

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Subject

This is the second of two reports on the National School Lunch Program (NSLP) in Arizona. The first report provided a state-wide overview of the NSLP and the program's demographics. This audit reviewed the program at the school level and verified the eligibility of 100 percent of approved NSLP applications at seven schools.

Our Conclusion

Verification results showed that 43 percent of approved students were eligible for benefits and 1 percent for increased benefits. However, another 14 percent had benefits reduced or terminated, and 41 percent lost benefits for failing to respond to verification requests. The report recommends several actions to improve the eligibility determination process.



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A School-Level Review

The Auditor General's first report on the NSLP provided a state-wide overview of the program. Arizona has a comparatively high percentage of students who qualify for free or reduced-price lunches, and the percentage is increasing. In 2005, over 52 percent of Arizona's students were eligible for the program, an increase from 49 percent in 2001. Only six other states had eligibility rates exceeding 50 percent.

Further, although students who are eligible for Food Stamps or Temporary Assistance to Needy Families (TANF) are automatically eligible for the program—as are homeless, runaway, and migrant students—most students' eligibility was based on reported family income.

This audit provides a more in-depth review of the program at the school level. As directed by the Joint Legislative Audit Committee (JLAC), the sample of seven schools from six school districts represents a cross-section of Arizona schools. The report details the NSLP eligibility and meal participation rates and describes the procedures used to operate the program in the sample schools. As directed by JLAC, auditors verified 100 percent of the approved NSLP applications for these seven schools.

Sample schools' eligibility and participation rates—For fiscal year 2006, on average, 35 percent of the sample schools' students were determined by their districts to be eligible for free or reduced-price meals through the program. Of the 1,600 eligible



Photo taken by Auditor General staff.

students, 1,194 were approved by the districts based on the information stated in their NSLP applications.

Similar to the results found in the first study, a larger proportion of eligible students eat school lunches than do students paying full-price for their meals. Over 71 percent of the NSLP-eligible students eat school meals compared to 27 percent of students paying full-price.

Sample schools' outreach and application processes—The seven sample schools generally follow federal and state program requirements governing the application process. These schools go beyond the minimum requirements for informing families about the program, and use many of the same outreach activities to encourage participation. In addition to sending the required letters and application forms to parents, these schools publicize the program through information provided in school registration packets, at school open houses, in newsletters, on school Web sites, and in local papers.

District-wide, these 6 districts processed from 380 to 13,310 applications each. They estimated that it takes from 3 to 32 minutes to process an application,

depending on whether school staff assist parents in completing the forms.

Sample schools' verification processes—Districts must verify a small sample—generally 3 percent—of the approved applications for their

schools. The districts send letters to the selected households to request documentation of family income, and follow up with phone calls and/or second letters to those that have not initially responded.

Results of 100 Percent Verification

At JLAC's direction, auditors verified 100 percent of the seven sample schools' approved applications. In doing so, auditors followed the same processes that districts must use. Overall, this verification process resulted in a 13 percent reduction in eligible students at these schools.

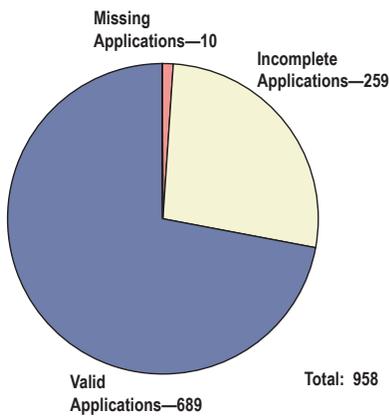
Twenty-five percent directly certified—The verification process applies only to students approved based on income information. Auditors confirmed that 406 of the 7 schools' 1,600 eligible students were automatically eligible for the program because the students were eligible for Food Stamps or TANF, or were homeless, runaway, or migrant. These students are considered "directly certified" and guidelines exclude them from the verification process. Therefore, auditors verified 100 percent of the applications for 1,194 students.

Forty-three percent verified as eligible—Verification of 100 percent of the sample schools' approved applications found that:

- 43 percent of students met the income eligibility requirements for their approved level of meal benefits.
- 1 percent of students were entitled to increased meal benefits (i.e., free meals).
- 14 percent of students had their meal benefits terminated or reduced based on their family income.
- 41 percent of parents or guardians failed to respond, resulting in benefit termination.

At the sample schools, 661 students had their benefits terminated or reduced. In addition, benefits were terminated or reduced for 413 students who attended other schools in the 6 districts, but who were listed on the same applications as their siblings attending the sample schools.

Incorrectly Approved Applications



Many applications incorrectly approved—One of the first steps districts perform in verifying applications is to determine whether the sample applications were properly approved initially. Performing a similar "confirmation review," auditors found that 27 percent of the applications were incomplete and should not have

been approved by the district. Most of these applications did not provide complete information on household income.

Study results similar to state-wide results—The results of the 100 percent verification are similar to state-wide results compiled by the Arizona Department of Education for fiscal year 2005.

Verification Results

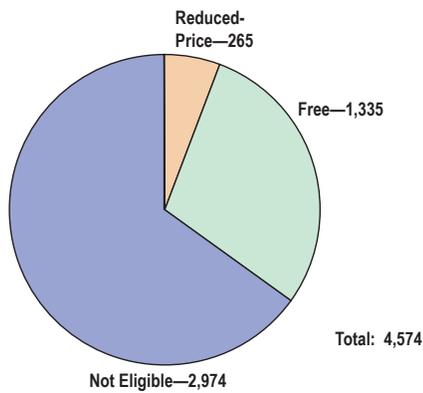
Results	100 percent verification	State-wide results
No change	43.2%	46.5%
Increased benefit	1.3	2.2
Terminated or reduced benefit—based on income	14.4	18.8
Terminated—non-response	41.1	32.5

Overall eligibility reduced by 13 percent—Overall, the results of 100 percent verification reduced the seven schools' percentage of eligible students from 35 percent to 22 percent.

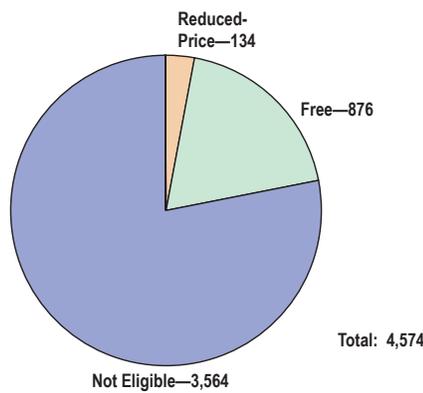
- Child support checks.
- Food Stamp/TANF case numbers.
- Bank statements and tax returns.
- Other documentation included phone interviews with employers and self-prepared documents such as letters explaining zero income amounts.

Eligibility Rates

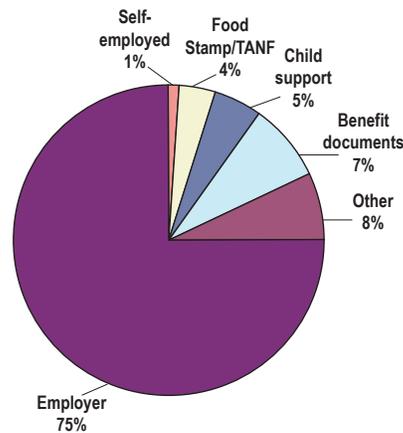
Before 100 percent verification



After 100 percent verification



Income Verification Documents



District did not use verification results—One district did not change the eligibility status of 148 students based on verification results by November 15, although required to do so by the NSLP. Of these, 1 student's meal benefits should have increased, and 147 should have been reduced or eliminated.

Most income documents were employer prepared—Finally, households that did respond to verification requests generally provided employer-prepared documentation. The different forms of documentation included:

- Employer-prepared documents, such as pay stubs or letters from employers.
- Benefit-related documents, such as Social Security and unemployment check stubs.

Conclusions and Recommendations

Improvements can be made in the way the program is operated.

Increase consequences for incorrectly approving applications—There are limited consequences for a district that incorrectly approves applications. ADE reviews each district's program only once every 5 years, and generally takes a sample of the district's schools. When ADE finds incorrectly approved applications, the district is required to reimburse only the specific amount found in the sample. These penalty amounts are generally small, with one noted example of \$117. ADE should establish greater consequences for districts that erroneously approve applications.

Increase impact of verification samples—Districts generally have to verify only 3 percent of the applications. Even though these samples often find that a significant percentage are not eligible for benefits, and there are frequently high nonresponse rates, these results have limited impact. With the small samples, results will affect a district's number of eligible students by only 1 or 2 percent. By

comparison, 100 percent verification of applications reduced the overall percentage of eligible students at the sample schools from 35 percent to 22 percent. ADE should consider requiring districts to select additional applications for verification when the required sample results in high percentages of ineligible students or high nonresponse rates.

Explore other sources for direct verification—ADE should explore additional governmental data sources, such as the Food Distribution Program on Indian Reservations and Medicaid (AHCCCS) that could help establish student eligibility for the program. This could verify student eligibility with less effort.

Ensure program staff are trained—At one of the six districts, the personnel operating the program were not familiar with basic requirements, such as the documentation needed to verify eligibility. Further, although ADE provides annual training on the NSLP, the employees responsible for processing applications in five of these districts had not attended ADE's training on new program requirements.

TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling
(602) 553-0333



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www.azauditor.gov

Contact person for this report:
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Recommendations

- ADE should establish greater consequences for districts that incorrectly approve applications.
- ADE should consider requiring districts to expand their verification samples when those samples disclose high rates of ineligibility or have high nonresponse rates.
- ADE should explore other governmental data sources that districts might use to establish student eligibility for the program.
- ADE should consider requiring each district to ensure that employees involved with the NSLP are trained.