

## Abstract

Program errors and the risk of erroneous payments in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) continue to be a concern. Slightly more than one in five students were certified inaccurately or erroneously denied benefits in school year (SY) 2005-06. New data estimates the gross cost of school meals erroneous payments due to certification error at about \$935 million while other operational errors represent about \$860 million. Most of the payment errors resulted from (1) household misreporting of income, (2) administrative errors by school districts in processing applications, and (3) errors by cashiers in counting reimbursable meals. *The U.S. Department of Agriculture (USDA) will use this new information to continue the extensive work underway, and step up its commitment to work with Congress and program partners to address these erroneous payments. Actions to reduce these errors must improve accuracy without compromising access for low-income families, must not unduly increase burden on schools, and must be cost-effective.*

## Background

The National School Lunch Program (NSLP) and School Breakfast Program (SBP) serve about 6.6 billion meals to children annually. The food consumed at these meals makes up an important component of these children's overall nutritional intake. In recent years, concerns have grown about the accuracy of the programs' system for certifying or establishing eligibility for free or reduced-price meals. Several data sources suggest that a significant number of ineligible children are receiving free or reduced-price meals. Payment errors can also result from other aspects of program operations, including the process of tracking, counting, and reporting the meals served at different reimbursement levels.

The Improper Payments Information Act of 2002 requires Federal agencies to report annually on the extent of erroneous payments in their programs, including *overpayments* (payments that were made improperly or exceeded the proper level) and

*underpayments* (payments that were denied improperly or were lower than the proper level). This study provides the first reliable national estimates of erroneous payments made to school districts for the NSLP and SBP. These findings apply to SY 2005-06.

## Data and Methods

The study used a multistage-clustered sample design. Researchers selected representative samples of 87 school districts, 266 schools, and about 7,800 free or reduced-price meal applicants and directly certified students participating in NSLP/SBP in the contiguous United States during SY 2005-06. Over 3,400 in-person surveys were conducted to collect household income and household size information.

The data sources provided information that was used to examine two types of erroneous payments: (1) *certification errors* – mistakes made in the determination of a student's free, reduced-price, or paid meal status; and (2) *non-certification errors* – operational mistakes in determining whether a meal meets the requirements for reimbursement or mistakes in reporting the number of reimbursable meals.

## Key Findings

**Estimates of erroneous payments (overpayments and underpayments) in school meal programs in SY 2005-06 were \$935 million due to certification errors and about \$860 million due to non-certification operational errors.** The net cost to the government related to certification errors and non-certification errors was about \$485 million and \$545 million, respectively.

**Erroneous payments due to certification error represented about \$759 million for NSLP and \$177 million for SBP during SY 2005-06.** This represents 9.4 percent of \$8.06 billion in NSLP spending (cash reimbursements and commodity foods), and about 9.1 percent of the \$1.94 billion in SBP reimbursements in that year. More than three-quarters of certification-related erroneous payments in both NSLP and SBP were overpayments. The net cost to the government (overpayments minus underpayments) of erroneous

payments due to certification error was \$387 million for NSLP (5 percent of total NSLP spending) and \$97 million for SBP (5 percent of total SBP reimbursements).

**Slightly more than one in five students were certified inaccurately or erroneously denied meal benefits.** Among all certified students and denied applicants, 22 percent were certified in error, with 15 percent receiving an improperly high benefit level (overcertification) and 7 percent receiving an improperly low benefit level (undercertification).

**The certification process was most accurate among students certified for free meals.** Most students receiving free meals were certified correctly; 14 percent 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. The household circumstances of one-third of applicants denied both free and reduced-price meals suggested that they should have been certified, with about 17 percent eligible for reduced-price meals and 19 percent eligible for free meals. However, because few applications are denied, these errors represent a small proportion of all certification errors.

**Errors by applicants in reporting their household circumstances (income and size) were substantially more common than administrative errors by schools.** Household misreporting (23 percent of applicants) was nearly three times more likely than school district administrative error (8 percent of applicants). Among students with any certification error, 70 percent had household misreporting error alone, 11 percent had administrative error alone, and 19 percent had both types of errors. Household misreporting occurred for 15 percent of students certified for free meals, 57 percent for students certified for reduced-price meals, and 32 percent of denied applicants. Administrative error occurred for 6 percent of students certified for free

meals, 14 percent of students certified for reduced-price meals, and 16 percent for denied applicants.

**Erroneous payments (overpayments and underpayments) due to causes other than certification error represented \$555 million for NSLP (7 percent of total NSLP spending) and \$306 million for SBP (16 percent of SBP reimbursements).** Cashier error (e.g., counting nonreimbursable meals as reimbursable) represented more than one-third of non-certification error in NSLP and nearly two-thirds of non-certification error in SBP. Erroneous payments from cashier error resulted primarily from very high levels of this error in a few schools; most schools had fairly low levels of cashier error. Aggregation errors (e.g., mistakes in adding up meal counts from individual points-of-sale, schools, or districts) accounted for the remaining non-certification error.

**The net cost to the government of non-certification error was \$292 million for NSLP (4 percent of total NSLP reimbursements) and \$254 million for SBP (13 percent of SBP reimbursements).**

## Conclusions

Erroneous payments in the school meal programs received extensive consideration in the development of the Child Nutrition and WIC Reauthorization Act of 2004 (Public Law 108-265). The first-ever national estimate shows that these continue to be a problem, with SY 2005-06 certification error estimated at \$935 million and non-certification error estimated at \$860 million. However, there is no simple solution. Improving accuracy must not compromise access for low-income families since this would undermine the programs' goals and nutritional benefits. Placing additional requirements on schools may discourage some from participating in the future. Increasing accuracy will also likely be resource-intensive. The cost required to improve accuracy must not be greater than achieved savings. The report provides USDA with information that will support ongoing extensive efforts and facilitate increased action in cooperation with Congress and program partners to improve program accountability.

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