

SUMMARY OF FINDINGS

The Food and Nutrition Service (FNS), U.S. Department of Agriculture (USDA), funded the Access, Participation, Eligibility, and Certification (APEC) study to obtain national estimates of the amounts and rates of erroneous payments in the National School Lunch Program (NSLP) and School Breakfast Program (SBP). Erroneous payments may arise because school districts claim reimbursement at the free or reduced-price rate for meals served to students who are not eligible for these benefits, or because they fail to claim reimbursement at the free or reduced-price rate for children who have applied for and are eligible for these benefits (certification errors). Erroneous payments may also arise because a school or school district makes errors in reporting the number and type of meals served when preparing or submitting its claim for reimbursement to the state agency which administers the school meal programs (non-certification errors). The information provided in this report will assist FNS in meeting its reporting requirements to the Office of Management and Budget (OMB) and Congress under the Improper Payments Information Act (IPIA) of 2002.

Background

Millions of U.S. children participate in the NSLP and SBP each school day, receiving school meals that contribute to their overall nutrition and health. In fiscal year 2006, USDA provided nearly 7 billion lunches and breakfasts to children across the country at a cost of approximately \$10.2 billion. More than one-half of these meals are served to low-income children who are certified to receive free or reduced-price meals; school districts receive an extra subsidy for these meals.

Most students become certified based on applications submitted by their households to local school districts. The districts use information from the applications about household size, income, and participation in certain means-tested public assistance programs—the Food Stamp Program (FSP), Temporary Assistance to Needy Families (TANF), and Food Distribution Program on Indian Reservations (FDPIR)—to determine whether the students in the households qualify for free or reduced-price meal benefits. Students whose applications report household income of no more than 130 percent of the federal poverty level or participation in one of the means-tested programs are eligible to receive free meals. Those whose applications report household incomes above 130 percent but no more than 185 percent of the federal poverty level are eligible for reduced-price meals. No documentation of household income or benefit receipt is required at the time of application. In the verification process, school districts are required to select a small legislatively prescribed sample of applications that have already been approved and to obtain documentation of the households' income or FSP, TANF, or FDPIR participation in order to verify their eligibility for free or reduced-price meals.

Students may also become certified for free meals through “direct certification,” which allows districts to use information provided by FSP-, FDPIR-, and TANF-administering agencies to establish that a student is a member of a household participating in one of these programs and is thus automatically eligible to receive free meals. Certain migrant, runaway, and homeless

children may also qualify in this way. The eligibility of directly certified students is not subject to the verification process.

There are some schools in which all students receive free meals without applying or being directly certified in a current school year. These schools operate under special application and meal counting provisions, Provision 2 or Provision 3. Under Provision 2, schools operate a “base year,” in which they serve all meals at no charge but use standard program procedures to establish individual students’ free or reduced-price meal eligibility and count meals by eligibility category. They then may continue to serve all meals at no charge and take only a daily aggregate count of meals served for up to three additional years, during which they claim reimbursement based on the percentage of free, reduced-price, and paid meals served during the base year. Provision 3 schools serve all meals free for up to four years, and reimbursement is based on the total dollar reimbursement the school received during the “base year,” which is the most recent year in which applications were taken and meals were counted and claimed by category. The reimbursement is adjusted each year for inflation and enrollment. Both provisions may be renewed for successive four-year periods if a district can establish that economic conditions in the school’s attendance area have not changed significantly from economic conditions in the base year. Provision 2 was established in 1980, and Provision 3 in 1995; these provisions are designed to reduce application burden and to simplify meal counting and claiming procedures. Schools are most likely to find it in their financial interest to use Provision 2 or Provision 3 if they serve high-poverty populations and typically serve a large proportion of their meals free of charge.

Over the years, concern has mounted that many of the children certified as eligible for free or reduced-price meal benefits may in fact be ineligible for the benefits they receive. Several studies have suggested that the number of children erroneously certified for free or reduced-price meals—that is, who are in households with incomes too high to qualify for the benefits they receive—is large and may be growing. There are also certified children eligible for a higher level of benefits than they are receiving or children who apply and are eligible but are erroneously denied benefits. The Child Nutrition and WIC Reauthorization Act (the Act), of 2004 (P.L. 108-265), passed in June 2004, made changes to the programs’ existing procedures for determining students’ eligibility for free and reduced-price meal benefits. The Act strengthened rules governing certification and verification of eligibility and established new procedures to upgrade administration of meal programs and new technical assistance and training initiatives.

In addition to the specific measures aimed at improving NSLP and SBP integrity contained in the Act, under the IPIA (P.L. 107-300), USDA is required to report annually on the extent of erroneous payments in programs, including the NSLP and SBP, that may be susceptible to significant erroneous payments (exceeding \$10 million and 2.5 percent of benefits paid out) and report annually on the actions they are taking to reduce them.

The APEC study is providing information to USDA to enable the department to comply with the IPIA. The study provides the baseline estimates of erroneous payments made to school districts nationally for the NSLP and SBP for school year (SY) 2005–2006. It is also providing estimation models to allow FNS staff to update estimates of erroneous payments for the NSLP

and SBP annually, using more easily obtainable district-level data. The research on the estimation model is being addressed in a separate report.

Study Design and Methods

The APEC study used a multistage-clustered sample design. Researchers selected representative samples of school districts, schools, and free or reduced-price meal applicants and directly certified students participating in the NSLP and SBP in the contiguous United States during SY 2005-2006. School districts that participate in the NSLP and/or SBP were selected first. Within each of the selected school districts, we selected a sample of public and private schools, and then selected students at the sampled schools who either were certified for free or reduced-price meals or had applied for but were denied these benefits. Data were collected at all these levels. The main study samples include the following:

1. 87 school food authorities (SFAs) that administer the meal programs, of which 78 are public and 9 are private
2. 266 schools, of which 256 are public and 10 are private
3. 6,776 students certified for free and reduced-priced meals, and 1,038 students who applied for and were denied benefits (information about this sample of students was collected from their applications for free or reduced-price meal benefits)
4. A subsample of 2,950 students certified for free and reduced-price meals and 453 denied applicants for whom we also conducted an in-person household survey

We collected data on these samples from several sources, as summarized in Table 1. These data sources included surveys of households and SFA directors, administrative data from schools and districts, and observational data collected during visits to sampled schools. The data sources provided information that allowed us to measure both certification error and erroneous payments among individual students and non-certification error in the processes schools and districts use to claim reimbursements from state agencies. Certification error and non-certification error are calculated independently. They cannot be summed to obtain an overall amount or rate of erroneous payments because of interaction between the two types of errors.

The study generates national estimates of the following key outcomes (summarized in Figure 1):

- **Sources of Certification Error.** Certification error occurs when students are certified to receive a level of free or reduced-price meal benefits for which they are not eligible or are erroneously denied benefits for which they are eligible. It can arise in two main ways. Error can occur when households report incorrect information on their applications for free or reduced-price meal benefits; this is called household reporting error. Districts can make mistakes in processing the applications, determining eligibility, and recording certification status information on the master eligibility list;

TABLE 1

APEC STUDY DATA SOURCES FOR ESTIMATING ERRONEOUS PAYMENTS

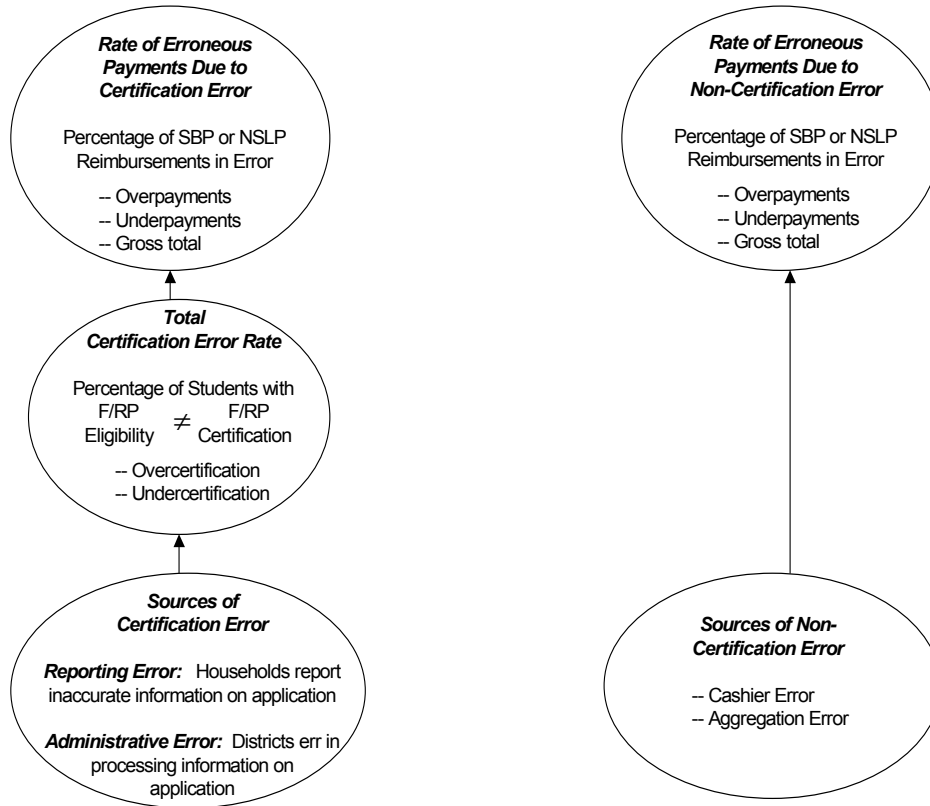
Data Source	Main Use of Data
SFA fax-back form and follow-up telephone survey	Data used to examine erroneous payments outcomes by subgroups defined by district and school characteristics
In-person household survey of free and reduced-price certified applicants and denied applicants	Data used to estimate the student's eligibility for free or reduced-price meal benefits, certification error, and amounts and rates of erroneous payments due to certification error
Panel second interview telephone survey with free and reduced-price certified applicants	Data used to estimate the student's eligibility for free or reduced-price meal benefits and certification error later in school year
Application and direct certification document abstraction	Data used to estimate sources of certification error (administrative versus household reporting error and types within these sources)
Changes in student certification and enrollment fax-back form	Data used to estimate amounts and rates of erroneous payments due to certification error
SBP/NSLP individual student-level participation records data	Data used to estimate amounts and rates of erroneous payments due to certification error
Interviewer observation of cashier transactions	Data used to estimate school cashier transaction error
School cashier meal counts record abstraction	Data used to estimate school point-of-sale aggregation error
School meal counts reported to SFA record abstraction	Data used to estimate school-to-SFA report of meal counts aggregation error
School meal claims reported by SFA to state agency record abstraction	Data used to estimate aggregation error in SFA's claims to state for meal reimbursements

this is called administrative error. We estimate the prevalence of reporting error and administrative error and the sources of error under each of these types. The error rates are calculated in terms of the percentage of certified and denied applicant students that they affect.

- ***Total Certification Error Rate.*** Defined as the percentage of certified and denied applicant students who were not eligible for the level of benefits they are receiving or who were erroneously denied benefits. Students with certification error can be either overcertified—certified for a higher level of benefits than that for which they are eligible—or undercertified—certified for a lower level of benefits than that for which they are eligible or erroneously denied benefits. We also define a broad certification error rate, which equals the percentage of students who are certified for some level of benefits when they are not eligible for either free or reduced-price benefits or not certified when they are eligible for at least reduced-price benefits.

Figure 1

Key Outcomes in the APEC Study



- **Rate of Erroneous Payments Due to Certification Error.** The rate of erroneous payments is defined as the percentage of SBP or NSLP reimbursements provided to districts for school meals that are incorrect due to certification error. This rate is equal to the ratio of the gross dollar amount of payments in error to the total amount of reimbursements for all meals. Payments in error may either be overpayments—those that are too large given the true eligibility status of the student receiving the meal—or underpayments—those that are too small given the true eligibility status of the student receiving the meal.

 - For the NSLP, the *amount* of erroneous payments is calculated in terms of the additional subsidy for free and reduced-price meals. We derived the erroneous payments *rate* as the amount of erroneous payments relative to total cash reimbursements for all lunches provided (total cash reimbursements and the dollar value of commodities—called entitlement foods—valued on a per-meal basis).
 - In the SBP, the amount of erroneous payments is calculated in terms of the additional subsidy above the paid rate for SBP breakfasts. Because the SBP does not receive commodities, the SBP erroneous payments rate equals the amount of erroneous payments relative to total cash reimbursements for all breakfasts provided.

- **Sources of Non-Certification Error.** Non-certification error is error that occurs in the stages between certifying students' eligibility status and reporting meal counts to the state agency for reimbursement. The study examines cashier error and three types of aggregation error:
 - **Cashier error** occurs when cafeteria staff members make errors in assessing and recording whether a specific meal meets the criteria for a reimbursable meal under the NSLP or SBP.
 - **Aggregation error** is the general term for three kinds of possible errors made by schools and SFAs in the process of counting the number of meals served and reporting these to state agencies for reimbursement. *Point-of-sale aggregation error* occurs when the daily meal count totals from the school cafeteria cashiers are not summed correctly. *School-to-SFA aggregation error* occurs when school totals are improperly reported to or recorded by the SFA. *SFA-to-state-agency aggregation error* occurs when school totals are improperly communicated from the SFA to the state agency.
- **Rates of Erroneous Payments Due to Non-Certification Errors.** Similar to the erroneous payment rate for certification errors, the rate of erroneous payments due to non-certification error is defined as the percentage of SBP or NSLP reimbursements for all meals that are incorrectly claimed. This rate is equal to the ratio of the gross amount of payments in error to the total amount of reimbursements for all meals (in the case of the NSLP, this also includes the value of commodities). For non-certification errors, the total reimbursement for a meal in error contributes to erroneous payments. We calculated erroneous payments rates for each source of non-certification error and for all non-certification error sources combined.

The primary estimates of certification error rates and rates of erroneous payments due to certification error are based on all certified students (including directly certified students) and denied applicants. Certification error was determined by comparing sampled students' certification status as determined by the district with their actual free or reduced-price meal eligibility status. We determined students' certification status using data from the master eligibility lists provided by districts (free, reduced-price, paid). Students' free or reduced-price meal eligibility status was measured based on information collected during the in-person household survey on students' household income, household size, and receipt of FSP, TANF, or FDPIR benefits. This information reflected students' household circumstances at about the time the households submitted their applications for free or reduced-price meal benefits.

We identified sources of certification error by comparing students' certification status and eligibility based on information from the household survey and students' meal benefit applications. Reporting error occurred when households did not accurately report information on their applications for meal benefits. We measured reporting error by comparing our assessment of students' eligibility based on the information in students' applications with our assessment of their eligibility based on responses to our household survey. We measured administrative error by comparing our assessment of students' eligibility based on the information in students' applications with their certification status on the district's master eligibility list.

To calculate the erroneous payments rate for the NSLP, we first calculated the sum of overpayments and underpayments nationally for certified students and denied applicants and then divided this sum by the total reimbursement paid to districts for all meals served (inclusive of the value of commodities). The overpayment and underpayment amounts were calculated based on the number of meals received by overcertified or undercertified students and the dollar amount of the error associated with each meal received. Similar procedures were used to calculate the rate of erroneous payments for the SBP.

Key Findings

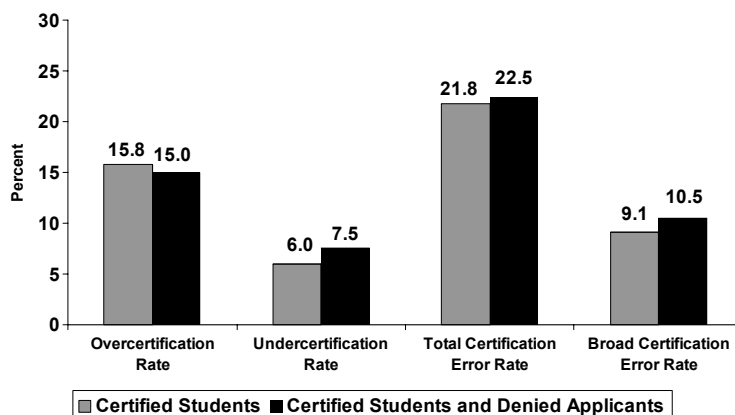
Certification Error Rates

Slightly more than one in five certified or denied applicant students was not certified accurately or erroneously denied benefits. Among all certified students and denied applicants, 77.5 percent were certified accurately or correctly denied meal benefits, whereas 22.5 percent were certified in error or erroneously denied benefits (Figure 2). When only students certified for free or reduced-price meals (excluding denied applicants) were considered, the certification error rate was 21.8 percent.

Overcertification was more common than undercertification. The percentage of students certified for a higher level of benefits than that for which they were eligible (the overcertification rate) was 15 percent; the percentage of students either certified for a lower level of benefits than that for which they were eligible or erroneously denied benefits for which they were eligible (the undercertification rate) was 7.5 percent (Figure 2). In other words, about two-thirds of certification errors resulted in students being overcertified. Considering only certified students, the overcertification rate was 15.8 percent and the undercertification rate was 6 percent. Overcertification was more prevalent among certified students alone than for certified students plus denied applicants. Nearly three-fourths of certification errors of certified students resulted in overcertification.

Figure 2

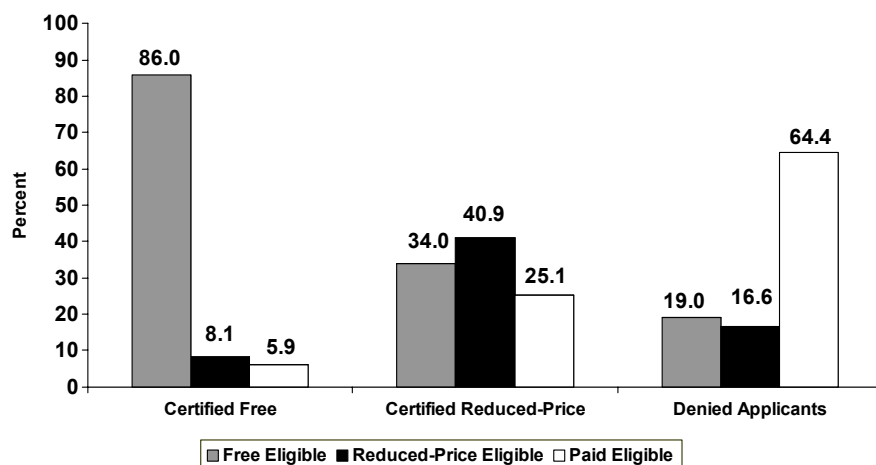
Certification Error Rate Estimates for Certified Students and Denied Applicants, SY 2005-06



The certification process was most accurate among students certified for free meals. Most students receiving free meals had been certified accurately, with 86 percent of this group in households whose circumstances at time of certification indicate that the students were eligible for free meals (Figure 3). The remaining 14 percent of students receiving free meals were overcertified. Certification errors were much more common among students certified for reduced-price meals, with about one-third undercertified—receiving reduced-price meals but eligible for free meals—and one-fourth overcertified—receiving reduced-price meals but not eligible for either free or reduced-price meals.

Among students in the denied applicant group, nearly two-thirds (64.4 percent) were not eligible for either free or reduced-price benefits, indicating that their application was denied correctly. The household circumstances of the remaining one-third of students denied benefits suggested that they should have been certified, with 16.6 percent of denied applicant students eligible for reduced-price meals and 19 percent eligible for free meals.

Figure 3
Eligibility Status of Certified Students and Denied Applicants, SY 2005-06



More than one-half of certification errors among certified students were misclassifications between free and reduced-price status. While the overall certification error rate was 22.5 percent for all certified students and denied applicants, this error rate would decline to 10.5 percent (which we call the broad certification error rate) if misclassifications between free and reduced-price status were ignored (Figure 2). For certified students only, the broad certification error rate was 9.1 percent. Misclassifications between free or reduced-price status are less costly than errors involving certifying a student who was not eligible for any level of benefits because the difference between the free and reduced-price per-meal reimbursement rates (typically \$0.40 for lunch and \$0.30 for breakfast) is much smaller than the difference between the per-meal rate for a certified student and the rate for a non-certified student (up to \$2.10 for lunch and \$1.28 for breakfast).

Sources of Certification Error

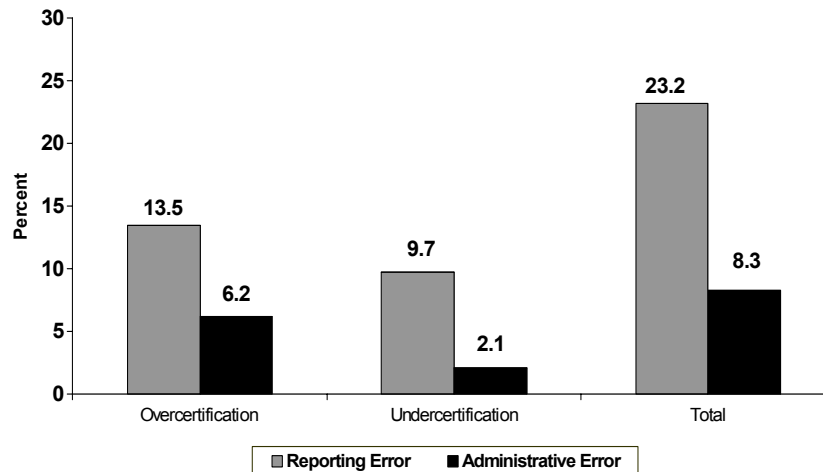
Household reporting error was substantially more prevalent than administrative error.

For all certified students and denied applicants, reporting error was nearly three times more likely to occur as administrative error; 23.2 percent of this group of students had a household reporting error on their applications and 8.3 percent had administrative error in processing their applications (Figure 4). The sum of these percentages is greater than the total certification error (22.5 percent) because it includes students who had both reporting and administrative errors; these errors could either have been reinforcing (resulting in certification error) or offsetting (resulting in no certification error).¹ Excluding students with offsetting reporting and administrative errors resulted in certification error due to household misreporting equal to 19.6 percent and administrative error equal to 4.2 percent.

Administrative error much more frequently led to overcertification than undercertification. While administrative error was relatively less common than reporting error, when it occurred it usually led to overcertification. Administrative error led to overcertification for 6.2 percent of certified students and denied applicants and undercertification for 2.1 percent of these students. Reporting error also more often led to overcertification than undercertification, but the difference was not as pronounced (13.5 percent of certified students and denied applicants overcertified versus 9.7 percent undercertified).

Figure 4

Reporting and Administrative Error Rates for All Certified Students and Denied Applicants, SY 2005-06



¹The estimates also include errors associated with incomplete applications, which are considered to be administrative error but are not considered certification error if the household survey indicates that the student is eligible for the benefits for which the student was certified.

The most frequent type of household reporting error was a discrepancy in the total amount of income reported on the application. Nearly 20 percent of certified students and denied applicants (80 percent of students with any reporting error) had income misreported on their applications. Approximately one-half of these errors were due to differences in income amounts for a specific person from a specific source. Reporting error due to differences in the number of household members listed on the application occurred for 8 percent of certified students and denied applicants.

Certification of students whose applications were incomplete was the most frequent administrative error made by school districts, occurring for 2.2 percent of certified students and denied applicants (26 percent of students with any administrative error). The majority of these applications were incomplete because they lacked a signature or Social Security number. Other types of administrative errors were missing applications (1.5 percent of certified students and denied applicants), assessment errors (1.4 percent), transmittal errors (1.4 percent), and lookup error (0.2 percent).

Erroneous Payments Due to Certification Error

For both the NSLP and SBP, approximately 9 percent of total reimbursements were erroneous due to certification errors. During SY 2005–2006, there were an estimated \$759 million in erroneous NSLP reimbursements due to certification error, or 9.4 percent of the roughly \$8.06 billion in cash reimbursements and commodities provided to school districts for all NSLP lunches served in the contiguous United States (Figures 5 and 6).² Erroneous SBP reimbursements totaled \$177 million, or 9.1 percent of the \$1.94 billion in cash reimbursements paid for all SBP breakfasts served.³

Within total payments due to certification error, overpayments were much more common than underpayments. More than three-quarters of erroneous payments due to certification error in both the NSLP and SBP were overpayments. The estimated overpayment rate was 7.1 percent and the underpayment rate was 2.3 percent for the NSLP (Figure 6). Similarly, the estimated overpayment rate was 7.1 percent for the NSLP and the underpayment rate was 2.1 percent for the SBP.

²The \$8.06 billion refers to total cash reimbursements (Section 4 and Section 11 payments under the NSLA) and value of commodities for all reimbursable NSLP lunches provided to students attending schools in the contiguous United States during FY 2006 (including Provision 2 or 3 schools in non-base years). It excludes Alaska, Hawaii, the U.S. territories, and schools operated by the Department of Defense as well as Residential Child Care Institutions (RCCIs).

³The \$1.94 billion refers to total cash reimbursements (Section 4 payments under the CNA) for all reimbursable SBP breakfasts provided to students attending schools in the contiguous United States during FY 2006 (including Provision 2 or 3 schools in non-base years). It excludes Alaska, Hawaii, the U.S. territories, and schools operated by the Department of Defense as well as RCCIs.

Figure 5

Total Reimbursements and Erroneous Payments Due to Certification Error—NSLP and SBP, SY 2005-06

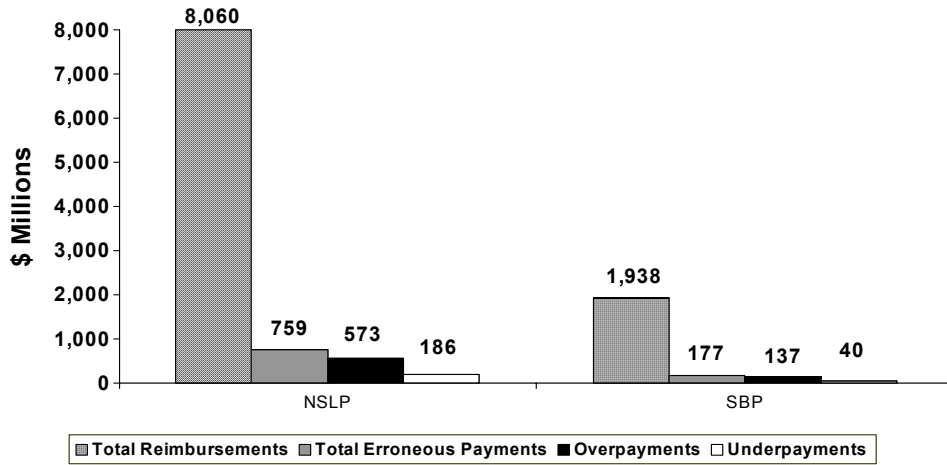
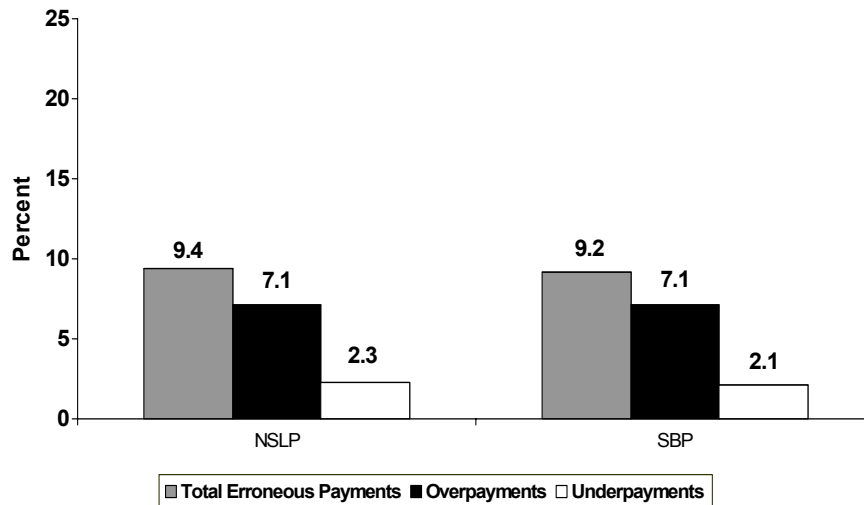


Figure 6

Rates of Erroneous Payments Due to Certification Error—NSLP and SBP SY 2005-06



Erroneous payments are more common in Provision 2 or 3 (P23) base-year schools than in schools not using these provisions. APEC data indicate that the total erroneous payments rates for the NSLP and SBP at P23 base-year schools were substantially larger than the rates at non-Provision 2 or 3 schools (for example, approximately 1.75 times larger for the NSLP). Because a large proportion of students certified for free meals in the base year of P23 schools were overcertified (eligible for a lower level of benefits), the free meal claiming percentage at these schools is overstated in future (non-base) years, and USDA is reimbursing these schools too large an amount for meals consumed by students. (Our estimate of overall erroneous payments accounts for these “future” erroneous payments, however, by including estimated erroneous payments at P23 non-base year schools.) The significance of this finding is that because the claiming percentages in these schools are fixed for at least three years (students are not certified annually at P23 schools during non-base years), USDA has no mechanism for correcting the erroneous claiming percentages unless the schools reestablish them in a new base year.

Erroneous Payments Due to Non-Certification Error

Overall gross erroneous payments due to non-certification error in the NSLP equaled \$555 million and accounted for 6.9 percent of total reimbursements; gross erroneous payments in the SBP equaled \$306 million and 15.8 percent of SBP reimbursements (figures 7 and 8). Because we cannot adjust for errors across types of non-certification errors which might offset each other, these overall gross rates should be considered the maximum erroneous payments due to non-certification errors. That is, it is possible for more than one type of non-certification error to occur during the meal counting and claiming process. As was the case with certification error, when multiple errors occur they may cancel each other out, resulting in no actual payment error. However, the method we have used to calculate non-certification errors does not allow us to specifically identify and eliminate offsetting errors from the overall erroneous payment calculation for this type of error. The “true” gross non-certification error rate estimate lies somewhere between the sum of the net erroneous payment rates and the sum of the gross erroneous payment rates for the four types of errors. This is because under or overpayments in one type of error can “cancel out” over or underpayments in another type of error, in the same way that over and underpayments within a specific error type cancel each other out to yield the net error rate. The total net erroneous payment rates for the NSLP and SBP equaled 3.6 percent and 13.1 percent, respectively. Therefore the overall gross non-certification erroneous payment rate accounting for offsetting errors lies within a range of 3.6 percent and 6.9 percent of total reimbursements for the NSLP, and 13.1 percent and 15.8 percent of total reimbursements for the SBP.

The process by which cashiers assess and record whether a meal is reimbursable was a substantial source of erroneous payments, particularly in the SBP. Cashier error occurs when cafeteria staff made mistakes assessing and recording whether the meal a student received meets the criteria for a reimbursable meal under the NSLP or SBP. Total gross erroneous payments from cashier error equaled \$248 million and represented 3.1 percent of total cash and commodity reimbursements in the NSLP (Figure 7). For the SBP, cashier error equaled \$189 million or 9.8 percent of total SBP reimbursements (Figure 8). However, most schools had fairly low levels of

Figure 7

Gross and Net NSLP Erroneous Payment Rates Due to Noncertification Error
SY 2005-06

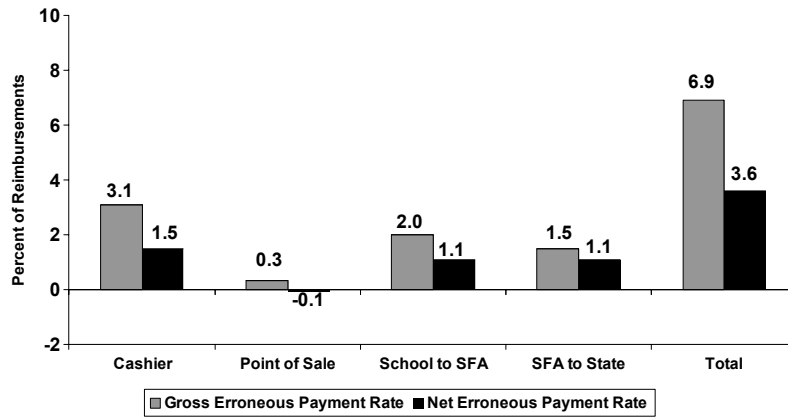
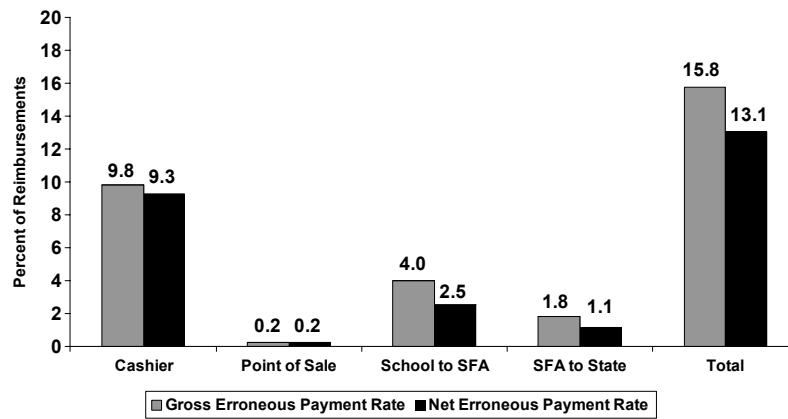


Figure 8

Gross and Net SBP Erroneous Payment Rates Due to Noncertification Error
SY 2005-06



cashier error. The high aggregate levels of cashier error arose from a few large schools having very high levels of this type of non-certification error. Among schools offering the NSLP, 10 percent had an erroneous payment rate due to cashier error of more than 10 percent; about 20 percent of schools offering the SBP had an erroneous payment rate of more than 10 percent.

Schools accurately summed daily meal count totals from the school cafeteria cashiers. Estimates of cashier point-of-sale aggregation error were extremely small (\$26 million in the NSLP and \$5 million in the SBP). In both the NSLP and SBP, total erroneous payments from point-of-sale aggregation error represented about one-third of one percent of the total subsidies paid for all meals.

Erroneous payments due to SFA errors in recording meal counts reported to them by schools equaled \$163 million (about 2 percent of NSLP reimbursements) and \$77 million (4 percent of SBP reimbursements). A large majority (about 80 percent) of erroneous payments from this source were overpayments. Thus, when there were discrepancies between school and SFA reports, it was typically the case that the SFA-recorded counts were larger than school reports. As is the case for cashier error, erroneous payments from school to SFA aggregation error were concentrated in a small number of schools that had relatively large error rates.

Erroneous payments due to aggregation error when SFAs submit reimbursement claims to state agencies equaled \$118 million and represent 1.5 percent of NSLP reimbursements; and equaled \$35 million and represent nearly 2 percent of SBP reimbursements. Again, most (about 90 percent) of these erroneous payments came in the form of overpayments. Errors occurring in SFAs' claims to state agencies were more likely when the SFA reported individual school totals directly to the state as opposed to consolidating school totals and reporting a single SFA-wide number to the state.

Comparisons with the Food Stamp Program

To put the findings on erroneous payments in the school meal programs into perspective, we compared them with those of the Food Stamp Program (FSP), USDA's largest means-tested food assistance program. The FSP provides monthly benefits to eligible low-income families to allow them to purchase food. With annual outlays of \$33 billion in FY 2006, the FSP served more than 27 million participants a month. Eligibility for the FSP is based on financial and non-financial factors. The application process includes completing and filing an application form, being interviewed, and verifying facts crucial to determining eligibility. With certain exceptions, a household that meets the eligibility requirements is qualified to receive benefits. The national erroneous payments rate in the FSP is slightly less than 6 percent: 4.5 percent overpayments and 1.3 percent underpayments (GAO January 2007).

As recently as a decade ago, the FSP payment error rate was considerably higher. For example, in 1998 the FSP payment error rate exceeded 9 percent, comparable to our estimates of payment error rates due to certification error in the NSLP and SBP. Since then, the FSP has taken several actions that have led to systematic and continuous reductions in erroneous payments over the past several years. The lower payment error rates in the FSP relative to the school meal programs are likely attributable to differences in three key program attributes: (1)

comprehensive verification of eligibility at time of application, (2) rigorous quality control systems in place to identify and prevent errors, and (3) financial incentives for continuous improvement.

The FSP verifies information provided on the application by the applicant. Applicants must provide documentation of the information they report when they submit their application. Moreover, the FSP certification process involves direct contact, usually in person, between administrative staff and applicants. In contrast, the school meal programs do not require documentation of household income or benefits receipt at the time of application. In the verification process, school districts select a small sample of applications that have already been certified and collect income or benefit documentation from the households in order to verify the students' eligibility for free or reduced-price meals. However, districts typically do not verify more than 3 percent of approved applications. The fact that relatively few applications are subject to verification suggests that this process is not likely to prevent or identify misreporting by households on their applications or identify administrative errors made during the initial certification process.

The FSP has a rigorous and extensive quality control system to continuously evaluate and improve program performance. States conduct reviews on a sample of cases from all participants as well as for those denied participation or terminated from the program. States report the findings of the reviews to FNS, which then conducts validation reviews on a subsample of the selected cases to establish the accuracy of the state-reported information. This provides a strong feedback loop to program operators, enabling them to understand the sources of errors and take steps to reduce them. In the school meal programs, state agency staff evaluates eligibility certification, food items planned and served, and the accuracy of counting and claiming procedures through the Coordinated Review Effort (CRE) process and the staff provides training and technical support to school districts and schools to help improve the accountability of local programs. However, districts are generally reviewed only once every five years; follow-up reviews may be required if serious program integrity issues are identified during a CRE, and a district's operations may be reviewed more often at the state agency's discretion.

Finally, there appear to be stronger incentives to reduce erroneous payments in the FSP than in the school meal programs. The FSP uses the official payment error rates to assess penalties against states with high payment error rates. It also provides financial awards to states with low payment error rates. These features provide strong incentives to minimize erroneous payments. In the school meal programs, districts exceeding error thresholds for key performance standards must take steps to correct those errors. Overclaims can be recovered by USDA and may be extended back to the beginning of the school year or to that point in time when the infraction first occurred. State agencies and FNS may also withhold funds if corrective action is not taken on problems identified in the CRE reviews. There are no reward incentives for having low rates of erroneous payments and states are not required to repay districts for underclaims identified as a result of CREs. (In the most recent reporting year, about 25 percent of underclaims identified during CRE administrative reviews were repaid to SFAs.)

Key differences between the school meal programs and the FSP would create challenges in trying to adopt the features used by the FSP to combat erroneous payments in the NSLP and SBP. While the key function of the offices that administer the FSP is ensuring that benefits go to

eligible households in the appropriate amounts, the district administrating agency's key function is educating children. The district administrating agencies are not typically set up to effectively assess and monitor the household financial circumstances of their students. In addition, there is not an obvious point of contact between a household applying for free or reduced-price meals and district staff; while the household must complete the application, it is often submitted to the school either by mail or delivered in person by a child. Most FSP applicants, by contrast, must appear in person in food stamp offices. Finally, data on rates of free or reduced-price eligibility within a school or district are used for a wide range of purposes beyond determining the free or reduced-price meal benefit status of students. Statistics about the percentage of students in the district certified for free or reduced-price meals are often used as indicators of the level of poverty in the district and sometimes used to determine eligibility (or levels of funding) for other programs, such as Title I. This may create incentives for schools to ensure that their certification rate is as high as possible, and would undermine efforts to implement more rigorous application requirements on households seeking certification for free or reduced-price meals.

In addition, adopting features of the FSP accountability system would significantly increase the burden on schools, district central offices, and state agencies, and therefore increase their administrative costs. Given the limited staff resources available to districts and schools, there is concern that such new burdens could undermine their educational mission. Finally, there are differences in the benefits versus costs of accuracy in the two programs. The typical monthly benefit in the FSP is approximately \$200. For a family with two children who receive meals free and participate in the school meal program about three-fourths of the time, the typical monthly benefit is approximately \$75. Errors in establishing eligibility are therefore much more costly in the FSP than in school meal programs.

One feature of the FSP that the school meal programs have tested in an attempt to reduce erroneous payments is requiring income documentation at the time of application for free and reduced-price meals. As part of the NSLP Application/Verification Pilot Projects, FNS tested an "up-front documentation" requirement in nine self-selected districts. Burghardt et al. (2004a) estimated the impact of this pilot program and found that up-front documentation did not lead to statistically significant reductions in the districts' certification error rates for free and reduced-price meals. Further, the pilot intervention had the unintended consequence of reducing participation in the program among low-income children who were eligible for free or reduced-price meals.

USDA has taken several steps to reduce erroneous payments. FNS requires school districts to report verification results and pursue corrective action for certification errors they uncover. Moreover, FNS analyzes verification summary data and prepares reports that summarize verification outcomes annually with the goal of providing information to districts and schools that can be used to drive improvements in the accuracy of the certification process. Similarly, FNS has been conducting annual reviews of a probability sample of certified and denied applications to examine the accuracy of school districts' certification decisions and any changes in administrative error rates over time. The information gained from these assessments is being used to provide technical assistance to districts and schools to help them reduce certification error caused by administrative errors.

The Child Nutrition and WIC Reauthorization Act of 2004 includes a range of program changes whose objective is to ensure access while addressing program integrity issues, including:

- Requiring direct certification for all children in FSP households to improve certification accuracy over paper applications.
- Requiring households to submit a single application covering all children attending school. This is intended to reduce certification burden, therefore reducing one factor that can lead to administrative error.
- Providing for year-long certifications.
- Requiring verification samples to be drawn earlier in the school year, requiring SFAs with high rates of non-response to verification to expand their sample and focus on error-prone applications, and allowing districts to directly verify certification status using information from agencies administering public assistance programs.

Implications of Study Findings for Ways to Reduce Erroneous Payments

The APEC study found that slightly more than one in five certified and denied applicant students were erroneously certified or incorrectly denied benefits. Household reporting error was substantially more prevalent than administrative error, occurring three times as often; however, administrative error was not trivial. Districts and schools generally issued meal benefits, counted meals, and submitted claims for reimbursement fairly accurately. An exception at a few schools was the process by which cashiers assessed and recorded whether a meal was reimbursable; this was a substantial source of erroneous payments, particularly in the SBP.

The study's findings on error sources suggest approaches that FNS might explore for reducing certification and non-certification error and the erroneous payments resulting from them. Some of the most important of these include the following:

- ***Emphasize to households the need to report all income sources and amounts for all household members.*** Based on information from the household survey, 80 percent of students with any reporting error on their applications had misreported income information. One-half of these errors were differences in gross income amounts for a specific person from a specific source, often secondary income sources from non-primary household members. Although application forms and/or the accompanying instructions currently ask households to report all income sources, not all applicant households have complied fully. Additional strategies and instrumentation for obtaining complete data on all income sources from all household members should be tested.
- ***Follow up on incomplete applications before making a certification decision.*** More than one-fourth of administrative error is due to school district staff certifying students whose applications are incomplete. Most of these incomplete applications either lack a signature of a household member, or the Social Security number of the

adult who signed the application or an indication that the signer does not have a Social Security number. Districts can significantly reduce administrative error by following up with households to obtain this missing information before making final certification decisions.

- ***Improve the accuracy of other administrative functions certifying students and transmitting the student's status to the district's benefit issuance instrument.*** While certifying applications that are incomplete is the most frequent administrative error, district staff makes other types of error, such as assessment, lookup, and transmittal errors. Although each of these types of error is relatively small, they contribute to overall administrative error. Strengthening procedures for processing applications, applying decision-making rules, and transmitting certification decisions more accurately would reduce administrative error rates.
- ***Identify and address sources of the high rates of cashier error at selected schools.*** For the NSLP, the rate of erroneous payments due to cashier error equaled 3 percent, and for the SBP nearly 10 percent. These high rates arose from a few large schools having very high levels of this type of non-certification error. A first step toward reducing cashier error involves identifying its source. One possibility is that individual cashiers are confused about the particular requirements for reimbursable meals under different menu-planning methods. Additional guidance to these cashiers about these requirements may help reduce cashier error. Another possibility is that the source of error is not cashiers but the higher-level staff that plans meals and/or provides guidance to the cashiers. For example, certain selected foods that are key components of breakfast or lunch menus might not meet the meal requirements that a cafeteria manager or SFA director believes they meet, and the resulting instructions to cashiers about which items should count as reimbursable are incorrect. In this instance, the most effective response may be guidance and technical assistance to cafeteria managers and SFA directors concerning the meal pattern requirements.