

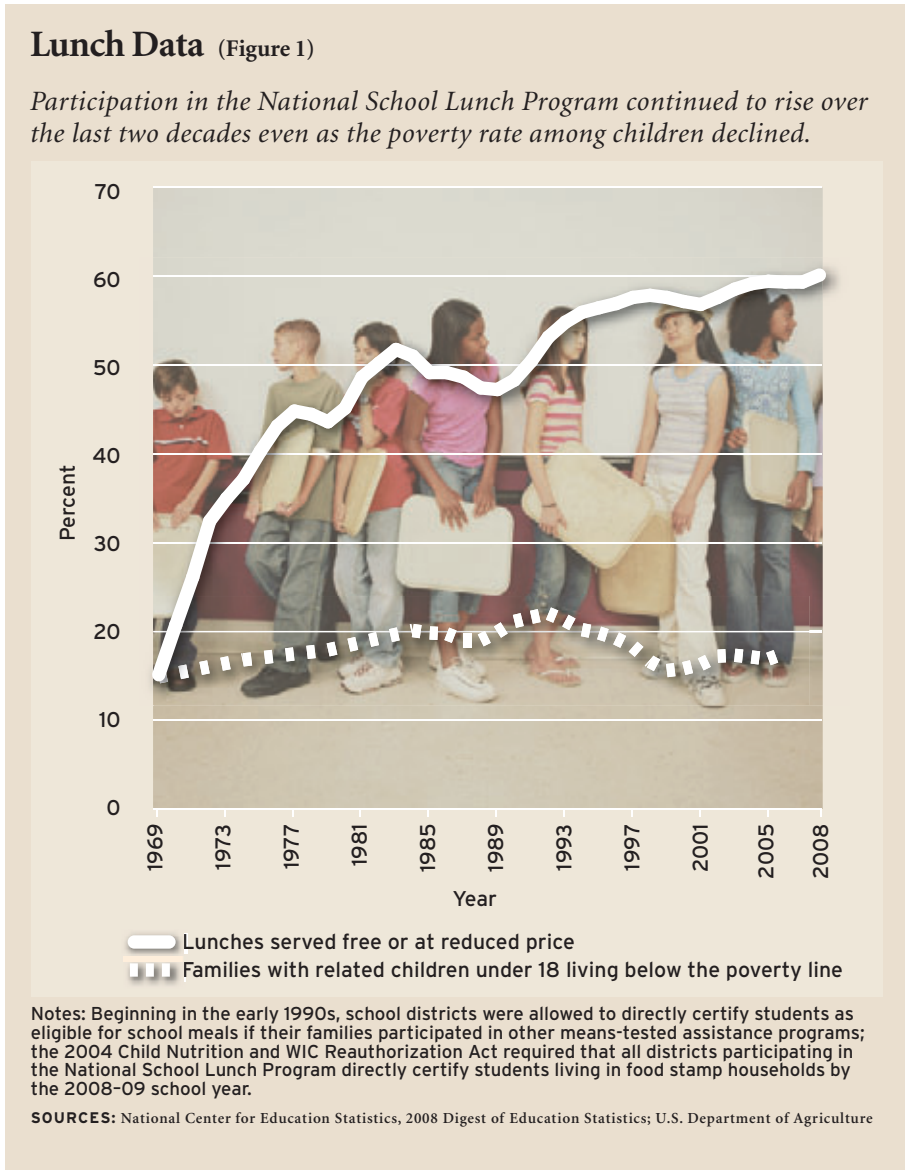
# Fraud in the Lunchroom?

*Federal school-lunch program may not be a reliable measure of poverty*

By David N. Bass

Fill it out and turn it in: that's the message thousands of school districts send parents each year when they offer applications for the federal government's National School Lunch Program (NSLP). And each year, millions of parents comply. But new data suggest that the process for verifying eligibility for the program is fundamentally broken and that taxpayers may be picking up the tab for participation by ineligible families. The NSLP, which is administered by the U.S. Department of Agriculture (USDA) at an annual cost of \$8 billion, serves 31 million American children each day. The program's goal is to help low-income students succeed in public and private school classrooms by ensuring they have adequate nutrition, a mission that is compromised if substantial funds are being spent on ineligible families or the program fails to reach the neediest students.

Determining the extent of program fraud and error is important, as the entitlement is associated with other streams of federal, state, and local taxpayer dollars. Eligibility data are widely used as a proxies for poverty rates, thereby influencing funding for myriad government programs and informing both school district policies and policy research. For example, NSLP participation rates serve as the main criteria for



the allocation of federal Title I funds to schools. Those schools with a higher percentage of students eligible for free or reduced-price lunch also receive a

larger discount on the federal government's E-Rate program, which facilitates access to telecommunications services for schools and libraries.

## Trust, but Verify

The Los Angeles Unified School District (LAUSD), the nation's second-largest district with an enrollment of about 700,000 students, had the highest rate of reduced or repealed benefits (93 percent) for the 2007-08 school year. Of 3,401 program participants asked to verify their income, 2,650 (78 percent) did not respond to the verification request; 215 (6 percent) provided evidence that reduced their benefits from free or reduced-price to paid; 291 (9 percent) provided income evidence that reduced their meal benefits from free to reduced-price; 233 (7 percent) provided evidence to justify their initial report of income; and 12 (less than 1 percent) provided evidence that increased their benefits.

The LAUSD results were similar for the 2006-07 school year, when 2,856 (90 percent) of those asked to verify income failed to respond and 206 who did respond (6 percent) provided income information that reduced or repealed their benefits, which means that almost all families surveyed had their meal privileges reduced or revoked. In contrast, 120 respondents (4 percent) saw no change in their eligibility status and just 6 respondents had their benefits increased.

The nation's largest school district, in New York City, had nonresponse rates of 56 percent and 62 percent for the 2007-08 and 2006-07 school years, respectively. The district had reduced or repealed benefits rates that were somewhat lower than those for Los Angeles: 70 percent of the sample for the 2007-08 school year and 71 percent for the 2006-07 school year. Once again, nonresponse accounted for most of the revocations. The New York City schools serve 1.1 million students, of whom 801,596 qualified for either free or reduced-price lunch in 2006-07.

The Chicago Public Schools (CPS) had the lowest potential fraud rate among the 10 districts at 28 percent for 2007-08, with only 258 out of 1,655 parents (16 percent) not responding. Most (69 percent) of the participants verified their income and saw no change in eligibility status. Relative to other school districts, the nonresponse rate for the Chicago schools was quite low. It's unclear how CPS got so many parents to respond to the verification. Requests for more information on the school district's verification methods were not returned.

State governments dole out benefits according to free and reduced-price lunch percentages, too. The Wisconsin Department of Public Instruction, for instance, allocates \$2,250 to schools for each low-income child enrolled in kindergarten through 3rd grade. The program gauges poverty using NSLP participation.

Because of the financial benefits, local school districts have a clear incentive to register as many students in NSLP as possible. Some districts encourage parents to fill out applications, even if they are not sure they qualify. One district in Chillicothe, Missouri, offered parents a \$10 Wal-Mart gift card for turning in an application. "Even if you choose to pay for your child's lunches and or breakfasts, each qualified application earns \$1,025 per child of state money for our school district," said Assistant Superintendent Wade Schroeder.

School districts often use free and reduced-price lunch percentages for

student assignment and resource allocation as well. North Carolina's largest school district, Charlotte-Mecklenburg Schools, gives schools 30 percent more funds for every student enrolled in the entitlement. Wake County Public School System, in central North Carolina, employs a costly busing strategy to foster socioeconomic diversity in the classroom, measured in part by NSLP participation. These districts and others could be basing policy on faulty numbers if the lunch program data are not a valid indicator of socioeconomic status.

In addition, the federal government's evaluation programs routinely employ school lunch subsidies as a poverty indicator. The National Assessment of Educational Progress (NAEP), commonly known as the "Nation's Report Card," uses the scores of students eligible for the lunch program to track the performance of states in educating low-income children over time.

No Child Left Behind requires that schools meet performance benchmarks for program-eligible students in order to make adequate yearly progress. Academic researchers also make use of NSLP participation data, raising the question of whether researchers could be producing skewed results if program participation is not a reliable indicator of income.

### How It Works

Parents who apply for school lunch benefits, or for the smaller school breakfast program, report their yearly income on the application. Children living in households at or below 130 percent of the federal poverty level (\$27,560 per year for a family of four) qualify for free meals at school; those in households between 131 percent and 185 percent (up to \$39,220 per year for a family of four) qualify for reduced-price meals. Children can also

qualify automatically based on residential status in areas of concentrated poverty or participation in other means-tested government programs, including food stamps and Temporary Assistance to Needy Families (TANF). The USDA reimburses districts for each free or discounted meal served.

No proof of income, such as a pay stub or W-2 form, is required when parents apply. That's in contrast to other federal nutrition entitlements, including the food stamp program, now called the Supplemental Nutrition Assistance Program (SNAP). Normally, SNAP applicants must "file an application form, have a face-to-face interview, and provide proof (verification) of certain information, such as income and expenses." Assuming a 180-day school year, students eligible for free lunch receive on average \$462.60 per year in benefits, compared with an average of \$1,152 per year in benefits for individuals receiving food stamps.

Each NSLP application contains a certification statement that parents or guardians are required to sign in which they promise that their reported income level is accurate. The statement warns that adults "may be prosecuted" if they "purposefully give false information," but the threat doesn't have teeth, as few, if any, applicants have been held accountable for cheating. It isn't even clear which level of government—federal, state, or local—would be responsible for prosecuting fraud.

The only verification mechanism in place for the NSLP is outlined in the Richard B. Russell National School Lunch Act, as most recently amended by Congress in 2004. The act requires school districts to try each year to verify the incomes of 3 percent (or 3,000, whichever is less) of participants considered "error prone," meaning households whose

reported earnings are within \$100 monthly or \$1,200 yearly of the income eligibility limitation. School districts can also qualify for an alternate sample size of 1 percent if they meet certain requirements.

To verify eligibility, school officials request proof of income by mail from parents to justify the amount initially put on the application. If applicants fail to respond, it raises the possibility that they may not in fact be eligible, and

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officials terminate their benefits. If applicants respond with evidence that shows too high an income, officials reduce or terminate their benefits accordingly. In some cases, officials raise benefits if initial reports of income are too high.

### **Fraud or Error?**

Verification summaries obtained from 10 of the nation's largest school districts show a high proportion of those asked to provide proof of income could not or would not comply. The data are prompting some school officials to question the way the program is administered.

Of the 10 districts, all but 1 had a rate of reduced or repealed benefits above 70 percent for those in the verification sample for the 2007–08 school year (see sidebar, page 70). Most of those benefit reductions and repeals were due to participants' failure to respond to the mailing, which automatically revoked their benefits. The average nonresponse rate among the 10 districts was 58 percent. Significantly, an average of only 1.5 percent of those who did respond had their benefits increased, suggesting that parents were more likely to understate than overstate their income on the forms.

Smaller school districts show a similarly high rate of reduced or repealed benefits. Wake County Public Schools had a nonresponse rate of 36 percent and a total reduced or repealed rate of 64 percent for its verification sample in 2007–08. Charlotte-Mecklenburg had a nonresponse rate of 31 percent and a reduced or repealed rate of 68 percent for the same school year.

Child nutrition officials say even the high percentages of reduced or revoked benefits do not suggest widespread fraud because the state samples are made up of "error-prone" applicants and are not random. They argue that disparities on the applications of those who do respond to the verification request are mostly due to honest mistakes, such as rounding errors or inserting weekly rather than monthly income, which could put applicants under the income threshold unintentionally.

Marilyn Moody, senior director of child nutrition services for the Wake County schools, pointed to intimidation as one reason her district's nonresponse rate was so high. "Some people fail to respond because when we send a federal form that says you must send us proof of income, it's intimidating," she said. "They may not be educated to the point

of realizing the significance of that.”

But others see a deliberate attempt to cheat the system. “I don’t think there is any doubt in anyone’s mind, even though we’re pussyfooting around, that there are thousands of students here that probably are not entitled to this government benefit,” said Larry Gauvreau, school board member in Charlotte-Mecklenburg.

“They know at the district and school level that it generates funding for a lot of other programs,” said Lisa Snell, director of education and child welfare at the Reason Foundation, a libertarian think tank. “It may not be intentional to be fraudulent in the program, but it is an unintended consequence of the program.”

Other research has found evidence of potential fraud in the NSLP. A study by Mathematica Policy Research published in February 2009 found that 15 percent of students enrolled in the breakfast and lunch programs receive more benefits than they are eligible for and 7.5 percent receive less. The most common source of error was parents or guardians misreporting income on applications. Mathematica estimated the total cost for the errors at around \$1 billion annually.

The authors of the Mathematica study used a multistage-clustered sample design, selecting 7,800 applicants and students directly certified in 87 school districts across the country. The report stopped short of advocating an overhaul, instead suggesting that policymakers find a way to get more accurate income data from households. The authors did not offer specific recommendations on how to accomplish that goal.

Another study, commissioned by the USDA and published by Mathematica in 2005, argued that requiring applicants to submit proof of income

would hurt needy children. The study compared districts pilot testing an approach that required families to document their income on the initial applications to a comparison group of districts using the current system. Study authors Philip Gleason and John Burghardt found that the same proportion of ineligible children were cer-

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tified in both sets of districts but that in districts requiring up-front documentation, “the process reduced eligible students’ access to free and reduced-price meals.”

### **Food Fight**

School board members in Charlotte-Mecklenburg upset the school-lunch apple cart last year by requesting more thorough verification of student eligibility for the lunch program, which, as noted above, partly determines the funding each school receives from the district. The move touched off a heated debate and led to weeks of uncertainty as school attorneys tried to obtain a written order from the

USDA on the permissibility of a comprehensive audit. The controversy also aggravated old tensions over integration and racial busing, two sore spots in the district.

Like many cities in the South, Charlotte has a contentious history on the issue of school segregation. After the Warren Court in 1954 declared the separate but equal doctrine unconstitutional, the city adopted a neighborhood school policy that had the effect of sending most black students to inner-city schools and most white students to suburban schools in wealthier parts of the district. The U.S. Supreme Court attempted to remedy the situation in 1971 in its *Swann v. Charlotte-Mecklenburg Board of Education* ruling. The decision paved the way for school districts to adopt busing strategies aimed at creating greater diversity in the classroom.

In 1997, a white parent challenged the busing policy in court after a magnet school denied his daughter admission because of her race. Two years later, a federal judge ruled that the district’s 30-year busing policy had fulfilled its purpose of racial integration and was no longer necessary. The ruling stood after an appellate court upheld the decision and the Supreme Court declined to weigh an appeal.

Today, Charlotte-Mecklenburg has a community-based assignment policy, but the issue remains divisive. And questions of cheating among free lunch recipients, the majority of whom are minorities, have poured more salt into the wound.

In August 2008, Ken Gjertsen became the first Charlotte-Mecklenburg school board member to raise questions about the program after learning of the potential fraud rate. The issue remained on the school board’s agenda for two months,

as members went back and forth about the merits of a comprehensive audit. “Poor people don’t know how to steal from the federal government. They’re not smart enough,” said school board member Vilma Leake. She characterized a comprehensive audit as a “witch hunt” aimed at poor families.

Others claimed the school board had a responsibility to weed out cheating. “There are thousands of people who shouldn’t be in that program. We know that. Everybody up here knows that,” said Gauvreau, who twice proposed a motion, voted down both times, that would have directed the district superintendent to verify a larger percentage of applications.

Efforts to authorize an audit came crashing down in September when the USDA threatened to cut off the district’s \$34 million lunch-program subsidy for the 2007–08 school year if it proceeded with a full verification. School-district attorneys subsequently received a written order from the USDA saying that an audit beyond the mandated 3 percent would be illegal under federal law.

The National School Lunch Act does not specifically address the legality of a school district going beyond the 3,000 or 3 percent benchmark. The USDA, however, interprets the law to disallow a comprehensive verification. The 2008 version of the “Eligibility Manual for School Meals,” published by the USDA, says that school districts “must not verify more than or less than the standard sample size ... and *must not* verify all (100% of) applications” (emphasis in original).

The guidelines do provide one narrow window for school districts to cut down on fraud. Officials can pursue verification on a case-by-case basis if they see questionable content on an application, but it appears that

districts rarely take advantage of this option. Charlotte-Mecklenburg conducted no verifications for cause during the 2006–07 and 2007–08 school years. Wake County verified 2 applicants for cause in 2007–08 and fewer than 10 in 2006–07. Due to the politically sensitive nature of the NSLP, it’s likely that school nutrition officials

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worry that verifying too many applicants would cause blowback.

**To Verify or Not to Verify**

With a recession hitting the family pocketbook hard, more parents are turning to free school lunches for relief. Rising food costs have put a strain on school districts, too, prompting President Obama to include \$100 million in additional funding for the program in his economic stimulus bill, passed by Congress in February 2009. Obama has proposed another \$1 billion for school nutrition programs in his 2010 budget.

Many government officials are quick to tout the benefits of the NSLP, arguing

that some students would go hungry if the program did not exist. In a letter signed by a bipartisan group of 40 senators in January, Sen. Tom Harkin, an Iowa Democrat and chairman of the Senate Agriculture Committee, said that child nutrition programs “play a critical role in preventing hunger and promoting healthy diets among children from birth until the end of secondary school.”

The political climate in Washington makes it doubtful Congress will revise the verification structure of the NSLP in the near future. The entitlement has a long history of partisan strife and is generally recognized as a political hot potato. To make matters more complicated, the program is the product of a political alliance between agriculture Republicans and metropolitan-area liberals, which means that critics are few and far between. But the possibility of waste and fraud warrants a closer look from elected officials. Because the NSLP is the nation’s second-largest food entitlement, unqualified families could be costing taxpayers

billions each year. The challenge is balancing program integrity with income verification policies that might have a chilling effect on eligible families. At the very least, Congress should establish clearer guidelines for school districts to investigate suspected fraud and explore alternative income-documentation methods that would provide greater reliability for program data. Given the amount of taxpayer dollars devoted to school lunch, and the range of policies and research based on the program, lawmakers can’t afford to do nothing.

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