



PERFORMANCE AUDIT REPORT

**K-12 Education: Reviewing Free-Lunch Student
Counts Used as the Basis for At-Risk Funding, Part I**

Executive Summary ***with Conclusions and Recommendations***

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
November 2006**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$11 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators

or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

LEGISLATIVE POST AUDIT COMMITTEE

Senator Les Donovan, Chair
Senator Anthony Hensley
Senator Nick Jordan
Senator Derek Schmidt
Senator Chris Steineger

Representative John Edmonds, Vice-Chair
Representative Tom Burroughs
Representative Peggy Mast
Representative Bill McCreary
Representative Tom Sawyer

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.state.ks.us
Website:
<http://kslegislature.org/postaudit>
Barbara J. Hinton, Legislative Post Auditor

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.state.ks.us

November 13, 2006

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency's response from our completed performance audit, *K-12 Education: Reviewing Free-Lunch Student Counts Used as the Basis for AT-Risk Funding, Part I*.

The report also contains several appendices, including a detailed description of the methodology we used to determine free-lunch eligibility for our random sample, a summary of the major free-lunch application reviews conducted by Department of Education staff, and a comparison of school district enrollment counts to comparable U.S. Census Bureau estimates for the 2003-04 school year.

This report includes several recommendations for the Department of Education and for appropriate legislative committees. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Overview of the National School Lunch Program and Distribution of At-Risk Funding in Kansas

The National School Lunch Program provides free lunches to students who meet poverty thresholds or participate in designated programs.page 4
Children from families with incomes below 130% of the poverty level qualify for free lunches. In addition, students who participate in programs such as Food Stamps and Temporary Assistance for Needy Families, or who've been identified as migrant, homeless, or runaway, also can receive free lunches.

Kansas distributes at-risk funding based on the number of students eligible for free lunches in each district.page 5
Districts report a count of free-lunch students along with other enrollment data to the Department of Education. Department staff perform a comprehensive enrollment audit during which they remove ineligible free-lunch students because of errors on the applications, or because the students weren't enrolled and attending on September 20th. Based on the at-risk weighting in the school funding formula, school districts received \$822 in at-risk funding for each free-lunch student in 2005-06. Because the at-risk weighting increases in the future, that amount will grow to \$2,021 by 2008-09.

Question 1: Does the Count of Free-Lunch Students Used for At-Risk Funding Accurately Reflect the Number of Students Who Are Eligible for the Program?

In 2005-06, Kansas districts received almost \$111 million in at-risk funds for about 135,000 students identified as eligible for free lunches.page 7
That amount was more than double the previous year's amount because of increases in at-risk funding per student.

About 17% of free-lunch students in our Statewide random sample were ineligible, costing the State an additional \$19 million in at-risk funds.page 8
Of the 500 free-lunch students in our random sample, 85 students weren't eligible, primarily because households under-reported their income. Many households are able to under-report their income and still receive free lunches because federal law requires school district officials to accept their applications at face value. Projecting our results to all free-lunch students, we estimate the State paid almost \$19 million in at-risk funds for nearly 23,000 ineligible students in 2005-06.

Based on our survey of district officials, about 6,900 students Statewide may have been eligible for free lunches but their families didn't apply.page 10
According to district officials, most eligible families who don't apply are either too embarrassed to do so, or are concerned about the confidentiality of their applications.

The free-lunch counts used for at-risk funding also may include a number of students the Legislature didn't intend to fully fund. *The Department has developed an alternative at-risk funding application so districts can get at-risk funds for students attending schools that don't provide lunches. This includes a number of non-traditional students for which at-risk funding may not have been intended. For example, our review of eight alternative schools that don't serve lunch showed that 127 of the 319 free-lunch students in those schools were age 20 or older.*

..... page 11

Districts also receive the full amount of at-risk funding for part-time students (primarily kindergartners) because the State doesn't prorate the funding. For example, in the Topeka school district, at-risk funding based on an FTE count rather than a headcount would have saved the State \$340,000 in 2005-06. Because of future increases in at-risk funding, those savings could grow to about \$840,000 by 2008-09.

We identified additional problems with the Department's free-lunch reviews that, if addressed, could produce a more accurate count. *In 2005-06, the child nutrition team didn't report roughly 1,850 ineligible free-lunch students it knew about to the Department's fiscal auditors. Auditors could have removed them from the at-risk count, saving the State \$1.5 million in at-risk funding. Also, the Department's fiscal auditors didn't audit every school in the six largest districts, potentially missing about 100 ineligible students in 2005-06. Lastly, because the Department's two teams don't coordinate their reviews, the same free-lunch application may be reviewed several times by Department staff.*

.....page 13

Question 1 Conclusion. *The most important factors that cause school district officials to mistakenly approve a large number of ineligible students for free lunches are outside the districts' control. Even though many families mistakenly under-report or even purposefully lie about their income on the free-lunch application, federal law requires school districts to accept those applications at face value. That's because, under the National School Lunch Program, concerns about fraud and abuse are secondary to the goal of making sure students who need free meals get them.*

.....page 16

Although school districts do work to verify the information on some of the applications, they're not authorized to look at the tax returns and wage reports we could. This means the free-lunch counts will always be overstated, no matter how diligently school district and Department of Education officials enforce the rules of the Program. Still, as we've shown, there are some things the Department could do to make the counts more accurate.

Question 1 Recommendations. *To make the free-lunch count more accurate, we recommend that the Department require districts to verify a sample of the alternative at-risk applications, and for the child nutrition team to share eligibility findings with the audit team. To increase the efficiency of free-lunch eligibility reviews, we recommend that the Department create a system to indicate which applications its staff have reviewed and*

.....page 16

discourage the two teams from duplicating any reviews. After making these adjustments, the Department should determine the resources necessary to audit the free-lunch counts in all schools. Lastly, we recommend that the House Select Committee on School Finance and the Senate Education Committee consider amending State law to institute an age limit for free-lunch students for at-risk funding, and to change the at-risk funding to an FTE count.

Question 2: How Does the Number of Free-Lunch Students Reported by Districts Compare with Poverty Estimates Compiled By the U.S. Census Bureau?

For 2003-04, Kansas had 54,000 more free-lunch students than adjusted U.S. Census estimates would suggest.page 18
The Census data suggest that approximately 76,000 children in Kansas were at or below 130% of the federal poverty level in 2003-04, compared with almost 130,000 free-lunch students.

The free-lunch count is significantly higher than the adjusted Census estimate, primarily because the count includes many ineligible students.page 19
Based on our results from Question 1, we estimated that 22,000 of the almost 130,000 free-lunch students in 2003-04 weren't eligible, which is almost half the 54,000-student difference between the free-lunch count and the Census Bureau estimate. Other factors include what age groups are counted, and whether foster care children are included.

The Census Bureau's district-level poverty estimates have several limitations because of the way they're produced.page 20
The Census Bureau estimates are less accurate for certain populations, such as rural communities or transitory families, which affects poverty measurements. In addition, the Census Bureau counts children in the districts where they live, not in the districts where they're enrolled. Lastly, the census poverty estimates have a significant lag time and may become less accurate the further they get from the 10-year census count.

Question 2 Conclusion.page 22
Many states, including Kansas, use student poverty as a proxy for the number of at-risk students within a school district. The number of students who are eligible for free lunches offers a timely and convenient measure of student poverty that is linked to federal poverty guidelines. Unfortunately, a significant number of the students included in those counts aren't eligible for free lunches.

Poverty estimates published by the U.S. Census Bureau offer a credible alternative to free-lunch counts for measuring student poverty, but those estimates have limitations too. It takes the Census Bureau several years to publish the estimates and, as we've seen, they're not always a reliable measure of student poverty at the school-district level. Because neither free-lunch counts nor Census estimates are perfect measures, policymakers have to weigh the two and decide which set of limitations they can live with.

Appendix A: Scope Statement	page 24
Appendix B: LPA Methodology Used to Determine Free-Lunch Eligibility	page 26
Appendix C: Summary of the Major Free-Lunch Application Reviews Conducted by Kansas Department of Education Staff	page 30
Appendix D: Comparison of the School District Enrollment Counts to the U.S. Census Bureau Populations Estimates, by School District	page 31
Appendix E: Agency Response	page 42

In its response, the Department indicated it would implement the recommendations we made to them.

Appendix F: Changes Made to the Audit Report on December 18, 2006	page 45
--	---------

Notice to the Reader

On December 18, 2006, Legislative Post Audit made changes to pages 7 and 10 of this report to correct an error that was identified after the report was released in November 2006.

*A “strike-and-add” version of those changes is presented in **Appendix F** so the reader can see how the report was changed. All legislative committees and all agency officials that received copies of the initial report were sent a copy of these changes.*

This audit was conducted by Katrin Osterhaus, Allen Bartels, Dan Bryan, and Heidi Zimmerman. Scott Frank was the audit manager. If you need any additional information about the audit’s findings, please contact Katrin at the Division’s offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.