

## REPORT HIGHLIGHTS SPECIAL STUDY

### Subject

This is the first of two reports on the National School Lunch Program (NSLP or Program) prepared at the direction of the Joint Legislative Audit Committee. It provides a state-wide overview of the NSLP in Arizona. We found that over half of Arizona's students are receiving NSLP benefits, and the number is increasing. While students who are eligible for certain welfare programs are automatically eligible for the Program, most students are eligible based on statements of family income. However, the schools' small verification samples of these statements have resulted in a termination or reduction of benefits for 51 percent of students sampled. Therefore, the Legislature may wish to use other indicators of poverty, rather than NSLP eligibility rates, to allocate funding for education programs.



# 2005

December 2005

## Program Demographics and Trends

Arizona has a comparatively high percentage of students eligible for the Program, and the percentage is increasing. Most of these students attend urban schools; however, rural schools have a higher proportion of eligible students in their student population.

**Federal reimbursement rates—**Schools participating in the Program are reimbursed with federal monies based on all student lunches they serve. For FY 2006, the reimbursement rates were:

- \$2.32 for free lunches
- \$1.92 for reduced-price lunches
- \$0.22 for full-price lunches

**Most students are eligible for free lunches—**Almost 500,000 of Arizona's nearly 943,000 students were eligible for free or reduced-price lunches in FY2005. Most of them, almost 416,000, were eligible for free lunches.

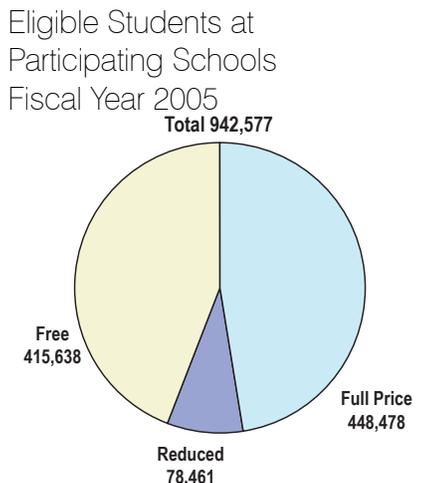
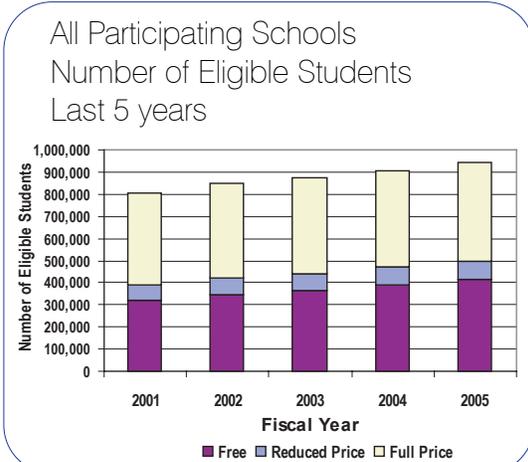


Photo taken by Auditor General staff.

Arizona was one of only seven states with more than half of its students eligible for the NSLP. The national average was about 35 percent of students were eligible.

**Percentage of eligible students is increasing—**Over the last 5 years, both the number and the percentage of students eligible for free or reduced-price lunches have increased.

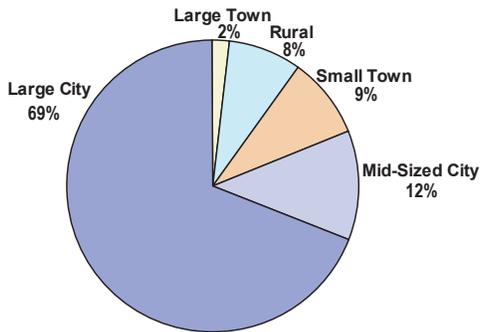


**Eligibility generally reflects poverty rates—**While typically aligned with census poverty data, some districts reporting high eligibility rates had low poverty rates.

## Most eligible students are urban students

Sixty-nine percent of the eligible students attend schools that are in or near large cities—cities with populations of 250,000 or more.

Participating District Schools  
Fiscal Year 2005



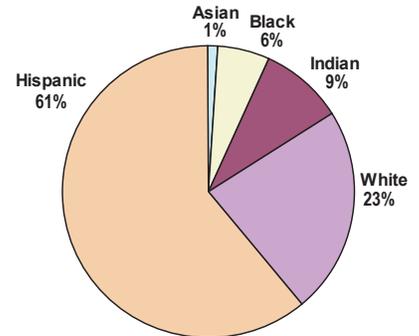
Although most eligible students attend urban schools, a greater proportion of rural students are eligible for the program. Sixty-nine percent of rural students are eligible, compared to 54 percent of urban

students. Two other factors shown by eligibility rates are:

- **School size**—smaller schools, whether urban or rural, have higher eligibility rates.
- **School type**—elementary schools average 69 percent; high schools average 54 percent.

**Student demographics**—The largest percentage of eligible students, 60 percent, are Hispanic, followed by White and then Indian.

Ethnicity by Free and Reduced Eligibility  
Fiscal Year 2005



English is the primary language spoken at home for most eligible students, followed by Spanish. However, there were more than 40 other languages reported.

## Eligibility and Verification Processes

There are two ways students may qualify for the program. They may be categorically eligible, or they may qualify based on income level.

**Categorical eligibility**—Students are categorically eligible for free lunches if they are:

- Eligible for Food Stamps or Temporary Assistance to Needy Families (TANF)
- Homeless, runaway, or migrant

Schools are required to use Food Stamp/TANF eligibility data provided by the Department of Economic Security to try to identify categorically eligible students. They may determine a child's homeless, runaway, or migrant status based on information from a school liaison or other knowledgeable person.

**Income eligibility**—Most students are determined to be eligible based on family income. Federal guidelines establish eligibility using income and family size.

Fiscal Year 2006 Income  
Eligibility Guidelines

Family Size	Annual Income	
	Free Meals	Reduced-Price Meals
1	\$12,441	\$17,705
2	16,679	23,736
3	20,917	29,767
4	25,155	35,798
5	29,393	41,829
6	33,631	47,860
7	37,869	53,891
8	42,107	59,922
Each Additional Member Add:	+ 4,238	+ 6,031

At the beginning of each school year, the schools send an application form to the parents or guardians of students not already determined to be categorically

eligible. Households applying for the program must provide information about their income. The individual completing the application must sign a statement that the information is correct, but does not have to provide any supporting documentation.

**100% free meals**—To help reduce paperwork, schools may choose to provide free meals to all of their students. In such cases, federal regulations only require the schools to collect applications every 4-5 years. However, the school is still reimbursed based only on the number of students who were eligible for free, reduced-price, or full-price lunches. Therefore, only schools with a high proportion of students eligible for free lunches choose to adopt this option.

**Verification of eligibility**—Federal law requires schools to sample completed applications to verify that the reported income is correct. School districts generally must sample 3 percent, up to 3,000, of their approved applications. Beginning in October 2005,

the samples must be drawn from “error-prone” applications, which are defined as those reporting income within \$100 per month of the eligible income.

Households whose applications are sampled are required by law to provide documentation of their income. If they do not, the student’s eligibility is terminated.

Based on the verified income, a student’s eligibility status may remain the same, or be reduced, increased, or terminated.

**2005 state-wide results**—In 2005, Arizona Department of Education (ADE) completed the first required state-wide report on verification results. Of the 14,868 students whose eligibility was subject to verification, 51.3 percent had their benefits reduced or eliminated.

Verification Results for Arizona Schools  
Fiscal Year 2005

Change in eligibility status	All school types	
	Number of students	Percentage of sample
No change	6,915	46.5%
Reduced benefits:		
Free status changed to reduced price	706	4.7
Free status changed to full price	1,361	9.1
Reduced status changed to full price	736	5.0
Benefits terminated due to nonresponse	4,826	32.5
Increased benefits:		
Reduced price changed to free	324	2.2
Total students in verification sample	<u>14,868</u>	<u>100.0%</u>

## Conclusions and Recommendations

We identified two issues relating to the Program’s administration that need attention.

**Data discrepancies**—ADE has two databases that contain Program information. However, there are substantial discrepancies between the two databases on basic information such as the number of eligible students in the Program. ADE does not reconcile these two data systems. ADE indicated that data quality and timing issues make such a reconciliation challenging.

**Other data may be preferable for use in funding allocations**—The Program’s eligibility rates are sometimes

used as an indicator of poverty when making funding decisions about other education programs, such as:

- All-Day Kindergarten
- Early Childhood Block Grant

**NSLP eligibility may not be reliable indicator**—The information provided on the Program applications is self-reported and undocumented. Further, the state-wide verification report showed that in 19 percent of the cases, the income had been under-reported, resulting in an incorrect eligibility determination. This coincides with three federal studies that found similar results.

**Census or Food Stamp/TANF data could be used**—The U.S. Department of Education and ADE already use Census Bureau data to allocate Title 1 monies. This available census data already shows the number of children ages 5 to 17 living in poverty within each school district's boundaries.

Another potential indicator of poverty is data on Food Stamp/ TANF eligibility. This information is more extensively verified at the time of application. For example, applicants must provide proof of all money received and/or proof of employment.

Although the Food Stamp/TANF eligibility data is not currently analyzed by school

district, the State has the technology needed to do so. The Arizona State Land Department (ASLD) has Geographical Information System mapping software that already contains maps of all the school district boundaries.

**More analysis needed for school level allocations**—However, some state funding allocations are made at the school level rather than the district level. Neither the census or Food Stamp/TANF data is currently analyzed by school attendance boundaries. ASLD staff indicated it would primarily be a matter of doing the additional analysis necessary to develop the data for school attendance boundaries.

#### TO OBTAIN MORE INFORMATION

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Contact person for  
this report:  
Sharron Walker

#### Recommendations

- ADE should reconcile the Program data in its two databases.
- The Legislature should consider whether another measure, rather than NSLP eligibility rates, should be used as an indicator of poverty.