USDA

United States Department of Agriculture

Food and Consumer Service

Mountain Plains Region

1244 Speer Blvd.
Denver, CO
80204-3581

JAN 13 1999

Reply to
Attn. of: SFSP-369

Subject: U.S. General Accounting Office (GAO) Testimony, T-RCED-99-20, "Welfare Reform Effects of Reduced Reimbursements on the Summer Food Service Program" (SFSP)

To: STATE AGENCY DIRECTORS (Child Nutrition Programs) - Colorado ED, Iowa, Kansas, Missouri DH, Montana OPI, Nebraska ED, North Dakota, South Dakota, Utah and Wyoming DHSS

Attached for your information, is a final GAO report entitled, "Welfare Reform: Effects of Reduced Reimbursements on the Summer Food Service Program". The draft report was transmitted via SFSP-340, dated May 5, 1998.

The GAO concludes that the reduction in meal reimbursement rates to SFSP sponsors, mandated by the Welfare Reform Act of 1996, has had little effect on the number of sponsors and children participating in the SFSP. In fact, the number of sponsors and children participating in the Program has increased over the past 2 years. However, the GAO points out that some sponsors, mostly small, private, non-profit organizations, are no longer able to operate because of the reduced reimbursement rates. As a result, some of the children served by these sponsors have lost access to summer meal sites. The report contains no recommendations.

Ann C. DeGroat

ANN C. DEGROAT
Regional Director
Child Nutrition Programs

Attachment

AN EQUAL OPPORTUNITY EMPLOYER.

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-281248

November 10, 1998

The Honorable William F. Goodling
Chairman, Committee on Education
and the Workforce
House of Representatives

Dear Mr. Chairman:

The U.S. Department of Agriculture's (USDA) Summer Food Service Program provides free meals to needy children when school is not in session. In fiscal year 1997, over 3,800 sponsors—such as schools and local government agencies—provided these meals to over 2 million children at a federal cost of about $258 million. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (known as the Welfare Reform Act) made major changes to this program, effective in January 1997. It reduced the federal reimbursements that sponsors receive for meals served and eliminated the federal reimbursement for a fourth daily meal provided in summer camps and in programs that primarily serve migrant children.[1]

Because of questions raised about the impact that the reductions in the federal reimbursements might have had on access to the program, you asked us to report on (1) the number and characteristics of sponsors participating in and dropping out of the program before and after the decrease in the reimbursements, (2) the number of children and meals served by the program before and after the reduction, and (3) the changes sponsors made to their programs as a result of the reduced reimbursements.

Our report is based on our analyses of the data provided to us by the 50 states about the program's sponsors. Through two mail surveys, we collected detailed information on the sponsors for fiscal years 1996 and 1997 and on sponsors' participation in 1998.[2] We also conducted a telephone survey with officials for the Summer Food Service Program in the 50 states and the District of Columbia. In addition, to obtain their views on the effect the changes had on the program, we visited 20 sponsors in six states as well as advocacy organizations. Appendix I discusses our scope and methodology in more detail.

[1]On Mar. 10, 1998, we testified on our preliminary findings on these issues. See Welfare Reform: Effects of Changes Made to the Summer Food Service Program (GAO/T-RCED-98-120).

[2]This information does not include the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

Results in Brief

The reduction in meal reimbursements that resulted from the 1996 Welfare Reform Act had a minimal impact on the number and characteristics of the sponsors of the Summer Food Service Program. Since the reduction went into effect in 1997, the number of sponsors participating in the program increased by 8 percent overall, from 3,753 to 4,046. Additionally, the characteristics of the sponsors providing meals remained about the same between 1996, the year before the subsidies were reduced, and 1997. In both years, a relatively small percentage of sponsors—5 percent—served most of the children in the program. Most sponsors continued to be schools and camps. In terms of the sponsors that dropped out after the welfare reform changes, fewer than 10 percent left the program in each of the 2 years since the reduced reimbursements have been in effect. However, only a small percentage of these dropouts left because of the reduction, according to officials in the 50 states. Nevertheless, after the reduced reimbursements were mandated, USDA and some states took actions, such as expanding outreach efforts, to maintain the level of participation of sponsors and children. These efforts may have mitigated the impact of the rate reduction.

Despite the reduced reimbursements, the number of children and meals served in fiscal year 1997 was greater than in previous years. The total number of children participating in the program increased by over 2 percent after the reimbursements were reduced, to almost 2.3 million, in 1997. The number of meals served rose by 2 percent, to over 128 million, despite a new restriction on the number of meals for which some sponsors could receive reimbursements. However, state officials identified a small number of sponsors that left the program because of the reduced reimbursements, which meant that some of the children whom the sponsors had served lost access to the program. Over 820 children lost access to the program in fiscal year 1997 because the sponsors that had served them in 1996 did not participate in 1997 as result of the reduction, and no other sponsor was available. Similarly, at least 780 children lost access in fiscal year 1998. Other children may have lost access when continuing sponsors reduced the number of sites they operated because of the rate reduction.

In response to the reduced meal reimbursements, some sponsors reported making changes to their program operations. These changes included substituting less expensive foods for those previously served, such as replacing fresh fruit with fruit juices; reducing staff's wages; and reducing the number of sites at which meals are served. Even with these changes, according to the information provided by the 50 states, more sponsors

reported that their operating costs exceeded the amount they received in federal reimbursements in fiscal year 1997 than in 1996. The limited impact on the number of sponsors, children, and meals served that has been observed to date is due in part to sponsors' continuing to contribute funds to offset the decreased reimbursements.

Background

The Summer Food Service Program is a federal entitlement program that provides funds for program sponsors to serve free nutritious meals to children in low-income areas when school is not in session. It is administered by USDA's Food and Nutrition Service, which provides money to state agencies to operate the program and to reimburse local eligible sponsors for meals served to children at designated locations.[3] Eligible sponsoring organizations include (1) public or private nonprofit schools; (2) units of local, municipal, county, or state governments, such as county or city recreation programs; (3) private nonprofit groups, such as Boys and Girls Clubs or churches; (4) residential camps; and (5) National Youth Sports Programs.[4] In fiscal year 1997, sponsors served over 128 million meals at a total federal cost of about $258 million.

Local program sponsors can qualify to be reimbursed for the free meals served to all children 18 or younger by operating a site in an eligible area. Eligible areas are those in which at least 50 percent of the local children are from households with an income at or below the eligibility level for free and reduced-price school meals—185 percent of the federal poverty guidelines ($29,693 for a family of four in the summer of 1997).[5] Sponsors can also qualify for reimbursements for free meals served to all children at sites not located in eligible areas if at least 50 percent of the children enrolled at such sites are eligible for free or reduced-price school meals. Finally, camps may be reimbursed only for meals that are served to children who have been individually determined to be eligible because of their household income.

The meals that sponsors provide must meet the program's nutritional requirements. Most sponsors can receive federal subsidies for only two

[3]In 1997, USDA operated the program in the place of state agencies in four states—Georgia, Michigan, New York, and Virginia. Throughout this report, the term "state officials" includes the USDA officials who manage the program in these four states.

[4]The National Youth Sports Program offers sports and educational activities to disadvantaged children who are 10 to 16 years old. The program is typically at colleges or universities and is associated with the National Collegiate Athletic Association.

[5]These levels are slightly higher in Alaska and Hawaii.

meals per child per day.[6] However, camps and programs primarily serving migrant children can receive subsidies for up to three meals each day for each child. This three-meal allowance is a change in the program made by the Welfare Reform Act. Previously, these sponsors could receive reimbursements for up to four meals per day.

Sponsors are reimbursed in two different categories for their costs of preparing and serving free meals. One category covers the administrative costs incurred in the management of the Summer Food Service Program, such as office expenses, the support staff's salaries, insurance, and some financial management costs. The second category covers the operating costs for purchasing, preparing, transporting, and serving the food; supporting program activities, paying salaries for the staff supervising the children; and providing transportation in rural areas. Sponsors must maintain records to document all costs and the number of meals they claim for reimbursements.

Sponsors' reimbursements are based on the lesser of (1) the number of approved meals served multiplied by the established rate for each type of meal or (2) the actual costs reported. The reimbursement rates for both administrative and operating costs are set by law and adjusted each year to reflect changes in the Consumer Price Index. Sponsors with costs that exceed the federal reimbursements must find other sources of funding to pay their additional costs. Some sponsors anticipate that program costs will exceed the federal reimbursements, and these sponsors offset their excess costs with other sources of funds. Other sponsors inadvertently exceed the federal reimbursements by small amounts because it is difficult to budget the program exactly. Because sponsors can claim reimbursements only for meals that are served to eligible children, their costs would exceed reimbursements if they have low attendance or prepare too many meals that cannot be claimed for reimbursements.

The Welfare Reform Act reduced the operating subsidies for meals and snacks served under the Summer Food Service Program, effective for the 1997 summer. It did not reduce subsidies for administrative costs.[7] Table 1 highlights the changes in the reimbursement rates for meals since 1996. While the 1997 and 1998 rates reflect increases to account for inflation, they are still lower than the rates established for 1996.

[6]A meal can be breakfast, lunch, supper, or a snack.

[7]The 1998 administrative rate ranges from 4.75 cents to 21.75 cents per meal and varies by type of meal; sponsor (e.g., rural); and preparation (e.g., sponsor-prepared meal).

Table 1: Reimbursement Rates, Per Meal Served, 1996-98

Meal	1996 rates	1997 rates: Prior to welfare reform[a]	1997 rates: Actual[b]	1998 rates
Breakfast	$1.2075	$1.24	$1.16	$1.19
Lunch/supper	2.1675	2.23	2.02	2.08
Snack	0.57	0.58	0.47	0.48

[a]These are the rates that would have been in effect if the Welfare Reform Act had not been enacted. Rates would have been higher than 1996 rates because of indexing for inflation.

[b]The Welfare Reform Act set the rates at $1.13 for breakfast, $1.97 for lunch/supper, and $0.46 for snacks. However, the 1997 rates were slightly higher than the rates established in the law because they were indexed for inflation.

Number and Characteristics of Sponsors Participating in and Dropping Out of the Program Since the Reimbursements Were Reduced

Since the reduced reimbursements went into effect in 1997, the number of sponsors participating in the program has increased by 8 percent overall. Although there were some changes in sponsors from one year to the next, the characteristics of these sponsors—by the type of organization, number of sites operated, and number of meals and children served—remained about the same. Of those sponsors leaving the program, fewer than 10 percent left in each of the 2 years, and of these sponsors, few left because of the rate reduction, according to state officials. USDA and some states took actions following the rate reduction aimed at enrolling new sponsors and/or encouraging current sponsors to expand their programs.

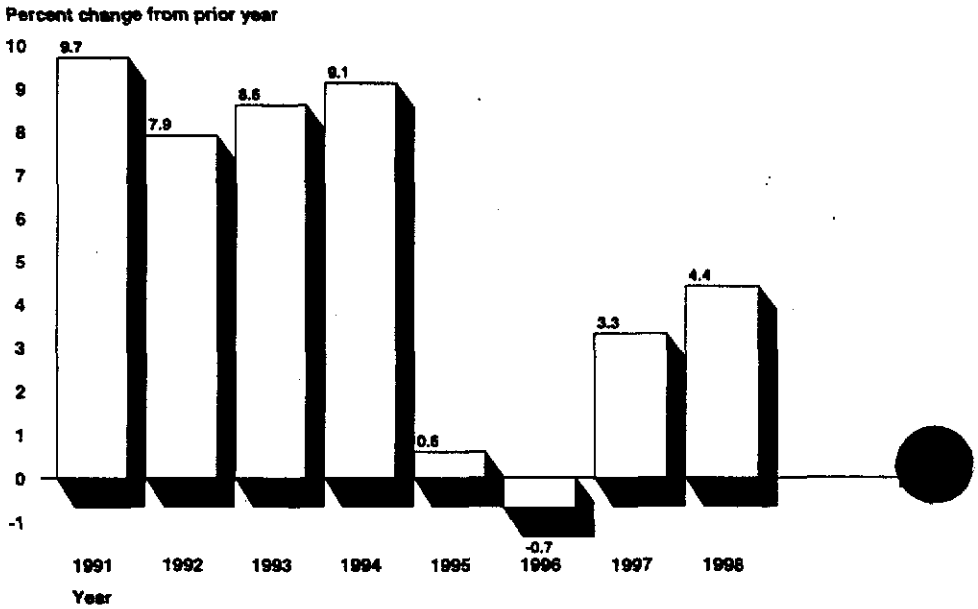
Number of Sponsors Increased Overall After the Reimbursements Were Reduced

Since the reduced reimbursements have gone into effect, the total number of sponsors has increased by about 8 percent. According to the data provided by state officials, the total number of sponsors participating in the program rose from 3,753 in fiscal year 1996 to 3,875 in 1997, and to 4,046 in 1998. While some sponsors left the program, the number of sponsors joining it exceeded the number leaving.

This overall increase in the number of sponsors occurred after virtually no increase from 1995 through 1996, according to USDA's data. However, this overall increase is lower than the increases that occurred from 1991 through 1994, when the number of sponsors grew each year by about 8 to 10 percent. According to USDA officials, no growth occurred from 1995 to 1996 because of uncertainty stemming from the public policy debates over the future of the Summer Food Service Program and other child nutrition

programs. Figure 1 shows the rate of change in the number of sponsors each year from 1991 through 1998.

Figure 1: Rate of Change in Sponsors' Participation, 1991-98



Notes: Rates of change for 1991 to 1996 are based on USDA's data on the number of sponsors operating in July. Rates of change for 1997 and 1998 are based on state-provided data on the total number of sponsors, including those that did not operate in July. USDA's data for 1997 show an increase in the number of sponsors—4.8 percent—that is higher than that shown by the states' data, which is 3.3 percent.

From 1982 through 1989, most private nonprofit sponsors were not allowed to participate in the program. The growth in the number of sponsors beginning in 1991 is partially due to private nonprofit sponsors joining the program.

Source: GAO's analysis of data provided by USDA and the states.

Characteristics of Sponsors Were Similar Before and After Rate Reduction

The types of organizations serving as program sponsors were similar in fiscal years 1996 and 1997. In both years, schools represented the largest group of sponsors (about 45 percent), followed by camps (19 percent), government agencies (about 17 percent), private nonprofit organizations (about 16 percent), and National Youth Sports Programs (3 percent). School sponsors can serve meals to children at school buildings as well as at other types of locations, such as parks and churches.

Similarly, the rate reduction did not have a significant effect on the number of sites operated by sponsors. For example, in both fiscal years, half of the sponsors (51 percent) operated 1 site, and 6 percent operated 25 or more sites. In addition, between fiscal years 1996 and 1997, the total number of sites increased by 5 percent, from 29,220 to 30,587.

As tables 2 and 3 show, the 1997 reduction in meal reimbursements did not appear to cause sponsors to change the size of their programs. There was little change in the size of sponsors—in terms of the number of meals and children served—between fiscal years 1996 and 1997. However, the number of meals and children served by individual sponsors varied greatly in each year.[8] For example, one of the smallest nonprofit sponsors served 92 meals in 1997, while the largest—the New York City Board of Education—served over 8.8 million meals.[9] In both years, a small percentage of the sponsors provided most of the meals. Only 5 percent of the sponsors served 62 percent of children participating in July of each year, 1996 and 1997. Similarly, 5 percent of the sponsors served 58 percent and 59 percent of all meals in 1996 and 1997, respectively.

Table 2: Size of Sponsors' Programs in Terms of Children Served, 1996 and 1997

Average number of children served daily	Percent of sponsors in 1996[a]	Percent of sponsors in 1997[b]
75 or fewer	25.9	25.7
76 to 299	34.0	32.9
300 to 999	20.9	20.4
1,000 or more	11.9	11.9
No July program	7.4	9.0

[a]Does not include data from New Jersey and Arkansas.

[b]Does not include data from New Jersey.

Source: GAO's analysis of states' data.

[8]USDA generally reports the number of children served on the basis of average daily attendance in July because the highest number of children are typically served in July. While we requested the states to provide average daily attendance in July for each sponsor, a few states provided us with a different estimate for participation. (See app. I.) New Jersey did not provide attendance data for 1996 and 1997, and Arkansas did not provide data for 1996. Our analyses of the number of children served is based on state-provided data, excluding New Jersey and Arkansas, as appropriate.

[9]Private nonprofit sponsors tended to operate smaller programs for a number of reasons. For example, subsection 1761 (a) (7) of Title 42, United States Code, limited private nonprofit sponsors to serving no more than 2,500 children per day at 5 urban sites or 20 rural sites. However, these limits on private nonprofit sponsors were changed by legislation signed by the President on October 31, 1998, which (1) limits the number of sites to 25 without any distinction between rural and other areas and (2) eliminates the 2,500 children ceiling.

Table 3: Size of Sponsors' Programs in Terms of Meals Served, Fiscal Years 1996 and 1997

Characteristic	Fiscal year 1996	Fiscal year 1997
Percent of sponsors serving		
Fewer than 3,500 meals per year	25.4%	26.7%
3,500 to 9,999 meals per year	32.2%	31.3%
10,000 to 29,999 meals per year	24.9%	24.9%
30,000 or more meals per year	17.5%	17.1%
Median number of total meals served annually	7,832	7,746
Minimum number of meals served annually by a sponsor	62	92
Maximum number of meals served annually by a sponsor	6,673,337	8,843,294
Total meals served during the year	120,539,635	125,0[illegible]

Source: GAO's analysis of states' data.

Few Sponsors Left Because of the Reduced Reimbursements

After the first year's experience with the reduced reimbursements, both USDA and some state officials expressed concern that more sponsors would drop out of the program in the future than did in 1997 because of the reduced rates. USDA officials believed that some sponsors chose to continue participating in the program in 1997 to test their ability to manage the program financially with the reduced reimbursements and to determine whether they would continue in 1998. However, an increase in dropouts did not occur in 1998.

According to the states' information, a total of 675 sponsors have stopped participating in the Summer Food Service Program since the reimbursements were reduced. Of those that participated in fiscal year 1996, 370, or 9.9 percent, did not return in 1997; and 305, or 7.9 percent, of those that participated in 1997 did not return in 1998.[10]

According to state officials, few of the sponsors that dropped out of the program left specifically because of the reduced reimbursements. State officials identified the reduced reimbursements as the major reason for

[10]We did not compare these dropout rates with the rates of prior years because USDA does not [illegible] information on dropouts, and we did not obtain this information from the states.

dropping out for only 37 (5.5 percent) of the 675 sponsors that left in fiscal years 1997 and 1998. For an additional 182 sponsors, state officials were unable to identify the major reason for dropping out. For some of these sponsors, the reduction may have been the reason they dropped out. The remaining 456 sponsors left for a variety of other reasons, such as the loss of personnel or lower participation than anticipated. Table 4 shows the number and percentage of sponsors leaving the program for various reasons since the rate reduction.

Table 4: Reasons Sponsors Dropped Out of the Program Since the Reduced Reimbursements

Reason	Dropped out between 1996 and 1997		Dropped out between 1997 and 1998		Total dropped out since reduced reimbursements	
	Number of sponsors	Percent	Number of sponsors	Percent	Number of sponsors	Percent
All reasons	370	100.0	305	100.0	675	100.0
Because of the reduced rates	24	6.5	13	4.3	37	5.5
Because of other reasons such as	218	58.9	238	78.0	456	67.6
Low participation	17	4.6	45	14.8	62	9.2
Personnel loss or change	28	7.6	34	11.1	62	9.2
Primary activity changed or canceled	23	6.2	29	9.5	52	7.7
Costs exceeded reimbursements	17	4.6	24	7.9	41	6.1
Poor management	11	3.0	16	5.2	27	4.0
Disruption because of construction	9	2.4	17	5.6	26	3.9
Paperwork burden	8	2.2	12	3.9	20	3.0
Replaced by another meal program	8	2.2	13	4.3	21	3.1
Other[a]	97	26.2	48	15.7	145	21.5
Reason unknown	128	34.6	54	17.7	182	27.0

[a]Other reasons include sponsors that merged with other sponsors in the program, could not locate a site, or moved to another state.

Source: GAO's analysis of states' data.

Small Sponsors and Private Nonprofit Sponsors Were More Likely to Leave the Program

According to our nationwide data, small sponsors were more likely to drop out of the Summer Food Service Program than large sponsors, and private nonprofit sponsors were more likely to drop out than other types of sponsors. This was also true for the sponsors that state officials identified as leaving the program because of the reduced reimbursements. For example, the sponsors that left the program in fiscal year 1997 because of the decrease had served an average of 207 children in July 1996, while the sponsors that remained in the program in 1997 had served an average of 809 children in July 1996. (App. II provides information on the dropout rates for various types of sponsors.)

USDA and Some States Initiated Actions Aimed at Mitigating the Potential Impact of the Reduced Reimbursements on the Number of Sponsors

Some states and USDA took actions following the reduced reimbursements for meals served to enroll new sponsors and/or encourage current sponsors to expand their programs. These actions may have mitigated the impact of the rate reduction. For example, officials from several states said that they expanded outreach efforts to enroll more new sponsors. Some states' Summer Food Service Programs—such as those in Minnesota, New York, Vermont, and Washington—received state funds to offset the loss of federal funds in fiscal years 1997 and 1998.

In addition, in 1998, USDA began an initiative to encourage sponsors' participation by conducting outreach and reducing the administrative burden on sponsors. To encourage participation in 1998, USDA provided program information to the American School Food Service Journal, the National Conference of Mayors, and the National Recreation and Park Associations for distribution to schools, local governments, and private nonprofit organizations. USDA also provided materials to the states for their own outreach efforts. Furthermore, the Department issued 13 policy memorandums to the states revising and clarifying policies to improve the program's operations and reduce its administrative burden.

Despite the actions by USDA and the states to encourage new organizations to participate, one state official reported that the reduced reimbursement rates discouraged some organizations from entering the program.

Number of Children and Meals Served Since the Reduced Reimbursements

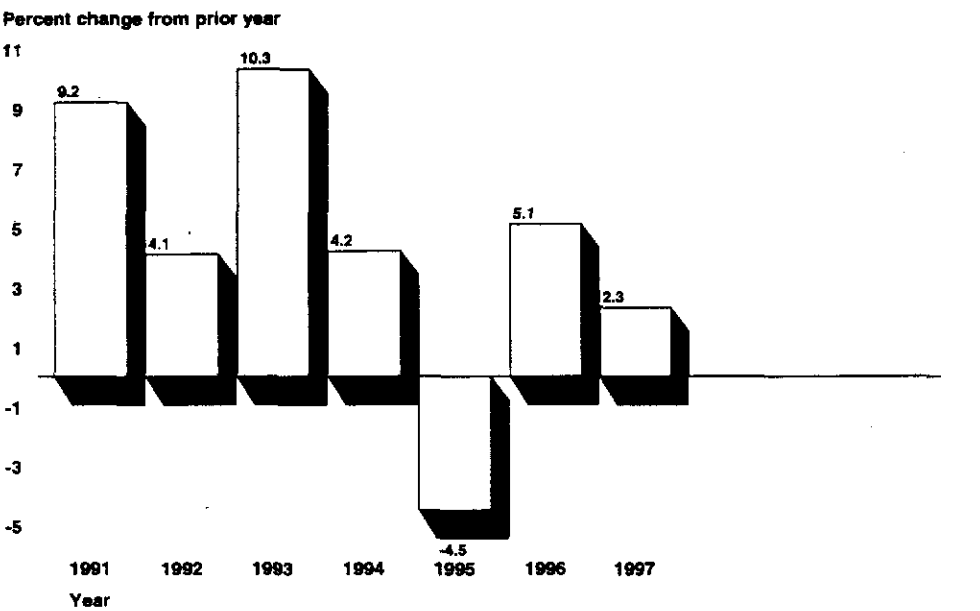
The total number of children participating in the program continued to increase in 1997 after the reduced reimbursements, as it had in all but one of the previous 6 years. However, some of the children served by sponsors in 1996 lost access to the program in 1997 when those sponsors left the program. The number of meals served also increased in 1997, as in the

prior 6 years, even though welfare reform limited the number of meals that some sponsors could claim for reimbursements.

Number of Children Participating Continued to Increase After the Reduced Reimbursements

In the year following the implementation of the reduced rates, the number of children participating in the program increased overall, as it did in all but one of the prior 6 years. According to the latest available USDA data, the average number of children served daily in July for the entire program increased by 2.3 percent, from 2,215,625 in 1996 to 2,266,319 in 1997.[11] Figure 2 shows the rate of change in children's participation from 1991 to 1997.

Figure 2: Rate of Change in the Average Number of Children Served *Daily*, 1991-97



Note: According to a USDA official, the reduction in the number of children served in 1995 was due in part to active and potential sponsors' anticipation of major program changes, including a possible reduction in the meal reimbursement rates.

Source: GAO's analysis of USDA's data.

[11]USDA's data for the 1998 program were not available at the time of our review. Our survey data show that approximately 340 sponsors that participated in 1997 were not active in July. These sponsors accounted for approximately 2 percent of the total meals served in 1997.

When we used the states' data to determine which types of sponsors contributed to the growth in the number of children served after the rate decrease in 1997, we found that existing sponsors had expanded their programs while new sponsors in 1997 were smaller than the sponsors that left the program after 1996. Sponsors that participated in both fiscal years 1996 and 1997 served 8 percent more children, on average, in 1997 than in 1996. On the other hand, new 1997 sponsors did not serve as many children, on average, as sponsors that left the program after 1996. Specifically, new 1997 sponsors served 19 percent fewer children, on average, in 1997, than were served in 1996 by sponsors that left the program.

Some Children Lost Access to the Program

Despite the overall increase in the number of children served between 1996 and 1997, some children lost access to program benefits because the sponsors serving them dropped out, and the children were not served by other sponsors. These fluctuations in sponsors' participation and in children's access to the program occur even in years when the program's rules and reimbursements do not change, according to USDA officials.

The 370 sponsors that participated in 1996 and did not return in 1997 served approximately 118,224 children per day in July 1996. According to our analysis of the information provided by state officials, at least 17,238, or about 15 percent, of these children lost access to the program in 1997. Sponsors that dropped out of the program specifically because of the reduction had served approximately 4,559 children in July 1996. At least 823, or 18 percent, of these children did not have access to the program in 1997. These 823 children represented about .03 percent of all children who participated in the program in 1996. (See app. II.) Other children may have lost access when continuing sponsors reduced the number of sites they operated because of the rate reduction.[12]

In fiscal year 1998, following the loss of 305 sponsors, at least 17,983 children, or 31 percent of the 58,562 children that had been served by these sponsors, lost access to the program. Of the 2,926 children served by sponsors that left the program specifically because of the reduction, at least 780 (27 percent) did not have access to the program through another sponsor in 1998. These children represent about .03 percent of all children who participated in the program in 1997. Appendix III provides more detailed information on our estimates of the number of children who had

[12]437 sponsors operated fewer sites in 1997 than in 1996. We did not obtain the reasons these sites were closed or the number of children who lost access to the program as a result.

been served by sponsors that dropped out of the program and who were served by other sponsors the following year.

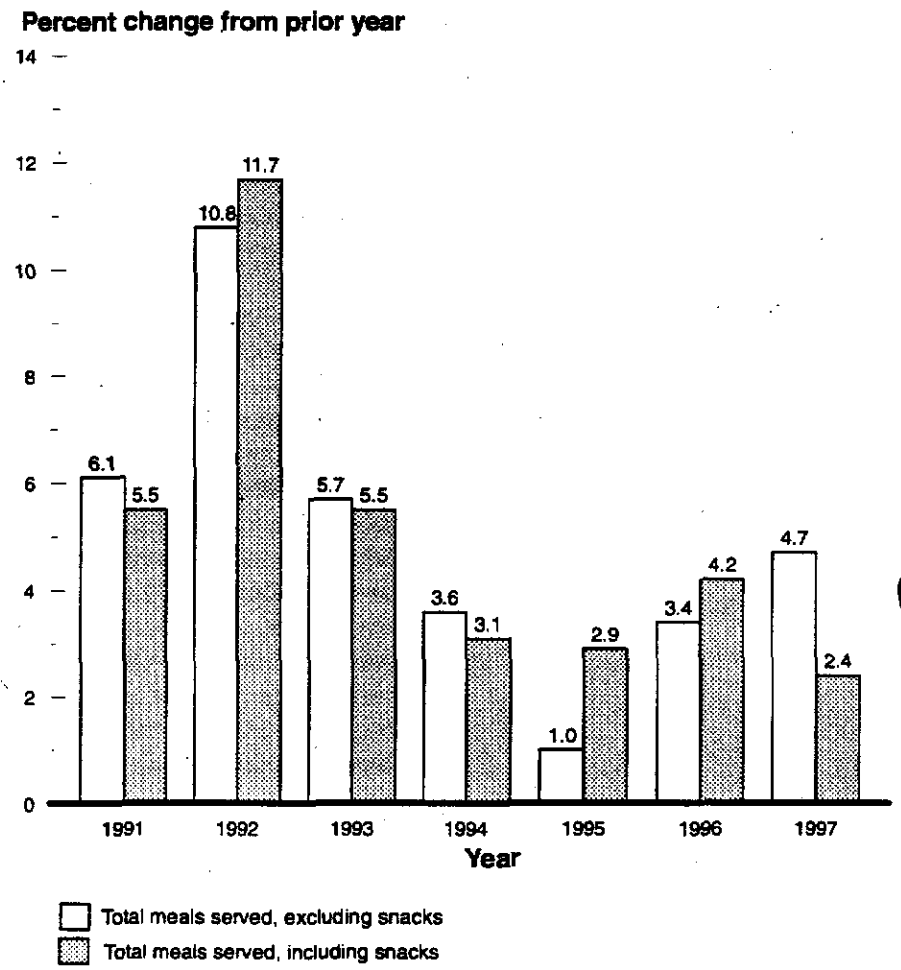
The Number of Meals Served Increased Slightly

The number of meals served by sponsors increased by over 2 percent—from over 125 million meals in fiscal year 1996 to over 128 million meals in 1997—the year after the reimbursements were reduced.[13] The number of meals had increased during each of the previous 6 years reviewed.

The increase in meals served in fiscal year 1997 would probably have been larger without the welfare reform change that affected camps and sponsors that primarily serve migrant children. As mentioned earlier, the 1996 act decreased the number of meals that these groups could claim for reimbursements from four to three. According to many state officials, if these sponsors had previously submitted four meals for reimbursements—breakfast, lunch, supper, and a snack—they did not submit the snack for reimbursement in 1997 because it has the lowest reimbursement rate. Our analysis of USDA's data supports this conclusion. From 1996 to 1997, the number of meals for which sponsors requested reimbursements increased by only 2.4 percent. However, excluding snacks, the number of meals for which sponsors requested reimbursements increased by 4.7 percent. Figure 3 compares the rate of change for total meals and meals not including snacks for fiscal years 1991 to 1997.

[13] 1997 is the latest year for which USDA has data on program meals.

Figure 3: Rate of Change in All Meals and Meals, Excluding Snacks, Fiscal Years 1991-97



Note: The number of meals served, excluding snacks, increased at a slower rate in 1995 than in any other year. According to a USDA official, this occurred because some sponsors anticipated that major changes in the program might include greatly reduced reimbursement rates.

Source: GAO's analysis of USDA's data.

Some Sponsors Changed Their Programs Because of the Reduced Reimbursements, and Some Paid More of the Program Costs Themselves

Because sponsors received lower federal reimbursements for their Summer Food Service Programs in 1997 and 1998, some adjusted their programs to lower their costs, according to many officials interviewed in our nationwide survey and the sponsors we visited. Frequently reported changes were to lower meal, labor, and/or location costs. Nevertheless, more sponsors reported operating costs that exceeded their reimbursements in 1997 than in 1996.

Some Sponsors Made Program Changes to Lower Costs

In our telephone survey, officials in 24 states reported that there were program changes resulting from the loss of federal funds that were not related to the number of sponsors and children participating in the program. Some sponsors also told us that they made changes to mitigate the effects of the reduction. Following are frequently mentioned changes and examples of how these changes were implemented:

- Meal changes. The Maine program director reported that sponsors in his state had to select their food more cautiously, favoring less costly items. Wisconsin officials said sponsors provided more prepackaged juices in place of fruit and vegetables to decrease labor and food costs. In Hawaii, where the Department of Education prepares the food for sponsors to distribute, an official said that while the Department did not change the entree or fruit/vegetable servings, it did serve smaller bread and dessert portions to save money. The Georgia director said that sponsors served less fresh fruit and did not offer additional foods, such as desserts and chips, as often as in the past.
- Staff adjustments. Several sponsors we visited reported decreasing their labor costs in 1997 and/or 1998. For example, a school sponsor in South Carolina decreased its workers' salaries from $7.25 per hour to $6.25 per hour. A school in Texas did not pay cafeteria personnel the cost-of-living adjustments that they had received during the school year. A school in Oregon hired fewer, less experienced staff and reduced their hours.
- Fewer meal sites. According to Pennsylvania officials, sponsors had to close or consolidate sites that were too expensive to operate. The small sites that served only 15 to 20 children could not afford to provide meals at the reduced rate. California officials also reported that some sponsors closed sites they could no longer afford to operate. For example, one school sponsor closed three of its six sites because it could no longer afford the labor costs. One of the largest sponsors in Texas, a school

district, closed almost all the sites that served fewer than 50 children a day in 1997, and almost all the sites that served fewer than 100 children a day in 1998. However, the total number of children served by the sponsor has increased since 1996.

More Sponsors Report Costs Higher Than the Reimbursements in 1997 Than Before the Reduction

More sponsors submitted operating costs that exceeded their federal reimbursements in fiscal year 1997 than in 1996. This means that more sponsors are covering some of the cost of operating the program with other funds. In 1996, prior to the rate decrease, 30 percent (1,084) of sponsors were reimbursed for all their reported program costs because these costs were equal to or lower than the maximum reimbursements (total meals multiplied by the reimbursement rates). The remaining 70 percent, or 2,565 sponsors, reported costs exceeding their federal reimbursements. In 1997, fewer sponsors—25 percent (966)—were reimbursed for their reported costs, while more sponsors—75 percent (2,831)—reported costs that exceeded their reimbursements. These totals include sponsors that dropped out of the program after 1996 and new sponsors in 1997.[14] The limited impact on the number of sponsors, children, and meals served that has been observed to date is due in part to sponsors' continuing to contribute funds to offset the decreased reimbursements. Appendix IV provides more details on the type of sponsors that reported operating costs in excess of their reimbursements.

Agency Comments

We provided USDA with copies of a draft of this report for review and comment. We met with Food and Nutrition Service officials, including the Branch Chief for Program Analysis and Monitoring Branch, Child Nutrition Division, who generally agreed with the report's findings and provided us wih a number of technical comments that we incorporated into the report as appropriate.

We are sending copies of this report to appropriate congressional committees, interested Members of Congress, the Secretary of Agriculture, and other interested parties. We will also make copies available upon request.

[14]These totals do not include 104 sponsors in 1996 and 78 sponsors in 1997 because the state-provid data show that these sponsors received more in reimbursements than the costs they reported.

If you have any questions about this report, please call me at (202) 512-5138. Major contributors to this report are listed in appendix V.

Sincerely yours,

Lawrence J. Dyckman
Director, Food and
Agriculture Issues

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Abbreviations

USDA U.S. Department of Agriculture

Objectives, Scope and Methodology

Because of questions raised about the impact that the reduction in the meal reimbursement rate might have had on the Summer Food Service Program, the Chairman of the House Committee on Education and the Workforce asked us to report on (1) the number and characteristics of sponsors participating in and dropping out of the program before and after the decrease in reimbursements, (2) the number of children and meals served by the program before and after the reduction, and (3) the changes sponsors made to their program as a result of the reduced reimbursements.

To address these objectives, we conducted three nationwide surveys with officials from the 50 states.[1] First, we conducted a telephone survey to gather information and views on the impact of the rate reduction on sponsors, children, and meals.

Second, we sent a mail survey to officials in the 50 states to collect detailed fiscal year 1996 and 1997 data on their sponsors. The survey covered the number of meals, sites, July's average daily attendance, and reported operating costs and reimbursements. State officials were also asked to identify (1) sponsors that dropped out of the program after 1996, (2) the major reason for dropping out, (3) the number of sites picked up by another sponsor, and (4) the portion of the children served by a new sponsor.

For states that did not identify the sponsors that dropped out, we identified these sponsors by using financial and other data provided by the states. Two states did not provide average daily attendance for both years, and several provided different measures for attendance.[2] In March 1998, we testified on the preliminary results of these surveys.[3]

Third, we sent a mail survey to the 50 states to collect their 1998 data. This third survey was aimed primarily at collecting information on the (1) number of sponsors that dropped out of the program after 1997,

[1]The District of Columbia participated in the telephone survey but did not provide sufficient information requested in the other surveys so that it could be included in our analysis.

[2]New Jersey did not provide any data for average daily attendance in July for 1996 or 1997. Arkansas did not provide average daily attendance in July for 1997. Delaware (1996 only), Florida, and Oregon provided average daily attendance for the year. Mississippi provided attendance for June; Colorado provided average daily participation, which is different from average daily attendance. Illinois provided estimates of average daily participation; Texas provided a participation figure reflecting the sponsors' week of highest attendance.

[3]Welfare Reform: Effects of Changes Made to the Summer Food Service Program, (GAO/T-RCED-98-120, Mar. 10, 1998).

(2) reasons they dropped out, and (3) number of children who lost access to the program. To estimate the number of children who lost access to the program, we assigned percentages to the various response categories. For example, if state officials reported that "all or almost all" of participants were picked up by another sponsor, then we estimated that 95 percent of the participants had program access through another sponsor and 5 percent lost access to the program.[4]

We combined the 1996, 1997, and 1998 data provided by the states to provide a picture of welfare reform to date. For example, we determined the percentage of sponsors that reported costs higher than their reimbursements prior to and after the rate reductions.

Although we did not verify the accuracy of all the data provided by the states for each of the over 4,000 sponsors, we did conduct a variety of tests to verify the data's internal consistency. For example, we ensured that for sponsors categorized as dropping out after fiscal year 1996 there were no 1997 reimbursement data. We also identified any sponsors for which the data provided were outside of expected ranges. Where possible, we contacted the states to correct obvious errors. For a small percentage of sponsors, the state-provided information suggests the sponsors may have been overpaid. For example, some sponsors received reimbursements in excess of the costs they reported. A listing of these sponsors and their data will be provided to USDA for further review. We also compared our state data on the number of meals served in 1996 and 1997 with USDA's data on the number of meals served for 1996 and 1997. Our total was generally within 5 percent of USDA's total.[5]

To determine the changes sponsors made to their program because of the reduced rates, we selected 20 sponsors to study in greater detail. These sponsors—in California, Illinois, Oregon, Pennsylvania, South Carolina, and Texas—were selected to represent a variety of sponsor sizes and types (e.g., school, nonprofit, and government) in both rural and urban areas. We conducted in-depth, in-person interviews with these sponsors to determine the changes they had made to their programs in response to rate reductions. We observed the operation of the program—including

[4]If "more than half" was reported as picked up by another sponsor, we estimated that 75 percent had program access and 25 percent did not. Our estimates for other categories' access were (1) "about half"—50 percent had access and 50 percent did not; (2) "less than half"—25 percent had access and 75 percent did not; and (3) "few, if any"—5 percent had access and 95 percent did not.

[5]For the following states, our data for total meals were more than 5 percent different from USDA's data for 1 or both years: Alaska, Hawaii, North Dakota, New Hampshire, Oklahoma, and Vermont.

meals being prepared by vendors, transported to sites, and eaten by children at 17 sites.

In addition to conducting these in-depth studies and three surveys, we interviewed officials from USDA's Food and Nutrition Service, the American School Food Service Association, and the Food Research and Action Center. We also reviewed related legislation, USDA documents—such as program guidance and budget data—and studies conducted by associations and states.

We conducted our review from October 1997 through October 1998 in accordance with generally accepted government auditing standards.

Information on the Dropout Rates for Various Types of Sponsors in Fiscal Years 1996 and 1997

This appendix provides information for 1996 and 1997 on the total number of sponsors and the percent of sponsors that dropped out of the program in terms of the (1) number of children served, (2) number of meals served, and (3) type of sponsor.

Table II.1: Number and Percent of Sponsors That Dropped Out of the Program by Number of Children Served in July, Fiscal Years 1996 and 1997

	Fiscal year 1996		Fiscal year 1997	
Average number of children served daily in July	All 1996 sponsors	Percent of 1996 sponsors that dropped out in 1997	All 1997 sponsors	Percent of 1997 sponsors that dropped out in 1998
None—no July program	259	15	341	12
1 - 75	909	16	971	12
76 - 299	1,192	9	1,242	8
300 - 999	732	6	770	5
1,000 or more	418	5	449	2

Note: 1996 and 1997 sponsors in New Jersey and 1996 sponsors in Arkansas are excluded from this table because data were not provided.

Table II.2: Number and Percent of Sponsors That Dropped Out of the Program by Number of Meals Served, Fiscal Years 1996 and 1997

	Fiscal year 1996		Fiscal year 1997	
Number of meals served	All 1996 sponsors	Percent of 1996 sponsors that dropped out in 1997	All 1997 sponsors	Percent of 1997 sponsors that dropped out in 1998
Fewer than 3,500 meals	952	17	1,035	15
3,500 to 9,999 meals	1,208	10	1,211	8
10,000 to 29,999 meals	933	6	964	3
30,000 or more meals	658	5	663	4

Table II.3: Number of Sponsors and Percent of Sponsors That Dropped Out of the Program by Type of Sponsor, Fiscal Years 1996 and 1997

	Fiscal year 1996		Fiscal year 1997	
Sponsor type	All 1996 sponsors	Percent of 1996 sponsors that dropped out in 1997	All 1997 sponsors	Percent of 1997 sponsors that dropped out in 1998
School	1,665	9	1,747	6
Government	670	10	662	7
Private nonprofit	572	19	600	16
Camp	728	5	743	6
National Youth Sports Program	117	3	123	4

The Number of Children Served by Sponsors That Dropped Out of the Program

This appendix provides information on the number of children served by sponsors that dropped out of the program who did and did not have access to the program through other sponsors.

Table III.1: Estimates of the Number of Children Served by 1996 Sponsors That Did Not Continue in 1997 Because of the Rate Reductions and Other Reasons and of the Number of Those Children Who Did and Did Not Have Access to the Program in 1997

Reasons sponsors dropped out of program	Children served in 1996 by sponsors that did not continue in 1997							
	Total		Had access to the 1997 program through another sponsor		Did not have access to the 1997 program		1997 access was unknown	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Rate reductions	4,559	100	2,621	57	823	18	1,115	24
Other known reasons[a]	68,700	100	31,448	46	15,591	23	21,661	31
Unknown	44,965	100	190	<1	823	2	43,952	98
All reasons	118,224	100	34,258	29	17,238	15	66,728	56

[a]These other known reasons include low participation, personnel loss, and construction.

Notes: Numbers may not add due to rounding.

For each sponsor that dropped out, state officials provided an estimate of the portion of participants served by the sponsor who were served by other sponsors in the next year. We assigned the following percentages to the various response categories: (1) "all or almost all"—95 percent had access and 5 percent did not; (2) "more than half"—75 percent had access and 25 percent did not; (3)"about half"—50 percent had access and 50 percent did not; (4) "less than half"—25 percent had access and 75 percent did not; and (5) "few, if any"—5 percent had access and 95 percent did not.

In 1996, 38 of the dropouts did not operate in July. An additional 19 sponsors were in New Jersey or Arkansas, which did not provide data on the number of children served. These 57 sponsors served 336,744 meals in 1996, or 6 percent of all meals served by dropouts. Two of the 24 sponsors that left because of the rate reduction did not operate in July.

Table III.2: Estimates of the Number of Children Served by 1997 Sponsors That Did Not Continue in 1998 Because of the Rate Reductions and Other Reasons and of the Number of Those Children Who Did and Did Not Have Access to the Program in 1998

Reasons sponsors dropped out of program	Children served in 1997 by sponsors that did not continue in 1998							
	Total		Had access to the 1998 program through another sponsor		Did not have access to the 1998 program		1998 access was unknown	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Rate reductions	2,926	100	1,963	67	780	27	183	6
Other known reasons[a]	47,243	100	25,807	55	15,507	33	5,928	13
Unknown	8,393	100	4,183	50	1,695	20	2,515	30
All reasons	58,562	100	31,954	55	17,983	31	8,626	15

[a]These other reasons include low participation, personnel loss and construction.

Notes: Numbers may not add due to rounding.

For each sponsor that dropped out, state officials provided an estimate of the portion of participants served by the sponsor that was served by other sponsors in the next year. We assigned the following percentages to the various response categories: (1) "all or almost all"-95 percent had access and 5 percent did not; (2) "more than half"-75 percent had access and 25 percent did not; (3)"about half"—50 percent had access and 50 percent did not; (4) "less than half"—25 percent had access and 75 percent did not; and (5) "few, if any"—5 percent had access and 95 percent did not.

Some programs did not operate in July and are not included in this table. In 1997, 42 of the total drop-outs did not operate in July. An additional four sponsors were in New Jersey, which did not provide data on the number of children served. These 46 sponsors served 152,038 meals in 1997 or 5 percent of all meals served by drop-outs. All sponsors that left due to the rate reduction operated in July.

Sponsors That Reported Program Costs Exceeding the Maximum Federal Reimbursements

This appendix provides information, for fiscal years 1996 and 1997, on sponsors reporting costs that exceeded the maximum federal reimbursements, by participation category and by type of sponsor.

Table IV.1: Sponsors Reporting Program Costs That Exceeded the Maximum Federal Reimbursements, by Participation Category, Fiscal Years 1996 and 1997

Participation category	Number of sponsors	Percent of sponsors that reported costs exceeding the maximum reimbursements	
		Fiscal year 1996	Fiscal year 1997
Dropped out between 1996 and 1997	370	76	N/A
Dropped out between 1997 and 1998	305	46[a]	76
Participated in 1996, 1997, and 1998	3,190	67	73

[a]Of the 305 sponsors that dropped out between 1997 and 1998, 3 percent did not participate in the program in 1996.

Table IV.2: Sponsors That Reported Program Costs Exceeding the Maximum Federal Reimbursements, by Type of Sponsor, Fiscal Years 1996 and 1997

Sponsor type	Percent of sponsors reporting costs exceeding the maximum federal reimbursements	
	Fiscal year 1996	Fiscal year 1997
School	62	66
Government	58	66
Private nonprofit	69	74
Camp	91	95
National Youth Sports Program	68	75

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