

AUDIT PROPOSAL

Reviewing Free-Lunch Student Counts Used as the Basis for At-Risk Funding

SOURCE

This audit proposal was suggested by LPA staff.

BACKGROUND

Since the state's school finance formula was passed in 1992, state funding for at-risk services has been calculated based on the number of students that qualify for the federal free-lunch program. Funding for at-risk services has increased significantly over the years. The state provided \$44.1 million in dedicated funding for school districts to deliver additional services to students at risk of academic failure in 2001, which increased to \$406.3 million in 2021. The increase is likely due to inflation, an increasing number of qualifying students, and legislative changes to the funding formula. For example, the 2005 Legislature nearly doubled the weighting factor for free-lunch students. The 2006 Legislature added an additional high-density at-risk funding stream to districts with 35% or more of its students eligible for free lunch. As at-risk weighting increases, the number of students who qualify for the free-lunch program becomes an increasingly important factor in the state's school finance formula.

Our 2006 audit of the free lunch count showed about 17% of free-lunch students in our statewide random sample were ineligible. This error rate mainly resulted from households under-reporting their income. This error rate, if projected, cost the state an additional \$19 million in at-risk funds in 2005-06. The audit also identified a portion of students who may have been eligible, but their families didn't apply for the free-lunch program for various reasons.

An updated review of the eligibility and verification process could help legislators determine whether changes to the free-lunch process (and possibly at-risk process) are necessary to ensure funds help the intended population.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objective listed below is the question we would answer through our audit work. The steps listed for the objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: Does the number of free-lunch students used for at-risk funding accurately reflect the number of students who are eligible for the program? Our tentative methodology would include the following:

- Review state and federal statutes and regulations to identify the eligibility and verification requirements for the U.S. Department of Agriculture free-lunch program. This should include income, categorical, or community-level eligibility pathways.
- Interview school district staff, the Kansas State Department of Education (KSDE) nutrition team, and KSDE fiscal auditors, and review applicable documents to understand their roles and processes in verifying free lunch counts.
- Review changes in statutes, regulations, and KSDE policies about the school lunch application and approval process since 2019 to understand reasons for any substantive changes in the free-lunch population in the past 5 years.

- For a sample of school districts, review school districts' documentation and KSDE's verification work to determine whether school districts followed applicable requirements and processes in determining students as free-lunch eligible.
- Select a random sample of students enrolled in the free-lunch program and review applicable tax returns from the Department of Revenue, or quarterly wage reports from the Department of Labor to verify free-lunch eligibility based on household income. For students qualifying categorically or through the community eligibility, review applicable documentation from the Department for Children and Families, the Department of Health and Environment, school districts, KSDE, and other stakeholders to confirm those students' eligibility.
- If our work shows students as ineligible, use that information to project the rate of ineligible students we identified to the state population and estimate potential state funding implications.
- Identify other indicators of students who may be eligible for the free-lunch program such as U.S. Census Bureau poverty rates or unemployment rates. Talk with district officials and other stakeholders to understand whether the free lunch count undercounts students in poverty and by how much. Use data and interview information to estimate how many children in the state may be eligible for the free-lunch program but did not apply for it.
- Interview school district, KSDE staff, and other stakeholders to understand potential reasons for any problems identified.

ESTIMATED RESOURCES

We estimate this audit would require a team of **4 auditors** for a total of **4 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).