	(154)
Outlays, net (discretionary and mandatory)	103,938	102,326
Distributed offsetting receipts (-)	-	( 3)

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Agency outlays, net  
(discretionary and  
mandatory)

103,938

102,323

## **FOOD and NUTRITION SERVICE**

### Note 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation

In May of FY 2015, the Food and Nutrition Service (FNS) converted its accounting system from IPAS (Integrated Program Accounting System) over to Financial Management Modernization Initiative (FMMI). The FMMI project is being supported by the Office of the Chief Financial Officer (OCFO) to modernize the departmental and agency financial and administrative payment and program general ledger systems. The objective is to improve financial management performance by efficiently providing USDA with a modern, core financial management system that provides maximum support to the mission.

These financial statements have been prepared to report significant assets, liabilities, net cost of operations, changes in net position, and budgetary resources for FNS, as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated August 4, 2015. They have been prepared from the books and records of FNS in accordance with the Generally Accepted Accounting Principles (GAAP) as applied to the Federal Government. GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body.

#### B. Reporting Entity

FNS, including the Center for Nutrition Policy and Promotion (CNPP), is under the jurisdiction of the Under Secretary for Food and Nutrition Consumer Service of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia, and implemented through seven regional offices, 18 field offices/satellite locations as well as four Supplemental Nutrition Assistance Program (SNAP) compliance offices. State departments of education have responsibility for food programs serving children in schools, child care centers, and summer recreation centers. State departments of health, welfare, and agriculture usually have responsibility for programs providing SNAP benefits or supplemental foods. For the FY 2015 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 \$325 million recognized as non-federal accounts receivable includes debts owed to FNS by individuals, businesses, States and local governments. The largest single component of this item consists of SNAP recipient claims. States establish claims against households to recover over issued food stamp benefits. States are responsible for pursuing collection of such claims. Collections, less an authorized State retention amount, are remitted to FNS. The portion of total net realizable receivables consisting of SNAP recipient claims is the expected amount of such remittance from States. The data generated by the State systems of gross account receivables has been determined to be unreliable. Accordingly, FNS does not know what the State gross account receivable is. FNS has an alternative method for acquiring reliable State receivable information.

FNS estimates net realizable SNAP accounts receivable through a regression-based statistical model. This model estimates future collections by the States, which the States will remit to the Federal Government as of the end of the accounting period based on the actual SNAP issuance and net claims collections for prior years. The forecasting model draws its predictive power from the strong historical relationship between the level of SNAP benefit issuance and the level of recipient claims collections by States. Applying the model to actual data covering the periods FY 1984 through FY 2015, the model explains 96 percent of the variation in claims collections. Historically, collections projected by the model have proved to be accurate within approximately 4 percent of actual net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNS does not estimate collections after the initial year or discount the estimate produced by the statistical model to its present value.

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

Because reliable data is not available addressing gross FNS accounts receivable, the SNAP QC estimate of SNAP benefits over issued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 2014 QC error rates were announced in June 2015. Using this methodology, FNS estimates the value of benefit over issuance in Fiscal Year 2014 (the most recent year for which data are available) at \$2.076 billion. Statement of Federal Financial Accounting Standards (SFFAS) #1 permits Federal entities to estimate its accounts receivable. The QC error rate over issuance estimate is considered the best estimate available. However, since this is an estimate of all SNAP overpayments, the actual State gross account receivable amount would be lower but the variance cannot be quantified. The amount of over issued benefits is included in the total program cost of the SNAP as reflected in the Statement of Net Cost.

FNS does not receive information to calculate States’ QC liabilities for approximately 7 months after the end of the fiscal year; therefore, current information is not available for the FY 2015 financial statements. For FY 2014, six States were assessed amounts for having excessive error rates for two consecutive years. The aggregate total of the liability was \$3 million. The six States signed payment agreements in lieu of

immediately repaying in cash. The agreements called for each State to invest 50 percent of its liability in program improvement activities. The remaining 50 percent of the liability was placed at risk pending future improved performance.

<b>The QC over Issuance error rate data for the past 3 years follows:</b>		
<b>Fiscal Year</b>	<b>Rate Amount</b>	<b>Total \$ (Billions)</b>
2014	3.66 %	\$ 2.076
2013	2.60 %	\$ 1.985
2012	2.77 %	\$ 2.069

#### E. Grants and Program Benefits

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	
	2015	2014
CSRS/Transitional retirement contributions - Civil Service	\$1.1	\$1.2
FERS regular contributions	\$15.5	\$12.3
Thrift Savings Plan contributions	\$5.3	\$4.6
<b>TOTAL</b>	<b>\$21.9</b>	<b>\$18.1</b>

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

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

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

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

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

#### I. Fund Balance with Treasury Accounts

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

#### J. Direct versus Reimbursable Obligations Incurred

FNS' direct and reimbursable obligations incurred are represented as amounts apportioned under category A and B. The amounts apportioned by Fiscal Quarter consist of FNS' category A obligations and the amounts apportioned for Special Activities consist of category B obligations as reported on the agency's year-end SF133s, Report on Budget Execution and Budgetary Resources.

#### K. Allocation Transfers

FNS is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. FNS has reported all activity relative to these allocation transfers in the FY 2015 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 2015, FNS estimates that an adjustment of \$253 is needed in total disbursements related to SNAP benefit redemptions from the FY 2015 SNAP appropriation to the FY 2014 SNAP appropriation. This would bring actual expenditures for those two years into line with anticipated expenditures as authorized by the SNAP appropriations.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 2. Non-Entity Assets

	FY 2015	FY 2014
<b>Intragovernmental:</b>		
Fund balance with Treasury	\$0	\$0
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
<b>Total Intragovernmental</b>	<b>-</b>	<b>-</b>
<b>With The Public</b>		
Cash and other monetary assets	-	-
Accounts receivable	42	38
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related property	-	-
Other	-	-
<b>Total With the Public</b>	<b>42</b>	<b>38</b>
<b>Total non-entity assets</b>	<b>42</b>	<b>38</b>
<b>Total entity assets</b>	<b>43,632</b>	<b>38,138</b>
<b>Total assets</b>	<b>\$ 43,674</b>	<b>\$ 38,176</b>

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

Note 3. Fund Balance with Treasury

	FY 2015	FY 2014
<b>Fund Balances:</b>		
Trust Funds	\$ -	\$ -
Revolving Funds	-	-
Appropriated Funds	43,266	37,782
Other Fund Types	12	(1)
<b>Total</b>	<b>43,278</b>	<b>37,781</b>
<b>Status of Fund Balance with Treasury:</b>		
<b>Unobligated Balance:</b>		
Available	4,293	11,033
Unavailable	29,995	18,217
Obligated Balance not yet Disbursed	8,978	8,532
<b>Non-Budgetary Fund Balance with Treasury:</b>	<b>12</b>	<b>(1)</b>
<b>Total</b>	<b>\$ 43,278</b>	<b>\$ 37,781</b>

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Amounts shown are in Millions except as noted)

Note 4. Accounts Receivable, Net

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

FY 2014	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 328	\$ 4	\$ 324
Total	\$ 328	\$ 4	\$ 324

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

Note 5. General Property, Plant and Equipment

Property and equipment are depreciated over their useful economic lives, which average 5-10 years, using the straight-line method. For FY 2015 FNS' capitalization threshold for property and equipment is \$25 thousand. FNS' capitalization threshold for internal-use software is \$100 thousand. FNS owns no buildings or land. FNS follows recognition and measurement criteria in SFFAS No. 6 as amended by SFFAS No. 11 and 23, and USDA Departmental Regulation 2200-002, dated December 24, 2003. At year end, balances for Property, Plant, and Equipment were as follows:

FY 2015	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Category				
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	5	-
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	3	3	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
<b>Total</b>		<b>\$ 8</b>	<b>\$ 8</b>	<b>\$ -</b>

FY 2014	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Category				
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	5	-
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	3	3	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
Other General Property, Plant and Equipment		-	-	-
<b>Total</b>		<b>\$ 8</b>	<b>\$ 8</b>	<b>\$ -</b>

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Amounts shown are in Millions except as noted)

Note 6. Other Assets

	FY 2015	FY 2014
<b>Intragovernmental:</b>		
Advances to Others	\$ 71	\$ 71
Prepayments	-	-
Other Assets	-	-
<b>Total Intragovernmental</b>	<b>71</b>	<b>71</b>
<b>With the Public:</b>		
Advances to Others	-	-
Prepayments	-	-
Other Assets	-	-
<b>Total With the Public</b>	<b>-</b>	<b>-</b>
<b>Total Other Assets</b>	<b>\$ 71</b>	<b>\$ 71</b>

FNS’ “Intragovernmental-Other Assets” consist of Advances to Farm Service Agency/Commodity Credit Corporation for the purchase of commodities.

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

Note 7. Liabilities Not Covered by Budgetary Resources

Intragovernmental:	FY 2015	FY 2014
Accounts payable	\$ -	\$ -
Debt	-	-
Other	2	2
<b>Total Intragovernmental</b>	<b>2</b>	<b>2</b>
With the Public:	-	-
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	8	8
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	13	12
<b>Total With the Public</b>	<b>21</b>	<b>20</b>
Total liabilities not covered by budgetary resources	23	22
Total liabilities covered by budgetary resources	6,752	6,655
<b>Total liabilities</b>	<b>\$ 6,775</b>	<b>\$ 6,677</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 8. Other Liabilities

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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FY 2014	Non-Current	Current	Total
<b>Intragovernmental:</b>			
Contract Holdbacks	\$ -	\$ 4	\$ -
Other Accrued Liabilities	-	1	1
Employer Contributions and Payroll Taxes	-	-	-
Other Post-Employment Benefits Due and Payable	-	1	1
Unfunded FECA Liability	-	-	-
Other Unfunded Employment Related Liability	-	1	1
Advances from Others	-	-	-
Deferred Credits	-	-	-
Liability for Deposit Funds, Clearing Accounts	-	-	-
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Resources Payable to Treasury	-	-	-
Custodial Liability	-	39	39
Other Liabilities	-	-	-
<b>Total Intragovernmental</b>	<b>-</b>	<b>46</b>	<b>46</b>
<b>With the Public:</b>			
Contract Holdbacks	-	-	-
Other Accrued Liabilities	-	2,141	2,141
Accrued Funded Payroll and Leave	-	5	5
Withholdings Payable	-	-	-
Employer Contributions and Payroll Taxes Payable	-	-	-
Other Post-Employment Benefits Due and Payable	-	-	-
Pension Benefits Due and Payable to Beneficiaries	-	-	-
Benefit Premiums Payable to Carriers	-	-	-
Life Insurance Benefits Due and Payable	-	-	-
Unfunded Leave	-	13	13
Other Unfunded Employment Related Liability	-	-	-
Advances from Others	-	-	-
Deferred Credits	-	-	-
Liability for Deposit Funds, Clearing Accounts	-	-	-
Prior Liens Outstanding or Acquired Collateral	-	-	-
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Custodial Liability	-	-	-
Other Liabilities	-	-	-
<b>Total With the Public</b>	<b>-</b>	<b>2,159</b>	<b>2,159</b>
<b>Total Other Liabilities</b>	<b>\$ -</b>	<b>\$ 2,205</b>	<b>\$ 2,205</b>

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015  
NOTES TO THE FINANCIAL STATEMENTS  
(Amounts shown are in Millions except as noted)

Note 9. Leases

Entity as Lessee:

Operating Lease (amounts shown are in thousands):

Description of Lease Arrangements: FNS holds one operating lease that includes office space leased from May 1, 2009 through April 30, 2019. The office space is leased from May 1, 2014, through April 30, 2019. During the last year of the office space lease, the rent is reduced to \$261 per year, and the remaining cost of the lease is \$1,577. The lease may be renewed at the option of the Government for one 5 year term with the Government having the right to terminate, in whole or in part, at anytime, by giving at least 120 days' notice in writing to the Lessor.

Future Payments Due for Cancellable Operating Leases:

<u>Fiscal Year</u>	<u>Asset Category</u>
	<u>Office Space</u>
2016	\$ 434
2017	\$ 439
2018	\$ 443
2019	<u>\$ 261</u>
Total future lease payments <u>\$1,577</u>	

Note 10. Intragovernmental Cost and Exchange Revenue

<b>Child Nutrition</b>	FY 2015		FY 2014	
Intragovernmental Costs	\$	574	\$	503
Public Costs	\$	21,100	\$	19,996
Total Costs	\$	21,674	\$	20,499
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-
<b>SNAP</b>				
Intragovernmental Costs	\$	244	\$	311
Public Costs	\$	76,424	\$	76,750
Total Costs	\$	76,668	\$	77,061
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	73	\$	64
Total Earned Revenue	\$	73	\$	64
<hr/>				
<b>Other</b>	FY 2015		FY 2014	
Intragovernmental Costs	\$	152	\$	202
Public Costs	\$	110	\$	269
Total Costs	\$	262	\$	471
Intragovernmental Earned Revenue	\$	1	\$	1
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	1	\$	1
<b>Women, Infants &amp; Children</b>				
Intragovernmental Costs	\$	2	\$	-
Public Costs	\$	6,086	\$	6,534
Total Costs	\$	6,088	\$	6,534
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

<b>Commodity Assistance Program</b>	<b>FY 2015</b>		<b>FY 2014</b>	
Intragovernmental Costs	\$	8	\$	36
Public Costs	\$	271	\$	266
<b>Total Costs</b>	<b>\$</b>	<b>279</b>	<b>\$</b>	<b>302</b>
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
<b>Total Earned Revenue</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

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

Note 11. Program Costs By Segment

For the year ended September 30, 2015

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

For the year ended September 30, 2014

	<b>CHILD NUTRITION</b>	<b>SNAP</b>	<b>WIC</b>	<b>CAP</b>	<b>OTHER</b>	<b>Consolidated Total</b>
<b>Total Gross Costs</b>	20,499	77,061	6,534	302	471	104,867
<b>Less Earned Revenue:</b>	0	64	0	0	1	65
<b>Net Goal Costs:</b>	20,499	76,997	6,534	302	470	<u>104,802</u>
<b>Net Cost of Operations</b>						<u>104,802</u>

Note 12. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$73 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 2015, one State participated in this program, which generated earned revenues of \$73.

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

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

FY 2014	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 30,972	\$ -	\$ 30,972
Apportionment for Special Activities	73,749	65	73,814
Exempt from Apportionment	-	-	-
<b>Total Obligations Incurred</b>	<b>\$ 104,721</b>	<b>\$ 65</b>	<b>\$ 104,786</b>

Note 14. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2015 and 2014 was \$ 2.3 billion and \$1.4 billion, respectively.

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

Differences exist between FNS' FY 2014 Statement of Budgetary Resources (as provided to the Department for consolidation purposes) and the FY 2014 actual numbers presented in the FY 2016 Budget of the United State Government (Budget). These differences are summarized below:

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Description	Budgetary Resources	Outlays
2014 SBR	\$134,036	\$102,323
Less: Expired Accounts not Included in Budget	\$14,689	\$-
Add: Parent Child Relationship (NIFA)	\$5	\$5
Add: Differences due to Rounding	\$5	(\$2)
Add: Distributed Offsetting Receipts	\$-	\$3
Add: Permanent Reduction Error	\$25	\$-
Add: Direct Fund Cite	\$-	\$11
Budget of the U.S. Government	\$119,382	\$102,340

The actual numbers for the FY President’s Budget have not yet been published as of FNS’ FY 2015 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 16. Incidental Custodial Collections

Revenue Activity:	FY 2015	FY 2014
Sources of Cash Collections:		
Miscellaneous	\$ 2	\$ 10
Total Cash Collections	2	10
Accrual Adjustments (+/-)	6	(2)
Total Custodial Revenue	8	8
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
( Increase )/Decrease in Amounts Yet to be Transferred (+/-)	(8)	(8)
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS’ FY 2015 custodial activity represents all accounts receivable activity related to cancel year appropriations for interest, fines & penalties assessed and collected. For example; civil money penalties, interest, retailer and wholesaler fines and penalties. (See Note 1D., “Accounts Receivable”, for further disclosures on FNS’ collection activities). FNS transfers these types of collections to the Department of Treasury. FNS’ custodial collection activities are considered immaterial and incidental to the mission of FNS.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Amounts shown are in Millions except as noted)

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

	<u>FY 2015</u>	<u>FY2014</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 105,871	\$ 104,786
Less: Spending authority from offsetting collections and recoveries	1,487	1,165
	-----	-----
Obligations net of offsetting collections and recoveries	104,384	103,621
Less: Distributed Offsetting Receipts	-	3
	-----	-----
Net Obligations	104,384	103,618
	-----	-----
Other Resources		
Donations and forfeitures of property	-	-
Transfers in (out) without reimbursement	-	-
Imputed financing from costs absorbed by others	876	850
Other	-	-
	-----	-----
Net other resources used to finance activities	876	850
	<u>FY 2015</u>	<u>FY 2014</u>
Total resources used to finance activities	105,260	104,468
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(366)	289
Resources that fund expenses recognized in prior periods	-	-
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increases liabilities for loan guarantees or allowances for subsidy	-	-
Change in Unfilled Customer Orders	2	-
Decrease in exchange revenue receivable from the public	-	-
Other	-	-
Resources that finance the acquisition of assets	-	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations	-	3
	-----	-----
Total resources used to finance items not part of the net cost of operations	(364)	292
	-----	-----
Total resources used to finance the net cost of operations	104,896	104,760
Components of the Net Cost of Operations that will not require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Increase in annual leave liability	1	1
Increase in environmental and disposal liability	-	-
Upward/Downward re-estimates of credit subsidy expense	-	-
Increase in exchange revenue receivable from the public	-	-
Other	(13)	44
	-----	-----
Total components of Net Cost of Operations that will require or generate resources in future periods	(12)	45
Components not Requiring or Generating Resources:		
Depreciation and amortization	-	-
Revaluation of assets or liabilities	-	-
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	14	(3)
Cost of Goods Sold	-	-
Other	-	-
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources	14	(3)
	-----	-----
Total components of Net Cost of Operations that will not require or generate resources in the current period	2	42
	-----	-----
Net Cost of Operations	\$ 104,898	\$104,802
	=====	=====

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

**Nonfederal Physical Property**

1. A. Supplemental Nutrition Assistance Program (SNAP)

B. Program Expense	<u>2015</u>	<u>2014</u>
1. ADP Equipment & Systems	\$25	\$18

FNS’ nonfederal physical property consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Supplemental Nutrition Assistance Program. The total SNAP Expense for ADP Equipment & Systems has been reported as of the date of FNS’ financial statements.

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

B. Program Expense	<u>2015</u>	<u>2014</u>
1. ADP Equipment & Systems	\$10	\$7

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>2015</u>	<u>2014</u>
1. Employment and Training	\$90	\$65

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. The increase of \$40 in SNAP E&T for FY 2014 expense was due to a change in Budget Appropriation.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS’ E&T program has placed 513,475 work registrants subject to the 3 - month SNAP participant limit and 1,135,113 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Amounts shown are in Millions except as noted)

OTHER INFORMATION

Food and Nutrition Service  
 Combined Schedule of Spending  
 For the Years Ended September 30, 2015 (CY) and 2014 (PY)

FY 2015

FY 2014

	Budgetary	Non-budgetary Credit Reform Financing Accounts	Budgetary	Non-budgetary Credit Reform Financing Accounts
<b>What Money is Available to Spend?</b>				
Total Resources	\$ 140,159	\$ -	\$ 134,036	\$ -
Less Amount Available but Not Agreed to be Spent	4,293	-	11,033	-
Less Amount Not Available to be Spent	29,995	-	18,217	-
<b>Total Amounts Agreed to be Spent</b>	<b>105,871</b>	<b>-</b>	<b>104,786</b>	<b>-</b>
<b>How was the Money Spent/Issued?</b>				
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:				
11, 12, 13 - Personnel Compensation and Benefits	-	-	-	-
21, 22 - Travel and transportation	-	-	-	-
23 - Rent, communications, and utilities	-	-	-	-
24, 25 - Other contractual services	-	-	-	-
26 - Supplies and materials	-	-	-	-
31, 32 - Equipment, land, and structures	-	-	-	-
33 - Investments and loans	-	-	-	-
41 - Grants, subsidies, and contributions	-	-	-	-
42 - Insurance claims and indemnities	-	-	-	-
43, 44 - Interest, dividends, and refunds	-	-	-	-
90 - Other	-	-	-	-
Total	-	-	-	-
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:				
11, 12, 13 - Personnel Compensation and Benefits	-	-	-	-
21, 22 - Travel and transportation	-	-	-	-
23 - Rent, communications, and utilities	-	-	-	-
24, 25 - Other contractual services	-	-	-	-
26 - Supplies and materials	-	-	-	-
31, 32 - Equipment, land, and structures	-	-	-	-
33 - Investments and loans	-	-	-	-
41 - Grants, subsidies, and contributions	-	-	-	-
42 - Insurance claims and indemnities	-	-	-	-
43, 44 - Interest, dividends, and refunds	-	-	-	-
90 - Other	-	-	-	-
Total	-	-	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:				
11, 12, 13 - Personnel Compensation and Benefits	-	-	-	-
21, 22 - Travel and transportation	-	-	-	-
23 - Rent, communications, and utilities	-	-	-	-
24, 25 - Other contractual services	-	-	-	-
26 - Supplies and materials	-	-	-	-
31, 32 - Equipment, land, and structures	-	-	-	-
33 - Investments and loans	-	-	-	-
41 - Grants, subsidies, and contributions	-	-	-	-
42 - Insurance claims and indemnities	-	-	-	-
43, 44 - Interest, dividends, and refunds	-	-	-	-
90 - Other	-	-	-	-
Total	-	-	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:				
11, 12, 13 - Personnel Compensation and Benefits	186	-	162	-
21, 22 - Travel and transportation	8	-	6	-
23 - Rent, communications, and utilities	12	-	3	-
24, 25 - Other contractual services	259	-	236	-
26 - Supplies and materials	1,571	-	1,361	-
31, 32 - Equipment, land, and structures	2	-	6	-
33 - Investments and loans	-	-	-	-
41 - Grants, subsidies, and contributions	103,831	-	103,011	-
42 - Insurance claims and indemnities	-	-	-	-
43, 44 - Interest, dividends, and refunds	-	-	-	-
90 - Other	2	-	1	-
Total	105,871	-	104,786	-
<b>Total Amounts Agreed to be Spent</b>	<b>105,871</b>	<b>-</b>	<b>104,786</b>	<b>-</b>

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2015

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

**Who did the Money go to?**

Federal	96	-	220	-
Non-Federal	105,775	-	104,566	-
<b>Total Amounts Agreed to be Spent</b>	<u>105,871</u>	<u>-</u>	<u>104,786</u>	<u>-</u>

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

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