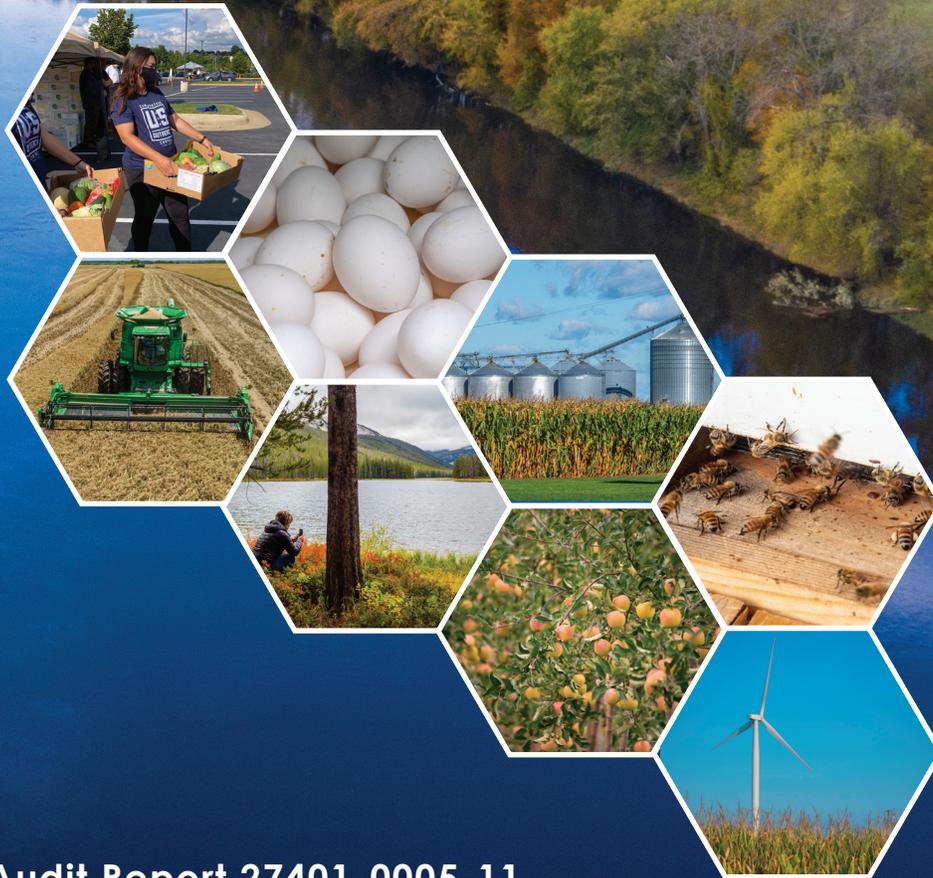


# Food and Nutrition Service's Financial Statements for Fiscal Years 2020 and 2019



**Audit Report 27401-0005-11**

**November 2020**

**OFFICE OF INSPECTOR GENERAL**

# Food and Nutrition Service's Financial Statements for Fiscal Years 2020 and 2019

## Audit Report 27401-0005-11

OIG audited the consolidated financial statements of FNS for fiscal years 2020 and 2019.

### OBJECTIVE

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

### REVIEWED

We conducted our audits on information relevant to the audit objectives as obtained through systems or from officials and personnel based at the FNS national office in Alexandria, Virginia.

### WHAT OIG FOUND

The Food and Nutrition Service (FNS) received an unmodified opinion from the Office of Inspector General's (OIG) audits of FNS' consolidated financial statements. We determined that the agency's financial statements present FNS' financial position as of September 30, 2020, and 2019, fairly, in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This included the agency's net costs, changes in net position, and statements of budgetary resources and related notes to the financial statements.

Our review of FNS' internal control over financial reporting identified no material weaknesses. However, our review of compliance with laws and regulations identified that FNS' high-risk programs were not compliant with the requirements of the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012.

### RECOMMENDS

This report does not include any recommendations.





## OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



**DATE:** November 9, 2020

**AUDIT  
NUMBER:** 27401-0005-11

**TO:** Pamilyn Miller  
Administrator  
Food and Nutrition Service

**ATTN:** David Burr  
Chief Financial Officer, Financial Management

**FROM:** Gil H. Harden  
Assistant Inspector General for Audit

**SUBJECT:** Food and Nutrition Service's Financial Statements for Fiscal Years 2020  
and 2019

This report presents the results of our audits of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2020 and 2019. This report contains an unmodified opinion on the financial statements, as well as the results of our assessments of the Food and Nutrition Service's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in Exhibit A.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.



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# Independent Auditor's Report

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Pamilyn Miller  
Administrator  
Food and Nutrition Service

The Department of Agriculture's Office of Inspector General (OIG) audited the consolidated financial statements of the Food and Nutrition Service (FNS) for fiscal years 2020 and 2019. We also considered FNS' internal control over financial reporting and tested FNS' compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of material financial statement amounts and disclosures on these consolidated financial statements.

Exhibit A presents FNS' response in its entirety.

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of FNS, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost and changes in net position; and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements (hereinafter referred to as the "financial statements").

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-03 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FNS, as of September 30, 2020 and 2019, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

### **Other Matters**

#### **Interactive Data**

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

#### **Required Supplementary Information**

Accounting principles generally accepted in the U.S. issued by the FASAB require that the Required Supplementary Information (RSI)<sup>1</sup> be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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<sup>1</sup> The RSI presented within consists of Management's Discussion and Analysis.

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

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

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2020, we considered FNS' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FNS' internal control. Accordingly, we do not express an opinion on the effectiveness of FNS' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

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

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

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

OMB Bulletin 19-03 requires us to describe significant deficiencies and material weaknesses identified during our audit, and in the event that no material weaknesses were identified, to so report. We did not identify any deficiencies in internal control that were considered to be material weaknesses during our audit.

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

As part of obtaining reasonable assurance about whether FNS' financial statements as of and for the year ended September 30, 2020 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct effect on the determination of material amounts and disclosures in the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We also performed tests of FNS' compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA).

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

In Audit Report 50024-0015-11, *U.S. Department of Agriculture's Fiscal Year 2019 Compliance with Improper Payment Requirements*, issued May 2020, OIG identified that FNS did not fully comply with one of six Improper Payments Elimination and Recovery Act of 2010 requirements. Specifically, FNS' School Breakfast Program did not achieve an improper payment rate of less than 10 percent.

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

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

### **Auditor's Responsibilities**

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

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

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FNS. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements that we deemed applicable to FNS' financial statements for the fiscal year ended September 30, 2020. We caution that noncompliance may occur and not be detected by these tests.

### **Management's Response**

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

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

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



Gil H. Harden  
Assistant Inspector General for Audit  
Washington, D.C.  
November 4, 2020

## Abbreviations

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FASAB.....	Federal Accounting Standards Advisory Board
FFMIA .....	Federal Financial Management Improvement Act of 1996
FMFIA .....	Federal Managers' Financial Integrity Act of 1982
FNS .....	Food and Nutrition Service
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
RSI .....	Required Supplementary Information
U.S. ....	United States of America

**FOOD AND NUTRITION SERVICE'S  
RESPONSE TO AUDIT REPORT**



Food and Nutrition  
Service

1320 Braddock Place  
Alexandria, VA  
22314

DATE: November 4, 2020

AUDIT  
NUMBER: 27401-0005-11

TO: Gil H. Harden  
Assistant Inspector General for Audit

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

SUBJECT: Food and Nutrition Services Financial Statements for Fiscal Years  
2020 and 2019

This letter responds to the discussion draft report issued on November 1, 2020, for audit number 27401-0005-11, Food and Nutrition Services Financial Statements for Fiscal Years 2020 and 2019. FNS has reviewed the draft and has no questions or concerns with the language presented.

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

**FOOD AND NUTRITION SERVICE'S  
FISCAL YEARS 2020 AND 2019  
FINANCIAL STATEMENTS PREPARED BY  
FOOD AND NUTRITION SERVICE**

# MANAGEMENT DISCUSSION AND ANALYSIS

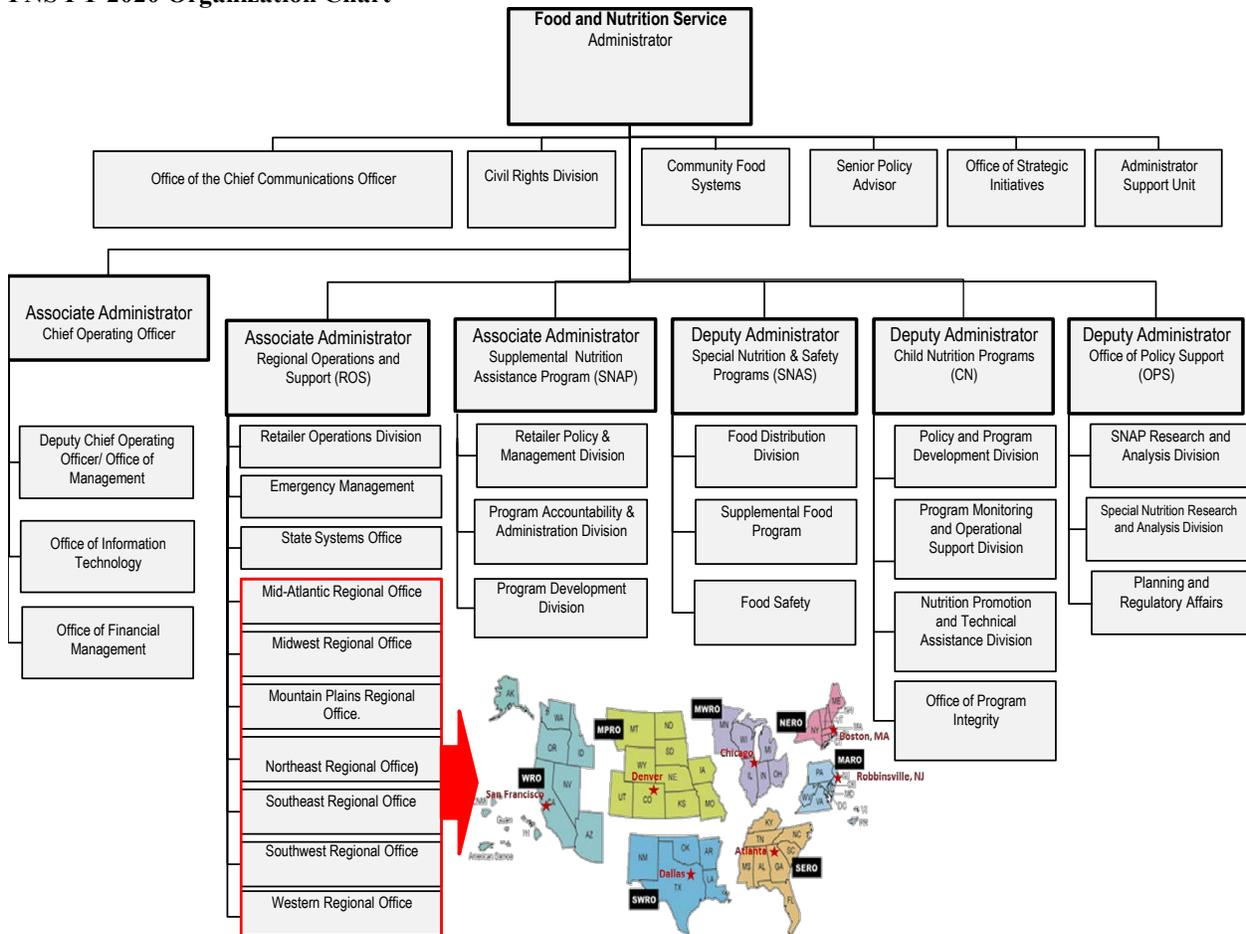
## SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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

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

The FNS annual appropriation for administrative funds includes a very small percentage of funds for the administration of the Center for Nutrition Policy and Promotion (CNPP). CNPP's mission is to improve the health of Americans by developing and promoting dietary guidance that links scientific research to the nutrition needs of consumers.

**FNS FY 2020 Organization Chart**



## **Descriptions of FNS Programs:**

Over the past half-century – beginning with the National School Lunch Program in 1946 – the Nation has gradually built an array of nutrition assistance programs designed to help the most vulnerable populations meet their food needs. Taken together, these programs promote food security and healthy nutritious diets among low-income families and individuals as they seek self-sufficiency. Currently, the programs administered by FNS touch the lives of one in four Americans over the course of a year.

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

- *Supplemental Nutrition Assistance Program (SNAP):* Authorized by the Food and Nutrition Act of 2008, as amended, SNAP is the cornerstone of the Nation’s nutrition assistance safety net, touching the lives of more than 37 million Americans each month. It provides nutrition assistance to participants, the majority of whom are children, the elderly, or people with disabilities, helping them put food on the table using benefits that can be redeemed at authorized food retailers across the country. State agencies are responsible for the administration of the program according to national eligibility and benefit standards set by Federal law and regulations. The Food and Nutrition Service is responsible for authorizing and monitoring participating retailers. Benefits are 100 percent Federally-funded, while administrative costs are shared between the Federal and State Governments.

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

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

- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*: WIC addresses the supplemental nutritional needs of at-risk, low-income pregnant, breastfeeding and postpartum women, infants and children up to five years of age. It provides participants monthly supplemental food packages targeted to their dietary needs, breastfeeding support to nursing mothers, nutrition education, and referrals to a range of health and social services – benefits that promote a healthy pregnancy for mothers and a healthy start for their children. Appropriated funds are provided to States agencies for food packages and nutrition services and administration for the program; State agencies operate the program pursuant to plans approved by FNS.
- *The Emergency Food Assistance Program (TEFAP)*: This program supports the emergency food organization network by distributing USDA-purchased, 100 percent domestically grown foods for use by emergency feeding organizations including soup kitchens, food recovery organizations, and food banks. The foods are also provided to other types of local organizations, such as community action agencies, which distribute the foods directly to low-income households. TEFAP also provides administrative funds to defray State and local costs associated with transportation, processing storage, and distribution of USDA Foods or those provided through private donations. The allocation of both Federal food and administrative grants to States is based on a formula that considers the States' unemployment levels and the number of persons with income below the poverty level.
- *The Commodity Supplemental Food Program (CSFP)*: CSFP works to improve the health of low-income elderly persons at least 60 years of age by supplementing their diets with nutritious USDA Foods. Participants receive a monthly food package of USDA Foods, State agencies are provided funding to cover State and local administrative costs such as nutrition education, warehousing, food delivery, and participation certification, States work with local agencies to distribute the monthly food packages to participants.
- *Senior Farmers' Market Nutrition Program (SFMNP)*: This program provides coupons to low-income seniors that can be exchanged for fresh, nutritious, unprepared, locally grown fruits, vegetables, herbs and honey at farmers' market, roadside stands, and community-supported agriculture programs.
- *Farmers' Market Nutrition Program (FMNP)*: FMNP provides WIC participants, including women, infants older than 4 months, and children up to age of 5 with special coupons to purchase and consume fresh, locally grown fruits, vegetables, and herbs directly from farmers, farmers' markets and roadside stands.
- *Pacific Island and Disaster Assistance*: Pacific Island Assistance includes assistance to the nuclear-affected islands of the Republic of the Marshall Islands (RMI) in the form of cash-in-lieu of food and administrative funds through the Special Food Assistance Program and is authorized under the Compact of Free Association Amendments Act of 2003 (P.L. 108-188). Disaster relief in the form of USDA Foods can be provided to the RMI and Federated States of Micronesia for use in Presidential Disaster Declaration.

Federal nutrition assistance programs operate as partnerships between FNS and the State and local organizations that interact directly with program participants. States voluntarily enter into agreements with the Federal Government to operate programs according to Federal standards in exchange for program funds that cover all benefit costs, and a significant portion, if not all, of administrative expenses. Under these agreements, FNS is responsible for implementing statutory requirements that set national program standards for eligibility and benefits, providing Federal funding to State and local partners, and for conducting monitoring and evaluation activities to make sure that program structures and policies are properly implemented and effective in meeting program missions. State and local organizations are

responsible for delivering benefits efficiently, effectively, and in a manner consistent with federal regulations.

**FNS Staff:**

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

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

Program operations are managed through FNS’ seven regional offices and 14 field offices/satellite locations. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNS programs and conduct on-site management reviews of State operations. The Retailer Operations Division monitors 248,688 stores and other outlets as of June 30, 2020 authorized to redeem SNAP benefits.

As of June 2020, there were approximately 1,377 full-time permanent employees in the agency. There were 528 employees in the Washington headquarters office and 849 in the field. The chart below displays staff year utilization.

STAFF YEAR DISTRIBUTION (From All Sources of Funds)					
FNS Projects and CNPP	2019 Actual	2020 Enacted	2021 Estimate	Change	2022 Estimate
Supplemental Nutrition Assistance Program	339	375	376	0	376
Child Nutrition Programs	260	293	293	0	293
Commodity Assistance Program	3	3	3	0	3
Special Supplemental Nutrition Program for Women, Infants and Children	38	44	44	0	44
Nutrition Programs Administration	733	816	798	0	798
Center for Nutrition Policy and Promotion*	26	26	26	0	26
<b>Total Available</b>	<b>1,399</b>	<b>1,557</b>	<b>1,540</b>	<b>0</b>	<b>1,540</b>

\*CNPP Staff Year Distribution includes four staff years funded by the Child Nutrition Programs

## SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

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

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

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

USDA is focused on ensuring America's families are safe, secure, and healthy during this national emergency (COVID-19 Pandemic). We are working with our state and local partners across all of our nutrition programs by:

- Allowing states to serve [free meals to children](#) and launching [Pandemic-EBT \(P-EBT\)](#) to support children who rely on free and reduced-price school meals;
- [Increasing SNAP benefits](#) and [expanding access to online purchasing](#);
- Addressing [supply challenges](#) and [allowing substitutions](#) when WIC foods are unavailable;
- Providing billions of dollars in food through local food banks, food pantries, and [disaster household distributions](#); and
- Approving more than 4,000 flexibilities and program adjustments to ease operations and protect the health of applicants and participants.

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 2020. 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

<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

harnessed interactive technologies to motivate all Americans to make positive dietary behavioral changes consistent with the *Dietary Guidelines for Americans* and the Healthier US initiative.

In FY 2020 during the COVID-19 pandemic, 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 2020, USDA pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to support and encourage good nutrition choices.

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

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

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

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

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

##### **Overview**

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

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

Most U.S. households have access at all times to enough food for an active and healthy life and are food secure. The estimated percentage of households that were food secure in 2019 (89.5percent) increased significantly from 2018 (88.9 percent), and is higher than pre-recession levels (88.9 percent in 2007).

Annual Performance Goals, Indicators and Trends	2015	2016	2017	2018	2019	Fiscal Year 2020		
						Target	Actual	Result
7.2.1 Percentage of American households with consistent dependable access to food	87.3%	87.7%	88.2%	88.9%	89.5%	89.5%	Not Available	Deferred
FY 2020 data will be available in September 2021 <b>Rationale for Met Range:</b> The standard error around the measure (89.5 percent) is $\pm 0.1866$ .								
<b>Data Assessment of Performance Measure 7.2.1</b>								
The data comes from the annual survey conducted by the U.S. Census Bureau as a supplement to the nationally representative Current Population Survey (CPS). The data are collected annually in December.								
<input type="checkbox"/> <b>Completeness of Data</b> —The CPS currently includes about 50,000 households and is representative at the State and national level of the civilian non-institutionalized U.S. population. In December 2019, 34,334 households completed the food security supplement, and data are weighed by the U.S. Census Bureau to provide the national prevalence. The most current data is Calendar Year 2019.								
<input type="checkbox"/> <b>Reliability of Data</b> — The US Census Bureau conducted cognitive and field tests of the food security questionnaire before it was finalized and included as a supplement to the CPS in April 1995. Minor modifications were made to the format and screening procedures during the first years of administration. In 1998 the screener and format were substantially revised to reduce respondent burden and improve the quality of the data. However, the content of the 18 food security questions has remained constant. In 2003-2006 an expert panel convened by the Committee on National Statistics (CNSTAT) of the National Academy of Sciences reviewed the food security measurement methodology. This expert panel concluded that the general methodology for measuring food insecurity was appropriate.								
<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.								

### Challenges for the Future

Although, the prevalence of food secure households continued to increase in 2019 after having reached the pre-recession levels of 2007 by 2018 (88.9 percent), a majority of households that participated in SNAP, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) or the National School Lunch Program reported being food insecure in the month prior to the survey. In addition, 2020 experienced the COVID-19 pandemic, which will likely have a substantial impact on food security measures. Prior studies based on the American Recovery and Reinvestment Act (ARRA) SNAP benefit increase indicated that SNAP had a stabilizing effect – food security did not decrease to the level it would have in the absence of SNAP, it did not eliminate food insecurity. The next survey will collect data in December 2020 and will provide additional insight into SNAP’s role in addressing food insecurity, in 2020’s case especially during times of greater crisis.

The alignment of the timeline for the annual performance measure with the availability of the annual food security statistics continues to be a challenge. In addition, the annual food security statistics are for a calendar year. The annual measure is released in mid-September of the following year.

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

### Overview

FNS supports helping SNAP recipients become self-sufficient. FNS allocates \$123.9 million to State SNAP agencies to operate employment and training (E&T) programs designed to help SNAP recipients gain skills, education, and work experience that lead to good jobs. In addition, FNS reimburses States 50 percent for costs they incur above that amount. States have discretion regarding whom to serve and where to provide services. They may provide a variety of components such as job search, job search training, workfare, career and technical education, on-the-job training, or apprenticeships. Previously the majority of SNAP participants received light touch services such as job search. The FNS November 2016 SNAP E&T Best Practices Report Study found that stand alone basic skills or job search assistance programs fall short of helping participants achieve lasting self-sufficiency. Whereas, combining these components with more intensive services, or offering programs leading to academic credentials or community college certificates are more often associated with improved outcomes.

Since 2014, FNS has invested significant resources to help States create more evidenced-based, skills-based programs that meet the needs of employers and lead to jobs in the local economy. Given that the 100 percent Federal funds and State resources are limited, FNS determined that the best way for States to grow and improve their programs was to leverage the 50 percent reimbursement funds and build third-party partnerships. FNS increased its capacity at the national and regional levels to work directly with all States, and through its SNAP to Skills (S2S) Project provided more targeted technical assistance to 7 States. Through S2S, FNS also created tools and resources that are available to all States and other stakeholders using insights from behavioral sciences. Other materials include The Employment and Training Review, a monthly newsletter that is disseminated to over 7,000 people, a series of webinars on best practices, and four promotional videos featuring State agencies, E&T providers and SNAP participants.

FNS is supporting States as they creatively strategize to continue SNAP E&T in light of the COVID-19 pandemic. FNS hosted a webinar about how States and their provider partners have had to quickly re-tool their SNAP E&T services, shift to virtual delivery models and plan for a new normal that includes fewer options for in-person interaction to engage participants. Presenters shared what has worked, what has been most challenging, and what emerging practices will remain as they re-open and move beyond the pandemic.

FNS awarded more than \$6.7 million in new National Partnership Grants in fiscal year 2020. The grantees will create significant value-add to the work that FNS has been doing by using their trusted voices with their members to promote and support SNAP E&T across their large networks of service providers.

### Analysis of Results

Every year States report data on the FNS 583 that includes the number of SNAP participants served in each component. Overtime this data should show an increase in the number of participants in more education and skills-based activities. However, there are inherent limitations of this data, including that it is State reported and not verified by FNS. In order to improve the quality of the data and better

understand what services SNAP E&T participants are actually receiving, FNS changed the way States report on component participation, setting a new baseline of 25.5 percent. FNS utilized contractor support to prepare customized technical assistance reports for each State to support improved data collection and reporting. FNS is committed to improving the quality of the State reported data. Moving forward FNS will take action to clarify instructions through webinars and technical assistance packages.

FNS awarded \$3 million in E&T Data Grants in FY2020 to support the development of State SNAP E&T data collection and reporting systems.

Annual Performance Goals, Indicators and Trends	2015	2016	2017	2018	2019	Fiscal Year 2020		
						Target	Actual	Result
7.2.2 Percentage of SNAP Education & Training participants engaged in education and skills-based training	33%	33%	Not Available	25.5%	34.7	35.5	Not Available	Deferred
<b>Rationale for Met Range:</b> FY 2020 data will be available in FY 2021.								
<b>Data Assessment of Performance Measure 7.2.2</b>								
<p>Data is pulled from the FNS-583 SNAP Employment and Training (E&amp;T) Program Activity Report fourth quarter report. The percentage of participants engaged in education and skill-based training is calculated by adding up the total number of participants in education and training activities (job search, job search training, job retention, workfare, and WIOA activities are excluded) and dividing that by the total number of participants.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Completeness of Data</b>— The data is submitted 45 days after the end of the previous fiscal year and is considered “complete” after it is reviewed and approved by FNS regional offices. However, data may be subject to change up to a year after posting if the State or Federal agency identifies an error. The most current data is FY 2019</li> <li><input type="checkbox"/> <b>Reliability of Data</b>— The data is compiled and submitted by State agencies. While it is reviewed and approved by Federal staff, it is not independently verified. FNS does review data collection methods and samples during Management Evaluations. However, these reviews do not take place in every State each year. FY 2017 data showed wide deviations from previous years. FNS is working with States to identify issues and correct deficiencies in data collection and reporting.</li> <li><input type="checkbox"/> <b>Quality of Data</b>— The data is compiled and submitted by State agencies. While it is reviewed and approved by Federal staff, it is not independently verified. FNS does review data collection methods and samples during Management Evaluations. However, these reviews do not take place in every State each year. To improve the quality of the data and better understand what services SNAP E&amp;T participants are actually receiving, FNS changed the way States report on component participation, setting a new baseline of 25.5%.</li> </ul>								

### Challenges for the Future

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

The Agriculture Improvement Act of 2018 made many changes to the SNAP E&T program and States are now required to implement many of these changes. FNS will continue to provide technical assistance to States to ensure the quality and reliability of the data. FNS is also strategizing and developing new technical assistance approaches to support States in dealing with E&T given the realities of the COVID-19 pandemic and the need to rethink and retool many approaches based on virtual learning and social distancing.

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

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

#### **Overview**

The National School Lunch Program (NSLP) is a federally assisted meal program operating in about 97,000 public and non-profit private schools and residential child care institutions. Schools and districts that choose to participate in the NSLP receive cash subsidies and USDA Foods from the U.S. Department of Agriculture (USDA) for each meal they serve that meets the Federal requirements. Generally, children from households with incomes at or below 130 percent of the Federal poverty level are eligible for free meals, while children from families with incomes between 130 percent and 185 percent are eligible for reduced price meals. Schools can charge no more than 40 cents per reduced price lunch and no more than 30 cents per reduced price breakfast. Children may also be determined categorically eligible for free meals through participation in certain Federal assistance programs, such as the Supplemental Nutrition Assistance Program, or based on their status as a homeless, migrant, runaway, or foster child. Children enrolled in a federally-funded Head Start Program, or a comparable State-funded pre-kindergarten program, are also categorically eligible for free meals. Children who do not qualify for free or reduced price meals may purchase a lunch at the “paid” rate. Local school districts have discretion in setting the price of a paid lunch, provided the school districts meet minimum Federal requirements for paid lunch pricing.

#### **Analysis of Results**

Over 52 million children attend schools that operate the NSLP. In FY 2019, about 29.6 million children participated in the NSLP each school day, with 21.8 million receiving their lunch at no cost or at a reduced price. Provisions designed to improve access, streamline administration, and enhance operational flexibility have helped USDA reach more of the nation’s children in recent years. USDA continues to work to connect our nation’s most vulnerable children with the wholesome foods they need to stay healthy and focused during the school day.

- USDA continues to take measurable steps to help school food professionals overcome specific challenges in meeting the school breakfast and lunch nutrition standards, which were updated in 2012. While many schools successfully implemented the nutrition standards in a way that encourages healthy eating and participation, some schools required additional flexibility and support from USDA to meet the standards. On January 23, 2020, USDA published a proposed rule to simplify meal pattern and monitoring requirements in the school breakfast and lunch programs. This action underscored the Department’s commitment to customer service by assisting schools in overcoming operational challenges in implementing the school meals regulations. Specifically, other proposed rule changes include:
  - Adding flexibility to the existing vegetable subgroups;
  - Allowing breakfast menu planners to offer meats/meat alternates and grains interchangeably and to offer ½ cup of fruit in breakfasts served outside the cafeteria;
  - Allowing local Program operators to plan menus for different age/grade groups;

- Expanding the entrée exemption service timeframe for competitive foods; and
  - Improving the efficiency in Program monitoring by easing several administrative review requirements, including the review cycle.
- Based on the exceptional circumstances related to the declaration by the U.S. Department of Health and Human Services of a public health emergency due to the novel coronavirus disease (COVID-19) effective retroactively to January 27, 2020, USDA took several actions to support meal service in child nutrition programs while social distancing measures were in place<sup>2</sup>:
    - On March 6, 2020, USDA issued guidance to State agencies and Program operators outlining how schools, child care institutions, and community organizations may continue to provide reimbursable meals to low-income children during the school closures related to COVID-19. Section 13(c)(1) of the Richard B. Russell National School Lunch Act (NSLA) (42 U.S.C. 1761(c)(1)), codified at 7 CFR 225.6, authorizes the provision of Summer Food Service Program (SFSP) or National School Lunch Program Seamless Summer Option (SSO) meal service to children during unanticipated school closures. In accordance with the authority provided by Section 12(l) of the NSLA, USDA waived the requirements for serving meals in a congregate setting and the requirement to serve meals at a non-school site for COVID-19 related SFSP or SSO meal service operations. USDA provided these flexibilities to address concerns regarding the loss of meals for low-income children. State agencies also submitted to USDA individual waiver requests for statewide use prior to any SFSP or SSO meal service operations for unanticipated school closures, including those related to COVID-19.
    - In accordance with authority provided by Section 2202 of the Families First Coronavirus Response Act (P.L. 116-127), USDA issued multiple nationwide waivers for SFSP and SSO, effective until December 31, 2020. This includes:
      - Area eligibility, which allows all meals to be reimbursed at the free rate and not be limited to areas where at least half of the children in the area are in low-income households.
      - Meal times, which allows maximum flexibility for meal pick-up or delivery, and allows multiple meals to be served to students to consume at a later time;
      - Non-congregate feeding, which allows meals to be served in a non-group setting;
      - Parent/guardian pick-up, which allows parents or guardians to pick up meals while students remain safe at home;
      - Meal pattern, which allows schools to serve meals that do not meet meal pattern requirements when needed, such as when specific food components are not available;
      - Offer versus serve, which allows participants to decline certain food components to reduce food waste;
      - Closed-enrolled site eligibility, which allows program operators to have closed-enrolled sites in areas that are eligible for open sites; and
      - First week site visits, which relieved program sponsors of the requirement to visit each of their sites at least once during the first week of operation for sites that have operated successfully in the previous year and sponsors that successfully participate in the Child and Adult Care Food Program (CACFP) or the NSLP.

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<sup>2</sup> USDA/FNS anticipates the need for additional guidance and flexibilities to address the nutritional and operational challenges faced by its Child Nutrition Program stakeholders during the COVID-19 pandemic. As such, the summary of COVID-19 response activities and publications listed in this document may not be exhaustive; for the most current information on the agency's COVID-19 Child Nutrition response efforts, please visit: <https://www.fns.usda.gov/programs/fns-disaster-assistance/fns-responds-covid-19/child-nutrition-covid-19-waivers>.

- On August 31, 2020, USDA issued a nationwide waiver to allow SFSP and SSO to operate through December 31, 2020. Under the waiver, school food authorities could choose to serve meals through SFSP or SSO, or could opt to participate under the School Meal Programs (NSLP and School Breakfast Program).
  - USDA issued a nationwide waiver for the requirement for educational or enrichment activities in a structured and supervised environment for afterschool programs in the CACFP At-Risk Afterschool Program and the NSLP Afterschool Snacks Program, effective until June 30, 2020.
  - USDA issued waivers for CACFP, NSLP, and the School Breakfast Program (SBP), effective until June 30, 2021. This includes:
    - Meal times;
    - Non-congregate feeding;
    - Meal pattern; and
    - Parent/guardian pick-up.
  - USDA issued a nationwide waiver in NSLP for offer versus serve in senior high schools, which allows schools to serve pre-packaged or pre-plated meals, effective until June 30, 2021.
  - USDA issued nationwide waivers for NSLP and SBP regarding:
    - The Community Eligibility Provision, which extended the election, notification and reporting deadlines for School Year 2020-2021.
    - Local school wellness policy triennial assessments, which provided a one-year delay for schools unable to complete a triennial assessment of the local school wellness policies due to school closures.
  - USDA issued a nationwide waiver in the NSLP that waives the on-site monitoring requirements in order to provide States and schools with oversight flexibilities. This waiver helps States and schools focus on delivering healthy meals to participants, maintain oversight responsibilities, and support social distancing during the current public health emergency. This waiver will be in effect through June 30, 2021.
  - USDA also issued individual State or Program operator waivers for parent/guardian pick-up and to allow service at alternate sites for the Fresh Fruit and Vegetable Program, non-congregate service for the Special Milk Program, extension of application forms in CACFP, extension of the timeframe to notify or respond to SFSP and CACFP sponsor applications, and health department notification in SFSP.
  - USDA provided these waivers to ensure children would have access to nutritious meals while minimizing potential exposure to the novel coronavirus. State agencies were required to inform USDA if they elected to be subject to the nationwide waivers, and must report on use of the waivers.
  - USDA released *Feeding Kids When Schools Are Closed Due to COVID-19*, a two-page publication that highlights USDA's efforts, waivers, and resources to assist program operators in providing meals to children while schools are closed.
  - USDA released *Child Nutrition Program Meal Service During COVID-19*, a two-page publication that provides tips and best practices for program operators who wish to distribute meals to parents and guardians without the child or adult participant present.
- In FY 2020, USDA released several new enhancements to the Food Buying Guide for Child Nutrition Programs (FBG) Interactive Web-based Tool and mobile application. The FBG assists Program operators and food manufacturers in purchasing the right amount of food to contribute towards Child Nutrition Program meal pattern requirements. New updates to the FBG introduction sections and appendices were released to reflect the latest policy guidance on meal pattern flexibilities. Additional enhancements to the Exhibit A Grains Tool within the FBG were made to: 1) determine the amount to serve for a grain product in order to meet the minimum

grains requirement by age/grade group for a specific Child Nutrition Program, 2) allow food item searches with similar keywords to be included in the search results, and 3) include two interactive flow charts for increased ease of use for determining creditable grains/breads and whether a product meets the whole grain-rich criteria. The FBG tools were further enhanced by in the inclusion of numbered step-by-step instructions to help users easily utilize the additional features of the FBG (Product Formulation Statement, Recipe Analysis Workbook, and the Food Buying Guide Calculator).

- Section 9(b) (4) (F) of the Richard B. Russell National School Lunch Act requires States to directly certify 95 percent of children in households receiving SNAP benefits. In SY 2018-2019, 40 States met or exceeded the 95 percent requirement, an increase of 12 States since SY 2016-2017. This is the third year that the majority of States have met the performance target. Each State that does not meet the benchmark is required to develop and implement a Continuous Improvement Plan (CIP) to improve its direct certification procedures and meet the statutory benchmark in subsequent school years. To assist in the development and execution of these Plans, as well as direct certification efforts nationally, the Food and Nutrition Service provides guidance and process improvement assistance to State agencies. Technical assistance efforts include on-site visits, conference calls, and written guidance. Due in part to this assistance, it is anticipated that several States will achieve the mandated benchmark rate in subsequent years.

Annual Performance Goals, Indicators and Trends	2015	2016	2017	2018	2019	Fiscal Year 2020		
						Target	Actual	Result
7.3.1 Annual percentage of eligible children participating in the NSLP	55.4%	55.5%	54.5%	57.8%	56.5%	59%	53.4%	Did not meet*
<p><b>Rationale for Met Range:</b> Thresholds for 7.3.1 reflect the margin of error in forecasts of future participation, estimated at 5 percent for school meals programs. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2020, this percentage range allows for actual performance did not meet the target in the range of 56.1 - 62.0 percent.</p> <p><b>*Note:</b> Due to unanticipated school closures as a result of the COVID-19 pandemic, the actual 2020 figure is impacted due to the changes in meal service levels. Additionally, many schools served non-congregate meals through the Summer Food Service Program (SFSP) which is not included in this metric.</p>								
<p><b>Data Assessment of Performance Measure 7.3.1</b></p> <p>* In FY 2018 there was a change in the methodology to calculate this figure. The figure is now derived from FNS administrative data on participation and enrollment in schools participating in the NSLP. Previously the metric used the Department of Education National Center for Education Statistics (NCES) public and private school enrollment data from the NCES's <i>Projections of Education Statistics</i> report series for the denominator. The old method did not adjust for whether or not the schools in which the children were enrolled participated in the NSLP. The new method uses enrollment data from FNS administrative data on the number of students enrolled in schools that participate in the NSLP. This method measures the actual percent of students that participate in the NSLP that are enrolled in schools operating the NSLP. This is the same metric used in the USDA Strategic Plan.</p>								
<p>The indicator is a ratio of school meals participation and enrollment data, drawn from USDA administrative records. This ratio shows the proportion of children enrolled in schools with the NSLP participating in the program.</p> <p>NSLP administrative data is drawn from State agency reports that are certified as accurate and submitted to FNS Regional Offices. There, the reports are reviewed for completeness and consistency. If the data are acceptable, the FNS Regional Office analyst posts the reports to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, FNS Regional Office personnel reject the report and the State agency is contacted. Data posted by FNS Regional Office personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to</p>								

Annual Performance Goals, Indicators and Trends	2015	2016	2017	2018	2019	Fiscal Year 2020		
						Target	Actual	Result
<p>NDB for public release. If not, USDA works with FNS Regional Offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.</p> <p>□ <b>Completeness of Data</b>— Figures for NSLP participation are based on 9-month (school year) averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through April 30, 2020, as available August 2020. Figures for enrollment in NSLP participating schools are reported in October of each year.</p> <p>□ <b>Reliability of Data</b>— Participation and enrollment data reporting are used to support program financial operations. All of the data are used in published analyses, studies and reports. The data also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.</p> <p>□ <b>Quality of Data</b>— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.</p>								

### Challenges for the Future

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

- School food authorities are required to increase the prices charged for paid lunches to ensure adequate revenue is generated to cover production costs. The intent of this requirement is to ensure Federal reimbursements for free and reduced price meals are not used to cover the costs of paid lunches. In some cases, increasing the paid lunch price may impact participation. FNS has recognized that not all school food authorities need the additional revenue, and has provided an exemption for school food authorities in good financial standing. School food authorities may also contribute non-Federal funds to meet this requirement in lieu of raising prices.
- Consistent with Section 747 of Division B of the Further Consolidated Appropriations Act, 2020 (Public Law 116-94) (the Appropriations Act), FNS issued guidance in January 2020 exempting any school food authority with a positive or zero balance in its school food service account as of December 31, 2019 from paid lunch equity requirements for SY 2020-2021. School food authorities maintain the discretion to adjust their paid lunch price for SY 2020-2021 accordingly. To demonstrate State oversight of this provision, FNS recommended that State agencies maintain documentation for any school food authorities using this exemption.
- FNS also provides operators with extensive support through grants, training, training tools, a searchable collection of recipes, and technical assistance and educational tools and resources. Schools that face operational challenges receive targeted technical assistance, training, and peer mentoring to support strong student participation.

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

### Overview

The School Breakfast Program (SBP) is a federally assisted meal program operating in public and non-profit private schools and residential child care institutions. School districts and institutions that choose to participate in the SBP receive cash subsidies and USDA Foods from the U.S. Department of Agriculture (USDA) for each meal they serve that meets the Federal requirements. Generally, children from households with incomes at or below 130 percent of the Federal poverty level are eligible for free meals, while children from families with incomes between 130 percent and 185 percent are eligible for reduced price meals. Schools may not charge children more than 30 cents for a reduced price breakfast. Children may be determined categorically eligible for free meals through participation in certain Federal assistance programs, such as the Supplemental Nutrition Assistance Program, or based on their status as a homeless, migrant, runaway, or foster child. Children enrolled in a federally-funded Head Start Program, or a comparable State-funded pre-kindergarten program, are also categorically eligible for free meals. Children who do not qualify for free or reduced price meals may purchase a breakfast at the “paid” rate.

### Analysis of Results

Over 49 million children attend schools that operate the SBP. In FY 2019, nearly 14.8 million children participated in the SBP each school day, with over 12.5 million children receiving their breakfast at no cost or at a reduced price. USDA continues to work to connect our nation’s most vulnerable children with the wholesome foods they need to stay healthy and focused during the school day.

- USDA continues to take meaningful steps to help school food professionals overcome specific challenges in meeting the school breakfast and lunch nutrition standards, which were updated in 2012. While many schools successfully implemented the nutrition standards in a way that encourages healthy eating and participation, some schools required additional flexibility and support from USDA to meet the standards. On January 23, 2020, USDA published a proposed rule to simplify meal pattern and monitoring requirements in NSLP and SBP. This action underscored the Department’s commitment to customer service by assisting schools in overcoming operational challenges in implementing the school meals regulations. Specifically, other proposed rule changes include:
  - Allowing menu planners to offer meats/meat alternates and grains interchangeably (without offering a minimum grains requirement daily).
  - Increasing the flexibility for schools to offer ½ cup of fruit in breakfast served outside the cafeteria to reduce food waste.
  - Allowing local Program operators to plan menus for different age/grade groups.
  - Expanding the entrée exemption service timeframe for competitive foods.
  - Improving the efficiency in Program monitoring by easing several administrative review requirements, including the review cycle.
- Recognizing that some children face barriers to SBP participation due to the timing of the meal, which often takes place before the regular school day, USDA has encouraged alternative breakfast models to improve access, streamline administration, and eliminate barriers to participation. Local schools are encouraged to adopt the breakfast service model that works best

for them, which could be serving breakfast in the classroom, offering a grab-and-go breakfast, or serving breakfast on a school bus. According to the School Nutrition and Meal Cost Study (published in April 2019), among participating children, ease/convenience was the most commonly reported reason for SBP participation. Alternative breakfast models give schools more convenient options, helping to connect more children with a wholesome morning meal.

- Based on the exceptional circumstances related to the declaration by the U.S. Department of Health and Human Services of a public health emergency due to the novel coronavirus disease (COVID-19), effective retroactive to January 27, 2020, USDA took several actions to support meal service in child nutrition programs while social distancing measures were in place<sup>3</sup>:
  - On March 6, 2020, USDA issued guidance to State agencies and Program operators outlining how schools, child care institutions, and community organizations may continue to provide reimbursable meals to low-income children during the school closures related to COVID-19. Section 13(c)(1) of the Richard B. Russell National School Lunch Act (NSLA) (42 U.S.C. 1761(c)(1)), codified at 7 CFR 225.6(d)(1)(iv), authorizes the provision of Summer Food Service Program (SFSP) or National School Lunch Program Seamless Summer Option (SSO) meal service to children during unanticipated school closures. In accordance with the authority provided by Section 12(l) of the NSLA, USDA waived the requirements for serving meals in a congregate setting and the requirement to serve meals at a non-school site for COVID-19 related SFSP or SSO meal service operations. USDA provided these flexibilities to address concerns regarding the loss of meals for low-income children. State agencies also submitted to USDA individual waiver requests for statewide use prior to any SFSP or SSO meal service operations for unanticipated school closures, including those related to COVID-19.
  - In accordance with authority provided by Section 2202 of the Families First Coronavirus Response Act (P.L. 116-127), USDA issued multiple nationwide waivers for SFSP and SSO, effective until December 31, 2020. This includes:
    - Area eligibility, which allows all meals to be reimbursed at the free rate and not be limited to areas where at least half of the children in the area are in low-income households.
    - Meal times, which allows maximum flexibility for meal pick-up or delivery, and allows multiple meals to be served to students to consume at a later time;
    - Non-congregate feeding, which allows meals to be served in a non-group setting;
    - Parent/guardian pick-up, which allows parents or guardians to pick up meals while students remain safe at home;
    - Meal pattern, which allows schools to serve meals that do not meet meal pattern requirements when needed, such as when specific food components are not available;
    - Offer versus serve, which allows participants to decline certain food components to reduce food waste;
    - Closed-enrolled site eligibility, which allows program operators to have closed-enrolled sites in areas that are eligible for open sites; and
    - First week site visits, which relieved program sponsors of the requirement to visit each of their sites at least once during the first week of operation for sites that

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<sup>3</sup> USDA/FNS anticipates the need for additional guidance and flexibilities to address the nutritional and operational challenges faced by its Child Nutrition Program stakeholders during the COVID-19 pandemic. As such, the summary of COVID-19 response activities and publications listed in this document may not be exhaustive; for the most current information on the agency's COVID-19 Child Nutrition response efforts, please visit: <https://www.fns.usda.gov/programs/fns-disaster-assistance/fns-responds-covid-19/child-nutrition-covid-19-waivers>.

- have operated successfully in the previous year and sponsors that successfully participate in the Child and Adult Care Food Program (CACFP) or the NSLP.
- On August 31, 2020, USDA issued a nationwide waiver to allow SFSP and SSO to operate through December 31, 2020. Under the waiver, school food authorities could choose to serve meals through SFSP or SSO, or could opt to participate under the School Meal Programs (NSLP and School Breakfast Program).
  - USDA issued a nationwide waiver for the requirement for educational or enrichment activities in a structured and supervised environment for afterschool programs in the CACFP At-Risk Afterschool Program and the NSLP Afterschool Snacks Program, effective until June 30, 2020.
  - USDA issued waivers for CACFP, NSLP, and the School Breakfast Program (SBP), effective until June 30, 2021. This includes:
    - Meal times;
    - Non-congregate feeding;
    - Meal pattern; and
    - Parent/guardian pick-up.
  - USDA issued a nationwide waiver in NSLP for offer versus serve in senior high schools, which allows schools to serve pre-packaged or pre-plated meals, effective until June 30, 2021.
  - USDA issued nationwide waivers for NSLP and SBP regarding:
    - The Community Eligibility Provision, which extended the election, notification and reporting deadlines for School Year 2020-2021.
    - Local school wellness policy triennial assessments, which provided a one-year delay for schools unable to complete a triennial assessment of the local school wellness policies due to school closures.
  - USDA issued a nationwide waiver in the NSLP that waives the on-site monitoring requirements in order to provide States and schools with oversight flexibilities. This waiver helps States and schools focus on delivering healthy meals to participants, maintain oversight responsibilities, and support social distancing during the current public health emergency. This waiver will be in effect through June 30, 2021.
  - USDA also issued individual State or Program operator waivers for parent/guardian pick-up and to allow service at alternate sites for the Fresh Fruit and Vegetable Program, non-congregate service for the Special Milk Program, extension of application forms in CACFP, extension of the timeframe to notify or respond to SFSP and CACFP sponsor applications, and health department notification in SFSP.
  - USDA provided these waivers to ensure children would have access to nutritious meals while minimizing potential exposure to the novel coronavirus. State agencies were required to inform USDA if they elected to be subject to the nationwide waivers, and must report on use of the waivers.
  - USDA released *Feeding Kids When Schools Are Closed Due to COVID-19*, a two-page publication that highlights USDA's efforts, waivers, and resources to assist program operators in providing meals to children while schools are closed.
  - USDA released *Child Nutrition Program Meal Service During COVID-19*, a two-page publication that provides tips and best practices for program operators who wish to distribute meals to parents and guardians without the child or adult participant present.
- In FY 2020, USDA released several new enhancements to the Food Buying Guide for Child Nutrition Programs (FBG) Interactive Web-based Tool and mobile application. The FBG assists Program operators and food manufacturers in purchasing the right amount of food to contribute towards Child Nutrition Program meal pattern requirements. New updates to the FBG

introduction sections and appendices were released to reflect the latest policy guidance on meal pattern flexibilities. Additional enhancements to the Exhibit A Grains Tool within the FBG were made to: 1) determine the amount to serve for a grain product in order to meet the minimum grains requirement by age/grade group for a specific Child Nutrition Program, 2) allow food item searches with similar keywords to be included in the search results, and 3) include two interactive flow charts for increased ease of use for determining creditable grains/breads and whether a product meets the whole grain-rich criteria. The FBG tools were further enhanced by in the inclusion of numbered step-by-step instructions to help users easily utilize the additional features of the FBG (Product Formulation Statement, Recipe Analysis Workbook, and the Food Buying Guide Calculator).

Annual Performance Goals, Indicators and Trends	2015	2016	2017	2018	2019	Fiscal Year 2020		
						Target	Actual	Result
7.3.2 Annual percentage of eligible children participating in the SBP	29.0%	30.2%	30.1%	30.1%	29.6%	31%	31%	Met*
<p><b>Rationale for Met Range:</b> Thresholds for 7.3.2 reflect the margin of error in forecasts of future participation, estimated at 5 percent for school meals programs. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2020, this percentage range allows for actual performance did meet the target in the range of 29.5 - 32.6 percent.</p> <p><b>*Note:</b> Due to unanticipated school closures as a result of the COVID-19 pandemic, the actual 2020 figure is impacted due to the changes in meal service levels. Additionally, many schools served non-congregate meals through the Summer Food Service Program (SFSP) which is not included in this metric.</p>								
<p><b>Data Assessment of Performance Measure 7.3.2</b></p> <p>The indicator is a ratio of school meals participation and enrollment data, drawn from USDA administrative records. This ratio shows the proportion of children enrolled in schools with the SBP participating in the program.</p> <p>SBP administrative data is drawn from State agency reports that are certified as accurate and submitted to FNS Regional Offices. There, the reports are reviewed for completeness and consistency. If the data are acceptable, the FNS Regional Office analyst posts the reports to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, FNS Regional Office personnel reject the report and the State agency is contacted. Data posted by FNS Regional Office personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with FNS Regional Offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.</p>								
<ul style="list-style-type: none"> <li>□ <b>Completeness of Data</b>— Figures for SBP participation are based on 9-month (school year) averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through April 30, 2020, as available August 2020. Figures for enrollment in SBP participating schools are reported in October of each year.</li> <li>□ <b>Reliability of Data</b>— Participation and enrollment data reporting are used to support program financial operations. All of the data are used in published analyses, studies and reports. The data also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.</li> <li>□ <b>Quality of Data</b>— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.</li> </ul>								

## Challenges for the Future

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

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

## SECTION 3. LIMITATIONS OF FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

## SECTION 4. ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The information in this section is consistent with the findings of the USDA OIG's FY 2019 financial statements audit report.

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

FNS management is responsible for developing and maintaining internal control to ensure the effectiveness of operations. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas.

The number of management control reviews conducted was limited in FY 2020 due to the exceptional circumstances of the novel coronavirus (COVID-19), which included FNS travel restrictions, stay-at-home orders to all FNCS staff, and COVID-19 related activities in support of Program operations at the state and local levels.

FNS management has conducted its annual evaluations of internal control pursuant to Sections 2 of FMFIA, for the period ending June 30, 2020. Based on the results of the evaluations, FNS provides an unmodified statement of assurance that internal controls are designed, implemented, and operating effectively over operations. No new material weaknesses, no new significant deficiencies, and no new control deficiencies were identified during FY 2020 for the period ended June 30, 2020.

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

FNS assessed the effectiveness of internal control over reporting as of June 30, 2020. The assessment followed USDA guidance, Office of Management and Budget (OMB) Circular A-123, Appendix A and best practices established by the Department.

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

### **Processes**

- i. Charge Card Management: Purchase Cards
- ii. Charge Card Management: Travel Cards
- iii. DATA Act Reporting: DATA Quality Compliance
- iv. Financial Reporting: Period-End Reporting
- v. Financial Reporting: Significant Management Estimates
- vi. Financial Reporting: Unliquidated Obligations Review
- vii. Financial Reporting: User Access
- viii. Funds Management and Disbursement: Funds Balance with Treasury Reconciliation and Disbursements within FMMI
- ix. Grants Management: Awards and Modifications (Entitlement Grants)
- x. Grants Management: Closeout (Entitlement Grants)
- xi. Grants Management: Draws and Expenditures (Entitlement Grants)
- xii. Grants Management: Monitoring (Discretionary and Entitlement Grants)
- xiii. Reimbursable Agreements: Authorizations and Modifications
- xiv. Reimbursable Agreements: Receivables and Payment Management
- xv. Revenue and Receivables: Collections

FNS management recognizes its responsibility for monitoring and correcting control deficiencies assessed as outside of its risk tolerance. With regard to these processes and the internal controls within these processes, management certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2020. FNS provides an unmodified statement of assurance that the internal controls over external financial reporting for FY 2020 are operating effectively.

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

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

### **Anti-Deficiency Act**

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

### **Additional Supplemental Appropriations for Disaster Relief Requirements 2017 and 2019/Bipartisan Budget Act of 2018/ Further Additional Appropriations for Disaster Relief Requirements of 2018**

- i. FNS has expended 99.8% of the apportioned amount associated with the Puerto Rico, Commonwealth of the Northern Mariana Islands (CNMI), and American Samoa Nutrition Assistance Programs (NAP), Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and the Temporary Emergency Food Assistance Program (TEFAP). 97.8% of the obligated amount has been expended as of June 30, 2020.
- ii. FNS has established appropriate policies and controls, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to disaster- related activities for the Programs listed under (i).
- iii. FNS management has not identified additional significant deficiencies associated with management of emergency supplemental/disaster relief funding.

### **Families First Coronavirus Response Act (FFCR/Act) Coronavirus Aid, Relief, and Economic Security Act (CARES Act)**

- i. FNS has established appropriate policies and controls to track and report funding and expenditures, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to emergency supplemental relief funding for the Child Nutrition Programs, Food Distribution Program on Indian Reservations (FDPIR), Pandemic Electronic Bank Transfer (EBT), SNAP, TEFAP, WIC, and Puerto Rico, CNMI, and American Samoa NAPs.
- ii. FNS Management has not identified additional significant deficiencies associated with management of emergency supplemental relief funding.

**Data Act Reporting for USAspending.gov**

- i. FNS has completed data quality compliance testing and provides assurance that data integrity processes and controls for File D2 align with OMB Circular A-123, are designed effectively, implemented, and operating effectively for all reported data. This includes controls over agency financial systems, award management systems, and procurement data reported to the Federal Procurement Data System – Next Generation (FPDS- NG).

**Government Charge Card Abuse Prevention Act**

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

**Payment Integrity Information Act of 2019 which replaced the Fraud Reduction and Data Analytics Act of 2015**

- i. FNS has established financial and administrative controls to identify and assess fraud risks and has designed and implemented control activities to prevent, detect and respond to fraud, including improper payments.
- ii. FNS management has implemented the fraud risk principle in the Standards for Internal Control and OMB Circular A-123 with respect to the leading practices for managing fraud risk.
- iii. FNS management has not identified risks and vulnerabilities to fraud, with respect to payroll, beneficiary payments, grants, large contracts, and purchase and travel cards, as applicable.
- iv. FNS management has established strategies, procedures, and other steps to curb fraud.
  - a). The following control activities as they relate to payroll, beneficiary payments, grants, large contracts, and purchase and travel cards have been incorporated in FNS' FMFI Program Accounting Standard Operating Procedures to curb fraud:

**1). Purchase Card Management**

- i). Quarterly, the FNS monthly summary report is used to select cardholders for review. Non-compliance issues are identified for follow-up and remediation.
- ii). As purchases are requested, the purchase requestor populates the

AD-700 Procurement Request form. The cardholder reviews the AD-700 Procurement Request form for accuracy and executes the purchase. Another individual reviews the AD-700 for completeness and approves the purchase.

## 2). Travel Card Management

i). USDA performs data mining of charge card data using the INSIGHT on demand tool and notifies FNS of any potential misuse or questionable charges, and delinquent balances within travel card accounts.

## 3). Data reconciliations are performed in the:

i). **Period-End Reporting process:** Accounting staff reconciles the ending account balances on the Trial Balance report from the prior year to the beginning balances on the Trial Balance for the current year.

ii). **Unliquidated Obligations Review process:** Allowance Holders reconcile documentation provided to support the validity of inactive obligations (i.e., obligations with no activity within 12 months) or identifies obligations necessary for de-obligation.

iii). **Budget Authority process:** Budget staff reconciles the total budgetary resources available on the SF-132s to the Adjusted Trial Balance System report.

iv). **Funds Balance with Treasury Reconciliation process:** There are three (3) controls in this process that require reconciliations: Automated Standard Application for Payment (ASAP)/Agricultural Management Assistance (AMA) system drawdown reconciliation, monthly cash comparisons, and reconciliation of Web-Based Supply Chain Management (WBSCM) to FMMI for Direct Fund Cite.

v). **Grants Management: Draws and Expenditures process:** FNS Regional office staff perform a data reconciliation to ensure State agency expenditures do not exceed allocations by more than five (5) percent and a reconciliation of source documentation and ASAP reports to the FMMI-212, FMMI-202, and FMMI-014 reports to verify validity of obligations and expenditures in FMMI.

vi). **Collections process:** FNS Regional office staff perform a reconciliation of the amounts on the Treasury Offset Program (TOP) Collection/Payment worksheets and the TOP information submitted on each State agencies' FNS-209 (Status of Claims against SNAP Households).

#### **4). User Certification**

- i). Annually, FNS’ authorized Officers certify that all users are authorized to have access to the applicable Treasury system and user roles are appropriately segregated.
- ii). Quarterly, Security Administrators review a list of FNS FMMI users and certify users are authorized to have access and user roles are appropriately segregated.

#### **5). Throughout all internal controls over financial reporting, there are three common threads that are designed to prevent, detect and respond to fraud, including improper payments:**

- i). Segregation of duties: documented secondary level of review and a system that requires an individual to post entries in FMMI and another individual to approve the entry
- ii). Maintenance of all supporting documentation for data reconciliations conducted within applicable business processes.
- iii). Edits checks in FMMI which prevents attempts of posting a total amount of manual check collections activity and letter of credit (LOC) authorization transactions in excess of the grant award document (GAD) grant value through an integrated funds control function. Attempts to reduce the GAD grant value below the total amount of the LOC authorization and any manual check collections activity are also prevented by system controls within FMMI.

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

- i. The FNS Information and Security Office (ISO) management evaluated its financial management systems under FMFIA (section 4) for the period ended June 30, 2020.
- ii. The FNS ISO information systems conform to financial management system requirements.
- iii. No new significant or material non-conformance(s) or consolidated non-conformance(s) were identified.
- iv. A Plan of Action and Milestone was developed and entered into the Cyber Security Assessment and Management (CSAM) system for ten control deficiencies.

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

- i. Financial systems used by FNS are owned, managed, and evaluated by the Associate Chief Financial Officer – Financial Management Services (ACFO -- FMS).
- ii. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management systems requirements, Federal accounting standards (U.S. GAAP), and the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level.
- iii. We have assessed the financial management systems to determine whether they comply substantially with Federal financial management systems requirements, Federal accounting standards, and the application of the USSGL at the transaction level. Our assessment was based on OMB guidance.
- iv. The FNS financial management systems substantially complied with the Federal financial management systems requirements, Federal accounting standards, and application of the USSGL at the transaction level, as of September 30, 2020.

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

**OIG Audit Handling Process and Performance**

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

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

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

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

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

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

Audits Without Final Action More Than One Year Past the Management Decision Date				
Audit Number	Date Issued	Audit Title	Completion Date For Actions (Est.)	Reason for Lack of Final Action
27601-0001-31	7-31-13	Controls for Authorizing SNAP Retailers	12-31-20	Recs. 9, 10, 11: Proposed rule that will enable FNS to move forward with these recommendations has a targeted publication date of late calendar year 2020.
27601-0002-41	9-23-15	SNAP Error Rates	2-28-21	Rec. 11: Work on the proposed Quality Control (QC) Reform Rule continues. Target publication is late calendar year 2020.
27601-0003-10	9-27-16	New Mexico's Compliance with SNAP Certification of Eligible Households Requirements	11-30-20	Recs. 2, 5, 9, 11, 14, 16, 18: FNS is pursuing a change in management decision on the remaining recommendations, given the challenge of the OIG audit covering a period of time in which FNS was also conducting an investigation into State practices that were in violation of Federal program requirements. The FNS investigation resulted in the establishment of a bill to the State agency for their systemic errors. Several of the cases cited by OIG would have rolled up into this larger FNS effort, but the final documentation would not directly align with what is detailed in the original OIG position.

27601-0010-10	8-9-17	Pennsylvania’s Compliance with SNAP Requirements for Participating State Agencies	9-30-21	Rec. 1: This recommendation requires FNS Civil Rights Division (CRD) to make updates to the FNS Instruction 113-1, Civil Rights Compliance and Enforcement Manual. The Department is in the final stages of clearing an updated version of the guiding regulation (4330-02) which holds up the finalization of the 113-1.
27601-0011-10	9-14-17	South Carolina’s Compliance with SNAP Requirements for Participating State Agencies	9-30-21	Rec. 1: This recommendation requires FNS Civil Rights Division (CRD) to make updates to the FNS Instruction 113-1, Civil Rights Compliance and Enforcement Manual. The Department is in the final stages of clearing an updated version of the guiding regulation (4330-02) which holds up the finalization of the 113-1.
27601-0013-10	12-19-17	Compilation Report of States’ Compliance with SNAP Requirements for Participating State Agencies	9-30-21	Rec. 1: This recommendation requires FNS CRD to make updates to the FNS Instruction 113-1, Civil Rights Compliance and Enforcement Manual. The Department is in the final stages of clearing an updated version of the guiding regulation (4330-02) which holds up the finalization of the 113-1. Rec. 2: Significant portions of this recommendation are complete (PVS and DMS guidance, updates to FNS handbook 901) but the 113-1 referenced above is the final piece needed to formally request final action.
27601-0019-10	9-28-18	Compilation Report of States' Compliance with Requirements for the Issuance and Use of Supplemental Nutrition Assistance Program Benefits (7 CFR, Part 274)	7-31-21	Rec. 3: Work plan for a proposed rule to modernize the EBT regulations is expected in summer 2021.
27004-0003-21	3-4-19	Summer Food Service Program in Texas – Sponsor Costs	3-31-21	Recs. 18, 19: Pending finalization of a Memorandum of Understanding (MOU) with OIG

				Investigations for the referral of potential SFSP (and other Child Nutrition Program) fraud cases.
27004-0001-31	8-26-19	Florida’s Controls Over Summer Food Service Program	12-31-20	Rec. 10: SFSP sponsor appealed State’s fiscal action. Case currently resides with District Court of Appeals. Recs. 11, 15, 20: Sponsor also appealed State’s fiscal action. Action was upheld and sponsor was ordered to repay funds under a repayment agreement. Collections underway.

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 and inspections that were closed during FY 2020.

	Auditor	Agency	Audit or Inspection Number	Audit or Inspection Name	Status
1	OIG	OCIO Lead *	50503-0002-12	FY 2019 Federal Information Security Modernization Act (FISMA) Audit	CLOSED – October 2019
2	OIG	FNS	27401-0004-11	FNS’ Financial Statements for Fiscal Years 2019 and 2018	CLOSED – November 2019
3	OIG	FNS	27801-0002-22	Timeliness of the Disbursement of the \$600 Million Disaster Nutrition Assistance Grant to Puerto Rico	CLOSED – February 2020
4	OIG	FNS	27801-0001-22	Contract for SNAP EBT Services at Farmers Markets and Direct Marketing Farmers	CLOSED – March 2020
5	OIG	FNS	27601-0004-41	FNS Controls Over the Summer Food Service Program	CLOSED – August 2020
6	GAO	FNS – Lead	GAO-20-190	U.S. Postal Service: Offering Non postal Services through Its Delivery Network Would Likely Present Benefits and Limitations	CLOSED – December 2019
7	GAO	FNS – Lead	GAO-20-382	Poverty Reduction: HHS Can Improve Information to Assist States and Localities in Adopting Approaches That Serve Whole Families	CLOSED – May 2020
8	GAO	FNS – Lead	GAO-20-265	COVID-19: Opportunities to Improve Federal Response and Recovery Efforts	CLOSED – June 2020

9	GAO	FNS – Lead	GAO-20-701	COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions	CLOSED – September 2020

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

## **Assurance for Legal Compliance**

The Office of the Inspector General (OIG), in their most recent compliance audit (USDA’s Fiscal Year 2019 Compliance with Improper Payment Requirements – Audit Report 50024-0015-11), found that FNS complied with all but a single Improper Payment Elimination and Recovery Act of 2010 (IPERA) requirement. Below is a summary of the noncompliance and completion date for becoming compliant with IPERA.

<b>Outstanding Initiatives to Achieve Compliance</b>			
<b>Initiative</b>	<b>Non-compliance</b>	<b>Agency</b>	<b>Target Completion Date</b>
<b>Improper Payments Elimination and Recovery Act of 2010 (IPERA)</b>	Reported a gross improper payment error rate of greater than 10 percent for SBP.	FNS	9/30/2021

## SECTION 5. IMPROPER PAYMENTS INFORMATION ACT (IPIA)

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

Appendix C of OMB Circular A-123 defines significant improper payments as an annual amount that exceeds both 1.5% of program outlays and \$10,000,000 and \$10,000,000 of all program or activity payments made during the fiscal year reported or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays). For programs/payments that fit this description, agencies must:

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

FNS assessed all food assistance programs as well as its Nutrition Programs Administration (NPA) funding, which support FNS's Federal administrative operations. Assessments were conducted in conjunction with USDA-coordinated procedures. FNS, with OMB concurrence, has designated seven 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), the School Breakfast Program (SBP), The Emergency Food Assistance Program (TEFAP), and the Summer Food Service Program (SFSP).

COVID-19 has had a devastating impact on the country. In response, Congress passed the CARES Act which provided significant funding for FNS programs. That increase in funding has also created the potential for a rise in improper payments. The full impact of the funding as it relates to improper payments will not be known until next fiscal year as our improper payment reporting is conducted a year in arrears. However, there was at least one planned study that was directly affected by COVID-19. The SFSP Integrity Study was set to begin the first year of its Measurement Plan in the summer of 2020. However, due to the Pandemic, the study needed to be pushed back for at least one year. FNS realized that the SFSP data collection would not be possible by early May and pursued a remedy that was approved by OMB. Although the full impact of COVID-19 on Improper Payments is not immediately known, FNS will continue to fulfill its mission and request necessary flexibilities from OMB to ensure full compliance with IPIA.

Improper payment measurement activities for all programs are described briefly below.

### **Supplemental Nutrition Assistance Program (SNAP)**

SNAP uses a legislatively mandated measurement system to detect and estimate improper payments per Section 16(c) of the Food and Nutrition Act of 2008, commonly referred to as SNAP's Quality Control (QC) system. Quality control is a two-tier system.<sup>4</sup> In the first tier, State agencies pull random statistical

<sup>4</sup> [https://fns-prod.azureedge.net/sites/default/files/media/file/USDA\\_SNAPQC\\_Infographic-1.pdf](https://fns-prod.azureedge.net/sites/default/files/media/file/USDA_SNAPQC_Infographic-1.pdf)

samples of cases from all households participating in the program each month. State employees review the cases following standardized Federal guidelines to ensure households were correctly deemed eligible and received the correct amount of benefits. In the second tier, USDA’s Food and Nutrition Service (FNS) pulls random statistical samples of state case results and reviews them independently in order to validate State findings. State and Federal case results are then aggregated annually, using a regulatory regression analysis formula, which extrapolates case result findings into statewide estimates based on all households participating in SNAP. FNS annually releases national and state level estimates. State agencies with consecutive years of poor performance are sanctioned and assessed financial liabilities, per statute.

FNS takes seriously its responsibility to reduce payment errors in SNAP and as a result, issued a call to action for SNAP State agencies upon release of the latest improper payment estimates in July 2020:

- While federal funds cover 100% of benefits and 50% of administrative costs, state and local partners operate the program. To ensure leadership at all levels are engaged in improving accuracy of SNAP payments, U.S. Agriculture Secretary Sonny Perdue sent letters to the governors of the 14 states with the most significant error rates asking for their personal involvement.
- FNS has a statutorily mandated liability system that sanctions States for poor performance and assesses financial liabilities for payment error rates in excess of the national average and that are above six percent. In July 2020, FNS issued just over \$43.5 million in sanctions to 12 high-error states to ensure they are working diligently to improve accuracy.<sup>5</sup> States must either pay the full amount immediately to the U.S. Treasury, or promptly reinvest half of these funds in FNS-approved actions to reduce errors, and pay the remainder if accuracy does not improve.
- FNS requires State agencies to implement rigorous Corrective Action Plans (CAP) based on data-driven solutions to lower error rates in liability states.
- FNS provides every state with an analysis showing the key drivers of their payment error rate, combined efforts in the past year to improve payment accuracy, and recommendations for improving payment accuracy moving forward.
- FNS engages states at all levels on the need to make the necessary investments in personnel, training, and systems to improve payment accuracy.

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

- The establishment of a formal payment accuracy working group, referred to as the Payment Accuracy Collaboration Team (PACT), to share best practices and information among FNS National and Regional Offices.
- In January 2020, FNS issued to SNAP State agencies the [Keys to Payment Accuracy](#), which provides a comprehensive step-by-step approach to addressing program errors.

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<sup>5</sup> <https://www.fns.usda.gov/news-item/fns-000820>

- In February 2020, FNS issued revised internal payment accuracy guidance that categorizes States into tiers based on data driven risk, ensuring FNS technical assistance efforts are targeted.
- FNS conducts regular meetings and conference calls to promote States sharing best practices. Monthly payment error data is shared to ensure results are monitored continuously throughout the year.
- Using a FY 2020 appropriation, FNS is conducting an income verification pilot with State agencies to test the efficacy of using commercially available data to verify income and reduce wage/salary payment errors.
- FNS is working directly with State agencies to improve client notices. This helps to ensure that notices are in plain language and clearly understood, based on the idea that clients are more likely to comply with reporting requirements if they understand them.
- FNS is expanding the National Accuracy Clearinghouse nationwide, a Farm Bill requirement, to detect and prevent duplication participation across State lines which has the potential to further reduce improper payments.
- In addition to FNS's efforts to prevent improper payments, SNAP works closely with State agencies to recover improper payments by ensuring claims are established and collected from over issuances in order to recoup misspent funds for the federal government. State agencies are required to establish and collect SNAP claims in accordance with the requirements found in the Program regulations. Debts that become delinquent are subsequently submitted by the State agencies for collection through the Treasury Offset Program.

### **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**

- In the **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**, work is underway to report improper payment error rates on two segments of the program: certification error and vendor error.
  - Vendor rate: FNS first reported a *vendor* payment error rate in FY 2006. Over and under payment rates for FY 2005 were developed through a nationally representative study of a probability sample of WIC vendors. Data from this study, along with information on vendor investigations by WIC State agencies was used to estimate and report a payment error rate for each subsequent year until the next vendor study. The WIC Vendor Management Study was replicated in FY 2012 with results available in late FY 2013. Beginning in FY 2013, FNS estimated the payment error rate by applying the average annual percent change in the rates from the 2005 and 2012 studies to the estimated rate obtained in 2012.
  - Certification rate: The National Survey of WIC Participants-II (NSWP-II) included a measurement of the amount of erroneous payments associated with certification error in FY 2009. WIC participants were interviewed and the household income at the time of benefit issuance was verified through the review of household income documents to determine the case error. Case error was then translated into dollar error by examining actual WIC redemption data. The NSWP-II that contains a final estimate of erroneous payments due to certification error in FY 2009 was published in April 2012.

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

### **Child and Adult Care Food Program (CACFP)**

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

Recognizing that the agency has limited resources to develop a measurement of program-wide erroneous payments in CACFP, FNS submitted a budget request for resources in FY 2006. The goal of the funding request was to conduct a nationally representative, program-wide CACFP erroneous payments study that complied with the requirements of the 2002 IPIA. Due to the complexities of the program, FNS estimated that it would cost \$20 million to measure improper payments at the precision required by IPIA. Funds for such a study were not provided by Congress.

In the absence of funding for a comprehensive study, FNS has undertaken the following activities to develop improper payment estimates for the CACFP:

- In July 2009, FNS issued the final report of the Child Care Assessment Project (CCAP). This project was designed to measure whether the two interim management improvement rules issued by FNS in 2002 and 2004 had been properly implemented, and whether the rules had effectively addressed serious program management and integrity problems that had been uncovered in the 1990s. FNS collected data in 2004-2007 from a broadly representative national sample of sponsors and providers. While the CCAP report identified areas of potential weakness in the local level management of the CACFP in day care homes, it also raised questions about State and Federal oversight – specifically, why existing review mechanisms do not identify some of the serious Program management weaknesses.
- Sponsor error measurement – Beginning in 2005 and annually through 2015, FNS measured the level of erroneous payments due to sponsor error for the two levels of program reimbursement (Tier I and Tier II). FNS reports improper payments due to tiering errors annually based on the results of these studies. The estimates of misclassification in rates, the cost of misclassification, and the meals reimbursed in error for the 2015 assessment were the lowest measured in 11 years. The 2015 report, released in 2017, is at <https://www.fns.usda.gov/child-and-adult-care-food-program-cacfp-assessment-sponsor-tiering-determinations-2015>.
- Given the low error rates identified by the Tiering studies, the stability of the estimates over time, and the high annual cost of data collection, the FY 2015 report will be the last annual report in the series. FNS will replace the annual series with periodic studies. FNS explored the feasibility of developing a statistical model to project annual error estimates in between study years. See [https://fns-prod.azureedge.net/sites/default/files/resource-files/CACFP\\_Sponsor-Tiering-Aging-Summary.pdf](https://fns-prod.azureedge.net/sites/default/files/resource-files/CACFP_Sponsor-Tiering-Aging-Summary.pdf). The 2019 report summarizing that effort concluded that such a model cannot generate estimates of sufficient quality for IPERA reporting. For the FY 2020

Financial Report FNS applied the 2017 study-based error rate to current year program outlays to estimate the dollar value of tiering error.

- Claiming error measurement – FNS has continued to explore potential methodologies to develop other measures of high-risk program components – in particular, the accuracy of meal claims in day care homes. FNS studied the feasibility of three data collection methods for validating homes’ meal reimbursement claims in the 2000s. The pilot-tested methods were based on observations of meal services, analysis of sign-in/sign-out (SISO) logs, and parent interviews. SISO logs were found ineffective for creating a valid indicator of the risk of erroneous payments. The 2009 report is at <http://www.fns.usda.gov/child-and-adult-care-food-program-cacfp-improper-payments-data-collection-pilot-project>.
- FNS conducted an expanded feasibility study in FY 2013 and FY 2014 to assess the validity of using parent-recall telephone interviews to develop and compare estimates of meals served against meals claimed by day care home providers. This assessment found that parental recall of meals served to their children while in attendance at the day care home was unreliable due to a low match to actual meals served. The study concluded that it was not feasible to use parent recall data for specific meals or snacks to estimate erroneous claims.
- FNS initiated an additional day care home meal claim study in FY 2014. This effort tested the feasibility, cost, and validity of two mobile applications for validating day care home meal reimbursement claims. In one app, home providers entered the time of meal service in real time – not after the fact, and not simply transferred from the home’s prepared schedule. In the other app, parents entered the times that they dropped off and picked up their children from care – again, as close to real time as possible. That study concluded that although the findings showed modest improvement in reporting, the study limitations were such that these data collection methods are not feasible on a national level. The full report is available at <https://www.fns.usda.gov/cacfp/family-day-care-homes-meal-claims-feasibility>.
- Comprehensive measure of error in child care centers. FNS completed data collection in SY 2017-2018 to measure the level of improper payments (dollars and rates) due to certification and aggregation error in CACFP centers. The study is also examining centers’ compliance with regulatory meal pattern standards. The study builds on the methods developed for school meals in the Access, Participation, Eligibility and Certification (APEC) study series. Like APEC, this study will produce a set of nationally representative estimates of improper payments and information on error sub-components to support a limited analysis of root causes. Estimates will meet IPERA measurement requirements and will complement the annual measure of reimbursement tiering errors in day care homes. FNS expects to finalize the results of this study in early FY 2021.

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

## National School Lunch Program and School Breakfast Program

The National School Lunch Program (NSLP) and School Breakfast Program (SBP) do not have a sampling and erroneous payment measurement process comparable to SNAP. Instead, FNS developed the *Access, Participation, Eligibility and Certification (APEC)* study series, which collects and analyzes data from a nationally representative sample of schools and school food authorities (SFAs) about every 5 years. The APEC-I study, which collected data in School Year 2005-2006, found significant levels of program errors. APEC-II, which collected data in School Year 2012-2013, identified significant improvement in certain types of error, but overall program error remains high. APEC-III collected data in School Year 2017-2018; the results of that study are not yet available.

APEC provides a national estimate of error rates and amounts in three key areas:

- ***Certification errors*** occur when a child is placed in the wrong meal reimbursement category, such as when a child who should receive reduced-price meals is certified for free meals;
- ***Aggregation errors*** occur when a school or SFA tallies the number of reimbursable meals incorrectly and then claims the wrong number of meals for reimbursement.
- ***Meal claiming errors*** occur when meals are incorrectly categorized as reimbursable or non-reimbursable at the point of sale in the cafeteria, as when a required meal component, such as a carton of milk or a piece of fruit, is missing. Note the meal claiming errors are not included in FNS's reported improper payments. These standard of service errors, unlike certification and aggregation error, do not result in federal payment for services not delivered or for services delivered to ineligible recipients.

Study design:

- The APEC studies use a multistage-clustered sample design that first sample SFAs, then schools served by the SFAs, and finally students who attend the sampled schools. The most recent studies in the series include two independent samples: (1) a base sample that includes schools and districts that did not participate in the Community Eligibility Provision (CEP), and (2) a smaller sample that includes SFAs and schools that did participate in the CEP.
- Base sample SFAs are stratified by State, the number of schools in the SFA that participate in the NSLP, the proportion of schools using Provision 2 or Provision 3, and the proportion of directly certified students. SFAs are selected using a probability proportional to size method.
- APEC-II, released in 2015, is the most recent completed study in the series. The APEC-II base sample included data from 130 SFAs, 387 public schools, and 5 private schools. The APEC-II CEP sample collected data from 45 SFAs and 135 schools in 5 states.
- Students were selected for the APEC-II base sample from separate frames of those approved for free or reduced-price meals and those who were denied certification. The study collected data from about 3,800 free and reduced-price certified students, and 600 students who were denied benefits.
- Students were selected for the CEP sample from three frames: directly certified (“identified”) students, students certified by application, non-applicants and denied applicants. The CEP sample consisted of 3,200 students.

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

The three types of error identified in the APEC studies differ significantly in their program impact. Certification errors result in families receiving benefits they are not entitled to or being denied benefits they should receive. Meal claiming errors occur when a meal is missing a required component. Finally, aggregation errors result in schools being reimbursed for too many or too few meals due to incorrect aggregation of the numbers of meals served.

Current statutory authority allows USDA to recover improper payments from State agencies when identified through review, audits or other operational oversight activities. Current statutory authority does not support recovery of improper payments identified on the basis of a statistical sample or estimation procedure of the type used to develop the periodic APEC estimates and the annual updates to those estimates reported in the FY 2020 Agency Financial Report (AFR).

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

Improper payment summary:

- Certification Error:

As reported in USDA's FY 2020 AFR, NSLP improper payments due to misclassification of student eligibility for program benefits (free, reduced-price, or paid) totaled \$1.1 billion. Close to two-thirds of this certification error results from the misreporting of income by households on program applications. The balance is due to administrative processing error at the school or school district. The estimated certification error reported in the FY 2020 AFR for SBP is \$413 million.

- Non-Certification (Aggregation) Error:

In FY 2020, the submission of inaccurate counts of reimbursable meals to FNS totaled approximately \$106 million. These are errors in the aggregation and submission of meal counts by schools to school districts and by school districts to State agencies. The estimate for aggregation error in the SBP is \$56 million.

Upcoming research – APEC-III:

- FNS awarded a contract in FY 2016 to conduct the third study in the APEC series, providing national data on rates and dollar amounts of NSLP and SBP underpayments, overpayments, and gross and net erroneous payments in School Year 2017-2018. APEC-III will compare the latest finding to those from the earlier studies in the series.

- The APEC-III contract also calls for re-estimating APEC-II’s statistical model to project improper payment rates in non-APEC study years.
- FNS expects to finalize results of the APEC-III study early in FY 2021.

### **Summer Food Service Program (SFSP)**

The Summer Food Service Program (SFSP) is a state and locally administered program. USDA reimburses states for SFSP meals served to children at approved SFSP sites. SFSP sites serve free meals to children in open sites, closed-enrolled sites, or camps.<sup>6</sup> Open sites must operate in low income areas to participate in the program. Closed-enrolled sites must either operate in low income areas or establish that a majority of its enrollment is low income. USDA reimburses sponsors for all meals served in properly approved open sites and closed-enrolled sites. USDA reimburses sponsors for meals served to children in camps whose individual eligibility for free meals is established by application.<sup>7</sup> SFSP sites are approved at one of two reimbursement levels: one for meals prepared on-site (“self-prep”) or meals served in rural areas, and a slightly lower rate for sites that are not rural and do not prepare meals on site.

This study will be structured similar to USDA’s study to measure improper payments in the school meal programs. Like the school meal study, the SFSP study will require on-site data collection from a sample of program providers. These sites are in locations such as parks, schools, and community centers. On-site data collection is very expensive. With more than 46,000 SFSP sites, USDA will have to select a sample of roughly the same size as the sample for the school meal improper payment study. The school meal study, conducted by third-party contractors, cost more than \$12 million. Because the SFSP is just a \$470 million program, USDA cannot justify spending \$12 million to measure its improper payment rate.

To reduce costs, USDA has developed a study plan that will take advantage of USDA’s existing annual series of administrative monitoring visits. These visits offer the opportunity for USDA to collect the on-site data needed for the meal counting component of the SFSP improper payment estimate during their previously planned monitoring visits. Because USDA does not conduct enough monitoring visits each year to satisfy the sample size requirement for a nationally representative study that meets IPERA requirements, USDA proposes to combine data collected over 5 years to fulfil the study requirements (using a model similar to the Census Bureau’s American Community Survey). This approach will generate a high quality nationally representative study at reasonable cost. After the fifth year, USDA will maintain a 5-year moving average error rate and a dollar value of program error by replacing the oldest year’s data with data collected in the current year.

#### **Certification / targeting error:**

The study will measure error in targeting benefits to eligible children by determining whether open sites and closed enrolled sites have been properly approved to participate in the program. The study will not measure error in certifying individual children for program benefits in camps given the small fraction of reimbursable SFSP meals served in camps. Instead, USDA will adjust its certification/targeting error rate for open and closed-enrolled sites by applying a reasonable upper-end error rate from USDA research on certification error in the school meal and child care programs.<sup>8</sup>

<sup>6</sup> These three site types are defined in 7 CFR 225.

<sup>7</sup> Camps may issue their own applications or applications previously approved by a school food authority for the National School Lunch Program (NSLP).

<sup>8</sup> USDA will perform sensitivity analyses on overall certification/targeting error in the SFSP by applying an extreme (100%) error rate to the certification of children in summer camps, and, alternatively, by using application error

Determining the eligibility of open sites and closed-enrolled sites is primarily a records-based exercise. USDA will use Census and school enrollment area income data combined with other records maintained by sponsoring organizations or the states.

**Reimbursement rate error:**

USDA will measure error in determining whether sites are eligible for the self-prep rate through onsite observation at a sample of SFSP sites. USDA will measure error in determining a site's rural status through a review of sponsor and state agency records and Census data.

**Meal counting error:**

USDA will measure error by site operators in counting reimbursable meals by comparing its own independent meal counts, collected through on-site observation, against claims submitted by the sponsors to their state agencies. Meal counting error may include counting all meals delivered to the site rather than only the subset served to children, counting meals served to adults, or counting second meals served in excess of the limit allowed under program rules. Because sponsors are responsible for correcting site-level counting errors, USDA will compare its independent counts against the site-level totals recorded by the sponsors.

**Aggregation error:**

USDA will measure error by sponsors in consolidating meal counts across sites for submission to their state agencies. USDA will measure these math errors through a review of sponsor and/or state agency records.

**Universe (\$ and # of payments):** In FY 2019 USDA paid \$481 million to 53 state agencies for 144 million meals and snacks served through SFSP. USDA makes payments to state agencies monthly. Although SFSP meals can be served in any month of the year, just a couple of states submit claims for reimbursement to USDA in every month; most states submit claims in 7 or 8 months of the year (the vast majority of every state's meal claims are in the summer months). The states prepare their claims from meal counts submitted to them by 5,500 sponsoring organizations representing counts from meal totals reported by more than 47,000 SFSP sites.

**Sample (\$ and # of payments):**

USDA will review meal claims and site-level eligibility determinations for an estimated 350 sites over each of the next 5 years. As we describe above, the study will collect and review data over a 5 year period. The complete sample will consist of meal observations, eligibility documentation, and meal count data for roughly 1,750 of the 47,000 sites that participate in the program. The 1,750 sites will come from about 175 sponsors spread across 35 states.

USDA will select sites for its onsite and records reviews through a non-random process that will balance the objectives of the administrative monitoring visits (mentioned above), the cost and impracticality of selecting a truly random sample of sites, and the need to generate a nationally representative estimate of program error for IPERA.<sup>9</sup>

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rates estimated by USDA in its *Access, Participation, Eligibility, and Certification* (APEC) study series for the school meal programs, and in its forthcoming study of program error in the Child and Adult Care Food Program.

<sup>9</sup> A truly random sample, selected at the site level, would require prohibitively costly travel to isolated sites. USDA proposes, instead, to visit multiple sites for each selected sponsor to help limit onsite data collection costs. This is similar to the sponsor-driven rather than school-driven sampling approach of USDA's improper payment studies for the school meal programs. Although not random at the site level, USDA will weight SFSP site data to generate improper payment estimates that are nationally representative by critical site and sponsor characteristics.

**Timeframe of the payments to be sampled:**

USDA will collect data over the 5 years beginning in the summer of 2021. Preliminary data from the Year 1 data collection will not be available in time to meet the deadline for the FY20 AFR, so FNS will provide information on the status of the study for that report. Beginning in FY21, FNS will report preliminary measures based on the previous summer's data collection, building on the previous year's (or years') data. Although these figures will be discussed in Years 2 – 4, FNS will not present the figures in the improper payments tables of the AFR as official IPERA estimates. FNS will report a formal IPERA estimate in FY26 after the fifth year of data collection.

**Parameters to be checked to determine whether a payment was made properly:****Certification / targeting error:**

- Open sites: confirm that the site serves an area where at least 50 percent of the children are income-eligible for free or reduced-price school meal benefits (“area eligibility”). USDA will use Census data, school enrollment data, and/or records maintained by the sponsor and state agency.
- Closed enrolled sites: confirm that the site is area eligible or serves an enrolled population where at least 50 percent of the children are individually confirmed as income-eligible. USDA expects that virtually all closed-enrolled sites will claim area eligibility; this means that confirmation of eligibility is the same records-based exercise that USDA will use for open sites.
- Camps: undertake a sensitivity analysis of USDA’s certification error estimates for open and closed-enrolled sites as described above.

**Reimbursement rate error:**

- Self-prep sites: confirm through onsite observation.
- Rural sites: confirm through review of Census data and/or sponsor and state agency records.

**Meal counting error:**

- Confirm through onsite observation and review of sponsor records. USDA understands that sponsor counts on the day of USDA’s onsite observation cannot be used to estimate meal counting error given that the presence of a USDA reviewer might affect the sponsors’ counts. Therefore, USDA proposes conducting an analysis, concurrent with the first year of data collection that will test different methods for identifying an unbiased site level count to use in calculating a national meal counting error rate. USDA expects that site-level meal counts on the day of observation may be reasonably proxied by site-level counts on a comparable prior day. The goal is to identify the best proxy by analyzing daily meal counts over at a month’s worth of claims for at least as many sites that USDA will visit as part of the study.
- Some candidates for this proxy measure include:
  - meal counts from the previous day,
  - meal counts from the same day of the previous week, and
  - meal counts on the most recent day when the same menu items were served as on the day of the onsite observation.
- USDA understands that proxy counts cannot be used to make conclusions about meal counting error at any individual site. This study, like the school meal programs’ APEC study, is designed only to measure a *national error rate*. The goal is to determine whether any of the proxies mentioned above can be used to determine a reliable national rate of meal counting error.

**Aggregation error:**

- USDA will measure errors in consolidating meal counts by comparing sponsor counts for individual sites to the combined counts across all sponsors reported to USDA by the states for reimbursement. This is a records-based review.

**For Programs Utilizing Non-Statistically Valid Plans:**

The SFSP does not have a sampling and erroneous payment measurement process comparable to the quality control (QC) process for the Supplemental Nutrition Assistance Program (SNAP). Instead, USDA must rely on periodic nationally representative studies to produce estimates of erroneous payments.

Because the SFSP is a decentralized program, carried out by local organizations and monitored by the states, the estimation of improper payments requires the collection of local-level data. Further, any estimate of program error requires onsite observation and confirmation of meal counts. Onsite observation in a decentralized national program is a very expensive process, one that would likely exceed \$12 million if carried out by third party contractors, the cost of conducting the most recent estimate of improper payments in the school meal programs. While that cost may be justified in programs as large as the NSLP and the SBP, where annual reimbursements approach \$20 billion, USDA cannot justify conducting a \$12 million study to measure program error in the \$470 million SFSP. As a result, USDA proposes to perform the necessary onsite data collection with its own staff during previously scheduled onsite monitoring visits.

Because of the size and decentralized nature of the SFSP, USDA proposes that its staff-led data collection effort take place over the course of 5 years, rather than in a single year. In addition, the cost involved in conducting a truly random sample at the site level would be excessive. Rather than visit a random sample of isolated sites, USDA proposes to visit an estimated 10 geographically clustered sites in each of 35 different sponsors each year.

USDA proposes to build a nationally representative, if not randomly selected, sample of sites by the end of the fifth year of data collection. USDA will use that data to develop an error rate for the SFSP. After the fifth year, USDA proposes to maintain a moving average rate by replacing the oldest year's worth of data with new data collected annually or biannually.<sup>10</sup> USDA will review its methods and the quality of the data collected during the 5-year course of the study, and will provide updates on that review each year in USDA's Financial Report.

USDA will collect data from states in the continental U.S. USDA's proposed methodology for generating estimates and its justification for its proposed plan are described in the sections above.

**FY2020 SFSP Measurement Plan Addendum****Summary**

The Office of Management and Budget recently reviewed the Food and Nutrition Service (FNS) proposed study, the Summer Food Service Program (SFSP) Improper Payment Study. The study design includes a five-year data collection modeled after the Census Bureau, "American Community Survey," with the first year of data collection scheduled for summer 2020. Because of the Covid-19 pandemic, however, it was

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<sup>10</sup> USDA will evaluate the return on investment of annual updates as it approaches the fifth year of data collection. The primary consideration in this evaluation will be the stability of its annual estimates over the first 5 years.

not feasible for FNS to begin the study as planned. This addendum highlighted the challenges and proposed that FNS delay the Year-1 data collection until May 2021. That change in the start date was approved by OMB.

### **Statement of the Problem**

Normally, states work with sponsors early in the calendar year to identify SFSP sites that will operate in the coming summer. Those sites must adhere to program rules that define how participants are determined to be eligible to participate; the days, hours, and weeks each site is open; and which meals or snacks the sites serve. Because of the pandemic, however, FNS developed a series of waivers that allow SFSP sites to operate under conditions that are fundamentally different from usual operations.

Specifically, the SFSP 2020 Covid-19 waivers:

- change eligibility determinations (e.g., area eligibility waivers),
- waive requirements for congregate feeding,
- waive meal pattern requirements,
- allow parents and/or guardians to pick-up meals for their children,
- waive customary Child Nutrition monitoring requirements,
- waive meal time requirements,
- provide for meals to be delivered, and
- distribution of up to a week's worth of meals at one point in time.

The number and range of waivers make it clear that the 2020 SFSP program cannot represent SFSP program operations in any other year.

### **Solution**

FNS proposed keeping the study as originally designed, but moving the timeline so that data collection begins in the summer of 2021. Since this summer was to be the first year of data collection, delaying the study will not result in any data gaps, but rather, will result in data that better represent the program and serve as a baseline for future data collections.

FNS is also aware that there will be questions about program operations during the pandemic. We consider this a separate effort and steps are already underway to finalize a contracted study that will focus on Child Nutrition program operations under the pandemic.

## **The Emergency Food Assistance Program (TEFAP): Disaster Supplemental Funding**

### **Sampling Methodology**

In order to describe FNS's efforts to obtain a statistically valid improper payment amount for the \$24 million the Agency received in Bipartisan Budget Act of 2018 funding, it is necessary to first describe the purpose of the additional funding and how it was distributed to affected States.

On March 23, 2018, the President signed the Bipartisan Budget Act of 2018 (P.L. 115-123, the Act), which provided \$24 million in supplemental funding for TEFAP. The Act gives the Secretary authority to provide these funds to those jurisdictions that received a major disaster or emergency declaration pursuant to section 401 or 501, respectively, of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5170, 5191) related to the consequences of Hurricanes Harvey, Irma, and Maria or due to

wildfires in 2017. The Act specifies that the funds may be distributed without regard to the formula normally used to allocate TEFAP entitlement foods and administrative funding among the States. In addition, the Act also gives the Secretary authority to provide the supplemental funding as USDA Foods, administrative funds, or both.

On April 27, 2018, FNS issued a memorandum to the nine eligible TEFAP State Distributing Agencies providing an estimate of the total resources available to each State and territory affected by the above disasters. The memorandum emphasized that the assistance offered was intended to be used to assist families and individuals affected by Hurricanes Harvey, Irma, and Maria and the wildfires of 2017. If States could not meet that criterion, they were required to turn back the assistance.

A second memorandum was issued by FNS, dated July 11, 2018, which provided a worksheet indicating the amounts that each of the nine States and territories which accepted assistance would receive as food and administrative funds. The total amount of funds provided was \$24 million.

The funding provided did *not* create a new program. This is supplemental funding provided for TEFAP as it already operates. As such, the internal controls we have in place for TEFAP, and the most recent risk assessment, conducted in FY 2020 and approved by OMB and the Department, are in place for this funding as well. As the TEFAP risk assessment concluded, TEFAP is at low risk for improper payments. However, Section 305(b) of the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 provided that all programs and activities receiving funds under Division B of the Bipartisan Budget Act shall be deemed “susceptible to significant improper payments” regardless of any previous improper payment risk-assessment results. In FNS’s prior risk assessments for TEFAP, FNS identified two potential sources of improper payments: (1) when a local organization that does not meet the eligibility criteria for participation in the Program received TEFAP foods; and (2) when foods are distributed to households that are not eligible to receive them. In this case, the focus for preventing improper payments centers on ensuring that the funds are used solely for allowable TEFAP costs to meet additional eligible recipient demand precipitated by the hurricanes or wildfires. FNS developed the following plan to augment internal controls and determine a measurement of error specifically for the \$24 million received in disaster funding:

- USDA issued a memorandum to States providing an estimate of the total resources available to each State, and requested that States only accept an amount of supplemental assistance that can be used for hurricane or wildfire relief. States were instructed to submit documentation to support their requests, and to turn back assistance if it could not be used for this purpose so that it could be reallocated to States that could. USDA reviewed documentation before obligation of any funds.
- The nine (9) States involved were required to track and report the disaster supplemental funds separately from funds received under the normal appropriations process. States that chose to accept administrative funds were required to submit a quarterly supplemental FNS-667 report (Report of The Emergency Food Assistance Program Administrative Costs) separately through the Food Programs Reporting System. States were required to submit this report on a quarterly basis until all administrative funds were expended.
- TEFAP food funds were tracked nationally via the Web-Based Supply Chain Management System (WBSCM), an integrated food purchasing, tracking, and ordering system for USDA as well as our customers, vendors, suppliers, and transportation personnel. States were required to properly monitor eligible recipient agencies, such as food banks, food pantries, and soup kitchens, to ensure that TEFAP foods were used in accordance with Program requirements and that adequate inventory controls were in place at all eligible recipient agencies and storage facilities. In addition, as a part of their ongoing monitoring of TEFAP, the nine States were required to conduct reviews of 25% of the local organizations with which they have TEFAP agreements, and

10 percent or 20 (whichever is fewer) of the local organizations that receive TEFAP resources through a sub-agreement with another local organization.

- States that received disaster supplemental administrative funds were required to obligate all administrative funds by September 30, 2019. All funds not obligated by that date had to be returned to FNS.

In lieu of conducting a sample testing of transactions conducted by the nine TEFAP States, FNS decided to conduct a full census review and reconciliation of all funds received by each State. FNS provided a total of \$5,255,001 in administrative funding to seven (7) States and \$18,744,999 in food funding to nine (9) States under the Act. FNS has reviewed the required reports submitted by the seven (7) States that received administrative funding. Because the administrative funds are available to liquidate for 24 months after the obligation deadline of September 30, 2019, FNS will continue to review the reports submitted until all funds are liquidated or the liquidation deadline of September 30, 2021 has passed.

After conducting this full reconciliation of all disaster supplemental funds provided to States for TEFAP, FNS can provide reasonable assurance that our improper payment error rate will be zero. The seven States receiving additional TEFAP administrative funds under the Act were required to obligate the funds by September 30, 2019. Of the total administrative funds provided, \$4,516,793 was obligated and \$738,208 was not obligated and will be returned to FNS. The \$18,744,999 in food funding is tracked via WBSCM and all transactions in WBSCM are reconciled. Therefore, FNS has already reconciled the full amount of the \$24 million provided, and will continue to monitor the obligated funds until they are liquidated, so our improper payment target error rate in FY 2020 and beyond will remain at zero.

#### **Parameters to be checked to determine whether a payment was made properly:**

The seven (7) States that chose to accept administrative funds were required to submit a quarterly supplemental FNS-667 report (Report of The Emergency Food Assistance Program Administrative Costs) separately through the Food Programs Reporting System. States were required to submit this report on a quarterly basis until all administrative funds were expended.

TEFAP food funds were tracked nationally via the Web-Based Supply Chain Management System (WBSCM), an integrated food purchasing, tracking, and ordering system for USDA as well as our customers, vendors, suppliers, and transportation personnel. A separate vehicle was created in the Department's Web-Based Supply Chain Management (WBSCM) for states to place food orders. All transactions in WBSCM are reconciled.

#### **For Programs Utilizing Non-Statistically Valid Plans:**

Due to the relatively small number of States in receipt of administrative funds and TEFAP foods under this program, it was more efficient and cost-effective for FNS to conduct a full census review and reconciliation of all funds received by each State. After conducting this full reconciliation of all disaster supplemental funds provided to States for TEFAP, FNS can provide reasonable assurance that our improper payment error rate will be zero. The seven (7) States receiving additional TEFAP administrative funds under the Act were required to obligate the funds by September 30, 2019. Of the total administrative funds provided, \$5,058,330 was obligated and \$196,671 was not obligated and will be returned to FNS. The \$18,744,999 in food funding is tracked via WBSCM and all transactions in WBSCM are reconciled. Therefore, FNS has already reconciled the full amount of the \$24 million provided, and will continue to monitor the obligated funds until they are liquidated. Our improper payment target error rate in FY 2020 and beyond will remain at zero.

FNS reviewed all nine (9) State agencies in receipt of these administrative funds and foods: Alabama, California, Florida, Georgia, Louisiana, Puerto Rico, South Carolina, Texas, and the U.S. Virgin Islands.

Additional information on FNS's IPIA activities can be found in the FY 2020 USDA Agency Financial Report.

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

**Preliminary Data as of 7/31/20 – FNS Measures for IPIA Reporting  
2020 Agency Financial Report**

FNS Summer Food Service Program (SFSP) Total Program	FNS The Emergency Assistance Program (TEFAP) Disaster Supplemental Funding Total Program	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
481	17	4,546	N/A	N/A	12,868	55,460	<b>Current Year (CY) Outlays \$</b>
N/A	N/A	89.70%	N/A	N/A	90.86%	92.64%	<b>CY Properly Paid %</b>
N/A	N/A	10.30%	0.83%	8.32%	9.14%	7.36%	<b>CY IP %</b>
N/A	N/A	4,077	N/A	N/A	11,692	51,379	<b>CY Properly Paid \$</b>
N/A	N/A	468	106	1,070	1,177	4,081	<b>CY IP \$</b>
N/A	N/A	295	50	777	827	3425	<b>CY Overpayments \$</b>
N/A	N/A	173	57	293	350	656	<b>CY Underpayment \$</b>
482	N/A	4,591	N/A	N/A	12,997	55,460	<b>CY +1 Est. Outlays \$</b>
N/A	N/A	10.04%	N/A	N/A	8.86%	7.36%	<b>CY + 1 Est. IP %</b>
N/A	N/A	461	N/A	N/A	1,152	4,081	<b>CY + 1 Est. IP \$</b>

**Preliminary Data as of 7/31/20 – FNS Measures for IPIA Reporting  
2020 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	3,139	N/A	N/A	Current Year (CY Outlays \$)
N/A	N/A	98.04%	N/A	N/A	CY Properly Paid %
0.30%	1.66%	1.96%	1.23%	9.08%	CY IP%
N/A	N/A	3,078	N/A	N/A	CY Properly Paid \$
9	52	62	56	413	CY IP \$
9	52	62	13	283	CY Overpayment \$
0	0	0	43	130	CY Underpayment \$
N/A	N/A	3,155	N/A	N/A	CY +1 Est. Outlays \$
N/A	N/A	2.03%	N/A	N/A	CY + 1 Est. IP %
N/A	N/A	64	N/A	N/A	CY + 1 Est. IP \$

**Preliminary Data as of 7/31/20 – FNS Measures for IPIA Reporting  
2020 Agency Financial Report**

FNS CACFP FDCH – Meal Claims	FNS CACFP FDCH – Tiering Decisions	FNS Child and Adult Care Food Program (CACFP) Total Program	Program
N/A	N/A	654	<b>Current Year (CY) Outlays \$</b>
N/A	N/A	99.46%	<b>CY Properly Paid %</b>
N/A	N/A	0.54%	<b>CY IP %</b>
N/A	N/A	651	<b>CY Properly Paid \$</b>
N/A	N/A	4	<b>CY IP \$</b>
N/A	N/A	3	<b>CY Overpayment \$</b>
N/A	N/A	1	<b>CY Underpayment \$</b>
N/A	N/A	635	<b>CY +1 Est. Outlays \$</b>
N/A	N/A	0.54%	<b>CY + 1 Est. IP %</b>
N/A	N/A	4	<b>CY + 1 Est. IP \$</b>

## SECTION 6. FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS

FNS' FY 2020 financial statements reflect the nutrition assistance programs' responsiveness to the Nation's economic performance during the COVID-19 pandemic national emergency (See Note 14 COVID-19 Activity for further disclosures of FNS' COVID-19 activity from this pandemic.). By design, the level of activity within the nutrition assistance programs varies with the level of need experience by the populations we serve.

### Balance Sheet

	2020		2019	
	Dollars (mil)	Percent	Dollars(mil)	Percent
Fund Balance With Treasury	70,000	99.47%	53,687	99.42%
Accounts Receivable	371	0.53%	312	0.58%
General Property Plant & Equipment	-	0.00%	-	0.00%
Other	-	0.00%	-	0.00%
<b>Total Assets</b>	<b>70,371</b>	<b>100.00%</b>	<b>53,999</b>	<b>100.00%</b>
Intragovernmental:				
Accounts Payable	27	0.04%	-	0.00%
Other	71	0.10%	67	0.12%
Accounts Payable	24	0.03%	6	0.01%
Actuarial Federal Employees' Compensation Act (FECA) Liability	6	0.01%	7	0.01%
Benefits Due and Payable	13,329	18.94%	5,147	9.53%
Other Liabilities	2,379	3.38%	2,458	4.55%
<b>Total Liabilities</b>	<b>15,836</b>	<b>22.50%</b>	<b>7,685</b>	<b>14.22%</b>
Unexpended Appropriations	50,404	71.63%	46,010	85.21%
Cumulative Results of Operations	4,131	5.87%	304	0.56%
<b>Total Net Position</b>	<b>54,535</b>	<b>77.50%</b>	<b>46,314</b>	<b>85.77%</b>
Total Liabilities & Net Position	70,371	100%	53,999	100%

The Balance Sheet composition (comparative composition of account balances to the totals) change substantially from FY 2019 to FY 2020. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - 99% in FY 2020 and 99% in FY 2019. This cash-like account largely

represent 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 expired year funds which were not made available.

Accounts receivable levels remained relatively unchanged from the prior year. Benefits Due and Payable represents the largest liability of the agency, typically representing amounts that are currently payable to grantees on Entitlement Benefits Programs. The FY 2020 and FY 2019 Net Position of the agency is concentrated in Unexpended Appropriations.

**Statement of Net Cost**

	2020		2019	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Gross Cost	123,346	100.05%	93,573	100.05%
Less: Earned Revenue	(61)	-0.05%	(48)	-0.05%
Net Cost of Operations	123,285	100.00%	93,525	100.00%

The FNS mission addresses USDA Strategic Goal 7 “Provide All Americans Access to A Safe, Nutritious, and Secure Food Supply”. All program costs are reported under that strategic goal. Gross Costs increased from \$93,573 million in FY 2019 to \$123,346 million in FY 2020, reflecting the overall increase in programs participation levels due to the COVID-19 pandemic.

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

The Net Cost of Operations increased from \$93,525 million in FY 2019 to \$123,285 million in FY 2020.

**Statement of Changes in Net Position**

	2020		2019	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Unexpended Appropriations</b>				
Beginning Balance	46,010		46,391	
<b>Budgetary Financing Sources:</b>				
Appropriations Received	123,367		94,760	
Appropriations Transferred in/out	(2)		-	
Other Adjustments	(6,540)		(11,815)	
Appropriations Used	(112,431)		(83,326)	
Total Budgetary Financing Sources	4,394		(381)	
Total Unexpended Appropriations	50,404		46,010	
<b>Cumulative Results from Operations:</b>				
Beginning Balance	304		300	
<b>Budgetary Financing Sources:</b>				
Other Adjustments	(1)	0.00%	(1)	0.00%
Appropriations Used	112,431	88.45%	83,326	89.09%
Transfers In (Out) without Reimbursements	13,738	10.81%	9,290	9.93%
<b>Other Financing Sources(Non Exchange):</b>				
Imputed Financing	943	0.74%	914	0.98%
Total Financing Sources	127,111	100.00%	93,529	100.00%
Net Cost of Operations	(123,285)		(93,525)	
Net Change	3,826		4	
Cumulative Results of Operations	4,131		304	
Net Position	54,535		46,314	

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

The FY 2020 appropriations used was \$112,431 million, due to the COVID-19 pandemic, and based on participation levels and food cost there was an increase in appropriations used of \$29,105 million from FY 2019.

Unexpended Appropriations increased from \$46,010 million in FY 2019 to \$50,404 million in FY 2020 as less carryover appropriation balances were expended in the current year. Adjustments which decreased from \$11,815 million in FY 2019 to \$6,540 million in FY 2020 due to permanent reductions and cancellations of expired accounts.

Cumulative Results of Operations increased \$3,827 million, from \$304 million in FY 2019 to \$4,131 million in FY 2020, as the net cost of operations is less than the total financing sources. The proportional distribution of financing sources among appropriations used, transfers, and imputed financing change substantially from FY 2019 to FY 2020. Transfers are largely made up a single large transfer made in the annual appropriations act from funds available to the Secretary under Section 32 of the Act of 1935 for support of Child Nutrition programs. Additionally, FNS received transfers from the Commodity Credit Corporation for the Senior Farmers Market Program. Transfers represented ten percent of total financing sources for FY 2020 and FY 2019.

**Statement of Budgetary Resources**

	2020		2019	
	Dollars(mil)	Percent	Dollars(mil)	Percent
<b>Budgetary Resources</b>				
Unobligated Balance from prior year budget authority, net (discretionary and mandatory)	40,052	22.73%	34,903	25.20%
Appropriations (discretionary and mandatory)	136,090	77.24%	103,536	74.76%
Spending Authority from Offsetting Collections (discretionary and mandatory)	60	0.03%	49	0.04%
<b>Total Budgetary Resources</b>	<b>176,202</b>	<b>100.00%</b>	<b>138,488</b>	<b>100.00%</b>
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments	130,168	73.87%	94,763	68.43%
Apportioned, Unexpired Accounts	16,501	9.36%	16,742	12.09%
Unapportioned, Unexpired Accounts	334	.19%	3,268	2.36%
Expired, Unobligated Balance End of Year	29,199	16.57%	23,715	17.12%
<b>Total Budgetary Resources</b>	<b>176,202</b>	<b>100%</b>	<b>138,488</b>	<b>100%</b>
Agency Outlays, Net (discretionary and mandatory)	114,219	64.82%	92,577	66.85%

Appropriations were increased from \$103,536 million in FY 2019 to \$136,090 million in FY 2020. Total budgetary resources were greater than the prior year primarily due to the COVID-19 pandemic emergency funding. FNS had \$176,202 million in total budgetary resources during FY 2020, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods.

At fiscal yearend 2020, most \$130,168 million or 74% of those resources were obligated, though \$16,501 million or 9% remained unobligated and available, and another \$29,533 million was unobligated and not available. In FY 2020, Net Outlays represented 65% of Total Budgetary Resources, compared to 67% in FY 2019.

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

**Nonfederal Physical Property**

1. A. Supplemental Nutrition Assistance Program (SNAP)		
B. Program Expense	<u>2020</u>	<u>2019</u>
1. ADP Equipment & Systems	\$71	\$51

FNS’ nonfederal physical property consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Supplemental Nutrition Assistance Program. The total SNAP Expense for ADP Equipment & Systems has been reported as of third quarter for FNS’ FY 2020 financial statements.

2. A. Special Supplemental Nutrition Program for Women, Infants and Children (WIC)		
B. Program Expense	<u>2020</u>	<u>2019</u>
1. ADP Equipment & Systems	unavailable	\$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. The FY 2020 data is not available for this reporting period.

**Human Capital**

1. A. Supplemental Nutrition Assistance Program		
B. Program Expense	<u>2020</u>	<u>2019</u>
1. Employment and Training	\$102	\$103

FNS’ human capital consists of employment and training (E&T) for the Supplemental Nutrition Assistance Program. The E&T program requires recipients of SNAP benefits to participate in an employment and training program as a condition to SNAP eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS’ E&T program has placed 123,104 work registrants subject to the 3 - month SNAP participant limit and 709,185 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Food and Nutrition Service

CONSOLIDATED BALANCE SHEET  
As of September 30, 2020 (CY) and 2019 (PY)  
(Dollars in Millions)

	FY 2020 (CY)	FY 2019 (PY)
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 70,000	\$ 53,687
Other	-	-
Total Intragovernmental	70,000	53,687
Accounts Receivable, net (Note 4)	371	312
General Plant, Property, and Equipment, net	-	-
Other	-	-
Total Assets	<u>\$ 70,371</u>	<u>\$ 53,999</u>
Liabilities (Note 5):		
Intragovernmental:		
Accounts Payable	\$ 27	\$ -
Other (Note 6)	71	67
Total Intragovernmental	98	67
Accounts Payable	24	6
Actuarial Federal Employee's Compensation Act (FECA) Liability	6	7
Benefits Due and Payable	13,329	5,147
Other (Note 6)	2,379	2,458
Total Liabilities	<u>15,836</u>	<u>7,685</u>
Net Position:		
Unexpended Appropriations - Other Funds	50,404	46,010
Cumulative Results of Operations - Other Funds	4,131	304
Total Net Position	<u>\$ 54,535</u>	<u>\$ 46,314</u>
Total Liabilities and Net Position	<u>\$ 70,371</u>	<u>\$ 53,999</u>

The accompanying notes are an integral part of these statements.

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

Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF NET COST  
 For the Years Ended September 30, 2020 (CY) and 2019 (PY)  
 (Dollars in Millions)

	FY 2020 (CY)	FY 2019 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 7)	\$ 123,346	\$ 93,573
Less: Earned Revenue	61	48
Net Program Costs	123,285	93,525
Net Cost of Operations	\$ 123,285	\$ 93,525

The accompanying notes are an integral part of these statements.

Food and Nutrition Service  
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION  
 For the Years Ended September 30, 2020 (CY) and 2019 (PY)  
 (Dollars in Millions)

	FY 2020 (CY)	FY 2019 (PY)
<b>Unexpended Appropriations:</b>		
Beginning Balance	\$46,010	\$46,391
<b>Adjustments:</b>		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning Balance, as Adjusted	46,010	46,391
<b>Budgetary Financing Sources:</b>		
Appropriations Received	123,367	94,760
Appropriations Transferred in/out	(2)	-
Other Adjustments	(6,540)	(11,815)
Appropriations Used	(112,431)	(83,326)
Total Budgetary Financing Sources	4,394	(381)
Total Unexpended Appropriations	50,404	46,010
<b>Cumulative Results from Operations:</b>		
Beginning Balances	304	300
<b>Adjustments:</b>		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning Balance, as Adjusted	304	300
<b>Budgetary Financing Sources:</b>		
Other Adjustments	(1)	(1)
Appropriations Used	112,431	83,326
Nonexchange Revenue	-	-

Donations and Forfeitures of Cash and cash Equivalents	-	-
Transfers-In/Out Without Reimbursement (+/-)	13,738	9,290
Other (+/-)	-	-
<b>Other Financing Sources (NonExchange):</b>		
Donations and Forfeitures of Property	-	-
Transfers-In/Out Without Reimbursement	-	-
Imputed Financing	943	914
Other	-	-
Total Financing Sources	<u>127,111</u>	<u>93,529</u>
Net Cost of Operations (+/-)	(123,285)	(93,525)
Net Change	<u>3,826</u>	<u>4</u>
Cumulative Results of Operations	4,131	304
Net Position	<u>54,535</u>	<u>46,314</u>

The accompanying notes are an integral part of these statements

Food and Nutrition Service  
 COMBINED STATEMENTS OF BUDGETARY RESOURCES  
 For the years ended September 30, 2020 (CY) and 2019 (PY)  
 (Dollars in Millions)

	FY 2020 (CY)	FY 2019 (PY)
<b>Budgetary Resources:</b>		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 40,052	\$ 34,903
Appropriations (discretionary and mandatory)	136,090	103,536
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending authority from offsetting collections (discretionary and mandatory)	60	49
<b>Total Budgetary Resources</b>	<b>176,202</b>	<b>138,488</b>
<b>Status of Budgetary Resources:</b>		
New Obligations and upward adjustments (total)	130,168	94,763
<b>Unobligated Balance, end of year:</b>		
Apportioned, unexpired accounts	16,501	16,742
Exempt from apportionment, unexpired accounts	-	-
Unapportioned, unexpired accounts	334	3,268
Unexpired, unobligated balance, end of year	16,835	20,010
Expired, unobligated balance, end of year	29,199	23,715
<b>Unobligated balance, end of year (total)</b>	<b>46,034</b>	<b>43,725</b>
<b>Total budgetary resources</b>	<b>176,202</b>	<b>138,488</b>
<b>Outlays, Net:</b>		
Outlays, net (total) (discretionary and mandatory)	114,224	92,579
Distributed offsetting receipts (-)	(5)	(2)

Agency outlays, net  
(discretionary and  
mandatory)

<u>114,219</u>	<u>92,577</u>
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The accompanying notes are an integral part of these statements

## FOOD and NUTRITION SERVICE

### Note 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation

These financial statements have been prepared to report significant assets, liabilities, net cost of operations, changes in net position, and budgetary resources for FNS, as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated August 27, 2020. They have been prepared from the books and records of FNS in accordance with the Generally Accepted Accounting Principles (GAAP) as applied to the Federal Government. GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body.

In response to the 2019 coronavirus (COVID-19) pandemic, Congress enacted two public laws pertaining to USDA programs: the Families First Coronavirus Response Act (FFCR Act) on March 18, 2020, and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. The funding from these two laws is collectively referred to as “COVID- 19 funding”. These two laws provide approximately \$39 billion of funding to specific FNS programs which have been included in FNS’ FY 2020 financial statements.

#### B. Reporting Entity

FNS, including the Center for Nutrition Policy and Promotion (CNPP), is under the jurisdiction of the Under Secretary for Food and Nutrition Consumer Service of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia. 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 2020 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 \$371 million recognized as non-federal accounts receivable includes debts owed to FNS by individuals, businesses, States and local governments. The largest single component of this item consists of SNAP recipient claims. States establish claims against households to recover over issued food stamp benefits. States are responsible for pursuing collection of such claims. Collections, less an authorized State retention amount, are remitted to FNS. The portion of total net realizable receivables consisting of SNAP recipient claims is the expected amount of such remittance from States. The data generated by the State systems of gross account receivables has been determined to be unreliable. Accordingly, FNS does not know what the State gross account receivable is. FNS has an alternative method for acquiring reliable State receivable information.

FNS estimates net realizable SNAP accounts receivable through a regression-based statistical model. This model estimates future collections by the States, which the States will remit to the Federal Government as of the end of the accounting period based on the actual SNAP issuance and net claims collections for prior years. The forecasting model draws its predictive power from the strong historical relationship between the level of SNAP benefit issuance and the level of recipient claims collections by States. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNS does not estimate collections after the initial year or discount the estimate produced by the statistical model to its present value.

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

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

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

E. Grants and Program Benefits

The Fund Balance with Treasury represents the aggregate amount of funds in the FNS accounts with Treasury for which the agency is authorized to make expenditures and pay liabilities. The FNS Fund Balance with Treasury is primarily appropriated funds. FNS records grant obligations based on the grant awards and SNAP benefits based on the issuance of benefits to Account Management Agent (AMA). Funds for FNS grant programs and SNAP electronic benefits transfer (EBT) benefits are provided to States through a Letter of Credit process. This process allows the grantees or the EBT processor to draw on established credit balances, as needed, to pay expenses associated with their grants or SNAP EBT transactions at retailers. This allows the U. S. Treasury to hold funds until the grantees need the funds to pay program expenses or until the SNAP EBT benefits are actually used. Expenses are recognized and obligations liquidated as grantees or EBT processors drawdown on the Letter of Credit.

F. Annual, Sick, and Other Leave

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

G. Retirement Plan

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

FNS Retirement Contributions (In Millions)		
Type of Contribution	Amount	
	2020	2019
CSRS/Transitional retirement contributions - Civil Service	\$0.4	\$1.0
FERS regular contributions	\$22.1	\$19.0
Thrift Savings Plan contributions	\$6.7	\$6.0
<b>TOTAL</b>	<b>\$29.2</b>	<b>\$26.0</b>

These contributions are reported as expenses in the Statement of Net Cost. FNS does not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its

employees. Reporting such amounts is the responsibility of the Office of Personnel Management's Federal Retirement System.

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

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

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

FNS receives appropriations to purchase commodities for its FDPIR and CSFP programs, once commodities are purchased the commodities are delivered to vendor and processor warehouses and remain there until delivery to program grantees.

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

#### I. Fund Balance with Treasury Accounts

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

#### J. Classified Activities

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

## K. Parent Child Reporting

FNS is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. FNS has reported all activity relative to these allocation transfers in the FY 2020 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 2020, FNS estimates that an adjustment of \$227 is needed in total disbursements related to SNAP benefit redemptions from the FY 2020 SNAP appropriation to the FY 2019 SNAP appropriation. This would bring actual expenditures for those two years into line with anticipated expenditures as authorized by the SNAP appropriations.

Note 2. Non-Entity Assets

	FY 2020	FY 2019
Intragovernmental:		
Fund balance with Treasury	\$0	\$0
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
<b>Total Intragovernmental</b>	<b>-</b>	<b>-</b>
With The Public		
Cash and other monetary assets	-	-
Accounts receivable	62	53
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related property	-	-
Other	-	-
<b>Total With the Public</b>	<b>62</b>	<b>53</b>
<b>Total non-entity assets</b>	<b>62</b>	<b>53</b>
<b>Total entity assets</b>	<b>70,309</b>	<b>53,946</b>
<b>Total assets</b>	<b>\$ 70,371</b>	<b>\$ 53,999</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

	FY2020	FY 2019
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	16,501	16,742
Unavailable	29,533	26,983
Obligated Balance not yet Disbursed	23,934	9,904
Non-Budgetary Fund Balance with Treasury:	32	58
<b>Total</b>	<b>\$ 70,000</b>	<b>\$ 53,687</b>

Note 4. Accounts Receivable, Net

	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
FY 2020			
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 392	\$ 21	\$ 371
<b>Total</b>	<b>\$ 392</b>	<b>\$ 21</b>	<b>\$ 371</b>

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

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

Note 5. Liabilities Not Covered by Budgetary Resources

	FY 2020	FY 2019
Intragovernmental:		
Accounts payable	\$ -	\$ -
Debt	-	-
Other	1	1
Total Intragovernmental	1	1
With the Public:		
Accounts Payable	-	-
Debt held by the public	-	-
Actuarial Federal Employees Compensation Act (FECA)	6	7
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	17	15
Total With the Public	23	22
Total liabilities not covered by budgetary resources	24	23
Total liabilities covered by budgetary resources	15,719	7,556
Total liabilities not requiring budgetary resources	93	106
Total liabilities	\$ 15,836	\$ 7,685

FNS’ “Intragovernmental-Other Liabilities” consist of Unfunded FECA Liability and Other Unfunded Employment Related Liability. FNS’ “With the Public-Other Liabilities” consist of Unfunded Leave.

Note 6. Other Liabilities

FY 2020	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	\$ -
Other Liabilities with Related Budgetary Obligations		-	6		6
Employer Contributions and Payroll Taxes		-	2		2
Other Post-Employment Benefits Due and Payable		-	-		-
Unfunded FECA Liability		-	1		1
Other Unfunded Employment Related Liability		-	-		-
Liability for Advances and Prepayments		-	-		-
Deferred Credits		-	-		-
Liability for Clearing Accounts		-	-		-
Contingent Liabilities		-	-		-
Capital Lease Liability		-	-		-
Liability for Subsidy Related to Undisbursed Loans		-	-		-
Accounts Payable from Canceled Appropriations		-	-		-
Resources Payable to Treasury		-	-		-
Custodial Liability		-	62		62
Other Liabilities without Related Budgetary Obligations		-	-		-
<b>Total Intragovernmental</b>		-	71		71
With the Public:					
Contract Holdbacks		-	-		-
Other Liabilities with Related Budgetary Obligations		-	2,320		2,320
Accrued Funded Payroll and Leave		-	11		11
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		-	17		17
Other Unfunded Employment Related Liability		-	-		-
Liability for Advances and Prepayments		-	-		-
Deferred Credits		-	-		-
Liability for Clearing Accounts		-	(1)		(1)
Liab. for nonfiduciary deposit funds & undeposited collections		-	32		32
Contingent Liabilities		-	-		-
Capital Lease Liability		-	-		-
Accounts Payable from Canceled Appropriations		-	-		-
Custodial Liability		-	-		-
Other Liabilities without Related Budgetary Obligations		-	-		-
<b>Total With the Public</b>		-	2,379		2,379
<b>Total Other Liabilities</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>2,450</b>	<b>\$ 2,450</b>

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FY 2019	Non-Current	Current	Total
<b>Intragovernmental:</b>			
Contract Holdbacks	\$ -	\$ -	\$ -
Other Liabilities with Related Budgetary Obligations	-	12	12
Employer Contributions and Payroll Taxes	-	2	2
Other Post-Employment Benefits Due and Payable	-	-	-
Unfunded FECA Liability	-	1	1
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	-	-
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Resources Payable to Treasury	-	-	-
Custodial Liability	-	52	52
Other Liabilities without Related Budgetary Obligations	-	-	-
<b>Total Intragovernmental</b>	<b>-</b>	<b>67</b>	<b>67</b>
<b>With the Public:</b>			
Contract Holdbacks	-	-	-
Other Liabilities with Related Budgetary Obligations	-	2,380	2,380
Accrued Funded Payroll and Leave	-	9	9
Withholdings Payable	-	-	-
Employer Contributions and Payroll Taxes Payable	-	-	-
Other Post-Employment Benefits Due and Payable	-	-	-
Pension Benefits Due and Payable to Beneficiaries	-	-	-
Benefit Premiums Payable to Carriers	-	-	-
Life Insurance Benefits Due and Payable	-	-	-
Unfunded Leave	-	15	15
Other Unfunded Employment Related Liability	-	-	-
Liability for Advances and Prepayments	-	-	-
Deferred Credits	-	-	-
Liability for Clearing Accounts	-	(1)	(1)
Liab. for nonfiduciary deposit funds & undeposited collections	-	55	55
Contingent Liabilities	-	-	-
Capital Lease Liability	-	-	-
Accounts Payable from Canceled Appropriations	-	-	-
Custodial Liability	-	-	-
Other Liabilities without Related Budgetary Obligations	-	-	-
<b>Total With the Public</b>	<b>-</b>	<b>2,458</b>	<b>2,458</b>
<b>Total Other Liabilities</b>	<b>\$ -</b>	<b>\$ 2,525</b>	<b>\$ 2,525</b>

Note 7. Program Costs By Segment

For the year ended September 30, 2020

	CHILD NUTRITION	SNAP	WIC	CAP	OTHER	Consolidated Total
<b>Total Gross Costs</b>	27,776	89,264	5,340	789	177	123,346
<b>Less Earned Revenue:</b>	0	60	0	1	0	61
<b>Net Goal Costs:</b>	27,776	89,204	5,340	788	177	<u>123,285</u>
<b>Net Cost of Operations</b>						<u>123,285</u>

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For the year ended September 30, 2019

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

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Note 8. Exchange Revenues

FNS’ earned revenue from nonfederal parties consists largely of the \$60 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 2020, one State participated in this program, which generated earned revenues of \$60.

Note 9. Inter-Entity Costs

Goods and services are received from Agriculture Marketing Service (AMS) at no cost to FNS. Consistent with accounting standards, FNS recognized imputed cost of \$943 in the Statement of Net Cost for commodities, and these costs are offset by imputed financing in the Statement of Changes in Net Position.

Note 10. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2020 were as follows:

	Federal	Non Federal
Paid	\$ 1	\$ -
Unpaid	\$ 60	\$ 8,160
Total	\$ 61	\$ 8,160

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

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

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

Differences exist between FNS’ FY 2019 Statement of Budgetary Resources (as provided to the Department for consolidation purposes) and the FY 2019 actual numbers presented in the FY 2021 Budget of the United States Government (Budget). These differences are summarized below:

Description	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributing Offsetting Receipts	Outlays
2019 SBR	\$138,488	\$94,763	\$(2)	\$92,579
Less: Expired Accounts not Included in Budget	\$23,948	\$230	\$-	\$-
Add: Parent Child Relationship (NIFA)	\$4	\$4	\$-	\$7
Less: Differences due to Rounding	\$-	\$2	\$-	\$-
Less: Permanent Reduction Error	\$-	\$-	\$-	\$-
Budget of the U.S. Government	\$114,544	\$94,535	\$(2)	\$92,586

The actual numbers for the FY President’s Budget have not yet been published as of FNS’ FY 2020 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at [www.whitehouse.gov](http://www.whitehouse.gov).

Note 12. Incidental Custodial Collections

Revenue Activity:	FY 2020	FY 2019
Sources of Cash Collections:		
Miscellaneous	\$ 14	\$ 7
Total Cash Collections	14	7
Accrual Adjustments (+/-)	10	2
Total Custodial Revenue	24	9
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
( Increase )/Decrease in Amounts Yet to be Transferred (+/-)	(24)	(9)
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2020 custodial activity represents all accounts receivable activity related to cancel year appropriations for interest, fines & penalties assessed and collected. For example; civil money penalties, interest, retailer and wholesaler fines and penalties. (See Note 1D., "Accounts Receivable", for further disclosures on FNS' collection activities). FNS transfers these types of collections to the Department of Treasury. FNS' custodial collection activities are considered immaterial and incidental to the mission of FNS.

#### Note 13. Reconciliation of Net Cost to Net Outlays

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

**Food and Nutrition Services  
Consolidated Budget and Accrual Reconciliation  
Period Ending September 30, 2020**

	Intragovernmental	with the public
Net Operating Cost (SNC)	1,383	121,902
<b>Components of Net Operating Cost Not Part of the Budgetary Outlays:</b>		
1. Property, plant, and equipment depreciation	0	0
2. Property, plant, and equipment disposal & revaluation	0	0
3. Unrealized valuation loss/(gain) on investments in GSE's	0	0
4. Year-end credit reform subsidy re-estimates	0	0
5. Other	0	0
<b>Increase/(decrease) in assets:</b>		
6. Accounts Receivable	0	46
7. Loans receivable	0	0
8. Other assets	0	0
9. Investments	0	0
<b>(Increase)/decrease in liabilities not affecting Budget Outlays:</b>		
10. Accounts payable	-27	-8,201
11. Salaries and benefits	-1	-1
12. Insurance and guarantee program liabilities	0	0
13. Environmental and disposal liabilities	0	0
14. Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	7	59
<b>Other financing sources:</b>		
15. Imputed Financing	-943	0
16. Other imputed finance	0	0
17. Total Components of Net Cost That Are Not Part of the Budget Outlays	<b>-964</b>	<b>-8,097</b>
<b>Components of the Budget Outlays That Are Not Part of Net Operating Cost:</b>		
18. Effect of prior year agencies credit reform subsidy re-estimates	0	0
19. Acquisition of capital assets	0	0
20. Acquisition of inventory	0	0
21. Acquisition of other assets	0	0
22. Debt and Equity Securities	0	0
23. Transfers out (in) without reimbursement	0	0
24. Other	-4	-1
25. Total Components of Budgetary Outlays That Are Not Part of Net Operating Cost	<b>-4</b>	<b>-1</b>
26. Other Temporary Timing Differences	0	0
27. NET OUTLAYS	<b>415</b>	<b>113,804</b>
28. Outlays, net (total) (discretionary and mandatory)	0	114,224
29. Distributed offsetting receipts	0	-5
30. Agency Outlays, net (discretionary and mandatory)	<b>0</b>	<b>114,219</b>

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

	Intragovernmental	with the public
Net Operating Cost (SNC)	1,317	92,208
<b>Components of Net Operating Cost Not Part of the Budgetary Outlays:</b>		
1. Property, plant, and equipment depreciation	0	-1
2. Property, plant, and equipment disposal & revaluation	0	0
3. Unrealized valuation loss/(gain) on investments in GSE's	0	0
4. Year-end credit reform subsidy re-estimates	0	0
5. Other	0	0
<b>Increase/(decrease) in assets:</b>		
6. Accounts Receivable	0	-15
7. Loans receivable	0	0
8. Other assets	0	0
9. Investments	0	0
<b>(Increase)/decrease in liabilities not affecting Budget Outlays:</b>		
10. Accounts payable	0	-71
11. Salaries and benefits	0	0
12. Insurance and guarantee program liabilities	0	0
13. Environmental and disposal liabilities	0	0
14. Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	-6	59
<b>Other financing sources:</b>		
15. Imputed Financing	-914	0
16. Other imputed finance	0	0
17. Total Components of Net Cost That Are Not Part of the Budget Outlays	<u>-920</u>	<u>-28</u>
<b>Components of the Budget Outlays That Are Not Part of Net Operating Cost:</b>		
18. Effect of prior year agencies credit reform subsidy re-estimates	0	0
19. Acquisition of capital assets	0	1
20. Acquisition of inventory	0	0
21. Acquisition of other assets	0	0
22. Debt and Equity Securities	0	0
23. Transfers out (in) without reimbursement	0	0
24. Other	0	-1
25. Total Components of Budgetary Outlays That Are Not Part of Net Operating Cost	<u>0</u>	<u>0</u>
26. Other Temporary Timing Differences	0	0
28. NET OUTLAYS	<u>397</u>	<u>92,180</u>
29. Outlays, gross	0	92,627
30. Actual offsetting collections	0	-48
31. Distributed offsetting receipts	0	-2
32. Outlays, Net	<u>0</u>	<u>92,577</u>



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<b>COVID-19 Activity</b>								
<b>As of and For the Period Ended 9/30/2020</b>								
Account Name*	SNAP	SNAP	SNAP	CAP	CAP	WIC	CN	Total
Treasury Account Symbol	120/13505	120/13505	1203505	120/13507	120/13507	120/13510	120/13539	
DEFC	M	N	M	M	N	M	N	
<b>Intragovernmental:</b>								
Fund Balance with Treasury	4	122	4,375	304	288	500	3,289	8,882
Investments	-			-	-	-	-	-
Accounts Receivable, Net	-			-	-	-	-	-
Other intragovernmental assets	-			-	-	-	-	-
<b>Total Intragovernmental Assets</b>	4	122	4,375	304	288	500	3,289	8,882
<b>Cash and other monetary assets</b>								
Cash and other monetary assets	-			-	-	-	-	-
Investments	-			-	-	-	-	-
Accounts Receivable, Net	-			-	-	-	-	-
Direct Loan and Loan Guarantees, Net	-			-	-	-	-	-
Inventory and Related Property, Net	-			-	-	-	-	-
General Property, Plant, and Equipment, Net	-			-	-	-	-	-
Other assets	-			-	-	-	-	-
<b>Total Assets</b>	4	122	4,375	304	288	500	3,289	8,882
<b>Intragovernmental Liabilities:</b>								
Accounts payable	-			-	-	-	-	-
Debt	-			-	-	-	-	-
Other liabilities	-			-	-	-	-	-
<b>Total Intragovernmental Liabilities</b>	-	-	-	-	-	-	-	-
Accounts payable				1	4			5
Loan guarantee liability	-			-	-	-	-	-
Actuarial Federal Employees' Compensation	-			-	-	-	-	-
Environmental & disposal liabilities	-			-	-	-	-	-
Benefits due and payable	4	62	3,292	-	-	-	1,528	4,886
Other liabilities	-			54	65	-	-	119
<b>Total liabilities</b>	4	62	3,292	55	69	-	1,528	5,010
Unexpended appropriations	0	60	1,082	248	220	500	1,762	3,872
Cumulative results of operations	-			-	-	-	-	-
<b>Total Liabilities and Net Position</b>	4	122	4,374	303	289	500	3,290	8,882
Gross program costs	100	15,750	11,718	152	230	-	7,038	34,988
Less: Earned revenues	-			-	-	-	-	-
<b>Net Cost of Operations</b>	100	15,750	11,718	152	230	-	7,038	34,988
Net position beginning of period	-			-	-	-	-	-
Nonexchange Revenue	-			-	-	-	-	-
Other financing sources	100	15,810	12,800	400	450	500	8,800	38,860
Net cost of operations	(100)	(15,750)	(11,718)	(152)	(230)	-	(7,038)	(34,988)
<b>Change in Net Position</b>	-	60	1,082	248	220	500	1,762	3,872
<b>Net Position End of Period</b>	-	60	1,082	248	220	500	1,762	3,872



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