



May 2014

SCHOOL-MEALS PROGRAMS

USDA Has Enhanced
Controls, but
Additional Verification
Could Help Ensure
Legitimate Program
Access

Why GAO Did This Study

In fiscal year 2012, over 31.6 million children participated in USDA's National School Lunch Program (NSLP) at a cost of about \$11.6 billion. In fiscal year 2013, USDA estimated NSLP certification errors of more than 8 percent, or \$996 million. GAO was asked to review possible beneficiary fraud within the program.

This report assesses (1) steps taken to help identify and prevent ineligible beneficiaries from receiving benefits in school-meal programs and (2) what opportunities exist to strengthen USDA's oversight of the school-meals programs.

GAO reviewed NSLP policies, interviewed program officials, and randomly selected a nongeneralizable sample that included 25 of 7.7 million approved household applications from 25 of 1,520 school districts in the Dallas, Texas, and Washington, D.C., regions. GAO performed limited eligibility testing using civilian federal-employee payroll data from 2010 through 2013 due to the unavailability of other data sources containing nonfederal employee income. GAO also conducted interviews with households. Ineligible households were referred to the Inspector General.

What GAO Recommends

Among other things, GAO recommends that the Secretary of Agriculture develop a pilot program to explore the feasibility of using computer matching to identify households with income that exceeds program-eligibility thresholds for verification, and explore the feasibility of verifying a sample of categorically eligible households. USDA generally agreed with the recommendations.

View [GAO-14-262](#). For more information, contact Steve Lord at (202) 512-6722 or lords@gao.gov.

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What GAO Found

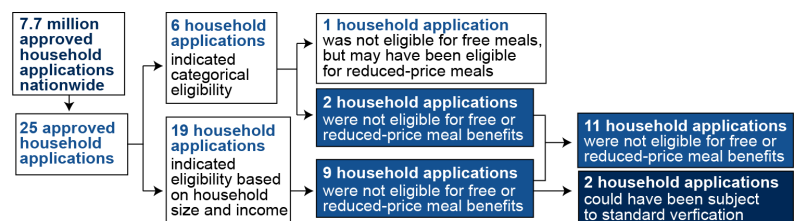
The U.S. Department of Agriculture (USDA) has taken several steps to implement or enhance controls to identify and prevent ineligible beneficiaries from receiving school-meals benefits. For example:

- USDA worked with Congress to develop legislation to automatically enroll students who receive Supplemental Nutritional Assistance Program benefits for free school meals; this program has a more-detailed certification process than the school-meals program.
- Starting in the 2013-2014 school year, USDA increased the frequency with which state agencies complete administrative reviews of school districts from every 5 years to every 3 years. As part of this process, state agencies review applications to determine if eligibility determinations were correctly made.
- In 2012, USDA issued guidance to clarify that school districts have the authority to verify approved applications for school-district employees when information indicates that the applicant misrepresented his or her income.

GAO identified opportunities to strengthen oversight of the school-meals programs while ensuring legitimate access, such as the following:

- Exploring the feasibility of computer matching external income data, such as state payroll data, with participant information to identify households whose income exceeds eligibility thresholds for verification could help identify ineligible participants. Currently, school districts verify a sample of approved applications deemed "error-prone"—statutorily defined as those with reported income within \$1,200 of the annual income levels specified in program-eligibility guidelines—to determine whether the household is receiving the correct level of benefits (referred to as standard verification in this report). In a nongeneralizable review of 25 approved applications, GAO found that 9 of 19 households that self-reported household income and size information were ineligible and only 2 could have been subject to standard verification.
- Verifying a sample of categorically eligible applications could help identify ineligible households. Currently, school-meal applicants who indicate categorical eligibility (by participating in certain public-assistance programs or meeting an approved designation, such as foster children) are eligible for free meals and are generally not subject to standard verification. In a nongeneralizable review of 25 approved applications, 6 households indicated categorical eligibility, 2 of which were ineligible, and another may have been eligible for reduced-price meals instead of free school meals.

Results of GAO's Analysis of a Nongeneralizable Sample of 25 Approved Household Applications from the 2010-2011 School Year



Source: GAO analysis of school-meals household applications.

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Abbreviations

APEC	Access, Participation, Eligibility, and Certification
CBO	Congressional Budget Office
CNR	Child Nutrition and WIC Reauthorization Act of 2004
FDPIR	Food Distribution Program on Indian Reservations
FNS	Food and Nutrition Service
IPIA	Improper Payments Information Act of 2002
NSLA	Richard B. Russell National School Lunch Act
NSLP	National School Lunch Program
OIG	Office of the Inspector General
OMB	Office of Management and Budget
SBP	School Breakfast Program
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
USDA	United States Department of Agriculture
USPS	U.S. Postal Service

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May 15, 2014

Congressional Requesters

A well-balanced and nutritional diet for school children is essential for their overall health and well-being, and helps promote academic achievement. With children spending a considerable amount of their day at school, meals served during the school day play an important role in providing such a diet. In 1946, the Richard B. Russell National School Lunch Act (NSLA)—established the National School Lunch Program (NSLP),¹ and in 1966 the Child Nutrition Act established the School Breakfast Program (SBP).² These programs provide reimbursement to school districts and independent schools based on the number of meals served that meet certain federal requirements. Any child may purchase a meal through the NSLP or SBP; however, depending on household income, children may be eligible for reduced-price or free meals. The NSLP and SBP have the same eligibility requirements—families with incomes at or below 130 percent of the federal poverty level are eligible for free meals, and those with incomes between 130 and 185 percent of the federal poverty level are eligible for reduced-price meals. In fiscal year 2012, over 31.6 million children participated in the NSLP each school day at a program cost of about \$11.6 billion. Of the NSLP participants, 21.4 million—or about 68 percent—received their lunches free or at a reduced price. In fiscal year 2012, approximately 12.9 million children participated in the SBP each school day, at a program cost of about \$3.3 billion. Of those, over 10.8 million—or about 84 percent—received their breakfasts free or at a reduced price.

These programs—administered by the United States Department of Agriculture’s (USDA) Food and Nutrition Service (FNS)—operate in over 89,000 schools and institutions.³ All schools participating in the NSLP or SBP must make free and reduced-price meals available to eligible

¹42 U.S.C. § 1751 *et seq.*

²42 U.S.C. § 1771 *et seq.* The SBP started as a pilot project in 1966 and was made permanent in 1975.

³Not all schools that participate in the NSLP participate in the SBP. During the 2013-2014 school year, the NSLP operated in over 100,000 schools and institutions, and the SBP operated in over 89,000 schools and institutions.

children. Individual student or household eligibility for free or reduced-price meals is determined by school-district review of applications submitted by households or through a process referred to as “direct certification.” Under direct certification, state agencies provide school districts with a list of students whose households receive certain public-assistance benefits, such as through the Supplemental Nutrition Assistance Program (SNAP), and school districts confer eligibility for free school meals to these students. Thus, participants are automatically certified for school-meals benefits without having to fill out a separate school-meals application. Students receiving certain public-assistance benefits or meeting an approved designation, such as if they are homeless or foster children, are categorically eligible for free-meal benefits. Categorically eligible students can be certified into the school-meals program either through an application or direct certification. The Office of Management and Budget (OMB) has designated the NSLP as 1 of 13 federal “high-error” programs due to its large estimated improper payments—approximately \$1.8 billion in fiscal year 2013.⁴ According to OMB guidance, an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements.⁵

In July 2012, we reported that some children were inappropriately certified for free school meals because their households were considered categorically eligible for SNAP even though they were not receiving

⁴High-error programs are those programs that reported roughly \$750 million or more in improper payments in a given year, did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or have not yet established a program error rate and have measured components that were above the threshold. Office of Management and Budget, *Issuance of Part III to OMB Circular A-123, Appendix C*, Memorandum M-10-13 (Washington, D.C.: Mar. 22, 2010). USDA estimates that approximately \$996 million of its fiscal year 2013 improper payments represents certification errors and approximately \$778 million represents school district counting and claiming errors. The SBP had approximately \$831 million in improper payments in fiscal year 2013.

⁵OMB, *Issuance of Part III to OMB Circular A-123, Appendix C*. Improper payment estimates reported by federal agencies are not intended to be an estimate of fraud in federal agencies’ programs and activities. This guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

SNAP benefits.⁶ NSLA, as amended by the Child Nutrition and WIC Reauthorization Act of 2004 (CNR), requires participants in SNAP to be directly certified for school-meals benefits without a separate school-meals application.⁷ We recommended that USDA provide guidance clarifying that children in households receiving no SNAP benefits should not be directly certified to receive free school meals. USDA agreed with our recommendation and has taken steps to address it. In September 2009, we also reported that states and school food authorities⁸ conduct program-integrity reviews, but that gaps in federal requirements for these reviews limit the reviews' effectiveness at identifying meal counting and claiming errors.⁹ We recommended that USDA modify the requirements for state and school food authority reviews and improve guidance on data collection; USDA agreed with and implemented our recommendations.

Given the cost of the USDA school-meals programs and the high estimated improper-payment rates, you asked us to review possible beneficiary fraud occurring within the programs. Specifically, we assessed (1) what steps, if any, has USDA taken to help identify and prevent ineligible beneficiaries from receiving benefits in the school-meals programs, and (2) what opportunities, if any, exist to strengthen USDA's oversight of the school-meals programs? We also report case-study examples of households that may have improperly received program

⁶GAO, *Supplemental Nutrition Assistance Program: Improved Oversight of State Eligibility Expansions Needed*, [GAO-12-670](#) (Washington, D.C.: July 26, 2012).

⁷Pub. L. No. 108-265 § 104 (June 30, 2004). Some states designate households as categorically eligible for SNAP if they receive Temporary Assistance for Needy Families (TANF) benefits, even if those benefits are nonmonetary. Nonmonetary TANF benefits include, but are not limited to, an informational brochure, employment assistance, or childcare assistance. Households designated as categorically eligible for SNAP must go through a separate benefit determination process and not all are found eligible for SNAP benefits. Children in households that do not receive a SNAP benefit do not automatically qualify for free or reduced-price school meals.

⁸For the purpose of the school-meals programs, the term "school food authority" is more commonly used for purposes of operating the school meals program, such as when discussing agreements or nutritional requirements. A "local educational agency" is a public authority that is recognized in a state as an administrative agency for its public elementary or secondary schools. In this report, we use the term school district or district to refer to school food authorities and local educational agencies.

⁹GAO, *School Meal Programs: Improved Reviews, Federal Guidance, and Data Collection Needed to Address Counting and Claiming Errors*, [GAO-09-814](#) (Washington, D.C.: Sept. 9, 2009).

benefits. Because of limited salary and income data available for all U.S. households, our case-study examples are limited to civilian executive-branch employees and United States Postal Service (USPS) employees.¹⁰

To determine any steps USDA has taken to identify and prevent ineligible beneficiaries from receiving benefits and what opportunities, if any, exist to strengthen USDA's oversight of the school-meals programs, we reviewed FNS policies and regulations, as well as the laws authorizing the school-meals programs. We also reviewed prior USDA reports and other studies concerning the programs. Further, we interviewed FNS officials to discuss the agency's administration of the programs. We selected the Washington, D.C., and Dallas, Texas metropolitan regions—areas with different federal-employee concentrations—for further work.¹¹ We conducted interviews of officials responsible for administration and oversight of the program at the city level in Washington, D.C., and at the state level in Maryland, Texas, and Virginia, as well as at 25 school districts located in these regions. We initially obtained data from 28 school districts for our review—14 located in the Dallas, Texas metropolitan region and 14 in the Washington, D.C., metropolitan region, which includes Washington, D.C., and its Maryland and Virginia suburbs.¹² In the Dallas, Texas metropolitan region we selected school districts with student enrollment over 10,000 students. We selected all school districts in the Washington, D.C., metropolitan region excluding 56 charter school districts in Washington, D.C. However, we did not use data from 3 school districts—1 located in the Dallas, Texas metropolitan region and 2 located in the Washington, D.C., metropolitan region—because the data were not reliable for our purposes. During the 2010-2011 school year, there were 57 school districts in Washington, D.C.; 49 in Maryland; 1,260 in Texas; and 154 in Virginia for a total of 1,520. This selection is not representative of all states, school districts, or school-meal

¹⁰Throughout this report, we use the term “federal employees” to refer to both civilian executive-branch employees and USPS employees.

¹¹The Washington, D.C., and Dallas, Texas, metropolitan regions ranked 1st and 18th, respectively, among the 50 metropolitan regions with the largest number of executive-branch federal employees during fiscal year 2012. The Washington, D.C., region includes Washington, D.C.; Maryland; and Virginia.

¹²There were approximately 18,500 school districts in the United States during the 2010-2011 school year.

participants. We assessed controls related to the identification and prevention of ineligible beneficiaries in accordance with internal control standards.¹³

To further identify opportunities, if any, that exist to strengthen USDA's oversight of the school-meals programs, we tested controls that are designed to identify and prevent ineligible school-meal beneficiaries. To do this, we selected a nongeneralizable sample of 48 households participating in the NSLP for further review and investigation.¹⁴ To select the sample, we matched school-meals eligibility data for the 2010-2011 school year from the 25 school districts to executive-branch civilian federal-employee payroll data for approximately 2.5 million individuals to identify households that school districts deemed eligible for free or reduced-price school meals.¹⁵ We used civilian federal-employee payroll data obtained in 2010 through 2013 due to the unavailability of other data sources containing salary information for nonfederal employees. According to a January 2012 Congressional Budget Office Report, in 2010, 1.7 percent of the U.S. workforce was made up of federal civilian employees—approximately 2.3 million compared to 111 million that were employed by the private sector and 20 million employed by state and local governments.¹⁶ The results of our work were not designed to be generalizable and do not include private-sector employees.

A household member earning income does not preclude children in the household from being eligible for school-meals benefits. The purpose of our work was to select households for review and to determine whether any of the selected households were potentially ineligible for benefits based upon their pay and USDA eligibility guidelines. To assess the reliability of the school-meals eligibility and payroll data, we reviewed relevant documentation including NSLP applications, interviewed knowledgeable agency officials, and examined the data for errors and

¹³GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

¹⁴USDA reported that approximately 7.7 million household applications were approved for free or reduced-price meals during the 2010-2011 school year.

¹⁵The 2010-2011 school year was the last year in which the school-meals applications requested that the adult applicant provide his or her complete Social Security number.

¹⁶Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees* (Washington, D.C.: January 2012).

inconsistencies. We concluded that the school-meals eligibility data and payroll data were sufficiently reliable for the purposes of this report.

In selecting our sample, we narrowed the civilian federal-employee payroll data to those with income during the July 2010 to December 2010 period—to coincide with the start of the school year, when most school-meals eligibility determinations are made. We then matched the school-district beneficiary data to the federal-employee payroll data using the Social Security number, address, and name fields, to the extent they were available.¹⁷ On the basis of these matches, we randomly selected up to two households in each of the 25 school districts for an in-depth review, for a total of 48 cases.¹⁸ Specifically, for each of the school districts, we reviewed one household that submitted an application that was used for benefit determination (25 cases), as well as one household that was directly certified (23 cases). For the 25 applicant cases, we reviewed available applications from 2010-2011 and salary information during this period, as well as any applications these households submitted during the 2011-2012 and 2012-2013 school years. For the 23 cases in which the household was directly certified into the school-meals programs without submitting an application due to the household's participation in SNAP or other assistance programs, we reviewed 2010-2011 salary information and obtained and reviewed the application the household submitted for the assistance program that allowed direct certification.

Our investigators interviewed the federal employees associated with the 48 households in our nongeneralizable sample to obtain additional information about their applications, households, and employment. The specific findings from the selected cases cannot be generalized to other, or all, school-meals beneficiaries or federal-employee households that received school-meals benefits. Because our data were limited to federal-employee households in 25 school districts that were randomly selected on a nongeneralizable basis, the results of our cases cannot be generalized to a larger population of school-meals participants or to the entire federal workforce. We plan to refer any potentially ineligible

¹⁷We applied a minimum threshold of \$6,000 to the amount of federal salary earned during July 2010 to December 2010 in order to identify active employees for our nongeneralizable sample. Individuals with incomes of less than \$6,000 were not part of the sample.

¹⁸Two selected school districts did not have any directly certified households that matched with federal-employee payroll data.

households to USDA and their school districts for appropriate action as warranted.

We conducted this performance audit from February 2012 to May 2014 in accordance with generally accepted government auditing standards.¹⁹ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our related investigative work from June 2013 to May 2014 in accordance with standards prescribed by the Council of the Inspectors General on Integrity and Efficiency. For a more-detailed description of our scope and methodology, see appendix I.

Background

School-Meals Programs Administration

Within USDA, FNS has overall responsibility for overseeing the school-meals programs, which includes promulgating regulations to implement authorizing legislation setting nationwide eligibility criteria and issuing guidance. School-meals programs are administered at the state level by a designated state agency that issues policy guidance and other instructions to school districts providing the meals to ensure awareness of federal and state requirements. School districts are responsible for completing application, certification, and verification activities for the school-meals programs, and for providing children with nutritionally balanced meals each school day. The designated state agency conducts periodic reviews of the school districts to determine whether the program requirements are being met. Schools and households that participate in free or reduced-price meal programs may be eligible for additional federal and state benefits. Appendix II discusses those benefits. A graphic depicting the responsibilities of FNS, state agencies, and school districts can be found in appendix III.

¹⁹The time frame required for our review was a result of various factors, including time required to complete data reliability assessments and data standardization of multiple databases.

Eligibility Determinations and Verification

Children from families with incomes at or below 130 percent of the federal poverty level are eligible for free meals. Those with incomes between 130 percent and 185 percent of the federal poverty level are eligible for reduced-price meals. Income is any money received on a recurring basis—including, but not limited to, gross earnings from work, welfare, child support, alimony, retirement, and disability benefits—unless specifically excluded by statute.²⁰ Table 1 below shows the annual income-eligibility guidelines in effect for a family of four during the 2010-2011 through the 2013-2014 school years.²¹

Table 1: Annual Income Eligibility Guidelines for a Family of Four Dollars

School year	Maximum household income for a family of four to qualify for free-meal benefits ^a	Maximum household income for a family of four to qualify for reduced-price-meal benefits ^a
2010-2011	\$28,665	\$40,793
2011-2012	29,055	41,348
2012-2013	29,965	42,643
2013-2014	30,615	43,568

Source: U.S. Department of Agriculture (USDA).

^aExcludes Alaska and Hawaii.

Children from families with incomes over 185 percent of the federal poverty level pay full price, though their meals are still subsidized to some extent.²²

²⁰Income not to be counted in the determination of a household's eligibility includes, but is not limited to, the value of benefits under SNAP or Food Distribution Program on Indian Reservations (FDPIR), student financial assistance benefits, and loans. 78 Fed. Reg. 17628 (Mar. 22, 2013).

²¹The income-eligibility guidelines are in effect from July 1 to June 30 of each year. The income-eligibility guideline amounts in Alaska and Hawaii are higher.

²²Local school districts set their own prices for full-price (paid) meals, but must operate their meal services as nonprofit programs. For July 1, 2013, through June 30, 2014, the basic cash reimbursement rate for lunch ranged from \$2.93 to a maximum allowable of \$3.16 for free meals, \$2.53 to \$2.76 for reduced-price meals, and \$0.28 to \$0.42 for paid meals. The cash reimbursement rate for breakfast ranged from \$1.58 to a maximum allowable of \$1.89 for free meals, \$1.28 to \$1.59 for reduced-price meals, and \$0.28 for paid meals. Higher NSLP and SBP reimbursement rates are in effect for Alaska and Hawaii.

In addition, students who are in households receiving benefits under certain public-assistance programs—specifically, SNAP, Temporary Assistance for Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR)—or meet certain approved designations (such as students who are designated as homeless, runaway, or migrant; a foster child) are eligible for free school meals regardless of income.

Certification

School districts certify students into the school-meals programs using one of two methods—either through (1) a household application identifying household information such as income and household size, or information on participation in public-assistance programs or (2) direct certification.²³ During the 2012-2013 school year, 11.7 million students were certified for free or reduced-price meals through a household application, and 12.3 million students were directly certified.²⁴ Once a child is certified into the school-meals program, the eligibility determination is in effect for the entire year; households are not required to inform the school if wages rise above the income-eligibility guidelines during the school year.

- **Household application.** Under the household-application method, a household submits an application provided by the school district. Since a household application is used for all members in the household, a single application can list multiple students. Schools send school-meals applications home at the beginning of each school year, but household applicants may apply at any time during the course of the year. Online applications are also available in some school districts. The applicant lists all sources of household income, the frequency with which it is received, and the names of all household members, among other information. One adult from the household signs the application, certifying that the information provided is correct. No supporting documentation—such as tax returns or pay stubs—is required at the time of application. In accordance with USDA guidance, school districts are not to conduct any actions to verify the information on the application during the certification process; they must accept the applications at face value

²³42 U.S.C. § 1758. Categorical eligibility can be conferred through either a household application or direct certification.

²⁴A household application is used for all members in the household; therefore, an application can contain multiple students. While 24 million students were deemed eligible for free or reduced-price meals, according to USDA officials, not all students who were deemed eligible participate.

and determine eligibility based on the information voluntarily disclosed in the application.²⁵ In addition, students who are in households receiving benefits under certain public-assistance programs, including SNAP or TANF, or meet an approved designation—regardless of income—are categorically eligible for free school meals. For example, students who are designated as (1) homeless, runaway, or migrant; (2) a foster child; or (3) enrolled in a federally funded Head Start Program are categorically eligible for free meals. These households must state the reason for their categorical eligibility on the application along with any applicable public-assistance identification numbers. FNS officials told us that school district officials have a responsibility to verify homeless, runaway, and migrant applications as part of the application approval process. Figure 1 below is an example of a school-meals application and information required to be deemed categorically eligible. Appendix IV provides a sample school-meals household application. The school district reviews data on the application, such as household size, income, or participation in an approved public-assistance program or other approved designation, and makes an eligibility determination. Starting with the 2011-2012 school year, applicants are required to provide the last four digits of their Social Security numbers rather than the entire nine-digit number.²⁶

²⁵ C.F.R. § 245.6(c)(4) and USDA Eligibility Manual. In commenting on a draft of this report, USDA explained that beginning on July 1, 2014, school districts that demonstrate a high level of or high risk for certification, verification, and other administrative errors will be required to ensure that the initial eligibility determination for each application is reviewed for accuracy prior to notifying a household of its eligibility status

²⁶ 42 U.S.C. § 1758(d).

Figure 1: School Meals Application Highlighting Categorical Eligibility Requirements

Applicants that indicate categorical eligibility do not need to provide income or household size information

Multi-Child Free and Reduced Price School Meals Application for 2013-2014

Part 1. All children in school in the household. If a child is not in school, please check the appropriate box and skip to Part 5 and sign the form.

1. Last names of all children in school in your household. List Middle Initial Last.	2. Last name of the parent for each child.	3. Check for each child if:
1.		<input type="checkbox"/> Check for each child if:
2.		<input type="checkbox"/> EDG
3.		<input type="checkbox"/> Homeless
4.		<input type="checkbox"/> Migrant
5.		<input type="checkbox"/> Runaway
6.		<input type="checkbox"/> None of these

Part 2. Benefits. If any member of your household receives SNAP, FDPIR, or TANF, provide the Eligibility Determination Number (EDG) for the person who receives benefits and skip to Part 5. If no one receives these benefits, skip to Part 3.

EDG: _____

Part 3. If any child you are applying for is homeless, migrant, or a runaway, check the appropriate box and call your child's school.

Homeless

Migrant

Runaway

Part 4. Total Household Income

Part 5. Signatures and Last Four Digits of Social Security Number

Source: Excerpt from school-meals application provided by a school district.

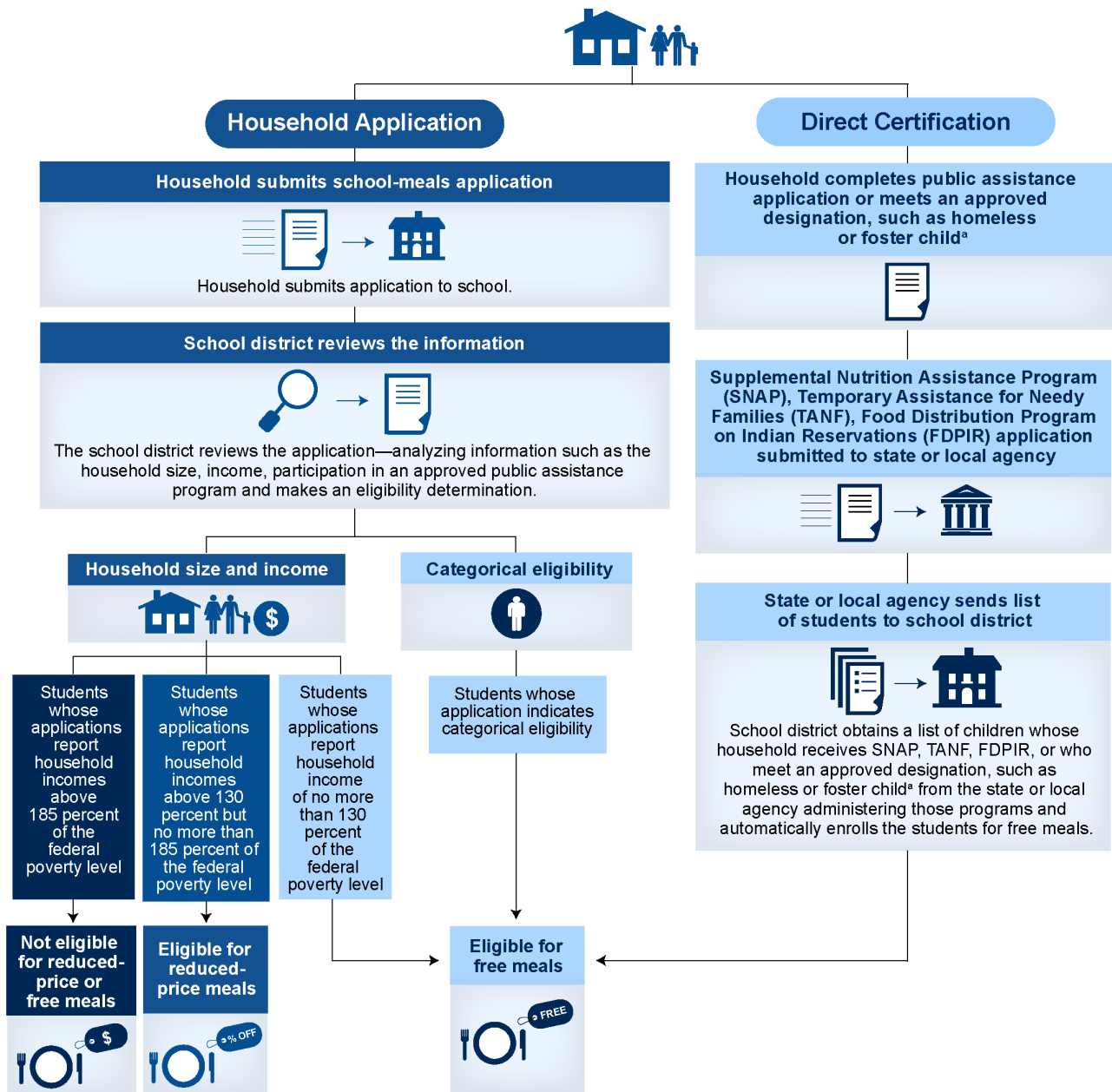
- Direct Certification.** Children in households that receive certain public-assistance benefits—SNAP, FDPIR, or TANF—are automatically eligible for free school meals through “direct certification.” Under the direct-certification method, school districts certify children who are members of households receiving public assistance as eligible for free school meals based on information

provided by the state or local agency administering those programs. Starting in the 2008-2009 school year, school districts were required to directly certify SNAP households into the school-meals programs.²⁷ A student or household that meets an approved designation—such as homeless or foster children—can also be directly certified into the school-meals programs without having to complete a household application.

Figure 2 below describes the household-application and direct-certification methods that households use to become certified for free or reduced-price meals.

²⁷The Child Nutrition and WIC Reauthorization Act of 2004 (CNR) required all states to establish a system of direct certification of school-age SNAP participants by the 2008-2009 school year. The requirement applies only to children participating in SNAP; however, states and school districts may also directly certify children from TANF and FDPIR households, as well as children meeting an approved designation.

Figure 2: Household-Application and Direct-Certification Methods for Eligibility Determinations in the School-Meals Programs



Source: GAO analysis of U.S. Department of Agriculture (USDA) information. Art Explosion (images).

^aStudents who meet an approved designation—(1) homeless, runaway, or migrant; (2) foster child; or (3) enrolled in a federally funded Head Start Program—are categorically eligible for free school meals.

Verification

After school districts certify household eligibility for school-meals program benefits, they must annually verify a sample of household applications approved for free or reduced-price school-meals benefits to determine whether the household has been certified to receive the correct level of benefits—we refer to this process as “standard verification.”²⁸ As dictated by statute, school districts are required to verify a random sample of applicants. The sample size is equal to the lesser of 3 percent of approved applications, selected from error-prone applications, or 3,000 error-prone applications unless an alternative sample size is used.²⁹ For the purposes of standard verification, the NSLA defines error-prone applications as certified applications with monthly income within \$100 of—or with annual income within \$1,200 of—the income eligibility limits for free or reduced-price meals. Households that indicate categorical eligibility on an application and households that enter the program through direct certification are generally not subject to the standard verification process.³⁰

Further, as described in USDA’s eligibility manual for school meals, school districts are obligated to verify additional applications if they deem them to be questionable, which is referred to as for-cause verification.³¹ Verification—whether standard or for-cause—is conducted only for those

²⁸42 U.S.C. § 1758(b)(2)(D).

²⁹If there are not an adequate number of error-prone applications to draw a 3 percent sample, school districts are to conduct standard verification on all error-prone applications and select the remaining required applications from all certified applications, including applications indicating categorical eligibility. School districts may qualify to use one of two alternate sample sizes based upon the nonresponse rate for the preceding school year. The sample size under alternate one is equal to the lesser of: 3 percent of all applications or 3,000 applications selected at random. The sample size under alternate two is equal to the lesser of: 1,000 of all applications plus the lesser of (a) 500 applications that provide a case number in lieu of income information or (b) ½ of 1 percent of applications approved that provide a case number in lieu of income information. USDA guidance also states that school districts must not verify more or less than the standard sample size or alternative sample size.

³⁰Households that indicate categorical eligibility could be subject to verification if a school district did not have enough error-prone applications to meet the 3 percent sampling requirement and drew additional applications from all those certified for standard verification. If selected, the validity of the case number stated on the application would be verified.

³¹United States Department of Agriculture, Food and Nutrition Service, *Eligibility Manual for School Meals: Determining and Verifying Eligibility* (Washington, D.C.: January 2008). This guidance has been included in all subsequent manuals.

beneficiaries receiving benefits through the household-application process; directly certified households are not subject to verification. Households selected for verification (standard or for-cause) must submit supporting documentation—such as pay stubs, benefit award letters from state agencies for benefits such as Social Security, or supplemental security income, or support payment decrees from courts—to the school district, or be removed from the program. The school district reviews the information, determines whether the household’s free or reduced-price status is correct, and makes corrections, as necessary.

Improper Payment Rates Associated with the School Meals Programs

The Improper Payments Information Act of 2002, as amended,³² requires agencies to identify, measure, prevent, and report their improper payment amounts and to develop and implement improper payment reduction plans, among other things. For fiscal year 2013, USDA reported that the NSLP and SBP had estimated improper payment rates of approximately 15.7 percent and 25.3 percent, respectively—equating to about \$1.8 billion and \$831 million.³³ Table 2 below shows the portion of improper payments in the NSLP and SBP attributable to certification errors versus counting and claiming errors, as reported for fiscal year 2013.

Table 2: Estimated Improper Payment Rates in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) for Fiscal Year 2013

Type of error	NSLP		SBP	
	Amount of improper payments (dollars in millions)	Percentage of program payments deemed improper (percent)	Amount of improper payments (dollars in millions)	Percentage of program payments deemed improper (percent)
Certification	\$996	8.8%	\$312	9.5%
Counting/claiming	778	6.9	519	15.8
Total	\$1,774	15.7%	\$831	25.3%

Source: U.S. Department of Agriculture (USDA).

Note: The United States Department of Agriculture Office of the Inspector General (OIG) reported that NSLP and SBP improper payment estimates may be unreliable because they were based on the 2005-2006 school year and confidence levels could not be provided for subsequent years. Estimated

³²Pub. L. No. 107-300 (Nov. 26, 2002).

³³United States Department of Agriculture, *Agency Financial Report, Fiscal Year 2013* (Washington, D.C.: December 2013).

improper payments in the NSLP and SBP are due to certification errors, such as incorrect eligibility determinations, as well as noncertification errors, such as meal-counting and meal-claiming errors.

In March 2013, USDA's Office of the Inspector General (OIG) reported that FNS officials were continuing to work with states to address the high estimated improper-payments rate. However, in the same report, the USDA OIG noted that FNS baselines for improper payments may be unreliable because they were based on the 2005-2006 school year and confidence levels could not be provided for subsequent years.³⁴ To update data used to determine FNS current improper-payment estimates, FNS hired a contractor to conduct a study for the 2012-2013 school year. In 2012, FNS officials told us that they believe this study will better reflect current improper-payment rates for the NSLP and SBP, and in April 2014 stated that they expect to release the results of the study in early 2015.

USDA Has Taken Steps to Help Identify and Prevent Ineligible Participants from Receiving Benefits

USDA Has Increased the Use of Direct Certification

To address the high improper-payment rates in the school-meals programs, among other actions, USDA worked with Congress to develop the Child Nutrition and WIC Reauthorization Act of 2004 (CNR).³⁵ CNR required school districts to directly certify students that receive SNAP benefits for free meals in all school districts by the 2008-2009 school year. USDA officials told us that they are emphasizing the use of direct certification, because, in their opinion, it helps prevent certification errors without compromising access. School-meals programs and SNAP have

³⁴USDA commissioned a November 2007 NSLP/SBP Access, Participation, Eligibility, and Certification (APEC) Study to estimate certification and noncertification errors in the NSLP and SBP during the 2005-2006 School Year. The study developed a series of models that USDA uses to estimate program improper payments annually.

³⁵Pub. L. No. 108-265 (June 30, 2004).

similar income-eligibility limits.³⁶ Further, the application process for SNAP is more detailed than the certification process under the NSLP. Direct certification has reduced the administrative burden on SNAP households, as they do not need to submit a separate school-meals application. It also reduces the number of applications school districts must review. In commenting on a draft of this report, USDA reiterated that school districts do not have access to SNAP eligibility documents, are not required to review household SNAP applications, and therefore accept the SNAP eligibility determination at face value. FNS officials also told us that once school districts receive confirmation that a household is eligible for direct certification, they are not required to determine whether the household is still eligible throughout the year.

To test the effectiveness of direct certification in identifying and preventing ineligible participants from receiving benefits, we reviewed a nongeneralizable sample of 23 households who were directly certified for free-meal benefits and found two cases where the household appeared ineligible for SNAP benefits, and therefore may have been inappropriately directly certified into the school-meals programs, as described below. Because these households were directly certified for school-meals benefits, the school district would not be aware of the SNAP error unless notified by the appropriate state agency.

- One household received SNAP benefits from October 2009 to October 2010. However, one household member started employment in March 2010 and, based upon his biweekly pay of approximately \$3,300, his household of four members would no longer have qualified for SNAP benefits. The SNAP Notice of Food Benefit Extension sent to the household dated March 7, 2010, required notification of changes to job status and rate within 10 days beginning in May 2010. Based on the change of wages in March 2010, this household would have not have remained eligible for SNAP benefits and thus would not have been eligible for direct certification for free school meals during the 2010-2011 school year.
- One household's SNAP application incorrectly omitted a member of the household who earned income and provided financial support.

³⁶To qualify for SNAP benefits, households must meet certain income and resource tests. In general, a household's gross monthly income cannot exceed 130 percent of the federal poverty level.

Had the SNAP application included this household member's income, the household would not have qualified for SNAP benefits; therefore, this household should not have been directly certified for free school meals during the 2010-2011 school year.

We will include these instances in our referrals to USDA and the state agency administering SNAP for appropriate action, as warranted.

Since passage of the CNR, the number of school districts directly certifying SNAP-participant children has continued to increase. For example, during the 2008-2009 school year, 78 percent of school districts directly certified students, and by the 2012-2013 school year, this percentage had grown to 91 percent of school districts, bringing the estimated percentage of SNAP-participant children directly certified for free school meals to 89 percent.³⁷

USDA is also conducting demonstration projects in selected states and school districts to explore the feasibility of directly certifying children that participate in the Medicaid program.³⁸ During the demonstration projects, eligible children will be directly certified for free school meals based on a review of income and participation information received from Medicaid agencies through automated data-matching processes, with no household-application requirement. Five states participated in the studies during the 2012-2013 school year, six participated during the 2013-2014

³⁷States that fail to achieve a direct-certification rate of at least 95 percent by the 2013-2014 school year are required to implement direct-certification improvement plans. According to a USDA report, states cited the inability of direct-certification improvement measures to account for children who receive SNAP benefits but who are not enrolled in schools and thus not eligible for direct certification. These students include home-schooled children, school dropouts, and some homeless and migrant children. Another commonly cited challenge was incorporating nonpublic schools more efficiently into the direct-certification process. U.S. Department of Agriculture, Food and Nutrition Service, Office of Policy Support, *Direct Certification in the National School Lunch Program: State Implementation Progress, School Year 2012-2013*, Special Nutrition Programs Report No. CN-13-DC, prepared by Mathematica Policy Research, Inc. (Alexandria, Va.: November 2013).

³⁸In all states, the combined income eligibility limit for Medicaid exceeds the NSLP income eligibility limit of 130 percent of the federal poverty guideline.

school year, and more are expected to participate during the 2014-2015 school year.³⁹

USDA Has Increased the Frequency of State Agency Reviews

USDA requires administering state agencies to conduct regular, on-site reviews—referred to as administrative reviews—to evaluate school districts that participate in the school-meals programs.⁴⁰ The Healthy, Hunger-Free Kids Act of 2010 increased the frequency of these reviews from every 5 years to every 3 years.⁴¹ Starting with the 2013-2014 school year, state agencies are required to conduct administrative reviews at least once during a 3-year review cycle, with no more than 4 years between the reviews. During this process, state agencies are to determine whether free, reduced-price, and paid lunches were properly provided to eligible students; and that meals are counted, recorded, consolidated, and reported through a system that consistently yields correct claims.⁴²

As part of this process, state agencies are to conduct on-site reviews of school districts to help ensure that applications are complete and that the correct eligibility determinations were made based on applicant information. In reviewing eligibility determinations, the state agency may elect to review documentation for all students certified for free or reduced-price or a statistically valid sample. Once the names of students subject to review have been identified, the state agency reviews the household application or direct certification to determine whether or not the certification decision was correct; supporting documents—such as payroll records or benefit award letters—are not obtained during the administrative review process. In addition, during the on-site review, state agency officials are to observe the meal service—to determine whether the meals claimed meet the federal requirements for a reimbursable

³⁹USDA, Food and Nutrition Service, *National School Lunch Program and School Breakfast Program: Request for Applications for Participation in Demonstration Projects to Evaluate Direct Certification with Medicaid* (Alexandria, Va.: November 2012).

⁴⁰7 C.F.R. § 210.18, Prior to the 2013-2014 school year, these reviews were referred to as Coordinated Review Efforts. In commenting on a draft of this report, USDA clarified that administrative reviews include off-site procedures where state agencies evaluate the school district's system for making eligibility determinations including direct certification.

⁴¹Pub. L. No. 111-296, § 207 (Dec. 13, 2010).

⁴²Additional changes are being made to the administrative review process, including focusing the application review process at the school district level instead of the school level.

lunch, including nutrition and portion requirements—as well as the process of counting and recording meals. School districts that have administrative review findings are to submit a corrective-action plan to the state agency, and the state agency is to follow up to determine whether the issue has been resolved. USDA regulations require all state agencies to report the results of administrative reviews to FNS by March 1 of each school year.⁴³ FNS officials told us that as part of their oversight of state agencies, they confirm that agencies have completed the administrative reviews.

We reviewed administrative review reports from the 25 school districts we selected that were completed between February 2008 and December 2012. Administrative review reports from 11 school districts cited some incorrect eligibility determinations. Incorrect eligibility determinations ranged from 1 to 15 per district—based on the stated information on the application. The number of incorrect determinations found in each school district was small compared to the number of applications reviewed, which ranged from 687 to 8,398. As required, these 11 school districts submitted a corrective-action plan to the state addressing how they would ensure that all meal-benefit applications are reviewed and certified based on eligibility guidelines. The state agency determines if the school district's corrective action satisfactorily resolves the problem; the state agency cannot close the review until all identified issues have been addressed. The administrative review reports from the remaining 14 school districts in our sample did not cite any incorrect eligibility determinations.

In commenting on a draft of this report, USDA told us that it makes grant funds available annually to states to fund the performance of additional administrative reviews, oversight, and training for school districts with a high level or risk of administrative errors. USDA stated that since fiscal year 2005, \$4 million has been set aside annually for these grants. According to USDA, from fiscal year 2005 to 2013, FNS awarded 60 grants totaling \$26.5 million.

⁴³7 C.F.R. § 210.18 (n).

USDA Has Issued Guidance on the Use of For-Cause Verification

As discussed earlier in this report, school districts are obligated to verify the eligibility of applicants whose application information is deemed questionable under the “for-cause” verification process. Examples of relevant recent cases include the following:

- The Chicago Board of Education OIG reported that in fiscal year 2012, a cohort of highly paid and high-level Chicago Public Schools administrators falsified information on school-meals applications and the office noted the possibility of system-wide school-meals fraud.⁴⁴ Specifically, the report cited 21 principals, assistant principals, and recently promoted assistant principals who understated their own income or falsified the number of household members, including leaving themselves off the applications.
- In July 2013, the State of New Jersey Office of the State Comptroller issued a report on fraudulent school-lunch program applications filed by public employees.⁴⁵ The report, reviewing a sample of schools that received more than \$1 million in reimbursements for school lunches in the 2010-11 school year, found a number of public employees who materially underreported their household income on school-lunch applications, including 101 public employees (elected school-board members and school-district employees among them) who provided materially false information. Further, according to the July 2013 report, numerous applicants substantially underreported the income of household members and many failed to list income-generating household members on their applications.

In February 2012, USDA distributed guidance to state administrators to clarify that school districts have the authority to review approved applications for free or reduced-price meals for school-district employees when known or available information indicates school-district employees may have misrepresented their incomes on their applications. However, this for-cause verification should be used selectively and not to verify the household income of all school district employees whose children are certified for free or reduced-price meals. Under the guidance, school districts can identify children of school-district employees and use salary

⁴⁴Chicago Board of Education, Office of the Inspector General, *Annual Report 2012* (Chicago, Ill.: Dec. 28, 2012).

⁴⁵State of New Jersey Office of the State Controller, *Investigative Report: Fraudulent School Lunch Program Applications Filed by Public Employees* (July 17, 2013).

information available to them to identify questionable applications and then conduct for-cause verification on the questionable applications, if necessary. In August 2012, USDA also updated its school-meals eligibility manual—used by school districts to determine and verify eligibility—with this guidance. Our analysis of this guidance is presented below.

USDA Could Explore Options to Enhance the Verification Process to Further Strengthen Integrity While Ensuring Legitimate Access

Guidance to Clarify Use of For-Cause Verification Could Enhance Oversight

As discussed earlier in this report, USDA regulations require that school districts conduct for-cause verification of all questionable applications.⁴⁶ Officials from 11 of the 25 school districts told us during our interviews that they conduct for-cause verification. These officials provided examples of how they would identify suspicious applications, such as when a household submits a modified application—changing income or the household members—after being denied or when different households include identical public-assistance benefit numbers (e.g., if different households provide identical SNAP numbers). However, officials from 9 of the 25 school districts told us that they did not conduct any for-cause verification. For example, one school-district official explained that the school district accepts applications at face value. An official from another school district said that his district does not conduct for-cause verification and added that he is not sure how to identify questionable applications. Additionally, officials from 5 of the 25 school districts told us they only conduct for-cause verification if someone (such as a member of the public or a state agency) informs them of the need to do so on a household. Although not generalizable, responses from these school

⁴⁶7 C.F.R. § 245.6a(c)(7).

districts provide insights about if and under what conditions for-cause verifications are conducted.

USDA officials stated that school districts have the obligation to conduct for-cause verification if they suspect inaccurate information, but added that staff may be hesitant to perform it because of the potential work burden it may create. USDA officials also told us that some school districts may be reluctant to conduct for-cause verification because of concerns about appearing to target certain groups of people. In April 2013, USDA issued a memorandum stating that effective for the 2013-2014 school year, all school districts must specifically report the total number of applications that were verified for cause. Prior to this, USDA did not collect any information on applications that have undergone for-cause verification. USDA officials told us that they will use the information to determine the frequency with which school districts conduct for-cause verification. This information is to be provided to USDA in April 2014; however, since this is the first year the information is being collected, it may take school districts additional time to finalize the reports. While school districts are to report the number of applications verified for cause, the outcomes of those verifications will be grouped with the outcomes of applications that have undergone standard verification. As a result, USDA plans to review the results to determine the frequency with which school districts conduct for-cause verification but will not have information on specific outcomes, which it may need to assess the effectiveness of for-cause verifications and to determine what actions, if any, are needed to improve program integrity.

During our review of 25 households that applied for and received school-meals benefits, we identified one household that reapplied for school-meals benefits during the 2011-2012 school year less than 2 weeks after being denied benefits for not meeting the eligibility requirements. The new application removed a source of income—child support—and the household was approved for reduced-price meals.⁴⁷ When we interviewed the applicant, she said that she could not remember if she received child support payments at the time she resubmitted the application. This household also applied for school-meal benefits during the 2012-2013 school year. The application did not indicate child-support payments, and

⁴⁷Income to be reported on the application includes: gross earnings from work, welfare, child support, alimony, retirement, and disability benefits.

the household was subsequently approved for reduced-price meals. This household was not subjected to for-cause verification by the school district even though households resubmitting an application with less income a short time after being denied benefits could be a red flag to indicate that for-cause verification should be conducted.⁴⁸

While USDA has issued guidance specific to school-district employees and instructs school districts to verify questionable applications in its school-meals eligibility manual, we found that the guidance does not provide possible indicators or describe scenarios that could assist school districts in identifying questionable applications. Standards for Internal Control in the Federal Government call for agencies to design control activities to ensure management's directives are carried out.⁴⁹ Reviewing the data gathered on for-cause verification for the 2013-2014 school year could help USDA determine if data on the outcome of for-cause verifications should be reported separately from standard verification results. Further, as noted above, evaluating this data could help USDA determine whether additional guidance would be beneficial to assist school districts in identifying applications that should be subject to for-cause verification. Such guidance could include criteria and examples of possible indicators of questionable or ineligible applications.

Income-Based Verification Could Enhance Oversight

USDA's standard verification process—the terms of which are statutorily defined—makes it difficult to detect all households that misreport their income and that are ineligible for program benefits. It could also result in the removal of eligible beneficiaries, as households that do not respond to the verification notice are removed from the program. Electronically matching household-application information to other data sources—such as state income databases or public-assistance databases—could hold promise in identifying high-income households for validation while not disrupting program benefits to eligible households.

⁴⁸We did not confirm if the applicant received child support payments at the time of application. An official from this school district told us that this school district does not conduct for-cause verification.

⁴⁹[GAO/AIMD-00-21.3.1](#).

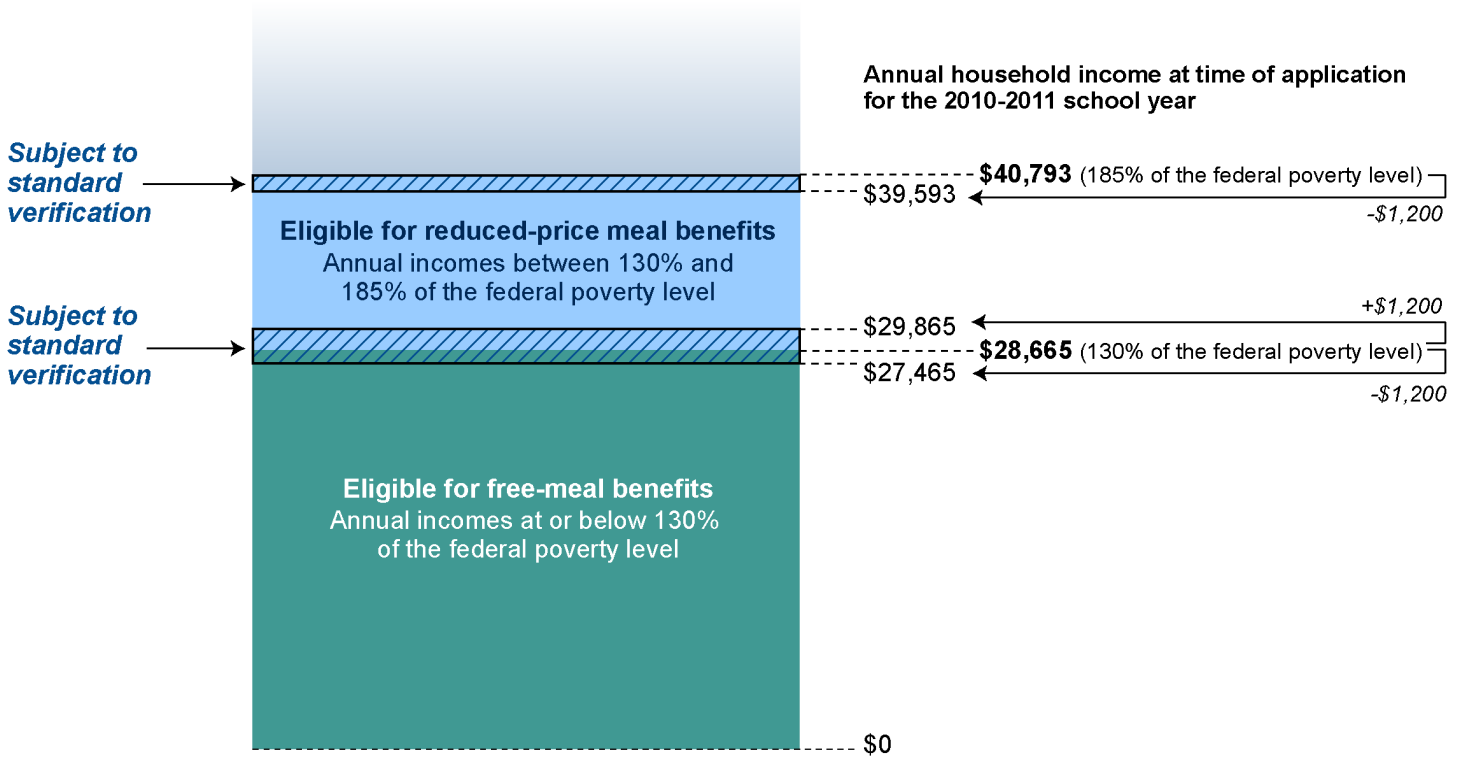
Standard Verification Limited to
Small Portion of Beneficiaries

As described earlier in this report, with the exception of for-cause verification, standard verification is generally limited to approved applications considered “error-prone.”⁵⁰ Error-prone is statutorily defined as approved applications where stated income is within \$100 of the monthly or \$1,200 of the annual applicable income-eligibility guideline. Households with reported incomes that are more than \$1,200 above or below the free-meals eligibility threshold and more than \$1,200 below the reduced-price threshold would generally not be subject to this verification process.⁵¹ Figure 3 shows the income thresholds of applicants that would and would not be considered error-prone for a four-person household during the 2010-2011 school year.

⁵⁰As dictated by statute, school districts are required to verify a sample of applicants. The sample size is equal to the lesser of 3 percent of approved applications, selected from error-prone applications, or 3,000 error-prone applications unless an alternative sample size is used. If there are not an adequate number of error-prone applications to draw a 3 percent sample, school districts are to conduct standard verification on all error-prone applications and select the remaining required applications from all certified applications, including applications indicating categorical eligibility. All applications can be subject to for-cause verification.

⁵¹Households with reported incomes more than \$1,200 above the reduced-price threshold should not be certified for free or reduced-price meals and therefore not subject to verification.

Figure 3: Standard Verification Thresholds for a Four-Member Household during the 2010-2011 School Year



Source: GAO analysis of legislation and U.S. Department of Agriculture data.

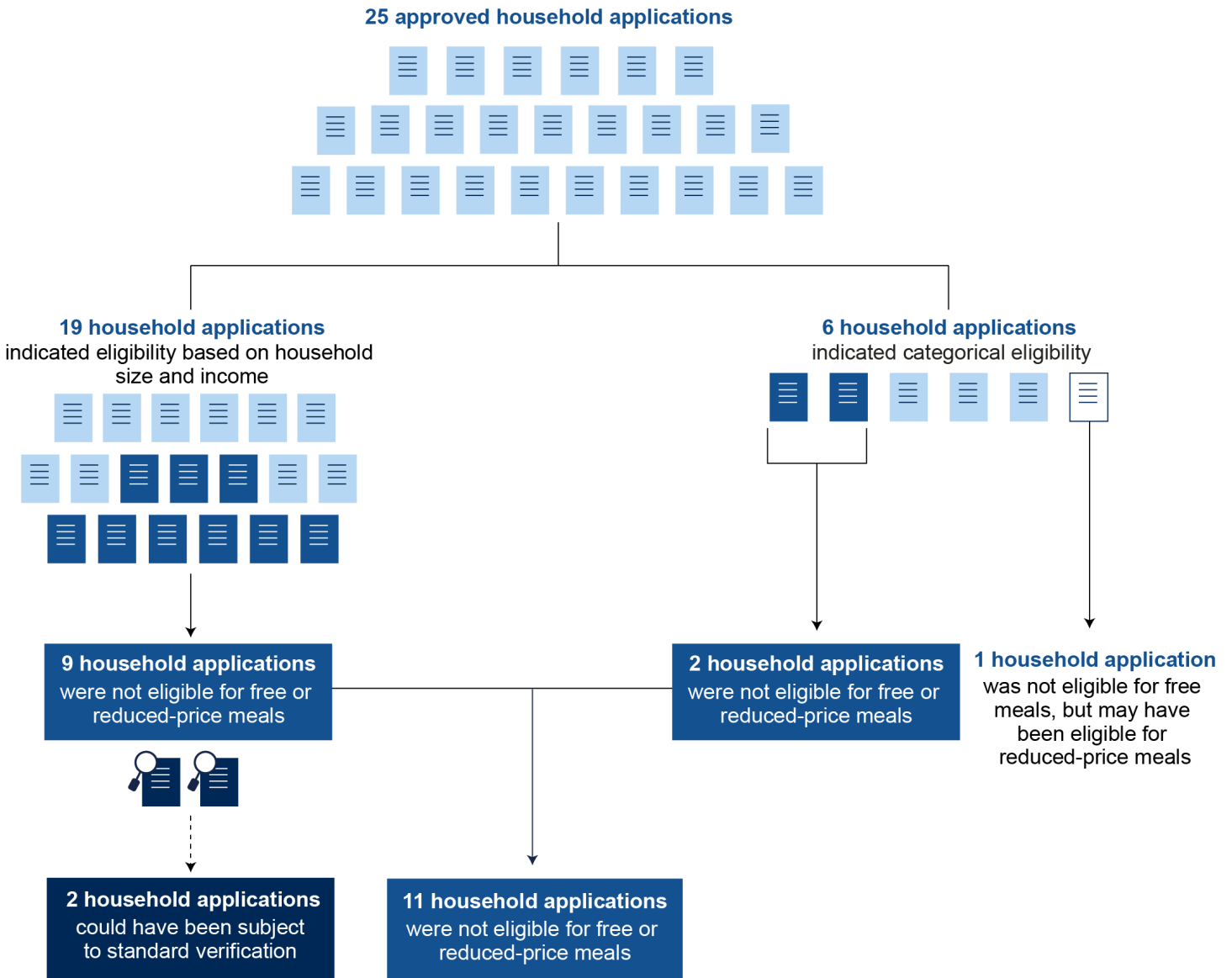
Note: Data are from the Richard B. Russell National School Lunch Act (NSLA) and the United States Department of Agriculture (USDA) income-eligibility guidelines for the 2010-2011 school year. Only approved applications are subject to standard verification.

In addition to the nongeneralizable sample of 23 households receiving school-meal benefits through direct certification discussed in the previous section, we reviewed a nongeneralizable sample of 25 households receiving school-meals benefits through an approved application. Nineteen household applications were certified based upon their stated income and household size.⁵² Of these, we determined that 9 were not eligible for free or reduced-price-meal benefits they were receiving because their income exceeded eligibility guidelines. Further, 2 of these 9 households stated annualized incomes that were within \$1,200 of the

⁵²Six of the 25 approved household applications we reviewed indicated categorical eligibility. The results of these cases are discussed later in this report.

eligibility guidelines. These two households could have been subject to standard verification had they been selected as part of the sample by the district; however, they were not selected or verified. The remaining 7 of 9 households stated annualized incomes that did not fall within \$1,200 of the eligibility guidelines and thus would not have been subject to standard verification. Figure 4 shows the results of our review.

Figure 4: Results of GAO's Analysis of Approved Applications: Limited Number of Ineligible Households Met Requirements for Standard Verification



Source: GAO analysis of school-meals household applications.

Note: There are two ways children may be classified as categorically eligible: (1) through participation in certain public-assistance programs, such as Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF), or (2) through meeting an approved designation, such as homeless or foster child.

Of the 19 households shown above that indicated eligibility based on self-reported household size and income, we determined that 9 were not eligible for free or reduced-price-meal benefits they were receiving because their known income exceeded eligibility guidelines. For example, one household we reviewed submitted a school-meals application for the 2010-2011 school year seeking school-meals benefits for two children. The household stated an annual income of approximately \$26,000 per year, and the school district appropriately certified the household to receive reduced-price-meal benefits based on the information on the application. However, through review of the payroll records, we determined that the adult applicant's income at the time of the application was approximately \$52,000—making the household ineligible for benefits. This household also applied for and received reduced-meal benefits for the 2011-2012 and 2012-2013 school years by understating its income. Its 2012-2013 annualized income was understated by about \$45,000. Because the income stated on the application during these school years was not within \$1,200 per year of the income-eligibility requirements, the application was not deemed error-prone and was not subject to standard verification. Had this application been subjected to verification, a valid pay stub would have indicated the household was ineligible. We interviewed the adult applicant as part of our investigation, and the applicant admitted to underestimating her income.

Another household in our sample submitted a school-meals application for the 2010-2011 school year—stating an income that equated to approximately \$32,500 annually and a household size of five members—and was approved for free-meal benefits. However, at the time of the application, the household's annualized income was at least \$60,000, making the household ineligible for free or reduced-price meals. The household application stated an annualized income that put it within the error-prone range; however, it was not among the 3 percent sample of error-prone applications selected for verification.⁵³ This household applied for school-meals benefits for the 2011-2012 school year—stating an annualized income that equates to approximately \$39,600—and was approved for reduced-price meals. However, based on our review of payroll information, household income was at least \$73,000 during 2011—a difference of about \$33,000—making this household ineligible

⁵³The annual eligibility guideline for a household of five during the 2010-2011 school year was \$33,527 for free meals and \$47,712 for reduced-price meals; the error-prone range is \$46,512 to \$47,712 and \$32,327 to \$34,727.

for free or reduced-price meals. When interviewed, the applicant said that her children completed the application and that she signed it.⁵⁴

In another instance, a household submitted a school-meals application for the 2010-2011 school year—stating an annualized income that equates to approximately \$19,200 and a household size of four—and was approved for free school-meals benefits. This application omitted a parent living in the household and earning annualized income of approximately \$55,000. Had the wage-earner and his income been included, this household would not have qualified for free or reduced-price meals. This household applied for and was approved for free school-meals for the 2011-2012 and 2012-2013 school years. Again, these applications omitted the parent and his wages—which amounted to approximately \$62,000 during 2011 and \$64,000 during 2012. Had his income been included, the household would not have qualified for free or reduced-price meals. When interviewed, the parent said that he was not aware that his children had been receiving free school-meals benefits. Because the stated income on the application was outside the error-prone range, and the school district only verified error-prone applications during these school years, this household would not have been subject to standard verification. Individuals with knowledge of the program-eligibility guidelines could understate their income to avoid scrutiny, as this would likely prevent the application from being reviewed under standard verification, although for-cause verification could identify the understatement.⁵⁵

For fiscal year 2013, USDA reported NSLP and SBP certification errors of approximately 8.8 percent and 9.5 percent as part of its improper payment estimation.⁵⁶ As explained previously, USDA OIG noted that these estimates may be unreliable because they were based on the 2005-2006 school year and confidence levels could not be provided for subsequent years. FNS has hired a contractor to conduct a revised study

⁵⁴This household did not submit a school-meals application for the 2012-2013 school year.

⁵⁵None of the applicants we interviewed told us they deliberately understated their income to avoid verification.

⁵⁶United States Department of Agriculture, *Agency Financial Report, Fiscal Year 2013* (Washington, D.C.: December 2013).

Current Standard Verification
Process Could Remove
Eligible Beneficiaries

for the 2012-2013 school year, which is expected to be complete in November 2014.⁵⁷

Once a household application has been certified as eligible to receive benefits, and if it is selected for verification, school districts obtain supporting documentation from the applicant—such as pay stubs or benefit-award letters—in order to evaluate whether or not the household’s free or reduced-price status is correct.⁵⁸ However, because the verification process relies on responses from applicants, it could lead to eligible children being removed from the program if the applicant does not respond to the school district’s verification request. USDA told us that during the 2012-2013 school year, school districts verified approximately 203,200 applications.⁵⁹ Of these, 43.5 percent were receiving the correct level of benefits, and approximately 23.6 percent had their level of benefits adjusted to properly reflect their eligibility based on verification. Of the applications selected for verification, 32.8 percent did not respond and were excluded from receiving free or reduced-price school meals.

A household failing to respond to a request for verification may not mean the household was ineligible for the initial benefits received.⁶⁰ USDA officials also told us that households may not respond because the adult applicant may not have time to provide supporting documentation, may

⁵⁷USDA commissioned a November 2007 NSLP/SBP Access, Participation, Eligibility, and Certification (APEC) Study to estimate certification and noncertification errors in the NSLP and SBP during the 2005-2006 school year. The study developed a series of models that USDA uses to estimate program improper payments annually.

⁵⁸According to USDA guidance, school districts are not to conduct any actions to verify the information on the application during the certification process; they must accept the applications at face value and determine eligibility based on the information voluntarily disclosed in the application. In 2004, USDA issued the results of a pilot study to determine the effects of requiring documentation to households applying for benefits and reported that it had the adverse effect of limiting access to students eligible to receive school-meals benefits. Mathematica Policy Research, Inc., *Evaluation of the National School Lunch Program Application/Verification Pilot Projects*, vol. 1: “Impacts on Deterrence, Barriers, and Accuracy” (Princeton, N.J.: February 2004). This report was prepared for USDA.

⁵⁹Total application verification rates may be greater than 3 percent because school districts are required to verify all questionable applications through for-cause verification even if that would increase the sample size above the 3 percent maximum.

⁶⁰School districts are required to follow up with households that do not respond to the initial request for verification. Households that do not respond to the verification request may reapply—with documentation—for school-meals benefits at any time.

Electronic Matching Could Help to Identify Potentially Ineligible Applications

not understand the instructions, or may be hesitant to provide income information, though the household is still eligible to receive the benefits. Further, a study commissioned by the USDA to examine outcomes of the verification process during the fall of 2002 found that approximately half of the households that did not respond to the verification request were eligible for free or reduced-price meals.⁶¹

As described above, standard verification is generally limited to approved applications where stated income is within \$1,200 of the annual applicable income-eligibility guideline amount. Applications with stated income outside of these thresholds would generally not be subject to standard verification. However, our review of a nongeneralizable sample of 25 households found 9 applications that were ineligible for benefits, 7 of which would have been excluded from standard verification.

Standards for Internal Control in the Federal Government indicate that internal controls should include control activities and risk assessments.⁶² These, among other controls, should be effective and efficient in enforcing program requirements. Independent verification is a key detection and monitoring component of an agency's fraud-prevention framework and is a fraud-control best practice.⁶³ One method to identify potentially ineligible applicants and effectively enforce program-eligibility requirements is through the independent verification of income information with an external source, such as state payroll data. States or school districts, through data matching, could identify households that have income greater than the eligibility limits for further follow-up. This risk-based approach would allow school districts to focus on potentially

⁶¹United States Department of Agriculture, Food and Nutrition Service, *Case Study of National School Lunch Program Verification Outcomes in Large Metropolitan School Districts*, report no. CN-04-AV3 (April 2004). Districts in this study were, on average, about 10 times larger than the average public school district, both in the number of schools they operate and their total student enrollment. Therefore, the districts in this study were not selected to be representative of all regular public school districts nationwide.

⁶²[GAO/AIMD-00-21.3.1](#).

⁶³The fraud-prevention framework was developed on the basis of findings from a GAO audit of Hurricanes Katrina and Rita relief efforts, and the internal control standards from the *Standards for Internal Control in the Federal Government*. For more detail, see GAO, *Hurricanes Katrina and Rita Disaster Relief: Prevention Is the Key to Minimizing Fraud, Waste, and Abuse in Recovery Efforts*, [GAO-07-418T](#) (Washington, D.C.: Jan. 29, 2007); and [GAO/AIMD-00-21.3.1](#).

ineligible families, while not interrupting program access to other participants.

While electronic verification could yield positive results, there are some potential limitations. For example, state income databases may not contain all sources of household income—such as child-support payments or income earned by individuals who do not have a Social Security number. Additionally, it may not be cost-effective or possible for school districts to use external data when conducting verification. Thus, states may be better positioned to complete this matching and to report findings to specific school districts.

A study commissioned by USDA to explore the feasibility of computer matching in the NSLP during the 2004-2005 school year cited limitations to having school districts directly verify income information with state agencies.⁶⁴ For example, because income data are reported for individuals, not households, school districts would need to obtain Social Security numbers for all income earners in the household in order to verify household income. The study also found that computer-matching results can be inaccurate and that income discrepancies between the state database and the household application would require follow-up with the household that is similar to the existing verification process. However, technology and data-matching software and techniques have improved significantly in the last decade and could hold promise in efficiently identifying only potentially ineligible households for further follow-up while not removing program beneficiaries whose incomes are within the eligibility guidelines.

Electronic verification of a sample of applicants (beyond those that are statutorily defined as error-prone) through computer matching by school districts or state agencies with other sources of information—such as state income databases or public-assistance databases—could help effectively identify potentially ineligible applicants. However, it is not clear whether such a process is cost-effective. Thus, developing a pilot to explore the feasibility of implementing a cost-effective mechanism to conduct electronic verification at the state or school-district level could help inform the extent to which this alternative is feasible. Because

⁶⁴United States Department of Agriculture, *Data Matching in the School Lunch Program: 2005*, vol. 1: Final Report, report no. CN-06-DM (Alexandria, VA.: February 2007).

standard verification is dictated by statute, if the results of the pilot show promise in identifying ineligible beneficiaries, developing a legislative proposal to expand the verification process to include independent electronic verification for a sample of all school-meals applications could help USDA identify and prevent ineligible beneficiaries in the school-meals program.

Expanded Verification of Applications That Indicate Categorical Eligibility Could Enhance Program Integrity

We found that ineligible households may be receiving free school-meals benefits by submitting applications that falsely state that a household member is categorically eligible for the program due to participating in certain public-assistance programs—such as SNAP or TANF—or meeting an approved designation—such as foster child or homeless. Of the 25 household applications we reviewed, 6 were approved for free school-meals benefits based on categorical eligibility, and 3 of these were potentially ineligible for the benefit.⁶⁵ Figure 3 illustrates these results. Specifically, we found the following:

- One household applied for benefits during the 2010-2011 school year—providing a public-assistance benefit number—and was approved for free-meal benefits. However, when we verified the information with the state, we learned that the number was for medical-assistance benefits—a program that is not included in categorical eligibility for the school-meals programs. When interviewed, the parent said that he could not remember if the benefits they received were SNAP or medical assistance. On the basis of our review of payroll records, this household’s annualized income of at least \$59,000 during 2010 would not have qualified the household for free or reduced-price-meal benefits. This household applied for school-meals benefits during the 2011-2012 and 2012-2013 school

⁶⁵One of the six categorically eligible households in our sample included a SNAP number for a person sharing the same address as the child. Program regulations allow students whose household income exceeds the school-meals eligibility guidelines to qualify for free school-meals benefits if they share an address with someone receiving public-assistance benefits. Under USDA guidance, categorical eligibility for free meals is extended to all children in a household if any member of a household—whether responsible for the child or not—receives SNAP, TANF, or FDPIR. In this instance, the student’s guardian earned income that exceeded the limits for free or reduced-price school meals, but was residing with a relative who, as a separate household, received public assistance. Because the student shared an address with someone receiving SNAP, the student was certified for free school meals in accordance with program rules.

years, again indicating the same public-assistance benefit number—and was approved for free-meal benefits.

- Another household applied for benefits during the 2010-2011 school year—providing a public-assistance benefit number—and was approved for free-meal benefits. When interviewed, the parent said that the household received SNAP benefits. However, when we verified the information with the state, officials told us the household was not receiving public-assistance benefits at the time of application.⁶⁶
- In a 2010-2011 school year application, one household indicated that the student was a foster child; however, when we interviewed the applicant, she told us that she has never had foster children. This household was not eligible for free meals, but may have been eligible for reduced-price meals.⁶⁷ A school-district official told us that this household was directly certified for free-meal benefits during the 2011-2012 and 2012-2013 school years.

Because applications that indicate categorical eligibility are generally not subject to standard verification, these ineligible households would likely not be identified unless they were selected for for-cause verification or as part of the administrative review process, even though they contained inaccurate information. These cases underscore the potential benefits that could be realized by verifying beneficiaries with categorical eligibility. We will refer these potentially ineligible households to USDA and their school district for appropriate action as warranted. Furthermore, the administrative review report for one district we reviewed noted that categorical-eligibility determinations were not always correct, including migrant, homeless, runaway, Head Start, and Even Start programs.

USDA's eligibility manual states that school districts should be aware of the characteristics of a valid SNAP or TANF number and are allowed to

⁶⁶This household submitted an application in September 2010, but based on information from the state, public-assistance benefits did not start until November 2010. The household may have qualified for free meals based on household size and income at the time of application; however, this information was not part of the application.

⁶⁷We cannot conclusively determine whether this household was eligible for reduced-price meals because we do not have access to nonfederal payroll records and other sources of income.

verify this information with the appropriate agency. However, these numbers can vary in terms of length. An official from one state told us that because the length of SNAP and TANF numbers varies, it is difficult to determine whether a number is valid simply by looking at it. A household could also provide an old case number—which appears valid—and the school district would not know that the household is not receiving public-assistance benefits unless the school district verifies the information with the appropriate state agency.

Standards for Internal Control in the Federal Government state that control activities should be effective and efficient in enforcing program requirements and help in detecting errors and fraud. Since applications that indicate categorical eligibility are generally not selected for standard verification, there is limited oversight over these beneficiaries.

Individuals with knowledge of the program-eligibility guidelines could indicate categorical eligibility to avoid scrutiny, as this would prevent the application from ever being verified unless the school-district official certifying the household had specific knowledge that the information was not accurate. Verifying a sample of applications that indicate categorical eligibility could assist in identifying ineligible households that are receiving benefits and help improve program integrity. For example, USDA could have school districts select a sample of applications indicating categorical eligibility and verify the information with the appropriate agency. With the increase in the number of school districts that directly certify SNAP-participant children, school districts may already have mechanisms to match students with SNAP data provided by the state agency. Alternatively, USDA could consider having the state agency perform this verification as part of its periodic administrative review of the school district.

Conclusions

OMB's designation of the school-meals program as a "high-error" program with significant estimated improper payments makes it important that internal controls and oversight for the school-meals programs be strengthened while simultaneously ensuring that students who qualify for benefits are not adversely affected. USDA has taken steps to strengthen controls and to increase access to eligible individuals by working with Congress, school districts, and other public-assistance programs to find new ways to provide benefits to those requiring assistance. However, the cases we identified in which households received school-meals benefits that they were not eligible for highlight the deficiencies with current controls and the need for additional corrective actions. Evaluating the

data collected on completed for-cause verifications for the 2013-2014 school year could help USDA determine whether specific data on for-cause verification outcomes should be reported separately from standard verification results and whether additional guidance for conducting for-cause verification—including criteria and examples of possible indicators of questionable or ineligible applications—would be beneficial. Moreover, a cost-effective mechanism to electronically verify applicant information with income or other data sources such as public-sector wage records could help enhance the current verification process and strengthen program integrity. While challenges may exist in verifying beneficiary income through computer matching, 9 years have passed since USDA conducted a pilot to determine the feasibility of electronic verification. The cost of the school-meals programs, continued high improper payments, and advances in technology support the need to revisit the feasibility of conducting computer matching in the school-meals programs to enhance current verification efforts. If appropriate, developing a legislative proposal to expand the statutorily defined verification process to include additional independent electronic verification for a sample of all school-meals applications could help USDA identify and prevent ineligible applicants from participating in the school-meals program. In addition, verifying a sample of applications that indicate categorical eligibility could assist in identifying ineligible households that are receiving benefits and help improve program integrity.

Recommendations for Executive Action

To improve integrity and oversight of the school-meals programs, we recommend that the Secretary of Agriculture take the following four actions:

- Evaluate the data collected on for-cause verifications for the 2013-2014 school year to determine if for-cause verification outcomes should be reported separately, and if appropriate, develop and disseminate additional guidance for conducting for-cause verification that includes criteria for identifying possible indicators of questionable or ineligible applications.
- Develop and assess a pilot program to explore the feasibility of computer matching school meal participants with other sources of household income, such as state income databases, to identify potentially ineligible households—those with income exceeding program-eligibility thresholds—for verification.

-
- If the pilot program shows promise in identifying ineligible households, develop a legislative proposal to expand the statutorily-defined verification process to include this independent electronic verification for a sample of all school-meals applications.
 - Explore the feasibility of verifying the eligibility of a sample of applications that indicate categorical eligibility for program benefits and are thus not subject to standard verification.

Agency Comments

We provided a draft of this report to USDA for its review and comment. Written comments from the Administrator for FNS are reprinted in appendix VI. In its written comments, FNS indicated that it has long recognized the importance of addressing improper payments and program integrity problems to meet the mission of its programs and that it will carefully consider our specific recommendations as it moves forward in its efforts to improve integrity in the school-meals programs. The letter also describes several steps FNS is taking to strengthen program integrity, many of which are highlighted in this report. An e-mail dated May 2, 2014, from the FNS GAO Liaison/Coordinator stated that FNS generally agreed with our recommendations. FNS also provided technical comments, which we incorporated as appropriate. In its technical comments, FNS outlined potential challenges in implementing computer matching of school meal participants with data on other sources of income, such as challenges in working with state data or with incomplete Social Security numbers, and the potential costs of verifying income data and following up with households. We noted potential challenges in our report and acknowledge them in our recommendation that USDA develop and assess a pilot program to explore the feasibility of this process. We believe that the continued high improper payments rate and advances in technology support the need to conduct this pilot and, if it shows promise, to develop a legislative proposal to expand its use.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to interested congressional committees, the Secretary of Agriculture, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have questions about this report, please contact me at (202) 512-6722 or lords@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VII.

A handwritten signature in black ink that reads "Stephen Lord". The signature is written in a cursive, flowing style.

Stephen M. Lord
Managing Director, Forensic Audits and Investigative Service

List of Requesters

The Honorable Thomas R. Carper
Chairman
The Honorable Tom Coburn, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Claire McCaskill
Chairman
Subcommittee on Financial and Contracting Oversight
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Debbie Stabenow
Chairwoman
The Honorable Thad Cochran
Ranking Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate

The Honorable John Kline
Chairman
Committee on Education and the Workforce
House of Representatives

The Honorable Todd Rokita
Chairman
Subcommittee on Early Childhood, Elementary, and
Secondary Education
Committee on Education and the Workforce
House of Representatives

Appendix I: Objective, Scope, and Methodology

This report assesses (1) what steps, if any, has the U.S. Department of Agriculture (USDA) taken to help identify and prevent ineligible beneficiaries from receiving benefits in school-meals programs, and (2) what opportunities, if any, exist to strengthen USDA's oversight of the school-meals programs? We also report case-study examples of households that may have improperly received program benefits. Because of limited salary and income data available for all U.S. households, our case-study examples are limited to civilian executive-branch employees and United States Postal Service (USPS) employees.¹

To determine any steps USDA has taken to identify and prevent ineligible beneficiaries from receiving benefits and what opportunities, if any, exist to strengthen USDA's oversight of the school-meals programs, we reviewed USDA's program policies and regulations, as well as legislation relating to the school-meals programs. We also reviewed prior USDA reports and other studies concerning the programs. Further, we interviewed officials from USDA's Food and Nutrition Service to discuss the agency's administration of the programs. We selected the Washington, D.C., and Dallas, Texas metropolitan regions—areas with different federal-employee concentrations—for further work.² We conducted interviews of officials responsible for administration and oversight of the program at the city level in Washington, D.C., and the state level in Maryland, Texas, and Virginia, as well as at 25 school districts located in these regions. We initially obtained data from 28 school districts for our review—14 located in the Dallas, Texas, metropolitan region and 14 in the Washington, D.C., metropolitan region, which includes Washington, D.C., and its Maryland and Virginia suburbs.³ In the Dallas, Texas, metropolitan region we selected school districts with student enrollment over 10,000 students. We selected all school districts in the Washington, D.C., metropolitan region, excluding 56 charter school districts in Washington, D.C. However, we did not use data from 3 school

¹Throughout this report, we use the term “federal employees” to refer to both civilian executive-branch employees and USPS employees.

²The Washington, D.C. and Dallas, Texas metropolitan regions ranked 1st and 18th, respectively, among the 50 metropolitan regions with the largest executive-branch federal employees during fiscal year 2012. The Washington, D.C. metropolitan region includes Washington, D.C., Maryland, and Virginia.

³There were approximately 18,500 school districts in the United States during the 2010-2011 school year.

districts—1 located in the Dallas, Texas metropolitan region and 2 located in the Washington, D.C., metropolitan region—because the data were not reliable for our purposes. During the 2010-2011 school year there were 57 school districts in Washington, D.C.; 49 in Maryland; 1,260 in Texas; and 154 in Virginia for a total of 1,520. This selection is not representative of all states, school districts, or school-meal participants. We assessed controls related to the identification and prevention of ineligible beneficiaries in accordance with internal control standards.⁴

To further identify opportunities, if any, that exist to strengthen USDA's oversight of the school-meals programs we tested controls that are designed to identify and prevent ineligible school-meals beneficiaries. To do this, we selected a nongeneralizable sample of 48 households participating in the National School Lunch Program (NSLP) for further review and investigation. To select the sample, we matched school-meals eligibility data for the 2010-2011 school year from the 25 school districts to civilian executive-branch federal-employee payroll data. The 2010-2011 school year was the last year in which the school-meals applications requested that the adult applicant provide his or her complete Social Security number. While we do not expect federal employees to be any more or less likely to commit fraud than employees in other sectors, we completed case-study work based on the availability of centralized salary, address, Social Security number, and employment data for federal employees—these data were used to identify participants in NSLP, regardless of income. The results of our work cannot be generalized to all participants because it does not include private-sector employees. Additional information comparing federal and private-sector employee wages can be found in appendix V.

We began by examining databases containing students deemed eligible for free or reduced-price school meals for the 2010-2011 school year from the 25 school districts. These data generally contained personally identifiable information for the child and an adult household member, as well as household income and size. The data also contained information about whether a household was directly certified into the program or approved through a household application. We also obtained civilian federal-employee payroll data for approximately 2.5 million individuals

⁴GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1. (Washington, D.C.: November 1999).

from five federal-payroll processors. These data contained personally identifiable information for the federal employee, as well as wages by pay period for some or all of calendar year 2010. We used federal-employee payroll data to develop case studies due to the unavailability of other data sources containing salary information for nonfederal employees. To assess the reliability of the school-meals eligibility and payroll data, we reviewed relevant documentation, interviewed knowledgeable agency officials, and examined the data for obvious errors and inconsistencies. We concluded that the school-meals eligibility data and payroll data were sufficiently reliable for purposes of this report.

Next, we narrowed the civilian federal-employee payroll data to those with income during the July 2010 to December 2010 period—to coincide with the start of the school year when most school-meals eligibility determinations are made. We matched the school district and federal payroll data using the Social Security number of the adult household member, an address key composed of the address and zip code, and name fields, to the extent they were available. Our matches included households that, based on income, appeared both eligible and ineligible to participate in the school-meals programs. A household member earning income does not preclude children in the household from being eligible for school-meals benefits. From our matches, we generated randomly sorted lists of free and reduced-price school-meals participants who submitted an application and randomly sorted lists of students who were directly certified for free school meals in each of the 25 school districts.

We then randomly selected up to two households in each of the 25 school districts for an in-depth review, for a total of 48 cases. Specifically, for each of the school districts, we reviewed one household that submitted an application that was used for benefit determination (25 cases), as well as one household that was directly certified (23 cases).⁵ Two of the 25 school districts did not have any directly certified students who matched with the payroll data. We applied a minimum threshold of \$6,000 to the amount of federal salary earned during July 2010 to December 2010 in order to identify active employees for our sample. In the event an adult applicant was deceased or could not be located, we selected the next

⁵USDA reported that approximately 7.7 million household applications were approved for free or reduced-price meals during the 2010-2011 school year.

participant from the randomly sorted list. The specific findings from the selected cases cannot be generalized to other, or all, school-meals beneficiaries or federal-employee households that received school-meals benefits. Because our data were limited to federal-employee households in 25 school districts that were selected on a nonrandom basis, the results of our cases cannot be generalized to a larger population of school-meals participants or to the entire federal workforce.

Once we identified the sample, we contacted the school districts and the states in our sample to obtain supporting documentation. For the 25 households that submitted a school-meals application, we requested and reviewed the available applications from the 2010-2011 school year to see what the applicant listed as his or her household income and household size. We used the school-meals income-eligibility guidelines to determine whether school districts correctly determined eligibility based upon the information stated on the application. We also reviewed school-meals applications from the 2011-2012 and 2012-2013 school years, if submitted. For the 23 directly certified households, we obtained and reviewed the public-assistance application associated with the household from state agencies in the District of Columbia, Maryland, Texas, and Virginia to see what the applicant listed as the household income and composition.

We then reviewed the payroll records of the applicant or other household member to obtain information on their actual minimum income during the period the application was signed and to determine whether the federal employee's income stated on the school-meals or public-assistance application was accurate. If the applicant's income, along with the income of other household members listed on the application, exceeded the eligibility guideline based on the number of household members stated on the application, we considered these households to be potentially ineligible for school-meals benefits.⁶

To conduct our investigative work, we interviewed individuals from the 48 households in our nongeneralizable sample—23 households that were directly certified and 25 that applied for benefits. We interviewed these individuals to determine whether the information entered on the

⁶Because we do not have access to all sources of income—such as child support or income earned by non-federal-employee household members, we cannot conclusively determine whether a household was eligible for school-meals benefits.

applications was accurate, to confirm their income, and to determine the composition of their households. Investigators also conducted a review of the associated payroll records and school-meals application or public-assistance application to inform the interviews.

We conducted this performance audit from February 2012 to May 2014 in accordance with generally accepted government auditing standards.⁷ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our related investigative work from June 2013 to May 2014 in accordance with standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

⁷The timeframe required for our review was a result of various factors, including time required to complete data reliability assessments and data standardization for multiple databases.

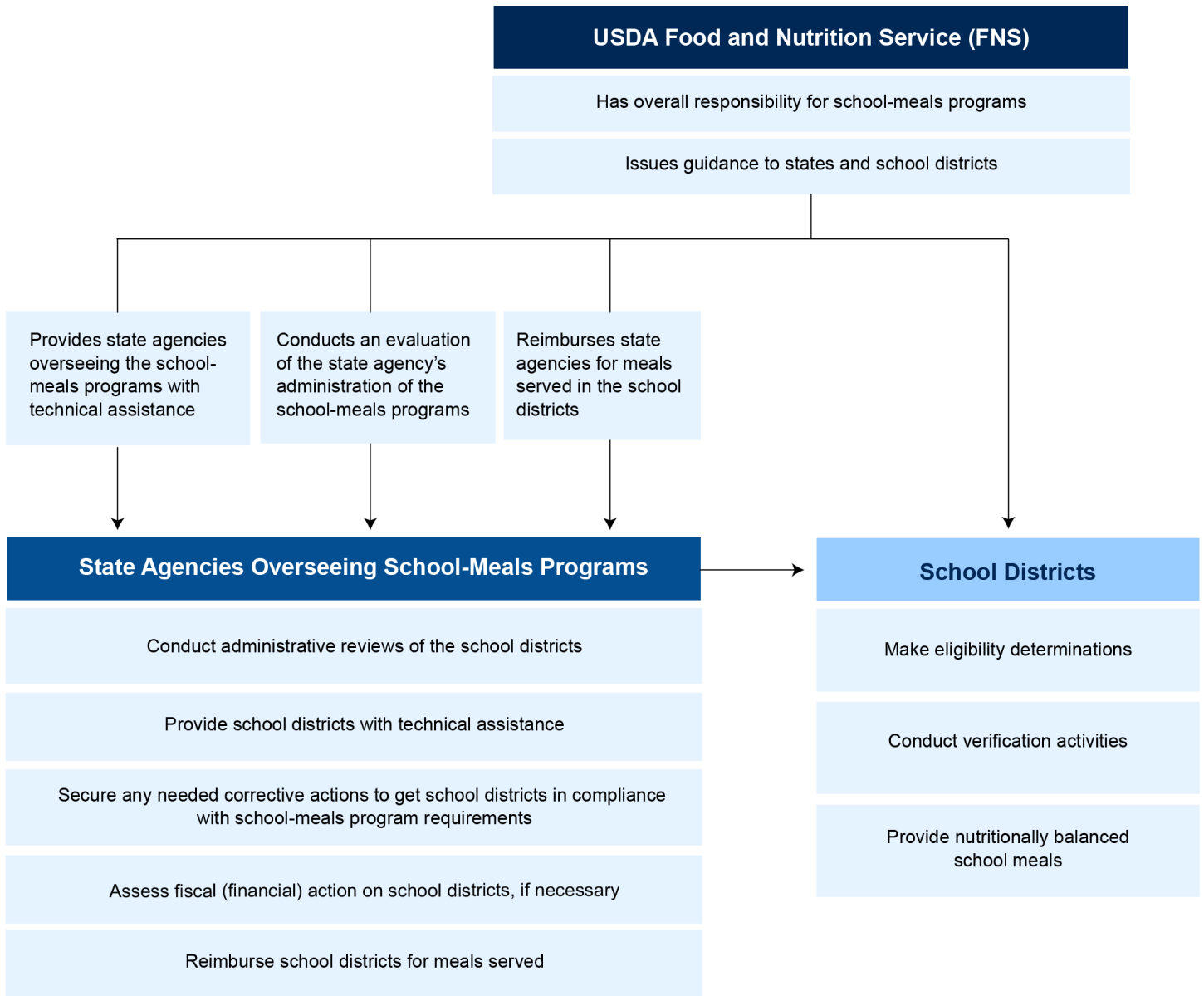
Appendix II: Additional Benefits Based on Eligibility in the School-Meals Programs

Schools and households that enroll students in free or reduced-price school meals may be eligible for additional federal and state benefits. For example, the U.S. Department of Education, through Title I of the Elementary and Secondary Education Act, provided approximately \$13.8 billion in funds to schools with high concentrations of low-income families during fiscal year 2013. The distribution of federal Title I funds within schools and school districts can be based, in part, on the number of students eligible for free and reduced-price meals. In addition, separate state funding for schools can also be tied to the percentage of students eligible for free or reduced-price school meals. Further, the Universal Service Program for Schools and Libraries, also known as the E-rate program—created by the Telecommunications Act of 1996—provides schools with discounts on eligible telecommunications services, Internet access, and internal connections (such as network wiring).¹ Discounts can range from 20 to 90 percent, and the primary measure for determining the discount is the percentage of students eligible under the National School Lunch Program (NSLP) for free or reduced-price meals.

Households can also receive additional benefits by participating in the school-meals programs. For example, the Lifeline Program, administered by the Universal Service Administration Company on behalf of the Federal Communications Commission, provides phone service discounts for households that participate in the NSLP or other qualifying assistance programs. We reviewed guidance from one school district that provides other benefits to households qualifying for free or reduced-price meals, including textbook assistance, and waiving college application fees and athletic fees.

¹47 U.S.C. § 254.

Appendix III: Responsibilities of the Food and Nutrition Service, State Agencies, and School Districts



Source: GAO analysis of U.S. Department of Agriculture (USDA) information.

Appendix IV: Sample School-Meals Household Application

Multi-Child Free and Reduced Price School Meals Application for 2013–2014

Part 1: All Children in School in the Household—If all children listed below are foster children placed by a foster care agency or court, skip to Part 5 and sign this form.			Part 2: Benefits—If any member of your household receives SNAP, FDIPIR, or TANF, provide the Eligibility Determination Number (EDG) for the person who receives benefits and skip to Part 5. If no one receives these benefits, skip to Part 3.		
List the names of <u>all</u> children in school in your household. (First, Middle Initial, Last)	List the name of the school for each child.	Check for each foster child			
1.		<input type="checkbox"/>	EDG: _____		
2.		<input type="checkbox"/>	Part 3. If any child you are applying for is homeless, migrant, or a runaway, check the appropriate box and call your child's school.		
3.		<input type="checkbox"/>			
4.		<input type="checkbox"/>			
5.		<input type="checkbox"/>			
6.		<input type="checkbox"/>			
7.		<input type="checkbox"/>			
8.		<input type="checkbox"/>	<input type="checkbox"/> Homeless <input type="checkbox"/> Migrant <input type="checkbox"/> Runaway		
Part 4. Total Household Gross Income.					
A. List the names of all household members.		B. Provide the gross income for each person in the household and how often the income is received. Enter the amount in the first line under the appropriate type of income. Enter the abbreviation for how often you receive the income in the second blank. (A=Annually M=Monthly T=Twice Per Month E=Every Two Weeks W=Weekly)			
	Earnings from Work Before Deductions	Welfare, Child Support, Alimony	Pensions, Retirement, Social Security, SSI, or VA Benefits	All Other Income	Check if No Income
(Example) Jane Smith	\$199.00/E	\$149.00/M	\$99.00/M	\$50.00/T	<input type="checkbox"/>
1.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
2.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
3.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
4.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
5.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
6.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
7.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
8.	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	\$ _____ / _____	<input type="checkbox"/>
Part 5. Signature and Last Four Digits of Social Security Number—An adult household member <u>must sign the application</u> if Part 4 is completed, the adult signing the form also must list the last four digits of his/her Social Security number or mark the box in front of "I do not have a Social Security number."					
<i>I certify (promise) that all information on this application is true and that all income is reported. I understand that the school will get federal funds based on the information I give. I understand that school officials may verify (check) the information. I understand that if I purposely give false information, my children may lose meal benefits, and I may be prosecuted.</i>					
Sign Here: _____			Print Name Here: _____		
Date: _____					
Address: _____			Phone Number: _____		
City: _____			State: _____ Zip Code: _____		
Last Four Digits of Social Security Number: ***-**-____			<input type="checkbox"/> I do not have a Social Security number.		
Do Not Fill Out This Part. This Is For School Use Only					
<i>Multiple income frequencies must be converted to annual amounts and combined to determine household income. Do not convert if only one income frequency is provided by the household. If converting income to annual, round only the final number—Annual Income Conversion: Weekly x 52 Every 2 Weeks x 26 Twice a Month x 24 Monthly x 12</i>					
Total Income: _____		Per: <input type="checkbox"/> Week <input type="checkbox"/> Every 2 Weeks <input type="checkbox"/> Twice a Month <input type="checkbox"/> Month <input type="checkbox"/> Year		Household Size: _____	
<input type="checkbox"/> Categorical Eligibility		<input type="checkbox"/> Meal Eligibility: <input type="checkbox"/> Free <input type="checkbox"/> Reduced <input type="checkbox"/> Denied			
Determining Official's Signature: _____			Date: _____		
Confirming Official's Signature: _____			Date: _____		
Follow-Up Official's Signature: _____			Date: _____		
Non-discrimination Statement: This explains what to do if you believe you have been treated unfairly. The U.S. Department of Agriculture prohibits discrimination against its customers, employees, and applicants for employment on the bases of race, color, national origin, age, disability, sex, gender identity, religion, reprisal, and where applicable, political beliefs, marital status, familial or parental status, sexual orientation, or all or part of an individual's income is derived from any public assistance program or protected genetic information in employment or in any program or activity conducted or funded by the Department. (Not all prohibited bases will apply to all programs and/or employment activities.) If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html , or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter contain all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, DC 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov . Individuals who are deaf, hard of hearing or have speech disabilities may contact USDA through the Federal Relay Service at (800) 877-8339, or (800) 845-6136 (Spanish). USDA is an equal opportunity provider and employer.					

Source: Excerpt from school-meals application provided by a school district.

Appendix V: Comparison between Federal and Private-Sector Employees

According to a January 2012 Congressional Budget Office (CBO) Report, in 2010, 1.7 percent of the U.S. workforce was made up of federal civilian employees—approximately 2.3 million compared to 111 million that were employed by the private sector and 20 million employed by state and local governments.¹ Another 800,000 are employed by government enterprises that typically pay for employee compensation through the sale of services rather than through tax revenue, the United States Postal Service (USPS) being the largest such employer. Further, federal employees can be both part-time and intermittent, such as census enumerators, whose jobs last from 2 to 8 weeks.

According to CBO's study, employees of the federal government have varying levels of educational attainment. For example, about 50 percent of federal employees have either a high-school diploma or less or, at most, some college, compared to about 70 percent of the private-sector workforce. In the federal government, about 50 percent of employees have a bachelor's degree or higher education attainment, while in the private sector about 30 percent of the workforce has comparable education. The wages of federal versus private-sector employees vary when considering level of education attained. In addition, CBO found that federal civilian workers with no more than a high-school education earned about 21 percent more, on average, than similar workers in the private sector, while those with some college earned 15 percent more, on average than similar workers in the private sector. Employees whose highest level of education is a bachelor's degree earned roughly the same hourly wage, on average, in the federal government as in the private sector. Federal workers with a doctorate or professional degree earned 23 percent less per hour, on average than similar workers in the private sector.

While this CBO report does provide a point of comparison between civilian federal workers and the private sector, the data analyzed do not mirror the federal-employee population used in this report. For example, the CBO report does not include workers in government enterprises, including USPS, seasonal, or part-time civilian federal employees, while our analysis does. Therefore, while the results of the CBO report are

¹Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees*, (Washington, D.C.: January 2012).

presented for informational purposes, they should not be used to draw conclusions about civilian federal-employee and USPS pay used in our analysis.

Appendix VI: Comments from the U.S. Department of Agriculture Food and Nutrition Service



United States
Department of
Agriculture

APR 29 2014

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
22302-1500

Mr. Stephen M. Lord
Managing Director
Forensic Audits and Investigative Service
U.S. Government Accountability Office
441 G Street NW
Washington, D.C. 20548

Dear Mr. Lord:

I am writing in response to the report, *School-Meals Programs: USDA Has Enhanced Controls, but Additional Verification Could Help Ensure Legitimate Program Access* (GAO-14-262), provided in draft form to our office in April 2014.

The Department of Agriculture's (USDA's) Food and Nutrition Service (FNS) has long recognized that addressing improper payments and other program integrity problems are integral to meeting the ongoing mission of the school meals and other nutrition assistance programs. Erroneous payments draw scarce program resources away from the children who need them the most. Equally as important, these programs are ultimately not sustainable without continued public confidence that their benefits go to those who qualify for them, are used appropriately, and achieve the purposes for which they are intended.

As you note in your report, Congress structured the school meal eligibility determination process, including limits on verification activities, to carefully balance access to program benefits for eligible children and program integrity. Within the framework of the current statutory structure, USDA has taken numerous steps to strengthen program integrity. Many of these are supported by the Healthy, Hunger-Free Kids Act of 2010. Some of our significant efforts include:

- **Improving application-based eligibility determinations** by clarifying school district ability to increase verification of applications "for cause," implementing an improved verification data collection process, and publishing a final rule in February 2014 to require high-risk school districts to conduct a second review of applications for accuracy, prior to providing free or reduced price benefits.
- **Supporting improved direct certification** through implementation of direct certification benchmarks and State continuous improvement plans under the Healthy, Hunger-Free Kids Act, and improving accuracy of direct certification reporting and rate calculation processes. These steps have resulted in a substantial improvement in the rate of children directly certified. In School Year 2012-13, 89 percent of children participating in the Supplemental Nutrition Assistance Program were directly certified for free school meals, up from 69 percent in School Year 2007-08.

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**Appendix VI: Comments from the U.S.
Department of Agriculture Food and Nutrition
Service**

Mr. Stephen M. Lord
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- **Improving oversight of school districts** by implementing a three-year review cycle (instead of five-year), and revamping the State administrative review process to develop a more effective, unified process for conducting reviews. The new process streamlines administrative reviews by incorporating new risk-based approaches and tools, targeting areas of potential risk for noncompliance, and utilizing resources on those targeted areas.
- **Providing ongoing funding to support improved oversight and data analysis by States**, through annual grants to States for administrative reviews and training.

Several additional actions that will support improved program integrity are underway, including a **proposed rule that provides States the authority to impose fines** for egregious or ongoing program compliance issues. We expect the proposed rule to be published later this year. We are also currently working with the Office of Personnel Management's Innovation Lab on an initiative to improve the free and reduced price application, and will implement changes to the application as appropriate.

Thank you for the opportunity to respond. FNS will carefully consider the specific recommendations in your report as we move forward in our efforts to improve integrity in the School Meal Programs.

Sincerely,



Audrey Rowe
Administrator

Appendix VII: GAO Contacts and Staff Acknowledgments

GAO Contacts

Stephen M. Lord, (202) 512-6722 or lords@gao.gov

Staff Acknowledgments

In addition to the contact named above, Heather Dunahoo (Assistant Director), John W. Cooney, Heather Cowles, Ranya Elias, Erika Lang, Kathryn Larin, Maria McMullen, Dan Meyer, Linda Miller, Sandra Moore, Robert Ridley, and Daniel Silva made key contributions to this report.

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