



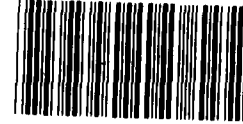
UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

March 9, 1981

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The Honorable Carl D. Perkins, Chairman  
Committee on Education and Labor  
House of Representatives

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Dear Mr. Chairman:

Subject: Analysis of Department of Agriculture Report  
on Fraud and Abuse in Child Nutrition Programs  
(CED-81-81)

On January 22, 1981, your committee asked that we analyze a recent joint report the Department of Agriculture's Office of Inspector General (OIG) and Food and Nutrition Service issued on fraud and abuse in child nutrition programs--specifically, the school lunch program. Because the Service disputed the validity of some of OIG's findings and dollar projections, your committee asked us to analyze the report and judge the merits of the various matters in contention to the extent we could. Our work was to include an assessment of OIG's work methodologies and some verification of the numbers and cases in contention.

As requested, our assessment deals only with the first part of the joint report, which summarizes the results of OIG's audit of the school lunch program and the Service's comments on those results. The second part of the report deals with earlier findings which had been reported by OIG, our Office, and the Service, and on which administrative or legislative corrective actions have been taken.

In making our assessment, we met at various times with OIG and Service officials to obtain clarification and understanding of the basis for the findings and comments. These officials included the Assistant Regional Inspector General in charge of the OIG audit and the Acting Director of the Service's Office of Policy, Planning and Evaluation, who prepared the Service comments.

We reviewed Agriculture's joint report and analyzed OIG working papers dealing with the major aspects of OIG's review that the Service questioned or disputed. These working papers included

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- audit guides and instructions;
- summary data sheets, writeups, and notes;
- copies of school feeding program applications;
- files on results of home visits;
- employer verification results;
- social security information;
- State computer printouts of earnings data;
- copies or descriptions of school menus;
- summary sheets, tally sheets, and writeups on meal counts;
- copies of school reimbursement claims;
- interview writeups and notes; and
- various computations, statistical formulas, and computer programs.

We supplemented some of the working paper data on family eligibility with information obtained by telephone from families and employers.

We also reviewed and discussed information developed by the Service in support of its contentions, particularly the questions raised about computer programs and statistical formulas.

Further explanation of our methodologies is presented in the GAO evaluation sections of this report.

#### OVERALL CONCLUSIONS

The great variability in the results of school feeding programs at different locations and times makes projections of the dollar impact of deficiency findings very difficult, and we believe the dollar impact amounts discussed in Agriculture's joint report should be used with caution. Nevertheless, we believe that the OIG review has highlighted very serious and extensive problems about the integrity of school feeding programs. Although we do not agree with OIG in every instance--as discussed in our evaluation sections--we believe that these problems represent program abuse with significant dollar impacts, particularly when viewed from a total school-year basis and not just the 1-month basis used in the report.

The results of our analysis of OIG findings and Service comments, are discussed in the following sections.

SCHOOLS MADE ERRORS CERTIFYING STUDENTS  
FOR FREE OR REDUCED-PRICE MEALS

OIG findings

OIG reported that past OIG audits and Service reviews had shown that some schools frequently certified students as eligible for free or reduced-price meals even though students' applications were obviously incomplete or invalid.

To assess whether these conditions existed programwide, OIG visited 220 statistically selected schools in 14 States in May 1980 and checked every application on file for students approved for free or reduced-price meals. It found that out of 38,414 students the schools listed as eligible, 2,752 were incorrectly certified for the following reasons.

- Applications for 703 students were not in the schools' files.
- Applications for 979 students lacked information on income or family size needed for proper certification.
- Based on information on the applications, 967 students were in the wrong program benefit category. For example, students were eligible for reduced-price meals but received free meals.
- Authorizations for 103 students were incorrect for other reasons'.

Using this information and statistical sampling procedures, OIG estimated that if each of the approximately 11.8 million certifications in all schools participating in the Federal school feeding programs were examined, about 962,000 (8.2 percent) certifications would be incorrect. OIG also estimated that the excess Federal reimbursement paid to all schools nationwide resulting from these errors would be about \$9.5 million for May 1980--the month of OIG's review.

Service comments

The Service generally agreed with OIG's findings but said that OIG's projection would be reduced to the extent that schools could have obtained missing information on incomplete applications and found missing applications for students entitled to free or reduced-price meals.

GAO evaluation

The Service's comments minimize the fact that large numbers of applications were incomplete or missing. The Service has always required that school food authorities assure that all approved applications for free or reduced-price meals contain the applicant's family size, income, and an adult family member's signature. School food authorities must also maintain a file--usually at the school level--of approved applications to support the school's determination that students qualify for free or reduced-price meals. The fact that OIG reported that applications were either incomplete or missing is significant because Service regulations require that there be applications to support school claims.

We believe that a problem does exist, however, relative to the \$9.2 million estimate of the May 1980 overclaim. This is explained in our discussion of the statistical formula OIG used. (See pp. 18 and 19.)

FAMILIES SUPPLIED INCORRECT  
INFORMATION ON APPLICATIONS

OIG findings

Certification for free or reduced-price meals is based on information provided by families on school-designed applications. These applications or accompanying instructions contain the income eligibility criteria for both free and reduced-price meals but they provide insufficient information on what should be counted as income and how income for eligibility purposes should be determined. Application forms vary among school districts and may define income as wages, welfare payments, pensions, social security, and "all other income."

Applicants are not told how to determine income and for what period. They are not told, for example, whether to report income for the past 12 months or to estimate current annual income based on the current rate of income, income for the month prior to the application, or expected income for the current month or subsequent months. They are not instructed how to handle overtime, differential pay, or part-time wages and tips. Also, applications do not specify who should be considered part of the family. Applicants are not required to report changes in their income during the school year. Finally, schools cannot verify reported information without "cause"--a term never defined by Agriculture.

In order to verify how accurately applicants reported their income, OIG statistically selected 765 applications for eligibility verification. For 655 applicants (the other 110 either refused to cooperate, had moved, or could not be located)

OIG verified the applicants' rate of income earned as of the application date by obtaining income information from applicants, their employers, the Social Security Administration, and various offices of State departments of labor and welfare. Based on this verification work, OIG determined that 170 (25.7 percent) of the 655 applicants reported incorrect income information which resulted in their receiving more benefits than they were entitled to. OIG said that if a student is receiving a free lunch and breakfast but is entitled to receive neither, the undeserved benefits would be over \$1 per child per day.

On the basis of its review of the 655 applicants, OIG estimated that in May 1980, \$19.2 million in benefits were erroneously provided to students from families reporting incorrect information.

#### Service comments

The Service said that OIG's finding was invalid because OIG did not consider both the rate of income on the application date and income earned for the past 12 months. The Service believes applicants are eligible if the income amount derived from either one of these methods is within the income limits for either free or reduced-price meals. On this basis, families with a very high rate of income as of the application date would qualify for school meal benefits as long as their income for the past 12 months was within the eligibility criteria.

#### GAO evaluation

We believe OIG has uncovered serious problems with determining eligibility for school feeding programs--eligibility criteria are too vague and instructions to applicants are inadequate to the point where they are of little help to applicants, schools, or reviewers. In particular, the application forms or accompanying instructions do not define who is to be considered part of the family nor explain how a family's annual income is to be determined.

Also, USDA lacks authority to

- require that applicants provide social security numbers of all adult family members on the application forms as a condition of eligibility,

- remove the restriction on verification, and

- require applicants to report all changes in family size and relevant changes in income and deductions.

OIG has recommended that the Department be given such authority. We believe that this recommendation is reasonable.

We believe that generally income eligibility should be based on a family's income at the time its application is submitted--as discussed below.

We believe OIG's eligibility verification determinations for the 170 applications were correct in most instances. After reviewing the five cases the Service cited to support its contention that OIG erred when verifying eligibility, we agreed with OIG's determinations in four cases and disagreed in one case. In making our determinations, we annualized the verified rate of income as of the application date. We also considered whether this rate of income was indicative of the applicant's current normal earnings. For example, we included overtime when it was regularly earned. Except for instances such as applications by seasonal workers, we would not consider income received during the 12 months preceding the application date to be a good basis for determining eligibility for benefits because it may not be a proper indication of a family's income situation during the benefit period--the forthcoming school year. Our analysis of the cases is discussed below. (We used the same fictitious names used by the Service in its discussion of the cases.)

#### The "Jones family"

##### OIG determination

During a home visit, the OIG auditor verified from a pay stub that Ms. Jones earned \$346 biweekly as of September 1979--the time of the application--and \$375 biweekly as of December 1979. Also, the auditor verified from public assistance records that Ms. Jones received an Aid-to-Families-With-Dependent-Children payment of \$74.20 monthly at the time of the application. OIG computed Ms. Jones' annualized income as \$10,640.40 (\$375 x 26 bi-weekly periods and \$74.20 x 12 months) and determined that the family's annualized income exceeded the eligible income level for reduced-price meals of \$9,420 for a family of two. (Eligible income levels vary based on family size.) Therefore, the Jones child should have paid the full price for school meals instead of a reduced price. The child was certified for reduced-price meals based on a reported income of \$9,059.

##### Service comment

The Service said that OIG inappropriately used the biweekly earnings of \$375 earned in December 1979--2 months after the application date--to annualize Ms. Jones' income.

##### GAO evaluation

We disagree with OIG's method of determining income but agree with its eligibility determination for school meal benefits. OIG working papers show that, as the Service contends, OIG annualized

income based on the \$375 biweekly rate Ms. Jones earned in December and not the \$346 rate she was earning at the time of application. However, even if OIG had used the \$346 rate, the family's income still would have exceeded the eligibility limit of \$9,420.

The "Smith family"

OIG determination

OIG verified with Mr. Smith's employer that the applicant's average monthly income as of the application date was \$1,251. OIG computed Mr. Smith's annualized income as \$15,012 and subtracted \$300 for medical bills during the year, leaving a total of \$14,712. OIG determined that the annualized family income exceeded the free-meal eligibility level of \$11,840 for a family of six, and that the Smith children therefore qualified for reduced-price meals instead of the free meals as the school had determined.

Service comment

The Service said that Mr. Smith reported on the application a total income of \$12,000, but that the school incorrectly certified the Smith children for free meals instead of reduced-price meals.

GAO evaluation

OIG correctly annualized the Smith family income using the average monthly income rate of \$1,251, and therefore its determination that the children qualified for reduced-price meals is correct. The Service is correct in attributing an eligibility error to the school rather than the applicant. However, the OIG audit also showed that the applicant's reported income was significantly understated.

The "Brown family"

OIG determination

OIG verified Mr. Brown's monthly military base pay as \$912.75. Mrs. Brown's employer verified an hourly rate of \$3.20 for her. OIG computed Mr. Brown's annualized income as \$10,953 (\$912.75 x 12 months) and Mrs. Brown's annualized income as \$6,656 (\$3.20 x 40 hours x 52 weeks.) The combined income of \$17,609 exceeded the reduced-price eligibility level of \$16,200 for a family of five. The children therefore should have paid the full price for school meals instead of being authorized reduced-price meals based on a reported income of \$12,000.

Service comments

The Service said that Mr. Brown's annualized income of \$10,953 was correct but that Mrs. Brown's employer verified her hourly rate as being \$2.90 as of the application date of August 29, 1979, and said that she worked from July 17 through September 21, 1979. OIG used an hourly rate of \$3.20 which was based on the income reported by another employer subsequent to the application date. Based on Mrs. Brown's employment at \$2.90 per hour, she earned \$1,044 between July 17 and September 21, 1979. Therefore, the Brown family income was \$11,997 (\$10,953 + \$1,044) and the children were eligible for reduced-price meals.

GAO evaluation

OIG's method of determining income was faulty, but considering income adjustments we believe should have been made, its determination regarding eligibility for school meal benefits turned out to be correct. OIG did not use all of Mr. Brown's military pay to compute his annualized income. According to OIG working papers prepared on November 25, 1980, the military pay section at his base verified that Mr. Brown's total monthly rate of income, including quarters and subsistence allowances, was \$1,206.60 as of the application date and, on this basis, his annualized income would be \$14,479.20. Since Mrs. Brown earned an hourly rate of \$2.90, as of the application date, her annualized income would be \$6,032.00. The combined annualized income would be \$20,511.20.

We disagree with the Service calculation in which only the income Mrs. Brown earned from July 17 through September 21, 1979, was used. OIG's record of the home visit clearly indicates that Mrs. Brown was a wage earner before and after these dates. It therefore seems proper to annualize Mrs. Brown's rate of income earned as of the application date.

The hourly rate of \$3.20 OIG used for Mrs. Brown pertained to a period after the application date and could not have been used on the application. However, this situation points up another shortcoming in the reporting of income of families receiving school meal benefits. Applications generally include wording to the effect that applicants should contact the school if the family's income changes during the ensuing year. This instruction is stated in the context of such things as becoming unemployed or changes in family size that could make the family eligible for additional benefits. No emphasis is placed in Service regulations or the application on reporting family income increases that would reduce program benefits.

We believe program regulations and the application should clearly require families to report upward as well as downward changes in income that could have a bearing on the amount of benefits received.



The "Clark family"

OIG determination

During a home visit, the OIG auditor verified the family size as three--the size reported on the application was four. Also Ms. Clark received weekly child support of \$35. The auditor verified with the employer that Ms. Clark earned \$224.80 a week as of the application date. OIG computed Ms. Clark's annualized income as \$13,509 ( $\$224.80 \times 52$  weeks plus  $\$35 \times 52$  weeks) and determined that the family's annualized income exceeded the reduced-price eligible income level of \$11,680 for a family of three. Therefore, the Clark children should have paid the full price for school meals. The children were certified for reduced-price meals based on a reported income of \$10,790.40.

Service comment

The Service said that the application showed the family size as four and that the auditor noted the family size as three in the working papers without indicating any reason for the difference. The Service said that the Clark children qualified for reduced-price meals if they met the income criteria as determined by any one of the following three income calculations.

--If Ms. Clark's earnings of \$2,730.75 for the quarter July through September 1979 were annualized (\$10,923) and the child support payments of \$140 a month were annualized (\$1,680), a total annual income of \$12,603 would result. As a family of four, the family income would be below the eligible income of \$13,940 for reduced-price meals, but as a family of three the family income would exceed the eligible income level of \$11,680 for reduced-price meals.

--If the total family income for 1979 of \$9,340.20 were added to the annualized child support of \$1,680, a total annual income of \$11,020.20 would result. As a family of three, the children would qualify for reduced-price meals.

--If the average quarterly income of \$2,379.35 earned during the period January 1 through September 30, 1979, were annualized (\$9,517.40) and added to the \$1,680 for child support, a total annual income of \$11,197 would result. That income would be below the eligibility income limits of \$11,680 for a family of three and \$13,940 for a family of four.

GAO evaluation

OIG correctly determined the family size as three. We verified with Ms. Clark that she had erred when she included her

older son as a family member on the application. He was in the Army and should not be counted in determining family size for purposes of school meal benefits. Also, OIG correctly annualized the Clark family income using the weekly income of \$224.80 earned at the time of the application plus the child support payments. Therefore, we believe that the OIG determination that the children did not qualify for reduced-price meals is correct.

We disagree with the Service's cited methods of annualizing income. These methods included income from varying periods before the application date and did not provide an accurate measure of the applicant's income at the time of application.

School meal benefits are provided in a period after the application date, and we believe that the income determined for eligibility purposes should bear as close a relationship to the benefit period as can be determined, although the regulations and the law are not clear on this.

#### The "Adams family"

##### OIG determination

OIG established the Adams family income of \$12,429 on the basis of earnings during the 12 months ended March 1980. The earnings information was obtained from the State Department of Labor and Welfare. OIG determined that because this income exceeded the free-meal eligibility limit of \$10,390 for a family of five, the Adams children should have paid the reduced-price for school meals. The children were certified for free meals based on an income of \$5,520 reported in the family's application dated September 25, 1979.

OIG said that using the income of \$12,429 earned from April 1979 through March 1980 was reasonable. Mr. Adam's W-2 earnings statement for 1979 showed \$14,263.76, and he acknowledged that he worked overtime.

##### Service comment

The Service said that the OIG method uses income earned after the application date--that is October 1979 through March 1980. The proper period should be 12 months before the application date, which would include the last quarter of 1978. The Service contends that since OIG did not obtain any income for 1978, it is not possible to determine if the Adams' income data for the past 12 months qualified the children for either free or reduced-price meals.

GAO evaluation

We disagree with the methods both the Service and OIG used. The Service's method of determining a family's eligibility based upon income earned 12 months before the application date does not give proper consideration to whether the past year's income is representative of the family's income at the time of application. It also overlooks the fact that the benefit period starts after the application date--not before. OIG's method included income earned from April through August 1979 and we believe that income earned 5 months earlier is not necessarily a good indication of the income at the time of application.

We verified with his employer that Mr. Adams generally worked overtime and earned \$398.40 biweekly, including overtime, as of the application date. Mr. Adams' annualized rate of income would be \$10,358.40 (\$398.40 x 26 biweekly periods). Since this amount is below the eligible income limit of \$10,390, we believe the children qualified for free meals.

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We further tested OIG work by reviewing 20 additional cases where the Service questioned OIG's determinations. Applying the same approach described on page 6, we agreed with OIG's determinations in 16 cases and disagreed in 2 cases. In two cases, applicants refused to provide OIG with information to verify their income.

We believe that a fundamental problem exists relative to the \$19.2 million projection of the May 1980 overclaim. This is explained in our discussion of the statistical formula OIG used. (See pp. 18 and 19.)

INELIGIBLE AND MISCLASSIFIED LUNCHES  
CLAIMED FOR REIMBURSEMENT

During the time of the OIG audit, Service regulations required that lunches eligible for Federal reimbursement contain the following five components--meat or meat alternate, two fruits and/or vegetables, bread or bread alternate, and milk.

OIG findings

To evaluate if schools were making proper reimbursement claims, OIG visited 220 schools; counted the lunches served; and noted, among other things, lunches which were ineligible for reimbursement because required meal components were missing. OIG then compared its count of the lunches that should be claimed for Federal reimbursement with the count school officials said they planned to claim. Based on differences in the OIG and school counts, and assuming that school officials would not change their count from what they told the auditors, OIG estimated that schools

would have claimed \$12.2 million for May 1980 lunches which were not reimbursable because they were missing components or misclassified (such as a reduced-price lunch counted as a free lunch).

The Service raised four questions about how OIG handled certain situations in counting lunches. Each of these situations is discussed below.

Service comments--handling of missing meal components

The Service said that the instructions in OIG's audit guidelines concerning the requirement for serving fruits and vegetables were misleading. It said that, using these guidelines, an auditor might have counted a lunch as not reimbursable if two fruits and no vegetables were served or if two vegetables and no fruits were served.

GAO evaluation

We reviewed the OIG working papers for all 32 schools where auditors found missing fruit/vegetable components. We examined computer printouts, summary sheets of meal counts, tally sheets used to count missing components, menus, and the auditors' notes and interviews on their efforts to determine what the schools intended to serve. We also tried to determine whether the auditors correctly determined which components were needed and which were missing.

The working papers contained menus for 25 of the 32 schools. From these menus, auditors' notes, and tally sheets, we were able to determine that the auditors only took exceptions if a lunch did not contain two fruits and/or vegetables. We found no cases that indicated the auditors believed that if two fruits were served, a vegetable must also be served or vice versa. Examples follow.

- One school offered an orange and a juice cup on the day visited. No vegetables were offered. The working papers showed that one student took an orange but no juice cup; another student took the juice cup but no orange. All other students took both. In accordance with Service regulations, the auditor correctly marked two lunches as ineligible and took no exceptions for missing vegetables.
- One school served a fish sandwich, macaroni salad, tapioca pudding, and milk. Since none of these items can be counted as a fruit/vegetable component, the auditor took exception to all 149 lunches served that day.
- One school planned to serve a peanut butter or ham sandwich, an orange or raisins, celery sticks, and milk.

However, the school never served the celery so the auditor took exception to all 165 lunches served that day for having a vegetable component missing.

For 7 of the 32 schools, menus were not available in the working papers. While we cannot be certain that the auditors correctly took exceptions at these schools, we found nothing in the working papers indicating that they took exceptions incorrectly and, based on what they did at the 25 schools, we have no reason to question their findings.

As a further check of OIG's handling of missing components, we reviewed files for all 11 schools where OIG found more than 20 lunches ineligible for missing milk. Using methods similar to those used in checking fruit/vegetable exceptions, we verified that, except for a few questionable instances at one school, the auditors correctly handled milk exceptions.

#### Service comments--handling of offer-versus-serve provision

The Service contends that it could not be sure that the offer-versus-serve provision was handled properly in junior and senior high schools because the audit guidelines lacked detailed procedures for handling this situation. In offer-versus-serve schools, the schools must offer five lunch components but students only have to take three to qualify the lunch as reimbursable.

#### GAO evaluation

The audit guidelines lacked detailed explanations of the offer-versus-serve provision. However, the auditors also were provided with copies of Service regulations and administrative manuals which explained this provision. The audit guidelines did provide guidance for recording meal counts when this provision was applicable.

As we were examining the 43 cases of missing meal components (32 fruit/vegetable and 11 milk), we also reviewed meal count summaries and auditors' notes to determine if OIG correctly handled the offer-versus-serve provision. In 5 of the 43 cases, this provision was applicable. In four of the five cases, the auditors followed audit guidelines and recorded individual exceptions in the section of the summary sheet designated for offer-versus-serve schools. In the other case, the auditors took a blanket exception to all lunches served because they found that only three of the five required components were offered. We found no evidence that OIG improperly handled the offer-versus-serve provision.

Service comments--handling of meals served as seconds

The Service was not sure how OIG handled lunches served as seconds. Service regulations permit schools with leftover lunches to serve seconds and claim them for reimbursement provided that they serve a complete lunch to each student requesting seconds.

GAO evaluation

OIG said that it only took exceptions to lunches claimed as reimbursable seconds when they were served piecemeal. For example, if items from five complete lunches were served to 10 students--no student receiving a complete lunch--the auditor would take exceptions for five ineligible seconds. The method OIG says it used to count seconds was correct. However, the working papers had insufficient detail to enable us to verify that individual auditors used this method.

Service comments--reimbursement claims for missing lunch components

The Service contends that it was unable to determine how OIG decided that a meal with a missing component was eventually claimed for Federal reimbursement.

GAO evaluation

As stated earlier, OIG compared its meal count with the meal count that a school said it intended to submit for reimbursement and based an estimate of overclaims on the difference in these two counts. OIG assumed that a school would not change its count from what it told the auditor it intended to claim. However, OIG did not check the actual reimbursement claims to see if the school changed its count.

To determine the reasonableness of OIG's assumption that the school would not change its count, we reviewed 26 schools' actual reimbursement claims. In all 26 cases, the schools claimed what they had told the auditors they intended to claim. For example, at one school, all 165 lunches served on the day audited were ineligible because a required component was missing. The cafeteria manager had acknowledged that the component was missing. Nevertheless, the reimbursement claim showed that the school claimed reimbursement for all 165 lunches served that day.

On the basis of our test, we believe that OIG's assumption was reasonable. Also, even if the schools' claimed counts had been changed to agree with the auditors' counts, there is no reason to believe the schools' original (incorrect) counts would not have been claimed except for OIG's advising the schools that the counts were incorrect.

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In summary, we found little or no evidence that OIG incorrectly handled missing components, the offer-versus-serve provision, or lunches served as seconds. We believe that OIG reasonably determined that lunches with missing components were actually claimed for reimbursement. Therefore, we believe that OIG has exposed a significant problem. We believe, however, that a problem exists relative to the \$12.2 million estimate of the May 1980 overclaim. This is explained in our discussion on the statistical formula OIG used. (See pp. 18 and 19.)

MORE LUNCHES WERE CLAIMED FOR REIMBURSEMENT  
THAN SUPPORTED BY SCHOOLS' MEAL COUNTS

OIG finding

Prior OIG audits have found that inflated meal counts are used for reimbursement claims. A 1976 audit of the New York City school system found that four schools consistently reported more free lunches served than the average daily attendance at the schools. Also, on some occasions the number of free lunches claimed by these schools exceeded enrollment.

In this audit OIG tried to gauge this problem's nationwide significance. OIG assumed that, for each school visited, the lunch count each of the schools provided to OIG for that day would represent the schools' average daily count for the month. OIG then compared the amount of a claim based on this average daily count with the amount of a claim based on the average daily count the schools or their school districts actually reported for May reimbursement. OIG determined that the reported average daily count exceeded the average count obtained from its school visits. It estimated that these schools claimed more lunches for reimbursement in May than they were entitled to claim. OIG used the difference as the basis for projecting a \$7 million nationwide reimbursement overclaim estimate for May.

Service comments

The Service questioned the validity of the overclaim determination because it believed OIG did not ensure that it visited schools on typical days. The Service contends that if OIG wanted to determine if school counts supported May claims, OIG should have visited the schools on randomly selected days in May.

GAO evaluation

We reviewed OIG working papers to determine the timing of its school visits. Although the days on which OIG visited schools were not randomly selected, they included a good

representation of each school day. OIG visited 32 schools on Mondays, 36 on Tuesdays, 51 on Wednesdays, 57 on Thursdays, and 44 on Fridays. We believe, however, that a statistical question exists about the overclaim estimate. This is explained in our discussion on the statistical formula OIG used. (See pp. 18 and 19.)

FACTORS LIMITING AUDIT EFFECTIVENESS

The Service cited the following problems it believed contributed to flaws in the audit:

- Audit guidelines were inadequate.
- Inexperienced auditors were used.
- Audit working papers were confusing.
- An incorrect computer program was used.

Service comments in these areas and our evaluations follow.

Service comments--audit guidelines were inadequate

The Service said that because of the very limited time available for OIG's audit planning, the audit guidelines were completed the night before the audit seminar. Therefore, OIG auditors had very little time to review the audit guidelines. The Service said also that the audit guidelines were imprecise in a number of important areas, such as the fruit/vegetable exception area.

GAO evaluation

Since the audit working papers do not contain a complete history of the audit's planning phase, we discussed the Service's comments with OIG. OIG said that although the audit guidelines were finalized shortly before the audit seminar, these guidelines were essentially an updated and refined version of special audit guidelines used in prior large school district audits. Also, the guidelines were further updated and revised at the audit seminar based on input from OIG headquarters and regional auditors. In addition to the audit guidelines, auditors were given copies of Service regulations and administrative guidelines.

We agree that the audit guidelines were imprecise in the fruit/vegetable exception area. However, as discussed on pages 12 and 13, our review of the fruit/vegetable exception area disclosed little evidence that auditors incorrectly handled this part of the audit.



Service comments--inexperienced auditors were used

The Service said that the limited planning and the problems with the audit guidelines might have been less of a concern if the auditors had extensive experience in reviewing school nutrition programs. It was the Service's understanding, however, that many OIG auditors had little or no past experience in reviewing school nutrition programs.

GAO evaluation

OIG assigned 83 auditors to this assignment. Of these, we were able to get past experience information on 49. We found that 40 of the 49 had previous experience in school nutrition audits.

OIG said that auditors with limited experience in school nutrition programs were generally teamed with more experienced auditors, especially for the home visit phase of the audit. In addition, OIG said that experienced auditors conducted the reviews of the school lunch operations and supervisory auditors supplemented the school and home visit audit teams.

Service comments--audit working papers were confusing

The Service contends that audit working papers were not assembled systematically and that the level of detail varied significantly from auditor to auditor.

The Service also contends that decisions made by auditors in determining overclaim amounts were often undocumented and that this lack of documentation made a meaningful review of some aspects of the audit virtually impossible.

GAO evaluation

We reviewed the working papers and found that OIG maintained a case file for each school selected. The auditors filed income verification information in one section and school visit information in another. Information on the revisited schools was generally filed separately. A separate file was kept on administrative matters. We concluded that the working papers were organized systematically which facilitated their use and review.

We found some difference in the level of detail from auditor to auditor, but generally the working papers contained at least the minimum amount of information necessary to document an audit finding.

The Service agrees that the working papers were adequate for a review of aspects of the audit relating to income verification. In the area of overclaim amounts due to missing components

and inflated reimbursement claims, the working papers included numerous cases and files that we were able to examine. While we had varying degrees of difficulty in documenting auditor decisions relating to findings, in most cases we were able to verify findings based on the audit working papers. Therefore, we do not believe that documentation problems were widespread and serious enough to support the Service's contention that a meaningful review of certain aspects of the audit, particularly those relating to overclaim amounts, was virtually impossible.

Service comment--incorrect computer program was used

In addition to a major computer program problem which the Service identified and OIG corrected, the Service said that it had discussed some other problems with OIG but that OIG had not resolved them. One problem cited was possible double counting in determining the reimbursement overclaims caused by inflated school meal counts.

GAO evaluation

We obtained documentation from the Service relating to problems it had with the OIG computer program. We found that OIG properly computed the reimbursement overclaims. From our review, the computer program does not appear to contain any obvious major errors.

INAPPROPRIATE STATISTICAL FORMULA WAS USED

OIG finding

In each major deficiency category discussed in OIG's report, an estimate was made of the dollar impact the deficiency would have nationwide for the month of May 1980. The major estimates were as follows:

	(millions)
Schools made errors certifying students for free or reduced-price meals.	\$ 9.5
Families supplied incorrect information on applications.	19.2
Ineligible and misclassified lunches claimed for reimbursement.	12.2
More lunches were claimed for reimbursement than were supported by the schools' counts.	<u>7.0</u>
Total	<u>\$47.9</u>

The impact of these overclaim amounts if projected over a school year would be much greater.

Service comments

The Service said that the statistical formula OIG used consistently understated the confidence interval around each of the estimated overclaim amounts; that is, the statistical formula understated the size of the sampling error.

GAO evaluation

We believe a problem exists with the statistical formula OIG used to calculate the size of the sampling error. Our preliminary calculations indicate that the sampling error could be large because of stratification problems. While the estimated overclaim amounts might be fairly good "best estimate" indicators, we believe the amounts are subject to a large degree of variability and should be used with caution. We are working with OIG and Service statisticians to determine the degree of the problem with the statistical formula. Our analysis will require some very detailed work and will take more time. We will provide the committee the results of our analysis as soon as they become available.

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At your request, we did not obtain agency comments. As arranged with your office, unless you publicly announce its contents earlier, we plan to distribute this report 2 days after its issue date. Then we will send copies to the House and Senate Committees on Appropriations, Senate Committee on Agriculture, Nutrition, and Forestry; the Secretary of Agriculture; the Director, Office of Management and Budget; and to other interested parties.

Sincerely yours,



Henry Eschwege  
Director