I.   INTRODUCTION

The U.S. Department of Agriculture (USDA) enacted the National School Lunch Program (NSLP) in 1946 to "safeguard the health and well-being of the nation's children and to encourage the domestic consumption of nutritious commodities and other foods." The program provides Federal financial assistance and commodities to schools serving lunches that meet required nutrition standards. Children living in families whose incomes are 130 percent or less of the Federal poverty guideline—or whose families receive food stamps, Temporary Assistance for Needy Families (TANF), or assistance from the Food Distribution Program on Indian Reservations (FDPIR)—qualify for free meals. Those living in families whose incomes are between 131 and 185 percent of the Federal poverty guideline qualify for reduced-price meals. All other children pay full price, although full-price lunches are also Federally subsidized by a small amount.

In the early 1990s, the USDA introduced the policy of direct certification to streamline the process of determining the eligibility of some children for free school meals. Previously, outside of Provision 2 and 3 schools (described below), all families who wished their children to receive these benefits—that is, to be certified for free or reduced-price meals—had to complete an application and provide data on either family size and income or receipt of food stamp, TANF, or FDPIR (FS/TANF/FDPIR) benefits. School officials then determined whether families met eligibility requirements and certified for benefits those students who qualified for free or reduced-price meals. Under direct certification, information from the welfare/food stamp agencies in a State is used to directly certify FS/TANF/FDPIR recipients, without requiring these students' families to complete certification applications.

This report describes the findings of the Direct Certification Study, which examines the practice of direct certification in public school districts nationally. This study has three major objectives, each addressed in this report. The first is to estimate the prevalence of direct certification and describe how districts implement the policy. The second is to estimate the effects of direct certification on program access—its effects on certification and participation in the NSLP. And, the third is to estimate the effects of direct certification on program integrity--its effects on the extent to which students approved for free or reduced-price meals—either by application or through direct certification—are ineligible for the benefits they are receiving. This last objective requires that we first estimate rates of ineligibility.

The remainder of this chapter describes the policy background that provides a context for the study (Section A) and gives a brief overview of the study's methodology for addressing each of the objectives (Section B). Chapter II reports on the prevalence of direct certification and methods school districts use to implement it. Chapter III presents estimates of the effects of direct certification on certification and participation. Chapter IV explains our estimates of administrative and income ineligibility. Finally, Chapter V presents our estimates of the effects of direct certification on ineligibility of certified students for the benefits they are receiving.

A. DIRECT CERTIFICATION AND CERTIFICATION ERRORS: POLICY BACKGROUND

The NSLP is a Federal program that benefits all children who eat school lunches meeting nutritional requirements in participating schools. The program subsidizes, in the form of cash reimbursements and commodities, all school lunches served to children of all income levels. The level of Federal subsidy, however, depends upon the income levels of the children who consume the meals. The largest subsidy goes for meals served to children certified for free meals—those living in families whose incomes are 130 percent or less of Federal poverty guidelines. The

subsidy is slightly lower for meals served to children certified for reduced-price meals—those living in families whose incomes are between 131 and 185 percent of the guidelines. Finally, a small subsidy is provided for meals served to all other children—those who pay "full price" for their meals.

The NSLP is administered by the USDA's Food and Nutrition Service (FNS) through its regional offices. The national FNS office also provides technical assistance to State agencies. State agencies administer fiscal elements of the program, provide technical assistance to local school food authorities (SFAs), and monitor their performance. The SFAs administer the program locally, typically at the district level. In addition to ensuring that program meals meet nutritional requirements, SFAs are responsible for processing applications, conducting verifications, counting meals served for purposes of claiming reimbursement, and maintaining records.

Like all programs that use means tests to direct government benefits to low-income households, the NSLP must balance several competing objectives: (1) *targeting*, or providing free or reduced-price meals to intended recipients while not providing them to children who do not qualify; (2) *administrative efficiency*, or holding down the costs of gathering and processing data to administer the program; and (3) *access*, or ensuring ease of access for intended recipients. Meeting the first objective by better targeting of benefits to only the intended recipients may compromise the other two objectives by raising administrative costs and creating barriers to access among intended recipients. On the other hand, efforts to promote access to the program among intended recipients may also lead to greater access among those not eligible for program benefits.

Various NSLP policy initiatives that have been implemented over the years have been developed as a response to research findings or anecdotal evidence that the program was

deficient in meeting one or more of the above program objectives. Thus, the initiatives have attempted to achieve one or more of these objectives without greatly compromising on the other objectives. For example, a 1980-1981 study by the USDA's Office of the Inspector General (OIG 1981) found that a large fraction (29 percent) of students receiving free or reduced-price meals were in families whose incomes did not qualify them for the benefits they were receiving. Partially in response to this finding, Congress enacted Public Law 97-35 in August 1981, which required households to provide more detailed information about household members and household income on their application for free or reduced-price meals, and led to the requirement that SFAs verify the eligibility of a fraction of their approved free or reduced-price applications.

These verification requirements remain in place today. SFAs must verify either (1) a random sample of the lesser of 3 percent or 3,000 approved applications, or (2) a focused sample of both (a) the lesser of 1,000 or 1 percent of all approved applications (selected from those with reported monthly incomes within $100 of the income threshold for receiving free or reduced-price meals), plus (b) the lesser of 500 or 0.5 percent of applications among those approved on the basis of FS/TANF/FDPIR benefit receipt (USDA 2001).[3] To verify the selected applications, SFAs request documentation from the households that submitted these applications to confirm their eligibility for free or reduced-price meals. This documentation may cover all current sources of household income and/or the household's current FS/TANF/FDPIR status. If the household does not provide sufficient documentation by a specified date, their free or reduced-price benefits are terminated.[4] Similarly, if the income or FS/TANF/FDPIR documentation provided by the household indicates that they are not eligible for the level of benefits they are

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[3]SFAs also have the option of verifying a random sample larger than the minimum requirements or even verifying all approved applications.

[4]These households are free to reapply for benefits and provide documentation at a later date.

currently receiving, their benefit level is adjusted accordingly. SFAs are required to complete the verification process by December 15 of each school year.[5] They also are required to maintain a description of their verification efforts and results, but are not required to report these results to State or Federal authorities on a regular basis.[6]

In the mid-1980s, the USDA's Food and Nutrition Service (FNS) contracted for the Study of Income Verification in the NSLP to determine how SFAs were implementing the congressional mandate for conducting verification and to examine the results of verification during the 1986-1987 school year. The study found that about 20 percent of verified cases had benefits reduced or terminated, roughly half for not providing the required information and half because the verified income was too high to qualify for benefits (USDA, FNS 1990). The study noted that the latter situation could arise either because a family had misreported its circumstances on their original application or because the family had experienced, but not reported, a change in its circumstances between the time they completed the application and the time their application was verified. Subsequent analysis suggested that most of the observed error was due to changes in circumstances rather than misreporting on the initial application (St. Pierre and Puma 1992).

The policy of direct certification was introduced in the late 1980s, primarily to improve program access and administrative efficiency. By using existing data from State food stamp or welfare offices to directly certify students from FS/TANF/FDPIR households, it was thought that fewer eligible children would fail to become certified for free meal benefits. And by eliminating the need for these children to complete applications and for these applications to be processed by

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[5]Waivers are occasionally granted exempting districts from this December deadline. In the 2001-2002 school year, for example, New York City was exempted from the December deadline due to the disruptions caused by the September 11 terrorist attacks.

[6]However, this information may be requested by State or Federal authorities as part of a review of SFA activities.

SFAs, it was thought that administrative costs could be reduced. Because direct certification relies on information provided by food stamp or welfare agencies rather than on information provided by families, directly certified families are excluded from verification requirements. Thus, the policy of direct certification was designed to improve the accuracy of targeting, in addition to the goals of promoting access and efficiency.

After initial testing in a few pilot sites, all districts offering school meals were given the option of using direct certification. In the mid-1990s, FNS contracted for a study of direct certification, for the purpose of determining how widespread its use had become, assessing its implementation at the State and district levels, and estimating its impact on program access. The study found that direct certification was being used in just under two-thirds of public school districts serving nearly three-fourths of the nation's students (Jackson et al. 1999). Moreover, State and local officials in districts using direct certification reported doing so because it simplified program administration and made the program more accessible to students. The study also found that direct certification had significant positive effects on districts' rates of free meal certification and NSLP participation.

The 1996 study of direct certification did not address the issue of how direct certification has influenced the targeting of free and reduced-price meal benefits to intended recipients. This is an important issue because direct certification has led to a situation in which the income verification system no longer covers all certified students in direct certification districts, since directly certified students are not subject to verification. Further, while regulations call for directly certified students to report any changes in their FS/TANF/FDPIR status to district authorities, the regulations did not set up a system by which information from State food stamp or welfare agencies would automatically be used to notify districts when children leave assistance.

So direct certification may have affected targeting in two ways. First, it may have led to changes in the results of districts' verification efforts even without any change in the underlying eligibility of students, because direct certification changes the pool of students in a given district from which the verification sample is selected. Second, at a given point during the school year, directly certified students themselves could be ineligible for the free meal benefits they are receiving. This would happen, for example, if they remained directly certified even after they stopped receiving FS/TANF/FDPIR and if the income of their household rose above 130 percent of Federal poverty guidelines. No previous study, however, has generated a national estimate of this error rate among directly certified students.

The issue of children being certified in error—that is, being certified even though they are ineligible for benefits—has received much recent attention. A 1997 study by the OIG found substantial errors in certification in an audit of SFAs in Illinois covering the 1994-1995 and 1995-1996 school years. Tordella (2001) found evidence of a large and growing problem of overcertification. He found, for example, that by 1999 the number of children certified for free meals was 28 percent larger than an estimate (based on data from the Current Population Survey) of the number whose annual income was 130 percent or less of Federal poverty guidelines.[7] By contrast, the number of certified children was only 18 percent greater than the number whose annual income was 130 percent or less of poverty in 1997 and 5 percent greater in 1994.

Another relevant policy initiative affecting the administration of the NSLP and certification for free and reduced-price meals was the initiation of Provisions 2 and 3, which are alternatives to the traditional procedures for determining the numbers of and reimbursements for free,

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[7]This measure is an imprecise indicator of overcertification, however, since it is likely that some households whose annual incomes were greater than 130 percent of poverty may had incomes less than 130 percent of poverty in the month in which they applied for benefits.

reduced-price, and paid meals served by a school. These provisions are designed to reduce administrative burden. Provision 2 is currently the more common arrangement and has been an option for schools since 1980, though it has become much more commonly used in recent years. Under Provision 2, schools must serve meals at no charge to all students for a four-year period. During the first, or base, year, a Provision 2 school determines meal price eligibility status as usual and counts the number of meals served, by meal type. The school may or may not use direct certification during the base year. During the subsequent three years, the school makes no new eligibility determinations, counting only the total number of meals served. Reimbursements during these years are determined by applying the percentages of free, reduced-price, and paid meals served during the base year to the number of total meals served during the current year.

B. STUDY METHODS

The two major sources of information used in this study are a survey of SFAs and administrative data collected from State food stamp and welfare agencies. Conducted in early 2002, the SFA survey was based on a nationally representative sample of 1,223 SFAs that offer NSLP lunches. The survey collected data on districts' enrollment, certification and participation rates, implementation of direct certification, and information on the features and results of their income verification system. The overall response rate to the survey was 81 percent. State administrative data were collected from 37 States on the FS/TANF status of school-age children at two points during 2001. Appendix A provides additional information on the collection of these two sources of data for the study. An overview of the methodology used to address each study objective is provided below.

1. **Direct Certification Prevalence and Implementation**

This report provides estimates of the proportion of public school districts nationwide (that offer NSLP lunches) that were using direct certification as of the 2001-2002 school year, as well as the proportion of students nationwide that attended direct certification districts. Another perspective on the prevalence of direct certification (as well as its implementation) involves estimating the proportion of those students attending direct certification districts who actually are directly certified, as well as the proportion who are certified by application. The report also examines the methods by which districts implement direct certification and estimates the proportions using each of the implementation types identified as part of the 1996 Study of Direct Certification. Each of these issues was addressed using data from the SFA survey. To explore changes in the prevalence and implementation of direct certification, these survey results were compared with a similar set of results from the 1996 study.

2. **The Impact of Direct Certification on Program Access**

The second objective addressed in this report is to estimate the impact of direct certification on rates of certification for free and reduced-price meals and NSLP participation. Estimates of the impact of direct certification on certification and participation rates address the issue of whether the policy of direct certification improves access to program benefits.

We used regression techniques to estimate each of these impacts of direct certification. Methods from the 1996 study were replicated to estimate impacts on certification and participation. In particular, we used two alternative models to generate these estimates—a district-level ordinary least squares (OLS) regression model and a State-level fixed effects model.

3. Effects of Direct Certification on Program Integrity

The third objective is to estimate the effects of direct certification on program integrity, as estimated by its impact on rates of ineligibility of free and reduced-price certified students for the benefit levels they are receiving. These estimates will inform the discussion of how the policy of direct certification influences the extent to which free and reduced-price meal benefits go to intended recipients. To be able to estimate this effect of direct certification, we first had to estimate rates of ineligibility among free and reduced-price certified students.

We also used the district-level OLS model to estimate the impact of direct certification on certification error rates. No State-level data on error rates were available with which to estimate a State-level model of error rates. Further details on procedures used to estimate ineligibility and estimate direct certification's effects on ineligibility are provided in Chapters IV and V.