



United States Department of Agriculture

Office of Inspector General





Food and Nutrition Service Financial Statements for Fiscal Years 2013 and 2012

Audit Report 27401-0003-21

What Were OIG's

Objectives

Our audit objectives were to determine whether (1) the financial statements were presented fairly, in all material respects, in accordance with accepted principles; (2) the internal control objectives over financial reporting were met; and (3) transactions and events material effect to the financial statements were compliant with applicable laws and regulations.

What OIG Reviewed

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

What OIG Recommends

This report does not include any recommendations.

OIG performed the annual audit of the Food and Nutrition Services financial statements for fiscal years 2013 and 2012.

What OIG Found

The Food and Nutrition Service (FNS) received an unmodified opinion from the Office of Inspector General's (OIG) audit of the FNS consolidated financial statements. We determined that the agency's financial statements for the Fiscal Years 2013 and 2012 present fairly, in all material respects, FNS' financial position as of September 30, 2013 and 2012, and that they conform with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources.

Our consideration of FNS' internal control over financial reporting identified no significant deficiencies or material weaknesses. However, our consideration of compliance with laws and regulations noted an instance of noncompliance with the Improper Payments Elimination and Recovery Act of 2010.



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



DATE: December 6, 2013

AUDIT
NUMBER: 27401-0003-21

TO: Audrey Rowe
Administrator
Food and Nutrition Service

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

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Food and Nutrition Service's Financial Statements for
Fiscal Years 2013 and 2012

This report presents the results of our audit of the Food and Nutrition Service's financial statements for the fiscal years ending September 30, 2013 and 2012. The report contains an unmodified opinion on the financial statements, as well as the results of our assessment of the Food and Nutrition Service's internal controls over financial reporting and compliance with laws and regulations.

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

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

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Independent Auditor's Report

Audrey Rowe
Administrator
Food and Nutrition Service

We have audited the accompanying balance sheets of the Food and Nutrition Service (FNS), as of September 30, 2013 and 2012, and the related statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the fiscal years then ended. The objective of our audits was to express an opinion on the fair presentation of these comparative financial statements. In connection with our fiscal year 2013 audit, we also considered FNS' internal control over financial reporting and tested FNS' compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on these comparative financial statements.

The following sections discuss our opinion on FNS' comparative financial statements; our consideration of FNS' internal control over financial reporting; our test of FNS' compliance with certain provision of applicable laws and regulations; and management's, as well as our responsibilities.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of FNS, which are comprised of the consolidated balance sheets as of September 30, 2013, and 2012, and the related statements of net cost; changes in net position; and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements. The objective of our audit was to express an opinion on the fair presentation of these financial statements.

Management's Responsibility for the Financial Statements

FNS' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. Those

standards and OMB Bulletin 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FNS as of September 30, 2013, and 2012, 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 United States of America.

Other Matters

Required Supplementary Stewardship Information

Accounting principles generally accepted in the United States of America require that FNS' Management Discussion and Analysis (MD&A) and other Required Supplementary Stewardship Information (RSSI) be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. As required by OMB Bulletin 14-02, we have applied certain limited procedures to the MD&A and other RSSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered FNS' internal controls over financial reporting (internal controls) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FNS' internal controls. Accordingly, we do not express an opinion on the effectiveness of FNS' internal controls.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 14-02 requires us to describe significant deficiencies and material weaknesses identified during our audit; and in the event that no material weaknesses were identified, to so report. For both our fiscal years 2013 and 2012 financial statement audits, we did not identify and report any material weaknesses or significant deficiencies not identified by FNS in its annual assurance statements.

Report on Compliance and Other Matters

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

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which FNS' financial management systems did not substantially comply with FFMIA.

In Audit Report No. 50024-0004-11, U.S. Department of Agriculture, Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012, issued March 14, 2013, the Office of Inspector General identified FNS' Child and Adult Care Food Program (CACFP) was noncompliant with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for a second consecutive year. Specifically, CACFP did not report a gross estimate of improper payments for one of two CACFP components; Family Day Care Homes Meal Claims. FNS did not report improper payment rates of less than 10 percent for the National School Lunch program (NSLP) and School Breakfast program (SBP). Also, FNS did not report the amount of improper payments recovered for the Supplemental Nutrition Assistance Program; the Special Supplemental Nutrition Program for Women, Infants, and Children; the CACFP, the NSLP; and the SBP, in the agency's financial report. Exhibit A provides additional information regarding this noncompliance.

Management's Responsibility for Internal Control and Compliance

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

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing whether FNS' financial management systems substantially comply with the FFMIA requirements referred to above, (3) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (4) applying certain limited procedures with respect to the RSI and all other information included with the financial statements.

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

We did not test compliance with all laws and regulations applicable to FNS. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to FNS' financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these

tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

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

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

Gil H. Harden
Assistant Inspector General
for Audit
December 6, 2013

Abbreviations

CACFP	Child and Adult Care Food Program
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Manager’s Financial Integrity Act
FNS	Food and Nutrition Service
IPERA	Improper Payment Elimination and Recovery Act of 2010
MD&A	Management Discussion and Analysis
NSLP	National School Lunch Program
OMB	Office of Management and Budget
OIG	Office of Inspector General
RSSI	Required Supplementary Stewardship Information
SBP	School Breakfast Program

Exhibit A: Status of Prior Year Noncompliance Finding

Report 50024-0004-11, U.S. Department of Agriculture, Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2012, issued March 14, 2013.

Reported Noncompliance

In Report 50024-0004-11, U.S. Department of Agriculture, Fiscal Year 2012 Improper Payments Elimination and Recovery Act of 2010 Compliance Review, issued March 14, 2013, the Office of Inspector General (OIG) identified three instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, FNS did not report a gross estimate of improper payments for one of two components related to the CACFP, Family Day Care Homes Meal Claims. Also, FNS did not report improper payment rates of less than 10 percent for the NSLP and SBP. Finally, FNS has not reported the amount of improper payments they have recovered for the Supplemental Nutrition Assistance Program; Special Supplemental Nutrition Program for Women, Infants, and Children; CACFP; NSLP; and SBP.

FNS has developed a pilot methodology to estimate meal claim errors with parent recall surveys. FNS is currently assessing the feasibility of using this approach nation-wide. FNS has not established a date for publishing the CACFP claiming error estimate. Administration of the NSLP and SBP is highly decentralized, including governmental and non-governmental entities. FNS initiated a study of the Fiscal Year 2012 school year that they believe will show improved improper payment rates versus the study from the 2005 school year. FNS stated in section 4 of its MD&A that the current statute only provides authority to recover improper payments identified through reviews, audits, or other operational oversight activity. FNS also stated that an estimated recovery target amount for the SNAP is not feasible because claim collections are tied to the ability of States to identify, pursue, and collect erroneous payments.

**FOOD AND NUTRITION SERVICE
FISCAL YEARS 2013 and 2012
FINANCIAL STATEMENTS
PREPARED BY
FOOD AND NUTRITION SERVICE**

MANAGEMENT DISCUSSION AND ANALYSIS

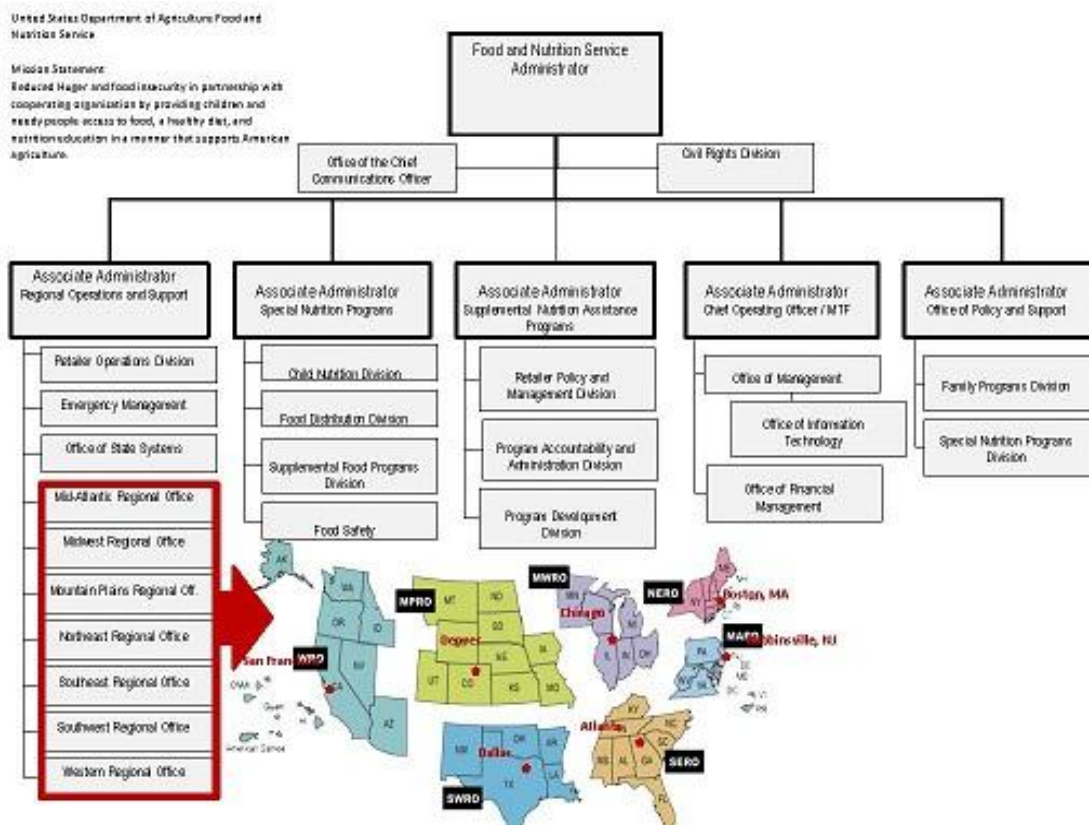
SECTION 1: MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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

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

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

FNS FY 2013 Organization Chart



Descriptions of FNS Programs:

Over the past half-century – beginning with the National School Lunch Program in 1946 – the Nation has gradually built an array of nutrition assistance programs designed to help the most vulnerable populations meet their food needs. Taken together, the current programs form a nationwide safety net supporting low-income families and individuals in their efforts to escape food insecurity and hunger and achieve healthy, nutritious diets. Currently, the programs administered by FNS touch the lives of one in five Americans over the course of a year.

The nutrition assistance programs described below work both individually and in concert with one another to improve the Nation's nutrition and health by improving the diets of children and low-income households.

- *Supplemental Nutrition Assistance Program (SNAP):* Authorized by the Food and Nutrition Act of 2008, SNAP serves as the primary source of nutrition assistance for over 44 million low-income people. It enables participants, about 49 percent of whom are children, to improve their diets by increasing food purchasing power using benefits that are redeemed at authorized retail grocery stores across the country. State agencies are responsible for the administration of the program according to national eligibility and benefit standards set by Federal law and regulations. Benefits are 100 percent Federally-financed, while administrative costs are shared between the Federal and State Governments.

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

- *Food Distribution Program on Indian Reservations (FDPIR):* FDPIR distributes USDA-purchased foods as an alternative to SNAP for Indian households on or near reservations. State agencies and Indian Tribal Organizations (ITOs) that operate the program are responsible for certifying recipient eligibility, nutrition education, local warehousing and transportation of food, distribution of food to recipient households, and program integrity. The Federal Government pays 100 percent of the cost of commodities distributed through the program, and cash payments for administrative expenses.
- *Child Nutrition Programs (CNP):* The Child Nutrition Programs - National School Lunch (NSLP), School Breakfast (SBP), Special Milk (SMP), Child and Adult Care Food (CACFP), and Summer Food Service (SFSP) - provide reimbursement to State and local governments for nutritious meals and snacks served to almost 32 million children in schools, child care institutions, adult day care centers, and after school care programs. 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 expense, and provides training, technical assistance, and nutrition education. Payments are substantially higher for meals served free or at a reduced price to children from low-income families.
- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC):* WIC addresses the supplemental nutritional needs of at-risk, low-income pregnant, breastfeeding and postpartum

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

- *The Emergency Food Assistance Program (TEFAP):* This program supports the emergency food organization network by distributing USDA-purchased food for use by emergency feeding organizations including soup kitchens, food recovery organizations, and food banks. TEFAP also provides administrative funds to defray costs associated with processing, repackaging, storage, and distribution of Federal and privately donated food. The allocation of both Federal food and administrative grants to States is based on a formula that considers the States' unemployment levels and the number of persons with income below the poverty level.
- *The Commodity Supplemental Food Program (CSFP):* This program provides foods purchased by USDA to low-income infants and children up to age six, low-income pregnant and postpartum women, and to low-income senior citizens. In recent years, there has been a shift towards low-income elderly in this program; in FY 2011, elderly participation comprised almost 97 percent of total participation. Foods are distributed through State agencies to supplement food acquired by recipients from other sources. The CSFP is operated as a Federal/State partnership under agreements between FNS and State health care, agricultural or education agencies. In FY 2011, 39 States, the District of Columbia, and two Indian reservations operate CSFP.
- *Senior Farmers' Market Nutrition Program (SFMNP):* This program provides coupons to low-income seniors that can be exchanged for fresh, nutritious, unprepared, locally grown fruits, vegetables and herbs at farmers' market, roadside stands, and community-supported agriculture programs.
- *Pacific Island and Disaster Assistance:* Pacific Island Assistance includes assistance to the nuclear-affected zones of the Republic of the Marshall Islands in the form of USDA purchased food, or cash-in-lieu of food, and administrative funds and is authorized under the Compact of Free Association Amendments Act of 2003, (P.L. 108-188). Disaster relief funds are provided for use in non-Presidentially declared disasters.

Federal nutrition assistance programs operate as partnerships between FNS and the State and local organizations that interact directly with program participants. States voluntarily enter into agreements with the Federal Government to operate programs according to Federal standards in exchange for program funds that cover all benefit costs, and a significant portion of administrative expenses.

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FNS Staff:

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

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

Program operations are managed through FNS' seven regional offices and 27 field offices/satellite locations. A regional administrator directs each regional office. These offices maintain direct contact with State agencies that administer the FNS programs and conduct on-site management reviews of State operations. The Retailer Operations Division monitors the 244,710 stores as of June 30, 2013 authorized to redeem SNAP benefits.

As of September 30, 2013, there were approximately 1,323 full-time permanent employees in the agency. There were 512 employees in the Washington headquarters office; and 811 in the field, which includes seven regional offices; 27 field/satellite offices; two SNAP compliance offices. The chart below displays staff year utilization.

Project	2012 Actual	2013 Estimate	2014 Requested
Supplemental Nutrition Assistance Program	154	164	239
Child Nutrition Programs	198	221	221
Commodity Assistance	3	3	8
Supplemental Nutrition Program -WIC	28	30	35
Nutrition Programs Administration	899	974	974
Center for Nutrition Policy and Promotion	32	32	32
Total Available	1,314	1,424	1,509

SECTION 2. PERFORMANCE GOALS, OBJECTIVES and RESULTS

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

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

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

Nutrition is the link between agriculture and the Nation's health, and the Department made strong progress in advancing our nutrition and health goal in 2013. USDA's leadership of the Federal nutrition assistance programs made a healthier diet available for millions of children and low-income families. And the cutting-edge nutrition promotion efforts of the Center for Nutrition Policy and Promotion harnessed interactive technologies to motivate all Americans to make positive dietary behavioral changes consistent with the *Dietary Guidelines for Americans* and the Healthier US initiative. Key 2013 accomplishments include:

Promoting access to the Supplemental Nutrition Assistance Program (SNAP). SNAP is the Nation's largest nutrition assistance program, serving 47.6 million people in June 2013. The latest information on the rate of participation among eligible people showed that in 2010, 75 percent of all who were eligible participated, as compared with 54 percent in 2001.

Promoting Nutrition Education by Using the MyPlate Food Guidance System. MyPlate—a network of nutrition education tools that translates the *Dietary Guidelines for Americans* into understandable concepts for consumers—offers the American public an individualized approach to nutritional well-being and active living. ChooseMyPlate.gov's web-based educational tools help Americans assess and personalize their diet and physical activity plans. The newest tool was the "MyPlate on Campus"

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

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

to assist college and university students in adopting healthy lifestyles they can maintain during and beyond their college years. Consumers continue to respond enthusiastically to the on-line educational approach; thus, CNPP continues to develop new educational tools to promote nutrition education to specific population groups to help stem the trends in obesity and nutrition-related diseases.

Continuing to ensure that SNAP benefits are accurately issued. The SNAP payment accuracy rate for FY 2012, announced in June 2013, was 96.58 percent, a new record-high that reflects effective partnerships with State administering agencies and extensive use of policy options to streamline program administration while improving access for working families.

In FY 2013, 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 2013, USDA pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to support and encourage good nutrition choices.

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

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

OBJECTIVE 4.1: INCREASE ACCESS TO NUTRITIOUS FOODS

4.1.1 Participation levels for major Federal nutrition assistance programs: SNAP (Millions per month)

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

In FY 2013, the Department and its program delivery partners sustained effective access to SNAP. Average monthly participation reached 47.6 million in 2013 (Oct 2012-June 2013), within the range (43.6 million-50.6 million) for the 2013 target of 47.1 million.

Program participation increased by about 2.8 percent during the first eight months of FY 2013, compared with the same period in FY 2012. USDA's efforts to support and encourage SNAP participation included:

- Continued efforts with States to develop outreach strategies. Forty-six out of 53 State agencies—up from 42 in FY 2009—now have formal outreach plans or other documented outreach activity;
- Supported innovative State practices to promote access by simplifying the application process. Thirty States use an Internet-based application filing system. A total of 47 States allow telephone interviews. A total of 30 States use call centers;
- Provided numerous strategies to help States manage workloads because of increasing participation and decreasing State resources due to the economic downturn. These strategies include policy waivers; a workload management matrix tool; a program access toolkit; and encouragement of broad-based categorical eligibility (42 States) to improve access to applicants and simplify policies for State administration.

USDA also estimates the number of people eligible for the program along with the rate at which eligible people are participating. The latest study shows that in 2010, 75 percent of all persons eligible for SNAP participated. On average, 51 million individuals were eligible for benefits each month in 2010, and 38 million received them. While the program served 75 percent of all eligible individuals, the program provided 94 percent of the benefits that all eligible individuals could receive. This is because the neediest individuals eligible for higher benefits participated at higher rates than did other eligible persons. These numbers indicate that the program is effectively reaching those most in need.

Annual Performance Goals, Indicators and Trends	2008	2009	2010	2011	2012	Fiscal Year 2013		
						Target	Actual	Result
4.1.1 Participation levels for the major Federal nutrition assistance programs (millions per month): Supplemental Nutrition Assistance Program Avg.(Monthly) participation (millions)	28.4	33.5	40.3	44.3	46.3	47.1	47.6	Met
	Rationale for Met Range: Thresholds for 4.1.1 reflect the margin of error in forecasts of future participation. For Supplemental Nutrition Assistance Program (SNAP) participation, results from 2 independent assessments suggest that predictions of the number of SNAP participants are accurate to within plus-or-minus 7.5 percent on average. For 2013, this percentage thus allows for actual performance that meets the target range of 43.6-50.6 million for SNAP.							
	Data Assessment of Performance Measure 4.1.1 SNAP participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at FNS. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, the FNS works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.							
	Completeness of Data —Final figures represent 12-month, fiscal year averages. Participation data are collected and validated monthly							

Annual Performance Goals, Indicators and Trends		2008	2009	2010	2011	2012	Fiscal Year 2013		
							Target	Actual	Result
	before being declared annual data. Reported estimates are based on data through June 30, 2013, as available September 2013.								
	Reliability of Data —Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.								
	Quality of Data —As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.								

Challenges for the Future

Studies and analyses show that one reason that SNAP-eligible people do not participate is that they may not be aware of their eligibility. Efforts to improve access to and promote awareness of SNAP, and seek improvements in policy and operations that make applying easier, are ongoing challenges.

The quality of program delivery by third parties—hundreds of thousands of State and local Government workers and their cooperators—is critical to USDA’s efforts to reduce hunger and improve nutrition. Proper program administration, including timely determination of eligibility, is of special concern.

4.1.2 Improve SNAP payment accuracy

Overview

Ensuring that SNAP and other Federal nutrition assistance programs are administered with integrity is central to USDA’s mission. Waste and abuse draw scarce resources away from those who need them the most. Just as important, the programs are ultimately not sustainable without public confidence that benefits go to those who qualify, are used appropriately, and achieve their intended purposes. The Department seeks to increase food security and reduce hunger in a manner that inspires public confidence that taxpayer dollars are used wisely.

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

Analysis of Results

SNAP payment accuracy reached a record-high 96.58 percent in 2012, the latest for which data are available. The number reflects the excellent performance by State agencies in administering the program. This combined rate reflects 2.77 percent in overpayments and .65 percent in underpayments for a total of 3.42 in erroneous payments.

Forty-six States had a payment accuracy rate greater than 94 percent, including 32 States with rates greater than 96 percent. This is two more States with 94 percent accuracy and three more States with 96 percent accuracy from the previous year.

Annual Performance Goals, Indicators and Trends	2008	2009	2010	2011	2012	Fiscal Year 2013		
						Target	Actual	Result
4.1.2 Improve SNAP Payment Accuracy Rate Baseline: 2001 = 91.34%	94.3%	94.9%	96.19%	96.2%	96.58%	96.58%	Not Available	Deferred
	FY 2013 data will be available in 2014.							
	Rationale for Met Range: The 95.0 percent confidence interval around the estimate of payment accuracy is $\pm .20$. <ul style="list-style-type: none"> For 2013, this confidence level allows for actual performance that meets the target in the range 95.9–96.5 percent. 							
	Data Assessment of Performance Measure 4.1.2							
	<p>The Supplemental Nutrition Assistance Program (SNAP), formerly the Food Stamp Program, uses annual payment accuracy data from the Quality Control (QC) process to support SNAP management. The data are based upon statistically valid methodology. The QC process uses a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate is composed of over-issuances and under-issuances of SNAP benefits. A regression formula is applied to the results of the reviews to calculate official error rates. State agencies review selected cases monthly to determine the accuracy of the eligibility and benefit-level determination. The process includes a client interview and verification of all elements of eligibility and the basis of issuance. Federal reviewers validate a sample of the State's reviews by conducting a re-review. The process has proven to be a sound method of calculating reliable data.</p> <p>Completeness of Data—The most current data available for this measure are for FY 2012. The payment accuracy rate of 96.58 percent met the performance goal/measure target. FY 2013 performance will be deferred until next year's report.</p> <p>Reliability of Data—QC data are valid and accepted by State SNAP agencies as a basis for performance-incentive payments and penalties. The U.S. Government Accountability Office and the Office of Inspector General also use the data regularly.</p> <p>Quality of Data—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is frequently cited as an important, high-quality indicator of program performance.</p>							

Challenges for the Future

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

4.1.3 Participation levels for the major Federal nutrition assistance programs (millions per day)

Overview

The National School Lunch Program (NSLP) and the School Breakfast Program (SBP) support schools in ensuring access to nutritious food for the children they serve. The programs provide per-meal reimbursement to State and local Governments for meals and snacks served. All meals must meet Federal nutrition standards to qualify for reimbursement.

In FY 2013, NSLP serves lunches and snacks in more than 100,447 schools and residential child-care facilities. About 70 percent of meals are served to low-income children for free or at reduced price.

SBP helps schoolchildren start the day ready to learn by serving breakfast in more than 89,244 schools and residential child-care facilities. Nearly 85 percent of meals are served free or at reduced price to low-income children.

Analysis of Results

In FY 2013, USDA and its program delivery partners sustained effective access to school meals. The increased use of direct certification for free school meals for children enrolled in means-tested programs such as SNAP or the Temporary Assistance for Needy Families (TANF) program has helped to provide easy access to school meal benefits. During the 2011-12 school year, 89 percent of school districts used direct certification to enroll 11.6 million children in the lunch program – 1.7 million more than in the previous year. TANF provides financial assistance for children and their parents or relatives who are living with them.

NSLP participation levels reached 30.6 million in FY 2013 within the Met range (30.1 million-33.3 million) for the 2013 target of 31.7 million. Participation in the SBP increased by about 2 percent from FY 2012 to FY 2013, continuing the trend of increases in recent years. Average SBP participation levels reached 13.1 million in FY 2013 within the Met range (12.7 million – 14.1 million) for the 2013 target of 13.4 million.

Annual Performance Goals, Indicators and Trends	2008	2009	2010	2011	2012	Fiscal Year 2013		
						Target	Actual	Result
4.1.3 Participation levels for the major Federal nutrition assistance programs (millions per day)								
• National School Lunch Program	30.9	31.6	31.7	31.8	32.0	31.7	30.6	Met
• School Breakfast Program	10.6	11.0	11.7	12.1	12.8	13.4	13.1	Met
	Rationale for Met Range: Thresholds for 4.1.3 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 2013, this percentage range allows for actual performance that meets the targets in the range of 30.1-33.3 million for the National School Lunch Program and 12.7-14.1 million for the School Breakfast Program.							
	Data Assessment of Performance Measure 4.1.3							
	School meals participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.							
	Completeness of Data— Figures for NSLP and SBP 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 June 30, 2013, as available September 2013.							
	Reliability of Data— Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.							

Annual Performance Goals, Indicators and Trends	2008	2009	2010	2011	2012	Fiscal Year 2013		
						Target	Actual	Result
	Quality of Data— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.							

Challenges for the Future

While almost all schoolchildren have access to Federally-subsidized school lunches, significantly fewer schools operate School Breakfast Programs. USDA will continue to pursue strategies to ensure that all students are able to start the day with a nutritious breakfast, at home or at school.

As with other nutrition assistance programs, the Department relies on its partnerships with third parties—hundreds of thousands of State and local Government workers and their cooperators—to sustain effective school meals program delivery.

4.1.4 Participation levels for the major Federal nutrition assistance programs (millions per month) WIC program average

Overview

The Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is a critical component of the nutrition assistance safety net. WIC's major objective is to address the nutrition needs of low-income pregnant, breastfeeding, and postpartum women, infants, and children up to 5 years of age who are found to be at nutritional risk.

Analysis of Results

In FY 2013, average monthly WIC participation was approximately 8.6 million participants within the Met range (8.6 million-9.2 million) for the target of 8.9 million. USDA continued to meet its ongoing commitment to provide sufficient program resources to support participation for all eligible people who apply for benefits.

The Department also estimates the number of people eligible for WIC and calculates the rate at which eligible people are participating. The latest study shows that, in 2010, WIC served an estimated 62.6 percent of the population eligible for benefits. This figure reflects participation by almost 85 percent of eligible infants, almost 71 percent of eligible pregnant women, more than 85 percent of eligible breastfeeding women, and almost 81 percent of eligible postpartum women.

Annual Performance Goals, Indicators and Trends	2008	2009	2010	2011	2012	Fiscal Year 2013		
						Target	Actual	Result
4.1.4 Participation levels for the major Federal nutrition assistance programs (millions per month): WIC Program (average)	8.7	9.1	9.2	8.9	8.9	8.9	8.6	Met
Rationale for Met Range: Thresholds for 4.1.4 reflect the margin of error in forecast of future participation, estimated at 3 percent for the WIC program. This reflects the pattern of variance between actual and target performance over the past 5 years.								

Annual Performance Goals, Indicators and Trends	2008	2009	2010	2011	2012	Fiscal Year 2013		
						Target	Actual	Result
	For FY 2013, this percentage thus allows for actual performance that meets the target in the range of 8.6-9.2 million for WIC.							
	Data Assessment of Performance Measure 4.1.4							
	<p>WIC participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.</p> <p>Completeness of Data—Figures represent 12-month, fiscal year averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through June 30, 2013, as available September 2013.</p> <p>Reliability of Data—Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.</p> <p>Quality of Data—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.</p>							

Challenges for the Future

Ensuring that adequate, timely funding is available to USDA's program partners to support participation among all eligible applicants is an ongoing challenge. The Department and its partners must continue to work together to manage funds carefully and maintain efficient operations to serve all those in need.

OBJECTIVE 4.2: PROMOTE HEALTHY DIET AND PHYSICAL ACTIVITY BEHAVIOR

4.2.1 Application and usage level of nutritional guidance tools

Linking science-based information to the needs of consumers through effective translation is an important pillar in policy development and implementation. The Department designed, developed, and implemented the MyPlate food icon, which is supported by a multi-modal, comprehensive communications program to make the 2010 *Dietary Guidelines for Americans* available and operational for all Americans, (including children) to achieve healthy diets and lifestyles. The ChooseMyPlate.gov website and its wealth of resources, including the dietary assessment online tool, SuperTracker, promote the personalized application of the Guidelines to empower all consumers to make better food choices balanced with adequate exercise. In FY 2012, the Department released the new SuperTracker and consumer materials, located at www.ChooseMyPlate.gov, to help Americans attain healthy diets and active lifestyles.

Overview

Good nutrition and regular physical activity are important throughout the life cycle and can help reduce the rate of overweight and obesity in the U.S. population, especially among the Nation's children. Both good nutrition and physical activity are also essential to helping prevent diet-related chronic diseases, such as diabetes, cardiovascular disease, and high blood pressure. Thus, both achieving and sustaining appropriate body weight across the lifespan are vital to maintaining good health and quality of life.

The Department establishes the *Dietary Guidelines for Americans* jointly with the Department of Health and Human Services (DHHS) to form the basis of Federal nutrition policy, education, outreach, and of food assistance programs. (The *Dietary Guidelines* are available at www.dietaryguidelines.gov.) The Department uses electronic tools, print materials, and other resources to communicate the importance of healthy eating and physical activity to consumers. The MyPlate icon and guidance materials and tools at www.ChooseMyPlate.gov are important means by which the Department helps empower the American public with actionable information to make healthy food choices and to achieve healthy and active lifestyles. The Department continues also to encourage “information multipliers”—community and national strategic partners—to extend the reach and impact of nutrition guidance messages, both with Federal nutrition assistance programs and with the general public.

The Department is committed to using Federal nutrition policy and information—both based on the most recent, credible science—to encourage the U.S. population to develop and maintain healthy diets and active lifestyles that benefit each individual, each family, and the Nation. As the Secretary said at the December 2011 release of the SuperTracker, “Overcoming the health and nutrition challenges we face as a nation is critical, and the SuperTracker provides consumers with an assortment of tools to do just that. This easy-to-use website [ChooseMyPlate.gov] will help Americans at all stages of life improve their overall health and well-being as they input dietary and physical activity choices into the tool.”

Other key FY 2012 accomplishments include the following:

- The Department released the new SuperTracker located at www.ChooseMyPlate.gov. The SuperTracker consists of a suite of dietary assessment, weight management, and physical tracking tools designed to help Americans by empowering them with means to make healthier choices and develop healthy dietary habits and lifestyles.
- The Department implemented a communications calendar of selected messages, based on the 2010 *Dietary Guidelines for Americans*, to encourage healthy food and dietary behaviors. The messages released in FY 2012 were “Enjoy your food but eat less,” “Make half your plate fruits and vegetables,” “Drink water instead of sugary drinks,” and “Make at least half your grains whole grains.”
- The Department continues to build its Nutrition Evidence Library by conducting evidence-based systematic reviews to evaluate scientific evidence to answer precise nutrition policy and nutrition education questions or series of questions.
- The USDA continues to collaborate with partners to increase all communication of guidance messages related to the diet and physical activity. The USDA/CNPP Nutrition Communicators Network provides an opportunity for different communities and organizations to join together in helping promote the *Dietary Guidelines for Americans*. The Nutrition Communicators Network includes over 6,000 community partners and 100 strategic (national) partners.

Analysis of Results

In FY 2013, the application and usage level of nutrition guidance tools reached 9.9 billion pieces of electronic and print materials distributed. The Department exceeded its goal of 4 billion pieces. USDA continued to meet its commitment to link science-based information to the nutrition needs of Americans across the lifecycle. The Department successfully reached Americans with print materials and electronic tools; the Department used social media and partnerships, as well as ChooseMyPlate.gov, nutritionevidencelibrary.gov, and the Food and Nutrition Information center to provide information that consumers can use to improve their diets and maintain active lifestyles. The diet assessment tool, the

SuperTracker, was enhanced with “My Foods,” “My Recipe,” and an expanded foods database. Myplate on Facebook was launched and grew to more than 13,000 followers and an engagement reach of more than 615,000. The 10 Tips nutrition education series continued to be one of the most popular resources at ChooseMyPlate.gov, with downloads totaling 4,293,573. In addition, the MyPlate Kids Place was disseminated as part of the “Back-to-School” promotional effort, and the Nutrition Communicators Network grew to 112 National Strategic Partners and more than 7,000 Community Partners. This network is designed to empower and mobilize message multipliers to promote Myplate and consumer messages derived from *Dietary Guidelines for Americans*.

Annual Performance Goals, Indicators and Trends		2008	2009	2010	2011	2012	Fiscal Year 2013		
							Target	Actual	Result
4.2.1	Application and usage level of nutrition guidance tools(billions of pieces of nutrition guidance distributed) Baseline 2006 = 1.5	3.2	3.5	1.7	1.7	6.6	4.0	9.9	Exceeded
	Rationale for Met Range: The precision of USDA’s tracking system and forecasting allows for determination of the degree to which the 2013 target range of 3.6 to 4.4 billion is met. Thresholds reflect trends of usage levels at ChooseMyPlate.gov, www.nutritionevidencelibrary.gov, other USDA websites such as SNAP-ED Connection, as well as the distribution of MyPlate and Dietary Guidelines print materials.								
	Data Assessment of Performance Measure 4.2.1								
	Data on the application and usage level of nutrition guidance tools are drawn from electronic records associated with ChooseMyPlate.gov, nutritionevidencelibrary.gov, the Food and Nutrition Information Center (FNIC) at the National Agricultural Library and from inventory records of print materials.								
	Completeness of Data —Data related to ChooseMyPlate.gov are collected instantaneously, indicating the number of e-hits to the Web site and the number of registrations to the SuperTracker. For print materials, data from national headquarters represent counts of what was distributed among divisions of FNS and by the FNIC.								
	Reliability of Data —The electronic data are instantaneously recorded and the number of distributed print materials is tracked.								
	Quality of Data —The data report on the use of information and tools at ChooseMyPlate.gov and nutritionevidencelibrary.gov. Because of the simultaneous recording of data, the Department is able to estimate accurately the degree to which consumers are using or requesting nutrition materials at ChooseMyPlate.gov, nutritionevidencelibrary.gov, and other Department websites that provide materials related to the 2010 <i>Dietary Guidelines for Americans</i> .								

Challenges for the Future

Individuals and families make choices every day about what they will eat and drink and how physically active they will be. Today, Americans must make these choices within an environment that promotes overconsumption of calories and discourages physical activity. The ability of existing nutrition guidance and promotional materials to achieve behavior change remains challenging. Physical activity and other lifestyle issues also significantly impact body weight and health.

Crafting understandable, science-based, consistent, and consumer-friendly nutrition messages and nutrition education programs in ways that promote positive behavioral change to help people make better

food choices will continue to be challenging. The relationships between choices people make and their attitudes towards and knowledge of diet/health links are key factors that must be addressed. The data that can address this information gap, however, are limited. Work is planned to develop helpful metrics to measure the success of communications and promotion programs.

SECTION 3. ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The information in this section is consistent with the findings of the USDA OIG's FY 2013 financial statements audit report.

Federal Managers' Financial Integrity Act (FMFIA) Assurance

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

FNS has conducted its assessment of internal control and financial systems pursuant to Sections 2 and 4 of FMFIA, for the period ending September 30, 2013. Based on the results of this evaluation, FNS can provide reasonable assurance that internal controls are operating effectively. For FY 2012, FNS had no existing material weaknesses or significant deficiencies on which to report. No new material weaknesses or significant deficiencies were identified for FY 2013.

Federal Financial Management Improvement Act (FFMIA) Assurance

FNS has evaluated its financial management systems under FFMIA for the period ended September 30, 2013. Based on the result of our evaluation, the agency is in substantial compliance with the FFMIA for the following sections:

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

Assurance for Internal Control over Financial Reporting

FNS conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2013, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, Appendix A.

This assessment included an evaluation of entity level controls, risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of

effectiveness of properly designed controls, summary of deficiencies and the development of corrective action plans for control deficiencies. Key controls in the following cycles/processes were tested:

Processes

- a. Collections
- b. SF-224 Reconciliations
- c. Fund Balance with Treasury Reconciliation
- d. Reimbursable Agreements – Accounts Payable
- e. Reimbursable Agreements – Accounts Receivable
- f. Awards – Entitlements
- g. Draws and Expenditures – Entitlements
- h. Closeouts – Entitlements
- i. Awards – Discretionary Grants
- j. Draws and Expenditures – Discretionary Grants
- k. Closeouts – Discretionary Grants
- l. Monitoring – Financial Reporting
- m. User Access and GL Maintenance
- n. Period End Reporting
- o. Significant Management Estimates
- p. Budgetary Authority and Reporting
- q. Transfers
- r. Obligations/Un-liquidated Obligations

Management recognizes its responsibility for monitoring and correcting all control deficiencies. With regard to these cycles and the internal controls within these cycles, management certifies that there have been no changes in the operations of controls tested from the sample selection date through June 30, 2013. FNS provides reasonable assurance that the internal controls, financial processes and financial systems are adequate to insure the accuracy of financial reporting for FY 2013.

FNS has identified control deficiencies in the General Computer Controls (GCC) access control family that were elevated by the Department as material weaknesses. Corrective action plans have been submitted in the OCFO's A-123 Document Tracking System (ADTS) for the identified control deficiency.

Disaster Relief Appropriations Act

FNS has established appropriate policies and controls, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to Hurricane Sandy and other disaster-related activities for The Emergency Food Assistance Program (TEFAP). Management has not identified additional significant risk associated with management or payment of Disaster Relief Act funds.

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

OIG Audit Handling Process and Performance

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

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

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

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

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

Audits Without Final Action More Than One Year Past the Management Decision Date				
Audit Number	Date Issued	Audit Title	Completion Date For Actions (Est.)	Reason for Lack of Final Action
27099-49-TE	9-4-07	Food and Nutrition Service Disaster Supplemental Nutrition	5-31-14	Proposed rule pending publication.

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

		Assistance Program for Hurricanes Katrina and Rita		
27601-16-AT	3-31-08	Food Stamp Employment and Training Program	1-31-14	Proposed rule pending publication.
27601-12-SF	11-18-11	Review of Management Controls for the Child and Adult Care Food Program	6-30-14	Pending publication of final regulation; completion of new web-based system; and completion of OIG investigation.
27099-01-DA	1-31-12	Identifying Areas of Risk in the Child and Adult Care Food Program (CACFP) Using Automated Data Analysis Tools	10-31-13	Pending release of State Monitoring Handbook.
27002-0010-13	6-4-12	Analysis of New York's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	11-30-13	Pending receipt of supporting documentation for corrective action.

The Inspector General Act Amendments of 1988 requires an annual report on the status of audits. In compliance with this Act the below table reflects FNS audits that were closed during FY 2013.

	Auditor	Auditee	Audit Reference Number	Audit Name	Status
1	OIG	FNS	27099-34-SF	Summer Food Service Program California and Nevada	CLOSED –Feb 2013
2	OIG	FNS	27703-01-HQ	ARRA National School Lunch Program (NSLP) Equipment Grants, Phase I and II	CLOSED –Feb 2013
3	OIG	FNS	27033-02-AT	FNS Recovery Act Impacts on the SNAP-Phase I	CLOSED –Sept 2013
4	OIG	FNS	27033-03-AT	Review of the Food and Nutrition Service's Controls Over the Emergency Food Assistance Program (TEFAP) Phase II	CLOSED –Aug 2013
5	OIG	FNS	27033-02-HY	State Fraud Detection Efforts for SNAP	CLOSED –Apr 2013
6	OIG	FNS	27022-1-DA	Analysis of the SNAP ALERT Database	CLOSED –Feb 2013
7	OIG	FNS	27002-0001-13	Analysis of Kansas' Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Aug 2013
8	OIG	FNS	27002-0002-13	Analysis of Florida's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Aug 2013
9	OIG	FNS	27002-0003-13	Analysis of Louisiana's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Sept 2013
10	OIG	FNS	27002-0004-13	Analysis of Alabama's Supplemental Nutrition Assistance	CLOSED –Aug 2013

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(Amounts shown are in Millions except as noted)

				Program (SNAP) Eligibility Data	
11	OIG	FNS	27002-0005-13	Analysis of Mississippi's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Aug 2013
12	OIG	FNS	27002-0006-13	Analysis of Texas' Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Aug 2013
13	OIG	FNS	27002-0007-13	Analysis of Missouri's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Feb 2013
14	OIG	FNS	27002-0008-13	Analysis of Massachusetts' Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Aug 2013
15	OIG	FNS	27002-0009-13	Analysis of New Jersey's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data	CLOSED –Sept 2013
16	OIG	FNS	27703-0002-22	Recovery Act Performance Measures for the Supplemental Nutrition Assistance Program (SNAP)	CLOSED – April 2013
17	GAO	USDA/FNS Lead	GAO-09-814	School Meal Programs: Improved Reviews, Federal Guidance, and Data Collection Needed to Address Counting and Claiming Errors	CLOSED –May 2013
18	GAO	USDA/FNS Lead	GAO-09-649	School Meal Programs: Changes to Federal Agencies' Procedures Could Reduce Risks of School Children Consuming Recalled Food	CLOSED –May 2013
19	GAO	USDA/FNS Lead	GAO-12-647	TRANSPORTATION-DISADVANTAGED POPULATIONS: Federal Coordination Efforts Could Be Further Strengthened	CLOSED –Oct 2012
20	GAO	USDA/FNS Lead	GAO-13-106	Federal Barriers to Data Sharing among Human Services Programs	CLOSED –Aug 2013
21	GAO	USDA/FNS Lead	GAO-13-106	Federal Agencies' Use of Program Evaluations	CLOSED –June 2013

Assurance for Legal Compliance

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Outstanding Initiatives to Achieve Compliance			
Initiative	Section of Non-compliance	Agency	Target Completion Date
Improper Payments Elimination and Recovery Act of 2010 (IPERA)	Published improper payment estimates for all high-risk programs and activities.	FNS	9/30/2015
	Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	FNS	9/30/2014
	Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.	FNS	9/30/2020

Improper Payment Elimination and Recovery Act of 2010 (IPERA)	IPERA	Overall Estimated Completion Date	FY 2017
	IPERA non-compliance issues. (FNS)		
FY 2013 Accomplishments:		FY 2014 Planned Actions:	
FNS did the following:		FNS will do the following:	
<ul style="list-style-type: none"> Reported a FY 2013 improper payment rate of 1.09 percent for the Child and Adult Care Food Program (CACFP), which met its reduction target of 1.53 percent; Reported a FY 2013 improper payment rate of 3.42 percent for the Supplemental Nutrition Assistance Program, which met its reduction target of 3.81 percent; Issued a policy memo detailing the school district's ability and responsibilities to verify National School Lunch Program (NSLP)/School Breakfast Program (SBP) applications beyond the required sample size if needed; and Included milestones and results of past corrective actions in its corrective actions plans. 		<ul style="list-style-type: none"> Implement a State monitoring process for compliance with school meal program requirements; Require annual training for schools on certification and accountability issues; Monitor the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) vendor compliance and provide program integrity training and oversight to strengthen vendor management; Perform feasibility evaluation test (Child and Adult Care Food Program Improper Payments Meal Claim Assessment) to develop an estimate of meal counting/claiming errors; and Establish realistic and achievable improper payment rate reduction targets and meet the targets for NSLP, SBP, and WIC. 	

SECTION 4. IMPROPER PAYMENTS INFORMATION ACT (IPIA)

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

Appendix C of OMB Circular A-123 defines significant improper payments as an annual amount that exceeds both 2.5% of program payments and \$10,000,000. For programs/payments that fit this description, agencies must:

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

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

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

- In the **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**, work is underway to report improper payment error rates on two segments of the program: certification error and vendor error.
 - FNS first reported a *vendor* improper payment error rate in FY 2006. Over and under payment rates for FY 2005 were developed through a nationally representative study of a probability sample of WIC vendors. Data from this study along with information on vendor investigations by State WIC Agencies is used to prepare a statistically estimated improper payment amount for each subsequent year. The WIC Vendor Management Study was replicated in FY 2012 with results available in late 2013. Until the next study is completed, the 2012 rates will be aged using data generated by State undercover investigators who attempt to make WIC purchases using valid WIC food instruments. The charges submitted by each sampled vendor are compared to the undercover purchase activity to estimate overcharging, and other sanctionable violations. Case results are accumulated by State and used to age the estimates.
 - 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 compared to the certification criteria upon which their benefit issuance was determined with the participant's circumstances at the time of issuance. The NSWP-II that contains a final estimate of erroneous payments due to certification error in FY 2009 was published in April 2012.
 - Because erroneous payment estimates need to be produced annually, and given that surveys such as the NSWP-II are extremely expensive to mount, FNS required a methodology to "age" the estimates produced in that study. The generation of improper payments associated with erroneous WIC eligibility in the years beyond FY 2009, is based on a three-stage model. In the first stage, equations were developed from the NSWP-II survey data to predict the probability that a WIC participant was certified erroneously (i.e., deemed eligible when the participant's actual income was not within eligibility guidelines) and to predict the average annual cost of an erroneous determination for those in error. The second stage of the process focuses on predicting the size and changes in the composition of the WIC population. The files used for gaining the WIC population included WIC Participant Characteristics data a census of all WIC participants enrolled within a particular target month (April of every even year) and WIC administrative data obtained from the National Data Bank that can provide information on overall trends within WIC certification category and region. The third stage of the process is to apply the predictions generated from the first stage to the second stage population. This approach results in population-adjusted estimates of the incidence of eligibility errors and dollar impact.

Current statutory authority allows USDA to recover improper payments from state agencies when identified through reviews, audits or other operational oversight activities. This authority does not support collection of improper payments identified on the basis of a statistical sample or estimation procedure, as is used to develop the national estimates of improper payments reported here.

- The **Child and Adult Care Food Program (CACFP)** has three distinct parts: Child Care Centers, Adult Day Care facilities and Family Day Care Homes (FDCHs). Overall program funding is provided to state agencies which provide funds to sponsoring organizations to pay for

claims for reimbursable meals served at provider sites. Sites can be as large as an institution or as small as a household. Each part of CACFP has its own reimbursement structure.

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

The original plan was to develop a program-wide study which would examine reimbursements for meals served and develop program error measurements that complied with the requirements of the IPIA. Because of the complexities of the program, FNS estimated that it would cost \$20 million to measure improper payments at the precision required by IPIA. This amount has not been appropriated.

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

Two activities are underway which provide information on improper payments in the FDCH component of CACFP. A third activity is being pilot tested.

- **CCAP** – In the spring of 2004, FNS began the Child Care Assessment Project (CCAP). This project was designed to measure the effectiveness of efforts to improve the integrity of CACFP family day care homes and provide information from a broadly representative national sample of sponsors and providers. Data were collected by the Food and Nutrition Service (FNS), in cooperation with State agencies and sponsors administering the Child and Adult Care Food Program, during the period 2004-2007. The CCAP process was designed to measure whether the two interim management improvement rules issued by FNS in 2002 and 2004 had been properly implemented, and whether the rules had effectively addressed the serious program management and integrity problems that had been uncovered in the 1990s. In the three and one-half years during which assessments were conducted, FNS gathered the program records of 58 family day care home (FDCH) sponsors and over 3,000 of their providers. A final report was issued in July 2009. Overall, the findings indicated that the serious problems which had prompted the previous legislative and regulatory action were not common in 2004-2007. However, some concerns were identified, including the accuracy of recordkeeping by family day care home providers and the use of the serious deficiency process by program sponsors.

While the CCAP report identified areas of potential weakness in the local-level Management of the CACP in FDCH, it indirectly raised questions about State and Federal oversight of CACFP—specifically, why existing review mechanisms do not identify some of the serious management weaknesses identified during CACFP.

In order to more closely examine State agency administration of the CACFP in these identified areas of management weakness, FNS implemented the Targeted

Management Evaluation (TME) process for FYs 2010 and 2011 as one part of FNS' Response to the findings of the CCAP. Three of the four areas covered in the TMEs (State agency budget review and approval, State agency monitoring, and State agency implementation of the serious deficiency and appeals process) were identified by CCAP as particular areas of management concern in CACFP. For FY 2012 and FY 2013, FNS developed a two-year work plan to address ongoing integrity concerns in the CACFP. The plan recognizes that results from FNS' two-year TME approach in 2010 and 2011 because results provide data that can be used to develop resources and training for CACFP State and local agencies. This plan combines monitoring and resource development activities to address program weaknesses.

- **Sponsor error** – FNS has developed an annual sponsor tiering error measure and tested it. CACFP sponsors are responsible for determining whether family day care homes receive meal reimbursement at the higher rate (Tier 1) or lower rate (Tier 2). In FY 2005, the first annual data collection began to determine a nationally representative sponsor tiering determination error rate. Results for FY2005 through FY2012 have been reported. FY 2012 estimates were available in August 2013.
- **Claiming error** - In its 2006 measurement plan, FNS proposed to test the feasibility of estimating the risk of claiming errors. FNS proposed to select a random sample of sponsoring organizations and, from each, use a random selection of the sponsor's monitoring visits of FDCHs. FNS would compare the number of meals claimed with the number of children observed at the time of the visit. If feasible to conduct, it was assumed that this comparison would provide an estimate of the risk of overpayment.

FNS staff collected data in 11 family day sponsors around the country, gathering a random sample of 268 FDCH sponsor monitoring visit records. For each, FNS gathered the FDCH's meal claim data for the month of the monitoring visit and the month before. Results were analyzed and released in a report in May 2009; FNS found that the tested method does not provide a reliable estimate of family day care meal claiming error.

FNS developed and pilot tested additional alternatives to determine the *feasibility* of estimating the risk of claiming error by methods such as direct observation of FDCHs or by contacting parents to determine if children were really present at a FDCH when claimed. This test found that parent recall surveys are worthy of further evaluation as the method most likely to yield reliable information on improper payments related to meal claiming errors. A report on the feasibility study was released in September 2009.

An expanded feasibility study (CACFP Improper Payment Meal Claim Assessment) is currently underway to assess the feasibility of using information from parent-recall interviews in the validation of meal claims submitted for reimbursement by family daycare home providers.

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

- The **National School Lunch Program** and **School Breakfast Program** do not have a sampling and erroneous payment measurement process comparable to SNAP. Instead, FNS relies on nationally representative studies to produce estimates of erroneous payments. The most recent study was USDA's *NSLP/SBP Access, Participation, Eligibility and Certification Study (APEC)* reported in 2007, which examined improper payments in a nationally-represented sample of schools. To update the erroneous payment rate estimates in NSLP since the 2007 APEC study was released, a series of econometric models were developed that captured the relationship between characteristics of the districts that participated in the APEC study and their estimated rates of certification error. Estimated coefficients from these models were used in conjunction with updated values of district characteristics obtained from the *School Food Authorities Verification Summary Reports* (Form FNS-742) to predict certification error. Certification error rates were then translated into amounts and rates of erroneous payments in each district. Aggregating the district level estimates produced a national measure of predicted erroneous payments. An updated study (APEC-II) is underway that collected data in School Year 2012-13. Results of this updated study are expected in 2014. Contingent upon available funding, FNS will continue to produce an erroneous payment measurement by updating this study every five years. FNS also uses data available from other sources to estimate erroneous payments due to certification error on an annual basis. Current statutory authority allows USDA to recover improper payments from state agencies when identified through review, audits or other operational oversight activities. Current statutory authority does not support collection of improper payments identified on the basis of a statistical sample or estimation procedure, as is used to develop the national estimates of improper payments reported here.

1. Policy Options for Addressing Improper Payments:

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

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

Program changes to address NSLP payment accuracy are currently being implemented as a result of the Healthy Hunger- Free Kids Act of 2010.

Certification Error

As reported in USDA's FY 2010 Performance and Accountability Report, there were approximately \$840 million in improper payments in FY 2009 arising from misclassification of student eligibility for the appropriate level of per-meal federal payment (free, reduced-price, or paid). About two-thirds of this "certification error" results from the misreporting of income by households on Program applications. The balance is due to administrative error at the school or school district.

- **Misreporting Error** – Currently, the application process for school meals relies on attestation by households of their income, rather than any documentation by the applicant or use of third-party data to verify claims at certification. Policy reforms to address certification error arising from income misreporting by families have focused on requiring information beyond the applicant's claim to support the application. To date, the most successful of these have been categorical eligibility and direct certification, which rely on participation in means-tested programs that do require income documentation, such as the Supplemental Nutrition Program (SNAP), to ensure eligibility for free meals.

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

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

Significant reforms to the certification process require legislative action; and some legislative changes in this area were included in the Healthy, Hunger Free Kids Act of 2010 (HHFKA); these are noted when relevant in the descriptions of the options below:

Increase verification: Currently, a small number of household applications (up to 3%) are selected for verification of income after approval. Free or reduced price eligibility status may be changed based on the documentation received, and those who do not respond to the verification request have their eligibility revoked.

During the 2004 reauthorization, the Administration informally offered a proposal for "graduated" verification, which would require larger verification samples (25% or more) in school districts which found significant misreporting in the initial sample. Opponents of expanded verification cited an FNS analysis which found high rates of "non-response" to the request for income documentation, resulting in loss of certification, and further found that approximately half of non-respondents were eligible for free or reduced price benefits. Moreover, a demonstration of graduated verification did not show a measurable reduction in improper payments. In the end, this proposal was rejected on a bipartisan basis, due to concerns about the impact on eligible families, and Congress prohibited school districts from verifying more than the statutorily-required 3 percent, making that requirement both a minimum and a maximum.

We could reconsider the graduated verification approach tested in the pilots, or options such as removing or increasing the 3 percent ceiling. However, as with up-front income documentation, the current impact of any increased verification requirements on program costs or on eligible families is not clear, as direct certification and changes to the verification process in recent years have likely impacted the

characteristics of the applications subject to verification. But the requirement of an affirmative response to the documentation request would almost certainly lead some families, including some eligible families, to lose benefits due to non-response. As with the up-front documentation requirement, additional resources would be required at the SFA level to conduct additional verification activities.

Eliminate the reduced-price category: The reduced-price benefit category (between 130 and 185 percent of the poverty level) is considerably more prone to error than the free category, with approximately one-third of students approved for reduced price actually eligible for free meals and another quarter only eligible for the paid reimbursement level. Eliminating this category by making free meals available to these children would eliminate the first category of errors, and also simplify the application approval process at the school level to some degree.

This option has been strongly promoted by some in the advocacy community in prior years as an administrative reform that would also increase access to meals for families that may not be able to afford the charges (up to 40 cents) for reduced-price meals. And authority exists for a pilot to eliminate the reduced-price category (though it has never been funded). However, the cost of this option is significant. Making reduced price meals free will increase Federal reimbursements for lunch and breakfast by an estimated \$250 million in FY 2012 due to the increased costs to the Federal government for meals that are already being served. However, if eliminating the need to pay even a nominal amount encourages more frequent participation by these students, the annual cost could be significantly in excess of this amount.

Establish universal free meal programs: Reimbursing all meals at the free rate would, by definition, eliminate the \$840 million in estimated payment errors associated with the eligibility certification process. This approach would also be welcomed by many in the school nutrition and anti-hunger community, as it would simplify the program; underscore the importance of nutritious school meals for all students, and eliminate stigma associated with receipt of free or reduced-price meals.

However, because this option is so costly, it is not likely to be feasible in the current fiscal environment. When last estimated, it was found that the cost of providing universal free school meals would about double program costs from \$12.6 billion in FY 2009 to \$25 billion.

Enhance local requirements for review of applications: As noted, school districts traditionally have had significant discretion regarding their internal procedures for application review. However, the HHFKA requires school districts at high risk for error (as defined by USDA) to conduct a second-level review of applications prior to notifying families of their eligibility status. FNS will implement this provision through proposed regulation in early 2012. In addition, the frequency of the required State review of local operations will be increased from once every five years to once every three years.

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

In addition, the HHFKA provides new alternatives to paper application systems in low-income areas, which will reduce the number of paper applications that are processed manually and establish eligibility criteria based on information other than household reporting.

Non-Certification Error:

Improper payments of approximately \$614 million were due to the submission of claims for payments reflecting inaccurate counts of reimbursable meals. About half of these non-certification errors result from meals being claimed for reimbursement which do not actually meet Federal standards for the types and amounts of food served. The other half arise from errors in the aggregation and submission of meal service data to school districts and State agencies.

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

Training of school food service personnel: Improved training at the local level would focus on improving understanding of the requirements associated with a reimbursable meal. The HHKFA establishes requirements and modest funding for such training. FNS is currently working in collaboration with professional food service organizations to develop on-line resources. However, improvements in error associated with recognizing reimbursable meals will be made more difficult by the anticipated implementation of major changes in meal requirements anticipated during the next several school years.

Improved technology for counting and claiming of meals: While automated tools for counting and claiming meals exist, they have not been consistently utilized, at either the local or State level. Currently, there is no targeted local level funding for this purpose. At the State level, \$4 million per year is available for grants to improve State oversight, including systems that utilize data mining concepts to identify districts at high risk for errors. FNS has in recent years focused these funds on technology-focused approaches which allow States to identify and correct counting and claiming errors at the school district level and target appropriate action. However, to date, such systems are still largely in the developmental stages and have not been systematically evaluated.

The primary barrier to this approach is cost for evaluation and funding of local-level technology. We believe that \$20-30 million annually would support evaluation efforts at the State and local level (see section 3 below). While we do not have a precise estimate of the cost of funding improved technology at the local level, we believe an investment of several hundred million dollars in targeted grant funding would be required.

Improved oversight and enhanced consequences for repeated failure to correct identified problems: As noted, the HHFKA reduced the cycle for State reviews of local school operations from five years to three. These reviews include non-certification as well as certification error. In addition, the HHFKA provided FNS with new authority to impose fines and penalties against States and local program operators for repeated or willful noncompliance. While this authority can be used to address all types of program error, it is likely that it will be most useful in dealing with serious counting and claiming problems for which little recourse previously existed. USDA will implement this requirement via proposed regulation in early 2012.

Conceptually, systematic penalties for States with performance below required standards in this area (or rewards for those with outstanding performance) are another option for consideration. However, this would require the development of measurement systems yielding reasonably accurate State-level estimates, which are currently not in place. The Quality Control system currently used in SNAP costs in

the area of \$200 million per year to operate. We estimate that a similar system for school meals would be at least as costly, given the greater diversity and decentralization of the program at the sub-State level.

Pilot a Recovery Auditing Process: Utilize the upcoming USDA contract for recovery auditing to conduct a pilot study for NSLP to determine if such a process would be feasible and cost-effective. Cost would vary depending on the scale and scope of the pilot.

2. Measurement Issues

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

Repeat and/or Enhance National Study: FNS completed the initial nationally-representative estimates of NSLP improper payments with the 2007 Access, Participation, Eligibility and Certification (APEC) study, which examined School Year 2005-06. USDA re-programmed funds for APEC II to allow data collection in School Year 2012-13. Results of this updated study are expected in 2014.

Explore Additions to the Annual Estimation Model: FNS uses an econometric model to “age” the data from the APEC study to reflect changes in program size, as well as changes in certification accuracy, based on State-reported administrative data. One of the major sources of non-certification error, the process of identifying reimbursable meals and collecting and reporting meal counts for reimbursement claims, is not currently built into the model because of data limitations. The Agency has placed a major focus on administrative efforts to improve counting and claiming, but is unable to model the impact of these efforts over time. To the extent that improvements in counting and claiming may have occurred, the annual estimates may overstate the actual level of payment errors.

FNS will explore the potential of using data from the Coordinated Review Effort (CRE) process, which includes information on counting and claiming, to improve its modeling. Because the CRE is a Federal-State oversight mechanism for local schools and CRE data is not designed to be representative, this effort may require changes to that process to make the data usable, and thus may require significant time and resources, and an increase in reporting burden.

Identify and Measure Technical vs. Substantive Errors: OMB noted that one of the strategies frequently used by Federal agencies in reporting improper payments is to distinguish between substantive errors and technical errors. The latter may include:

- payments that were substantively appropriate in amount and to the correct payee, but were incorrect because of application problems or other minor violations of program rules;
- payments that may have been to a correct payee, but incorrect in amount, for which the whole payment is reported as entirely incorrect; and
- payments that are below a threshold or tolerance of errors that can be disregarded.

The APEC study leaves out the first two categories of errors, but provides no threshold of error levels. One question that remains open is whether thresholds that may be different from program policy are acceptable to incorporate into measurement methods.

FNS will identify one or more school-level thresholds for improper payments, and seek to analyze existing data to determine how such thresholds would change the substantive error rate. If existing data does not permit this differentiation, we will incorporate the necessary data elements into the APEC II study to allow this calculation.

3. Proposed Short-Term Strategies

Obtain funding for measurement improvements: FNS re-programmed funds to promptly launch APEC II to allow data collection in School Year 2012-13.

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

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

Additional information on FNS' Improper Payments Information Act (IPIA) activities can be found in the USDA Performance and Accountability Report.

The tables below summarize the results of measurement activities for FNS programs identified as subject to a significant risk of improper payments. The first table shows improper payment rates for the last two years and the second table reflects future reduction targets. All results reported each year represent measures of outlays and program activity for the previous year.

Preliminary Data **as of 7/31/13** – FNS Measures for IPIA Reporting 2013 Performance and Accountability Report

Improper Payment Sampling Results (\$ in millions)						
Program	Results Reported in FY 2012			Results Reported in FY 2013		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Supplemental Nutrition Assistance Program, FNS	71,813	3.80%	2,729	74,639	3.42%	2,553
National School Lunch Program, FNS	10,024	15.53%	1,557	11,304	15.69%	1,774
School Breakfast Program, FNS	2,987	25.18%	752	3,290	25.26%	831
Women, Infants and Children, FNS						
Total Program	4,886	4.13%	202	4,520	4.38%	198
Certification Error Component	N/A	2.98%	146	N/A	2.97%	134
Vendor Error Component	N/A	1.15%	56	N/A	1.41%	64
Child and Adult Care Food Program, FNS						
Total Program	2,653	N/A	N/A	2,817	N/A	N/A
FDC Homes – Tiering Decisions	N/A	1.58%	14	917	1.09%	10
FDC Homes – Meal Claims	N/A	N/A	N/A	N/A	N/A	N/A

Detailed Breakout of Improper Payment Rates reported in FY 2013 (\$ in millions)					
	Total Payments	IP%	Over-payments	Under-payments	Other
Supplemental Nutrition Assistance Program, FNS	2,553	3.42%	2.77%	.65%	N/A
National School Lunch Program, FNS	1,774	15.69%	11.91%	3.78%	N/A
School Breakfast Program, FNS	831	25.26%	21.77%	3.49%	N/A
Women, Infants and Children, FNS	198	4.38%	3.25%	1.13%	N/A
Child and Adult Care Food Program, FNS	10	1.09%	1.09%	0.00%	N/A

Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2013 Reporting			FY 2014 Reporting			FY 2015 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Supplemental Nutrition Assistance Program, FNS	76,030	3.79%	2,897	76,030	3.78%	2,897	79,471	3.80%	3,020
National School Lunch Program, FNS	11,106	15.10%	1,677	11,414	14.67%	1,674	12,682	15.17%	1,924
School Breakfast Program, FNS	3,467	24.36%	845	3,617	23.57%	853	3,809	23.62%	900
Women, Infants and Children, FNS	4,560	4.00%	182	5,290	3.92%	207	4,887	4.18%	204

Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2013 Reporting			FY 2014 Reporting			FY 2015 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Child and Adult Care Food Program, FNS	922	1.53%	14	951	1.48%	14	956	1.43%	14

SECTION 5. LIMITATIONS OF FINANCIAL STATEMENTS

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

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

SECTION 6. FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS

FNS' FY 2013 financial statements reflect the nutrition assistance programs' responsiveness to the Nations' economic performance. By design, the level of activity within the nutrition assistance programs varies with the level of need experienced by the populations we serve. A key determinant of this level of need is the condition of the economy. In FY 2012 the economy performed weaker than was anticipated by the President's FY 2012 budget request. As a result, program participation and costs, as reflected in the financial statements are, on average, higher than was anticipated.

In accordance with the US Standard General Ledger and the Treasury Financial Manual 1TFM 4700, in FY 2008 FNS clarified its reporting of the Grant Award (GAD) Accrual. FNS performed an analysis of the GAD Accrual and determined that the GAD Accrual consisted of Entitlement Benefits and Non Entitlement Benefits. For the FY 2013 Financial Statements FNS will report Entitlement Benefits as "Benefits Due and Payable" and report Non Entitlement Benefits as "Other Liabilities" on the Balance Sheet and related footnotes. The classifications of these accruals have no impact on the amounts reported for Total Liabilities.

Balance Sheet

	2013		2012	
	Dollars (mil)	Percent	Dollars(mil)	Percent
Fund Balance With Treasury	27,442	96.61%	25,559	96.86%
Accounts Receivable	364	1.28%	356	1.35%
General PP& E	-	0.00%	1	0.01%
Other	598	2.11%	469	1.78%
Total Assets	28,404	100.00%	26,385	100.00%

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Accounts Payable	8	0.03%	10	0.04%
Employee Benefits	8	0.03%	7	0.03%
Benefits Due and Payable	4,040	14.22%	3,837	14.58%
Other Liabilities	1,521	5.35%	1,601	6.08%
Total Liabilities	5,615	19.77%	5,494	20.88%
Unexpended Appropriations	22,547	79.38%	20,514	77.97%
Cumulative Results of Operations	242	.85%	378	1.16%
Total Net Position	22,789	80.23%	20,892	79.12%
Total Liabilities & Net Position	28,404	100%	26,385	100%

The Balance Sheet composition (comparative composition of account balances to the totals) remained substantially the same in FY 2013 as the prior year. The vast majority of FNS assets are held in Fund Balance with Treasury (FBWT) - approximately 96% in FY 2013 and FY 2012. This cash-like account largely represents the aggregate amount of funds in the FNS accounts with the U.S. Treasury from which the agency is authorized to make expenditures and pay liabilities. As financial statement Note 3 presents, a substantial portion of the fund balance is unavailable as they are associated with either expired years or are contingency funds which were not made available.

“Other assets” remained at levels consistent with the prior year. Accounts receivable levels also remained consistent with 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 2013 and FY 2012 Net Position of the agency is concentrated in Unexpended Appropriations.

Statement of Net Cost

	2013		2012	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Gross Cost	109,934	100.06%	106,653	100.06%
Less: Earned Revenue	(63)	-0.06%	(69)	-0.06%
Net Cost of Operations	109,871	100.00%	106,584	100.00%

The FNS mission addresses USDA Strategic Goal 4 “To Improve the Nation’s Nutrition and Health”. All program costs are reported under that strategic goal. Gross Costs increased from \$106,653 million in FY 2012 to \$109,934 million in FY 2013, reflecting the overall increase in programs participation levels.

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

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

The Net Cost of Operations increased from \$106,584 million in FY 2012 to \$109,871 million in FY 2013.

Statement of Changes in Net Position

	2013		2012	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Cumulative Results of Operations				
Beginning Balance	378		276	
Appropriations Used	100,802	91.86%	99,337	93.18%
Transfers In (Out) without Reimbursements	7,891	7.19%	6,908	6.41%
Other Budgetary Financing Sources	-	0.00%	0	0.00%
Imputed Financing	1,042	.95%	441	.41%
Total Financing Sources	109,735	100.00%	106,685	100.00%
Less: Net Cost of Operations	109,871		106,584	
Ending Balance	242		378	
Net Change	(136)		102	
Unexpended Appropriations				
Beginning Balance	20,514		12,775	
Appropriations Received	103,847		110,347	
Adjustments	(1,015)		(3,273)	
Appropriations Used	(100,802)		(99,337)	
Total: Financing Sources	2,033		(7,737)	
Ending Balance	22,547		20,514	
Total Net Position	22,789		20,892	

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

The FY 2013 appropriations used was \$100,802 million, which increased \$1,465 million from FY 2012, based on actual participation levels and food costs.

Cumulative Results of Operations decreased \$136 million, from \$378 million in FY 2012 to \$242 million in FY 2013, as the net cost of operations is greater than the total financing sources. The proportional distribution of financing sources among appropriations, transfers, and imputed financing remained relatively unchanged from FY 2012 to FY 2013. Transfers are largely made up a single large transfer

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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 approximately seven percent and six percent of total financing sources in FY 2013 and FY 2012 respectively.

Unexpended Appropriations increased from \$20,514 million in FY 2012 to \$22,547 million in FY 2013 as less carryover appropriation balances were expended in the current year. Adjustments which decreased from \$3,273 million in FY 2012 to \$1,015 million in FY 2013 are due to permanent reductions and cancellations of expired accounts.

Statement of Budgetary Resources

	2013		2012	
	Dollars(mil)	Percent	Dollars(mil)	Percent
Budgetary Resources				
Beginning Unobligated Balance	18,365	14.11%	10,726	8.54%
Recoveries	987	.75%	817	.65%
Other Changes In Unobligated Balances	-388	-.30%	-3,262	-2.60%
Appropriations	111,115	85.31%	117,371	93.32%
Spending Authority from Offsetting Collections	173	.13%	117	.09%
Total Budgetary Resources	130,252	100.00%	125,769	100.00%
Status of Budgetary Resources				
Obligations Incurred	110,042	84.48%	107,404	85.45%
Apportioned	4,789	3.68%	5,581	4.44%
Unapportioned	15,421	11.84%	12,784	10.11%
Total: Status of Budgetary Resources	130,252	100.00%	125,769	100.00%
Net Outlays	108,843	83.56%	105,935	84.28%

FNS has revised the format for the Statement of Budgetary Resources for FY 2013 in accordance with OMB Circular A-136 dated October 21, 2013. The Statement of Budgetary Resources displays the source of all budgetary resources for the fiscal year as well as the status of those resources as of the end of the fiscal year.

Appropriations were decreased from \$117,371 million in FY 2012 to \$111,115 million in FY 2013. Total budgetary resources were higher than in the prior year due primarily to an increase in the unobligated balance brought forward from the previous year. FNS had \$130,252 million in total budgetary resources during FY 2013, largely from appropriations received, but also from recoveries and available unobligated balances from prior periods. In addition FNS has included in the FY 2013 financial statements the ARRA supplemental appropriations used to stimulate the U.S. economy. The ARRA appropriations for FY 2013 totaled \$6.8 billion.

At fiscal yearend 2013, most (\$110,042) million or 84% of those resources were obligated, though \$4,789 million or 3% remained unobligated and available, and another \$15,421 million (11%) was unobligated and not available (including apportioned unavailable Contingency Reserve funds for WIC and SNAP). In FY 2013, Net Outlays represented 83% of Total Budgetary Resources, compared to 84% in FY 2012.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service

CONSOLIDATED BALANCE SHEET

As of September 30, 2013 (CY) and 2012 (PY)

(Dollars in Millions)

	FY 2013 (CY)	FY 2012 (PY)
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury	\$ 27,442	\$ 25,559
Other (Note 6)	598	469
Total Intragovernmental	28,040	26,028
Accounts Receivable, net (Note 4)	364	356
General Plant, Property, and Equipment, net (Note 5)	-	1
Other (Note 6)	-	-
Total Assets	<u>\$ 28,404</u>	<u>\$ 26,385</u>
Liabilities (Note 7):		
Intragovernmental:		
Accounts Payable	\$ -	\$ 0
Other (Note 8)	38	38
Total Intragovernmental	38	38
Accounts Payable	8	10
Federal Employee and Veterans Benefits	8	7
Benefits Due and Payable	4,040	3,837
Other (Note 8)	1,521	1,601
Total Liabilities	<u>5,615</u>	<u>5,493</u>
Net Position:		
Unexpended Appropriations - Other Funds	22,547	20,514
Cumulative Results of Operations - Other Funds	242	378
Total Net Position	<u>\$ 22,789</u>	<u>\$ 20,892</u>
Total Liabilities and Net Position	<u>\$ 28,404</u>	<u>\$ 26,385</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

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, 2013 (CY) and 2012 (PY)
(Dollars in Millions)

	FY 2013 (CY)	FY 2012 (PY)
Program Costs:		
Strategic Goal:		
Improve the Nation's Nutrition and Health:		
Gross Costs (Note 10 and 11)	\$ 109,934	\$ 106,653
Less: Earned Revenue	<u>63</u>	<u>69</u>
Net Program Costs	<u>109,871</u>	<u>106,584</u>
Net Cost of Operations	<u>\$ 109,871</u>	<u>\$ 106,584</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Service
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
 As of September 30, 2013 (CY) and 2012 (PY)
 (Dollars in Millions)

	FY 2013 (CY)	FY 2012 (PY)
Cumulative Results of Operations:		
Beginning Balance	\$ 378	\$ 276
Beginning Balance, as adjusted	378	276
Budgetary Financing Sources:		
Appropriations Used	100,802	99,337
Transfers in/out without reimbursement	7,891	6,908
Other	-	-
Other Financing Sources (Non-Exchange):		
Imputed Financing	1,042	441
Total Financing Sources	<u>109,735</u>	<u>106,685</u>
Less: Net Cost of Operations	<u>109,871</u>	<u>106,584</u>
Net Change	(136)	102
Cumulative Results of Operations	242	378
Unexpended Appropriations:		
Beginning Balance	20,514	12,775
Beginning Balance, as adjusted:	20,514	12,775
Budgetary Financing Sources:		
Appropriations Received	103,847	110,347
Appropriations Transferred in/out	3	2
Other Adjustments	(1,015)	(3,273)
Appropriations Used	<u>(100,802)</u>	<u>(99,337)</u>
Total Budgetary Financing Sources	<u>2,033</u>	<u>7,739</u>
Total Unexpended Appropriations	<u>22,547</u>	<u>20,514</u>
Net Position	<u>\$ 22,789</u>	<u>\$ 20,892</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Food and Nutrition Services
CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2013 (CY) and 2012 (PY)

(Dollars in Millions)

	FY 2013 (CY)	FY 2012 (PY)
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$ 18,365	\$ 10,726
Adjustments to unobligated balance brought forward, October 1	-	-
Unobligated Balance brought forward, October 1, as adjusted	18,365	10,726
Recoveries of prior year unpaid obligations	987	817
Other Changes in unobligated balance (+ or-)	(388)	(3,262)
Unobligated balance from prior year budget authority, net	18,964	8,281
Appropriations (discretionary and mandatory)	111,115	117,371
Borrowing authority (discretionary and mandatory)	-	-
Contract authority (discretionary and mandatory)	-	-
Spending Authority from offsetting collections (discretionary and mandatory)	173	117
Total Budgetary Resources	130,252	125,769
Status of Budgetary Resources:		
Obligations Incurred	110,042	107,404
Unobligated balance, end of year:	-	-
Apportioned	4,789	5,581
Exempt from apportionment	-	-
Unapportioned	15,421	12,784
Total unobligated balance, end of year	20,210	18,365
Total budgetary resources	130,252	125,769
Change in Obligated Balances:		
Unpaid obligations, brought forward, October 1 (gross)	7,195	6,660

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Adjustment to obligated balance, start of year (net) (+ or -)	-	-
Obligated Incurred	110,042	107,404
Outlays gross (-)	(109,013)	(106,052)
Actual transfer, unpaid obligations (net) (+ or -)	-	-
Recoveries of prior year unpaid obligations (-)	(987)	(817)
Unpaid obligations, end of year 2013	7,237	7,195
Uncollected payments:		
Uncollected payments, Federal sources, brought forward, October 1 (-)	-	-
Adjustments to uncollected payments, Federal sources, start of year (+ or -)	-	-
Change in uncollected payments, Federal sources, start of year (+ or -)	-	-
Actual transfer, uncollected payments, Federal sources (net) (+ or -)	-	-
Uncollected payments, Federal sources, end of year (-)	-	-
Memorandum (non-add) entries:		
Obligated balance, start of the year (+ or -)	7,195	6,660
Obligated balance, end of year (+ or -)	7,236	7,195
Budget Authority and Outlays, Net:		
Budget Authority, gross (discretionary and mandatory)	111,288	117,487
Actual offsetting collections (discretionary and mandatory) (-)	(173)	(117)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	-	-
Anticipated offsetting collections (discretionary and mandatory (+ or -)	-	-
Budget Authority, (discretionary and mandatory) net	111,115	117,370
Outlays, gross (discretionary and mandatory)	109,013	106,052
Actual offsetting collections (discretionary and mandatory) (-)	(173)	(117)
Outlays, net (discretionary and mandatory)	108,840	105,935
Distributed offsetting receipts discretionary and mandatory (-)	3	-

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NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

**Agency outlays, net
(discretionary and
mandatory)**

108,843

105,935

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 the Food and Nutrition Service (FNS), as required by the Chief Financial Officers Act of 1990 as amended and OMB Circular A-136 dated October 21, 2013. 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.

FNS has revised the format for the Statement of Budgetary Resources for FY 2013 in accordance with OMB Circular A-136 dated October 21, 2013. Also, in accordance with the Office of Management and Budget and the Budget Execution of the American Recovery and Reinvestment Act (ARRA) of 2009 Appropriations, FNS has included in the FY 2013 financial statements the supplemental appropriations used to stimulate the U.S. economy. The ARRA appropriations for FY 2013 totaled \$6.8 billion.

B. Reporting Entity

FNS, including the Center for Nutrition Policy and Promotion (CNPP), is under the jurisdiction of the Under Secretary for Food and Nutrition Consumer Service of the United States Department of Agriculture. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia, and implemented through seven regional offices, 27 field offices/satellite offices, and two Supplemental Nutrition Assistance Program (SNAP) compliance offices. State departments of education have responsibility for food programs serving children in schools, child care centers, and summer recreation centers. State departments of health, welfare, and agriculture usually have responsibility for programs providing SNAP benefits or supplemental foods. For the FY 2013 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 \$364 million recognized as non-federal accounts receivable includes debts owed to FNS by individuals, businesses, States and local governments. The largest single component of this item consists of SNAP recipient claims. States establish claims against households to recover over issued food stamp benefits. States are responsible for pursuing collection of such claims. Collections, less an authorized State retention amount, are remitted to FNS. The portion of total net realizable receivables consisting of SNAP recipient claims is the expected amount of such remittance from States. The data generated by the State systems of gross account receivables has been determined to be unreliable. Accordingly, FNS does not know what the State gross account receivable is. FNS has an alternative method for acquiring reliable State receivable information.

FNS estimates net realizable SNAP accounts receivable through a regression-based statistical model. This model estimates future collections by the States, which the States will remit to the Federal Government as of the end of the accounting period based on the actual SNAP issuance and net claims collections for prior years. The forecasting model draws its predictive power from the strong historical relationship between the level of SNAP benefit issuance and the level of recipient claims collections by States. Applying the model to actual data covering the periods FY 1984 through FY 2013, the model explains 96 percent of the variation in claims collections. Historically, collections projected by the model have proved to be accurate within approximately 4 percent of actual net collections. Because the expected cash flow from collections of such claims beyond one year is not expected to be material, FNS does not estimate collections after the initial year or discount the estimate produced by the statistical model to its present value.

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

Because reliable data is not available addressing gross FNS accounts receivable, the SNAP QC estimate of SNAP benefits over issued nationwide provide the best statistically valid estimate of invalid program payments. Fiscal Year 2012 QC error rates were announced in June 2013. Using this methodology, FNS estimates the value of benefit over issuance in Fiscal Year 2012 (the most recent year for which data are available) at \$2.069 billion. Statement of Federal Financial Accounting Standards (SFFAS) #1 permits Federal entities to estimate its accounts receivable. The QC error rate over issuance estimate is considered the best estimate available. However, since this is an estimate of all SNAP overpayments, the actual State gross account receivable amount would be lower but the variance cannot be quantified. The amount of over issued benefits is included in the total program cost of the SNAP as reflected in the Statement of Net Cost.

FNS does not receive information to calculate States’ QC liabilities for approximately 7 months after the end of the fiscal year; therefore, current information is not available for the FY 2013 financial statements. For FY 2012, seven States were assessed amounts for having excessive error rates for two consecutive

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

years. The aggregate total of the liability was \$3 million. The seven States signed payment agreements in lieu of immediately repaying in cash. The agreements called for each State to invest 50 percent of its liability in program improvement activities. The remaining 50 percent of the liability was placed at risk pending future improved performance.

The QC over Issuance error rate data for the past 3 years follows:		
Fiscal Year	Rate Amount	Total \$ (Billions)
2012	2.77 %	\$ 2.069
2011	2.99 %	\$ 2.148
2010	3.05 %	\$ 1.977

E. Grants and Program Benefits

FNS records grant obligations based on the grant awards and SNAP benefits based on the issuance of benefits to 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:

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FNS Retirement Contributions (In Millions)		
Type of Contribution	Amount	
	2013	2012
CSRS/Transitional retirement contributions - Civil Service	\$1.5	\$1.7
FERS regular contributions	\$12.4	\$11.0
Thrift Savings Plan contributions	\$4.6	\$4.1
TOTAL	\$18.5	\$16.8

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

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

H. Recognition of Financing Sources and Appropriations Used

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

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

I. Fund Balance with Treasury Accounts

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

J. Direct versus Reimbursable Obligations Incurred

As of FY 2013, FNS' direct and reimbursable obligations incurred are represented as amounts apportioned under category A and B. The amounts apportioned by Fiscal Quarter consist of FNS' category A obligations and the amounts apportioned for Special Activities consist of category B obligations as reported on the agency's year-end SF133s, Report on Budget Execution and Budgetary Resources.

K. Allocation Transfers

FNS is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligated budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. FNS has reported all activity relative to these allocation transfers in the FY 2013 financial statements. FNS receives allocation transfers, as the child, from the Agricultural Marketing Service (AMS) and the Commodity Credit Corporation (CCC).

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 2. Non-Entity Assets

	FY 2013	FY 2012
Intragovernmental:		
Fund balance with Treasury	\$0	\$0
Investments	-	-
Accounts Receivable	-	-
Loans Receivable	-	-
Other	-	-
Total Intragovernmental	-	-
With The Public		
Cash and other monetary assets	-	-
Accounts receivable	37	34
Taxes receivable	-	-
Loan receivable and related foreclosed property	-	-
Inventory and related property	-	-
Other	-	-
Total With the Public	37	34
Total non-entity assets	37	34
Total entity assets	28,367	26,351
Total assets	\$ 28,404	\$ 26,385

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

Fund Balances:	FY 2013	FY 2012
Trust Funds	\$ -	\$ -
Revolving Funds	-	-
Appropriated Funds	27,446	25,560
Other Fund Types	(4)	(1)
Total	27,442	25,559
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	4,789	5,581
Unavailable	15,421	12,784
Obligated Balance not yet Disbursed	7,236	7,195
Non-Budgetary Fund Balance with Treasury:	(4)	(1)
Clearing Account Balances	-	-
Total	\$ 27,442	\$ 25,559

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 4. Accounts Receivable, Net

FY 2013	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 368	\$ 4	\$ 364
Total	\$ 368	\$ 4	\$ 364

FY 2012	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ -	\$ -	\$ -
With the Public	\$ 365	\$ 9	\$ 356
Total	\$ 365	\$ 9	\$ 356

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 5. General Property, Plant and Equipment

Property and equipment are depreciated over their useful economic lives, which average 5-10 years, using the straight-line method. For FY 2013 FNS' capitalization threshold for property and equipment is \$25 thousand. FNS' capitalization threshold for internal-use software is \$100 thousand. FNS owns no buildings or land. FNS follows recognition and measurement criteria in SFFAS No. 6 as amended by SFFAS No. 11 and 23, and USDA Departmental Regulation 2200-002, dated December 24, 2003. At year end, balances for Property, Plant, and Equipment were as follows:

FY 2013	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
<u>Category</u>				
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	5	-
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	3	3	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
<u>Other General Property, Plant and Equipment</u>		-	-	-
<u>Total</u>		\$ 8	\$ 8	\$ -

FY 2012	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
<u>Category</u>				
Land and Land Rights		\$ -	\$ -	\$ -
Improvements to Land		-	-	-
Construction-in-Progress		-	-	-
Buildings, Improvements and Renovations		-	-	-
Other Structures and Facilities		-	-	-
Equipment	5-10	5	4	1
Assets Under Capital Lease		-	-	-
Leasehold Improvements		-	-	-
Internal-Use Software	5	31	31	-
Internal-Use Software in Development		-	-	-
Other Natural Resources		-	-	-
<u>Other General Property, Plant and Equipment</u>		-	-	-
<u>Total</u>		\$ 36	\$ 35	\$ 1

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 6. Other Assets

	FY 2013	FY 2012
Intragovernmental:		
Advances to Others	\$ -	\$ -
Prepayments	-	-
Other Assets	598	469
Total Intragovernmental	598	469
With the Public:		
Advances to Others	-	-
Prepayments	-	-
Other Assets	-	-
Total With the Public	-	-
Total Other Assets	\$ 598	\$ 469

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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013
NOTES TO THE FINANCIAL STATEMENTS
(Amounts shown are in Millions except as noted)

Note 7. Liabilities Not Covered by Budgetary Resources

	FY 2013	FY 2012
Intragovernmental:		
Accounts payable	\$ -	\$ -
Debt	-	-
Other	1	1
Total Intragovernmental	1	1
With the Public:	-	-
Accounts Payable	-	-
Debt held by the public	-	-
Federal employee and veterans' benefits	8	7
Environmental and disposal liabilities	-	-
Benefits due and payable	-	-
Other	12	12
Total With the Public	20	19
 Total liabilities not covered by budgetary resources	 21	 20
 Total liabilities covered by budgetary resources	 5,594	 5,473
Total liabilities	\$ 5,615	\$ 5,493

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

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 8. Other Liabilities

<u>FY 2013</u>	<u>Non-Current</u>		<u>Current</u>		<u>Total</u>
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	\$ -
Other Accrued Liabilities		-		2	2
Employer Contributions and Payroll Taxes		-		1	1
Other Post-Employment Benefits Due and Payable		-		-	-
Unfunded FECA Liability		-		2	2
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		-	-
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		(4)	(4)
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		-		37	37
Other Liabilities		-		-	-
Total Intragovernmental		-		38	38
With the Public:					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		-		1,505	1,505
Accrued Funded Payroll and Leave		-		4	4
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		-		12	12
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		-	-
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		-	-
Prior Liens Outstanding or Acquired Collateral		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Custodial Liability		-		-	-
Other Liabilities		-		-	-
Total With the Public		-		1,521	1,521
<u>Total Other Liabilities</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>1,559</u>	<u>\$ 1,559</u>

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

FY 2012	Non-Current		Current		Total
Intragovernmental:					
Contract Holdbacks	\$	-	\$	-	\$ -
Other Accrued Liabilities		-		1	1
Employer Contributions and Payroll Taxes		-		2	2
Other Post-Employment Benefits Due and Payable		-		-	-
Unfunded FECA Liability		-		1	1
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		1	1
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		(1)	(1)
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Liability for Subsidy Related to Undisbursed Loans		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Resources Payable to Treasury		-		-	-
Custodial Liability		-		34	34
Other Liabilities		-		-	-
Total Intragovernmental		-		38	38
With the Public:					
Contract Holdbacks		-		-	-
Other Accrued Liabilities		-		1,582	1,582
Accrued Funded Payroll and Leave		-		7	7
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		-		12	12
Other Unfunded Employment Related Liability		-		-	-
Advances from Others		-		-	-
Deferred Credits		-		-	-
Liability for Deposit Funds, Clearing Accounts		-		-	-
Prior Liens Outstanding or Acquired Collateral		-		-	-
Contingent Liabilities		-		-	-
Capital Lease Liability		-		-	-
Accounts Payable from Canceled Appropriations		-		-	-
Custodial Liability		-		-	-
Other Liabilities		-		-	-
Total With the Public		-		1,601	1,601
Total Other Liabilities	\$	-	\$	1,639	\$ 1,639

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 9. Leases

Entity as Lessee:

Operating Lease (amounts shown are in thousands):

Description of Lease Arrangements: FNS' holds one operating lease that includes office space leased from May 1, 2009 through April 30, 2019. The cost of the lease is \$623 per year until May 1, 2014. From May 1, 2014, through April 30, 2019; the office space annual rent is reduced to \$402 per year. The lease may be renewed at the option of the Government for one 5 year term with the Government having the right to terminate, in whole or in part, at anytime, by giving at least 120 days' notice in writing to the Lessor.

Future Payments Due:

<u>Fiscal Year</u>	<u>Asset Category</u>
	<u>Office Space</u>
2014	\$ 623
2015	\$ 402
2016	\$ 402
2017	\$ 402
2018	\$ 402
After 5 years	<u>\$ 403</u>
Total future lease payments <u>\$2,634</u>	

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 10. Intragovernmental Cost and Exchange Revenue

Child Nutrition	FY 2013		FY 2012	
Intragovernmental Costs	\$	520	\$	107
Public Costs	\$	19,294	\$	18,041
Total Costs	\$	19,814	\$	18,148
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-
SNAP				
Intragovernmental Costs	\$	403	\$	256
Public Costs	\$	82,350	\$	80,484
Total Costs	\$	82,753	\$	80,740
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	62	\$	67
Total Earned Revenue	\$	62	\$	67
<hr/>				
Other	FY 2013		FY 2012	
Intragovernmental Costs	\$	162	\$	162
Public Costs	\$	360	\$	355
Total Costs	\$	522	\$	517
Intragovernmental Earned Revenue	\$	1	\$	1
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	1	\$	1
 Women, Infants & Children				
Intragovernmental Costs	\$	-	\$	-
Public Costs	\$	6,543	\$	6,981
Total Costs	\$	6,543	\$	6,981
Intragovernmental Earned Revenue	\$	-	\$	-
Public Earned Revenue	\$	-	\$	-
Total Earned Revenue	\$	-	\$	-

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Commodity Assistance Program	FY 2013	FY 2012
Intragovernmental Costs	\$ 33	\$ -
Public Costs	\$ 269	\$ 267
Total Costs	\$ 302	\$ 267
Intragovernmental Earned Revenue	\$ -	\$ 1
Public Earned Revenue	\$ -	\$ -
Total Earned Revenue	\$ -	\$ 1

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

Note 11. Program Costs By Segment

For the year ended September 30, 2013

	CHILD NUTRITION	SNAP	WIC	CAP	OTHER	Consolidated Total
Total Gross Costs	19,814	82,753	6,543	302	522	109,934
Less Earned Revenue:	0	62	0	0	1	63
Net Goal Costs:	19,814	82,691	6,543	302	521	<u>109,871</u>
Net Cost of Operations						<u>109,871</u>

For the year ended September 30, 2012

	CHILD NUTRITION	SNAP	WIC	CAP	OTHER	Consolidated Total
Total Gross Costs	18,148	80,740	6,981	267	517	106,653
Less Earned Revenue:	0	67	0	1	1	69
Net Goal Costs:	18,148	80,673	6,981	266	516	<u>106,584</u>
Net Cost of Operations						<u>106,584</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 12. Exchange Revenues

FNS' earned revenue from nonfederal parties consists largely of the \$63 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 2013, one State participated in this program, which generated earned revenues of \$63.

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

FY 2013	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 30,425	\$ -	\$ 30,425
Apportionment for Special Activities	79,554	63	79,617
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 109,979	\$ 63	\$ 110,042

FY 2012	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 29,644	\$ 1	\$ 29,645
Apportionment for Special Activities	77,691	68	77,759
Exempt from Apportionment	-	-	-
Total Obligations Incurred	\$ 107,335	\$ 69	\$ 107,404

Note 14. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

Differences exist between FNS' FY 2012 Statement of Budgetary Resources (SBR) (as provided to the Department for consolidation purposes) and the FY 2012 actual numbers presented in the FY 2014 Budget of the United State Government (Budget). These differences are summarized below:

Description	Budgetary Resources	Outlays
2012 SBR	\$ 125,768	\$105,937
Less: Expired Accounts not Included in Budget	\$7,014	\$-
Add: Parent Child Relationship (NIFA)	\$5	\$6
Less: Appropriation Transfer not Included in Budget	\$77	\$-
Less: Differences due to Rounding	\$1	\$(1)

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Budget of the U.S. Government	\$118,681	\$105,944
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The actual numbers for the FY President's Budget have not yet been published as of FNS' FY 2013 financial statements, and it is expected that the actual numbers will be published in February of the following fiscal year and will be available on the website at www.whitehouse.gov.

Note 15. Undelivered Orders at the end of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2013 and 2012 was \$1.8 billion.

Note 16. Incidental Custodial Collections

Revenue Activity:	FY 2013	FY 2012
Sources of Collections:		
Miscellaneous	\$ 12	\$ 11
Total Cash Collections	12	11
Accrual Adjustments	(4)	(3)
Total Custodial Revenue	8	8
Disposition of Collections:		
Transferred to Others:		
Treasury	-	-
States and Counties	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	(8)	(8)
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Activity	\$ -	\$ -

FNS' FY 2013 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Note 17. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

Resources Used to Finance Activities:	<u>FY 2013</u>	<u>FY2012</u>
Budgetary Resources Obligated		
Obligations Incurred	\$ 110,042	\$ 107,404
Less: Spending authority from offsetting collections and recoveries	1,160	933
	-----	-----
Obligations net of offsetting collections and recoveries	108,882	106,470
Less: Distributed Offsetting Receipts	(3)	-
	-----	-----
Net Obligations	108,885	106,470
	-----	-----
Other Resources		
Donations and forfeitures of property	-	-
Transfers in (out) without reimbursement	-	-
Imputed financing from costs absorbed by others	1,042	440
Other	-	-
	-----	-----
Net other resources used to finance activities	1,042	440
	<u>FY 2013</u>	<u>FY 2012</u>
Total resources used to finance activities	109,927	106,911
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(49)	(296)
Resources that fund expenses recognized in prior periods	-	-
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increases liabilities for loan guarantees or allowances for subsidy	-	-
Change in Unfilled Customer Orders	-	(1)
Decrease in exchange revenue receivable from the public	-	-
Other	-	-
Resources that finance the acquisition of assets	28	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(3)	-
	-----	-----
Total resources used to finance items not part of the net cost of operations	(24)	(297)
	-----	-----
-		
Total resources used to finance the net cost of operations	109,903	106,614
Components of the Net Cost of Operations that will not require or		

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:

Increase in annual leave liability	-	-
Increase in environmental and disposal liability	-	-
Upward/Downward re-estimates of credit subsidy expense	-	-
Increase in exchange revenue receivable from the public	-	-
Other	(3)	(36)
	-----	-----

Total components of Net Cost of Operations that will require or generate resources in future periods

(3) (36)

Components not Requiring or Generating Resources:

Depreciation and amortization	(28)	1
Revaluation of assets or liabilities	-	-

Other Components not Requiring or Generating Resources:

Bad Debt Expense	(1)	9
Cost of Goods Sold	-	-
Other	-	(4)
	-----	-----

Total components of Net Cost of Operations that will not require or generate resources

(29) 6

Total components of Net Cost of Operations that will not require or generate resources in the current period

(32) (30)

Net Cost of Operations

\$ 109,871 \$106,584
=====

**FOOD AND NUTRITION SERVICE
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
STEWARDSHIP INVESTMENTS
(Amounts shown are in millions)**

Human Capital

1. A. Supplemental Nutrition Assistance Program (SNAP).

B. Program Expense	<u>2013</u>	<u>2012</u>
1. Employment and Training	\$81	\$53

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 501,754 work registrants subject to the 3 - month SNAP participant limit and 1,454,027 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Nonfederal Physical Property

1. A. Supplemental Nutrition Assistance Program

B. Program Expense	<u>2013</u>	<u>2012</u>
1. ADP Equipment & Systems	\$25	\$38

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

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

B. Program Expense	<u>2013</u>	<u>2012</u>
1. ADP Equipment & Systems	\$13	\$13

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

OTHER INFORMATION

Food and Nutrition Service
Schedule of Spending
For the year ended September 30, 2013

		Non-budgetary Credit Reform	
		Budgetary	Financing Accounts
What Money is Available to Spend?			
Total Resources	\$	130,252	
Less Amount Available but Not Agreed to be Spent		4,789	
Less Amount Not Available to be Spent		15,421	
Total Amounts Agreed to be Spent		110,042	
How was the Money Spent/Issued?			
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:			
11, 12, 13 - Personnel Compensation and Benefits			
21, 22 - Travel and transportation			
23 - Rent, communications, and utilities			
24, 25 - Other contractual services			
26 - Supplies and materials			
31, 32 - Equipment, land, and structures			
33 - Investments and loans			
41 - Grants, subsidies, and contributions			
42 - Insurance claims and indemnities			
43, 44 - Interest, dividends, and refunds			
90 - Other			
Total			
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:			
11, 12, 13 - Personnel Compensation and Benefits			
21, 22 - Travel and transportation			
23 - Rent, communications, and utilities			
24, 25 - Other contractual services			
26 - Supplies and materials			
31, 32 - Equipment, land, and structures			
33 - Investments and loans			
41 - Grants, subsidies, and contributions			
42 - Insurance claims and indemnities			
43, 44 - Interest, dividends, and refunds			
90 - Other			

FINANCIAL REPORT – U. S. D. A. – F. N. S. – FY 2013

NOTES TO THE FINANCIAL STATEMENTS

(Amounts shown are in Millions except as noted)

Total

Help America Promote Agricultural Production and Biotechnology
Exports as America Works to Increase Food Security:

11, 12, 13 - Personnel Compensation and Benefits
21, 22 - Travel and transportation
23 - Rent, communications, and utilities
24, 25 - Other contractual services
26 - Supplies and materials
31, 32 - Equipment, land, and structures
33 - Investments and loans
41 - Grants, subsidies, and contributions
42 - Insurance claims and indemnities
43, 44 - Interest, dividends, and refunds
90 - Other
Total

Ensure that All of America's Children Have Access to Safe,
Nutritious, and Balanced Meals:

11, 12, 13 - Personnel Compensation and Benefits	162
21, 22 - Travel and transportation	5
23 - Rent, communications, and utilities	4
24, 25 - Other contractual services	204
26 - Supplies and materials	1,460
31, 32 - Equipment, land, and structures	3
33 - Investments and loans	
41 - Grants, subsidies, and contributions	108,203
42 - Insurance claims and indemnities	
43, 44 - Interest, dividends, and refunds	
90 - Other	1
Total	110,042

Total Amounts Agreed to be Spent

110,042

Who did the Money go to?

Federal	322
Non-Federal	109,720

Total Amounts Agreed to be Spent

110,042

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