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

RESOURCES, COMMUNITY
AND ECONOMIC DEVELOPMENT
DIVISION

SEP 7 1983

Mr. Robert E. Leard, Administrator
Food and Nutrition Service
Department of Agriculture

Dear Mr. Leard:

Subject: Observations on the National School Lunch Program's Assessment, Improvement, and Monitoring System

We recently completed a survey to obtain information on the operation of the Food and Nutrition Service's Assessment, Improvement, and Monitoring System (AIMS). AIMS was implemented in January 1981 under interim regulations (final regulations were issued on June 17, 1983) which established four standards to improve the overall management of the National School Lunch Program and assure correct claims for Federal program reimbursement. States are responsible for determining whether the program operates in compliance with these standards by conducting periodic audits or reviews of a sample of schools under the jurisdiction of local school food authorities (SFAs).

In fiscal year 1983, Department of Agriculture (USDA) expenditures for the National School Lunch Program totaled an estimated $3.4 billion. Monitoring of this large program is difficult because it operates every school day--about 180 days each year--in about 90,000 schools across the Nation.

Concern over the integrity of the program was heightened when the USDA Office of the Inspector General's (OIG's) report on the results of its May 1980 audit of National School Lunch Program integrity disclosed serious problems involving the eligibility of students receiving free or reduced-price meals, the application process, and the counting of meals eligible for Federal reimbursement. The Congress has allocated funds specifically for improving program integrity and has included in the Omnibus Budget Reconciliation Act of 1981 (42 U.S.C. 1758) several provisions addressing the issue of abuse of free and reduced-price school lunch benefits.

We did our survey work at Service headquarters in Alexandria, Virginia; its regional office in Chicago, Illinois; State offices in Maryland, Michigan, Ohio and Wisconsin; and selected SFAs and schools in those States. We interviewed Service headquarters and regional office officials responsible for monitoring State implementation of AIMS, State officials responsible

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for implementing AIMS, and local officials responsible for managing the school lunch program. We reviewed (1) comments on the then proposed AIMS regulations, (2) the OIG report on its May 1980 audit of National School Lunch Program in quality, (3) 1982 management evaluation reports prepared by the Service's Chicago Regional Office on the six States in the Chicago Region, (4) State AIMS review reports on SFAs, and (5) corrective action plans and reports SFAs submitted as a result of AIMS reviews. We did our work in accordance with generally accepted government auditing standards.

Although we do not plan to do additional work in this area at this time, we want to advise you of our observations on certain aspects of AIMS dealing with

--obtaining financial restitution from SFAs,

--assessing meal counting systems,

--determining quantities of meal components served,

--performing follow-up AIMS reviews, and

--verifying information on applications for free and reduced-price meals.

AIMS standards

The specific AIMS standards used by States in evaluating compliance with program requirements provide that:

1. Applications for free and reduced-price meals must be correctly approved or denied,

2. The number of free and reduced-price meals claimed for reimbursement by each school for any review period can be no more than would be mathematically possible for the number of children in that school correctly approved for free and reduced-price meals,

3. The system for counting and recording the number of paid, free, and reduced-price meals served by SFAs and schools must yield correct claims for Federal reimbursement, and

4. Meals for which reimbursement is claimed must contain food components as required by USDA regulation.

The standards are commonly referred to by the numbers shown above (1 through 4).

Need for financial restitution from SFAs for applications incorrectly approved

Financial restitution is not required from an SFA when State reviewers find that it has invalid applications exceeding the tolerance level of 10 or 10 percent, whichever is greater. Service instructions on AIMS state that an application must contain the following information before it can be considered valid and approved (if it meets eligibility criteria):

--Child's or children's name,

--Family size,

--Income data, and

--Parent's, guardian's or adult household member's signature.

The instructions also state that each application should have the approving official's signature or initials and date of approval. Subsequent to these instructions, the Congress passed legislation requiring that the social security number of each adult household member be included on the application.

Although applications are required to be complete before approval, State AIMS reviews showed that about 18 percent of the SFAs reviewed during one school year in the following four States that we visited had more than 10 percent invalid applications, thereby not meeting performance standard 1.

	Number of SFAs	
	Reviewed	Did not meet performance standard 1.
Maryland	23	2
Michigan	318	18
Ohio	226	110
Wisconsin	314	27
Total	881	157

AIMS instructions provide for financial restitution from SFAs that do not meet performance standards 2, 3 or 4, but do not provide for similar recoupment for not meeting

performance standard 1. Service officials told us that because SFA records often do not show which students ate lunch, determining the amount of recoupment would be difficult.

A related issue has to do with the percentage tolerance that has been established for determining compliance with the standard. Approval or denial of school lunch applications is not as complex or time-consuming as it is for applications for other Service programs--for example, Food Stamp Program applications. Yet the 10-percent tolerance level for determining compliance with standard 1 is more lenient than the error-rate tolerances established by the Congress for the Food Stamp Program--9 percent for 1983, 7 percent for 1984, and 5 percent thereafter.

Under a 10-percent tolerance, SFAs can have hundreds of invalid applications and still be considered in compliance with standard 1. For example, on the basis of the more than 9,000 applications AIMS reviewers examined at schools in one SFA, it would be possible to have as many as 900 invalid applications and still comply with standard 1.

Recommendations

Because invalid applications result in incorrect claims for Federal reimbursement, we recommend that you consider requiring States to take financial action against SFAs that do not meet performance standard 1--perhaps based on a sliding scale depending upon the extent to which the percent or number of invalid applications exceeds the tolerance set. We believe this would provide SFAs additional incentive to make sure that their applications have been correctly approved or denied.

Because the 10-percent tolerance for standard 1 seems high compared with the error-rate tolerances established for the Food Stamp Program, we recommend that you consider setting a lower tolerance.

Follow-up review requirements may be too lenient

A State can select one of four options for complying with AIMS. It can

--perform reviews on a 4-year cycle,

--perform audits on a 2-year cycle,

--perform a combination of reviews and audits, or

--operate under its own Service-approved compliance monitoring system.

Under the review option, a sample of schools in each SFA must be reviewed every 4 years. For SFAs that do not meet an AIMS performance standard, follow-up reviews are to be made (no later than December 31 of the following school year) of every large SFA (generally 40,000 or more students) but only 25 percent of small SFAs (generally less than 40,000 students).

Under the 25-percent requirement for follow-up reviews, however, the schools in a small SFA that have not met one or more performance standards may continue to not meet the standards for years before being subject to another AIMS review. We noted that in one of the States we visited (Michigan), the official responsible for AIMS implementation required State reviewers to make follow-up reviews of all SFAs that did not meet a performance standard because he believed this would improve SFA management and better assure program integrity.

Recommendation

We recommend that you reexamine the adequacy of the 25-percent requirement for follow-up reviews.

Requirement for financial restitution from SFAs may be too lenient in some cases

Under the review option, States can require financial restitution from any SFA that does not meet performance standards 2, 3, or 4 on an initial review. The only exception is that States must require restitution when an initial review shows that an SFA has not properly aggregated the meal counts from reports submitted by individual schools. Restitution is required when follow-up reviews show that standards 2, 3, or 4 have not been met.

None of the four States we visited elected to require restitution on the basis of initial reviews. State officials told us that the main purpose of their AIMS efforts was to obtain program improvements rather than monetary restitution. Under the audit option, however, States must require restitution from SFAs that do not meet standards 2, 3, or 4 on an initial audit. We believe that requiring restitution on the basis of initial reviews would provide a greater incentive to program managers to make program improvements.

Recommendation

Because not meeting any one of the four AIMS standards would likely cause incorrect claims for Federal program reimbursement, we recommend that you consider requiring restitution from SFAs that do not meet AIMS standards on an initial review.

Performance standard 2 seems overly lenient as a measure of whether free and reduced-price meal counts are excessive

A school violates standard 2 only if it claimed more free and reduced-price meals, as shown in the SFA's most recent claim for reimbursement, than is mathematically possible. Meeting this standard does not mean that the counts are correct, only that the counts have not exceeded the maximum possible.

State reviewers multiply the number of correctly approved free and reduced-price applications determined under performance standard 1 by the number of serving days in the claim period to determine the maximum number of meals a school can claim. If the number of free or reduced-price meals claimed exceeds the maximum, the school has violated the performance standard.

Recommendation

We recommend that you require that efforts be made to develop better ways to judge whether meal counts are excessive. One possibility may be to check a school's attendance records against the school's meal counts for a sample of days.

Performance standard 3 is not consistently applied

All four States we visited took steps to ensure that an approved system for counting and recording meals at each SFA was used but the extent of testing the system varied among the States.

Performance standard 3 requires that each school have a system for counting and recording paid, free, and reduced-price meals that will yield correct claims. To make this determination, State reviewers observe how a sample of schools count the different categories (paid, free, and reduced-price) of meals being served and how the daily counts are recorded. Schools report their meal counts to the SFA where the counts are required to be correctly aggregated and reported to the State.

The States we visited varied in their approach to checking compliance with performance standard 3. In one State, reviewers merely checked that an approved counting and recording system was in place in each SFA. The reviewers did not count meals served at individual schools nor aggregate the counts from individual schools and compare the result with the SFA's total count. None of the SFAs reviewed in that State were found to be in noncompliance with performance standard 3.

In another State, however, reviewers not only took steps to assure that the approved counting system was in place but also tested the system by counting meals served (by category, where

possible) and compared their count with the school's count. The reviewers also aggregated the counts from individual schools and compared the total with the SFA's total. In that State, reviewers found that eight SFAs did not properly aggregate meal counts and financial restitution was required from those SFAs.

Regarding the requirement that schools use approved counting systems, State officials said that the Service has not provided adequate guidance on what financial action is appropriate when State reviewers find that schools do not have or do not use approved systems. State officials told us that this is a vague area and they are not sure how to proceed in establishing a proper amount of restitution because determining correct counts for the days prior to review is often impossible.

Recommendations

We recommend that you consider requiring States to test meal counts under performance standard 3 to provide a better degree of assurance that SFA reimbursement claims are accurate. We also recommend that you provide States additional guidance on what amount of restitution should be required when schools do not have or use an approved system for counting meals served. One possibility might be to establish a restitution amount that covers a stipulated period of time and is based on the count variance found on the day(s) of the review.

Performance standard 4 does not assure that quantities served to each student comply with regulations

Performance standard 4 requires that meals contain the number of USDA-required food components but it does not require that the components contain the minimum food quantities specified. Service officials told us that the major problem in requiring AIMS reviewers to monitor the quantity requirements would be that adequate standards and procedures for testing quantities have not been developed for the reviewers to use. USDA is considering publishing interim regulations requiring that each State develop a system for monitoring compliance with required meal patterns.

Both we and USDA's OIG have taken note, in reports[1] and testimonies, of the absence of effective Service standards and procedures for food quantity testing. Issuing new regulations requiring 50 States to tackle this problem individually seems a questionable approach and would result in inconsistent standards and procedures for testing whether food quantities meet uniform national requirements.

Recommendation

We recommend that, as long as Service regulations continue to require that minimum quantities of various types of food be served to qualify a meal for Federal reimbursement, you require that needed guidance for monitoring this requirement be developed and provided to the States, and that compliance with the requirement be made a part of AIMS.

Need for a performance standard covering verification of information on applications

Ineligible children receiving free or reduced-price meals because of inaccurately reported family income and/or size has been a problem in school feeding programs. The OIG report on its May 1980 review of National School Lunch Program integrity stated that over 26 percent of the 765 nationally sampled applications for free or reduced-price meals had incorrect information which affected student eligibility. The 1981 Omnibus Budget Reconciliation Act required USDA to take action on this problem by requiring that applications include the social security numbers of all adults in the household and that reported family income be verified. Under the provisions of this act, the Service in July 1983 released a report prepared by a private contractor entitled "Income Verification Pilot Project, School Year 1981-82 In-Home Audit Findings" which showed that about 18 percent of 741 sampled households were receiving benefits in excess of those to which they were legally entitled because of misreporting of household size and income on meal applications.

USDA recently published interim regulations requiring State agencies to verify 3 percent or 3,000, whichever is less, of an SFA's approved applications for free or reduced-price school meals. There is a possibility that this requirement could be changed if the Administration's proposal that local food stamp offices verify the information on such applications is approved.

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[1]Certain Food Aspects of the School Lunch Program in New York City (CED-77-89, Jun. 15, 1977)

How Good are School Lunches? (CED-78-22, Feb. 3, 1978)

Efforts to Control Fraud, Abuse, and Mismanagement in Domestic Food Assistance Programs: Progress Made--More Needed (CED-80-33, May 6, 1980)

Recommendation

To provide assurance that the legislative and regulatory requirement for verifying information on applications for free or reduced-price school meals is effectively carried out, we recommend that you develop an additional AIMS standard for monitoring SFA compliance with this new and important program requirement.

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We appreciate the cooperation extended us by Service and State program officials and reviewers, and by local school officials. Please advise us of any actions taken or planned on the matters discussed above.

Copies of this letter are being sent to the Assistant Secretary for Food and Consumer Services and the Inspector General.

Sincerely yours,

Stanley S Sargol

Stanley S. Sargol
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