

February 1996

FOOD STAMP PROGRAM

Achieving Cost Neutrality in Minnesota's Family Investment Program



**Resources, Community, and
Economic Development Division**

B-266156

February 12, 1996

The Honorable Richard G. Lugar
ChairmanThe Honorable Patrick J. Leahy
Ranking Minority Member
Committee on Agriculture,
Nutrition, and Forestry
United States SenateThe Honorable Pat Roberts
ChairmanThe Honorable E (Kika) de la Garza
Ranking Minority Member
Committee on Agriculture
House of RepresentativesThe Honorable Dan Glickman
The Secretary of AgricultureThe Honorable Donna Shalala
The Secretary of Health and Human Services

In April 1994, Minnesota began a 5-year, federally authorized welfare reform demonstration project known as the Minnesota Family Investment Program (MFIP). Aimed at simplifying the welfare system, this project consolidates the food assistance and cash benefits provided by three programs—Aid to Families With Dependent Children (AFDC), the Food Stamp Program, and Minnesota's Family General Assistance Program—into a single monthly payment.

The Food Stamp Act of 1977, as amended, requires that the federal government spend no more for this project's food assistance component in any fiscal year than it would have spent for the Food Stamp Program. That is, the demonstration project is to be cost neutral. As part of the process for ensuring cost neutrality, the act requires the Secretary of Agriculture and the state of Minnesota to agree upon methodologies for estimating what the food stamp benefit and administrative costs would have been had there been no demonstration project. Furthermore, Minnesota has agreed to return to the U.S. Department of Agriculture (USDA) any funds it received in excess of those that would have been paid under the

traditional Food Stamp Program. The act also requires GAO to report periodically on whether these cost-neutrality requirements have been met.

In this report we (1) describe the methodologies that Minnesota agreed to use for estimating the costs of the Food Stamp Program—for both benefits and administration—that would have been incurred if the demonstration project had not been implemented, (2) determine if Minnesota implemented these methodologies, (3) assess the reasonableness of these methodologies, as implemented, to estimate the cost of the Food Stamp Program for fiscal year 1994, and (4) compare the payments that would have been paid to Minnesota using the agreed-upon methodologies with the actual payments in fiscal year 1994.

Results in Brief

Minnesota agreed to use two different methodologies for estimating the costs of the food stamp benefits and administration that would have been incurred in the absence of the demonstration project. For food benefits, Minnesota agreed to a methodology that (1) randomly assigns applicant families to either the traditional welfare programs or the demonstration project and (2) uses the cost of the food stamp benefits provided to those in the traditional welfare programs to estimate the cost of providing similar benefits to those in the demonstration project. For administrative costs, Minnesota agreed to a two-step methodology to achieve cost neutrality. First, Minnesota excludes all costs unique to the project, such as the project director's salary, which are paid by the state. Second, to allocate project costs, Minnesota agreed to use the same methodology it currently uses for allocating allowable administrative costs to traditional welfare programs.

Minnesota implemented the agreed-upon methodologies for estimating and allocating costs for fiscal year 1994. However, an unexpected data-processing problem delayed by 7 months Minnesota's estimates of the fiscal year 1994 food stamp benefit costs that would have been incurred in the absence of the demonstration project. Minnesota has resolved its data-processing problem, and future estimates should be more timely. We believe that these methodologies as implemented resulted in reasonable estimates for ensuring cost neutrality in fiscal year 1994.

USDA used Minnesota's forecasts of food stamp benefits that would have been paid in the absence of the demonstration project as the basis for making payments to Minnesota. According to the cost-neutrality estimates Minnesota developed for fiscal year 1994, the state received \$115,395 more

from USDA for food stamp benefits in the first 6 months of the demonstration project than it would have in the absence of the project. USDA billed Minnesota for this amount on January 30, 1996.

Background

Minnesota's welfare reform demonstration project, authorized in 1989,¹ has multiple goals, including simplifying the welfare system.² Because MFIP combines AFDC, the Food Stamp Program, and the state's Family General Assistance Program into a single welfare program, MFIP families receive financial assistance from only one program, with a single set of rules and procedures.

Program eligibility and benefit levels for MFIP differ from those of the traditional AFDC and Food Stamp programs. These differences can result in families' qualifying for more benefits under MFIP than under the traditional programs. About 8,500 families³ in seven counties will receive MFIP benefits during the 5-year demonstration project. However, participation in MFIP is limited by the act to not more than 6,000 families at the same time.

The Department of Health and Human Services (HHS) is responsible for AFDC, and USDA is responsible for the Food Stamp Program. HHS is taking the lead role for welfare reform demonstration projects, including monitoring their cost neutrality.

To conduct the demonstration project, Minnesota was granted certain waivers to the requirements of AFDC and the Food Stamp Program by HHS and USDA, respectively. For example, under the demonstration project, Minnesota can provide food stamp benefits in the form of cash instead of coupons. However, the act requires the state to give MFIP families the option to receive food assistance in the form of food stamp coupons. Minnesota also agreed to an independent evaluation of the demonstration project's impacts and implementation.

¹The food stamp and AFDC portions of the MFIP project are authorized, respectively, by section 22 of the Food Stamp Act of 1977, as added by P.L. 101-202 (Dec. 6, 1989) and section 8015 of the Omnibus Budget Reconciliation Act of 1989 (P.L. 101-239, Dec. 19, 1989).

²The other goals of MFIP are (1) helping families increase their income, (2) helping families move toward self-sufficiency, and (3) reducing long-term dependency on welfare as the primary source of family income.

³In fiscal year 1994, Minnesota reported a monthly average of 133,006 households receiving food stamp benefits and a monthly average of 63,754 cases receiving assistance under AFDC.

Because of the cost-neutrality requirement for MFIP, Minnesota has to pay any additional costs generated by the demonstration project. Cost neutrality is calculated separately for each program, and within the food stamp portion of the demonstration project, the cost-neutrality requirement must be met separately for benefit and administrative costs. Fiscal year 1994 is the first period for which MFIP must be cost neutral. Because MFIP began on April 1, 1994, the cost-neutrality requirement for fiscal year 1994 covers a 6-month period ending September 30, 1994.

Essential Agreements Were Reached on Cost-Estimating Methodologies to Ensure Cost Neutrality

Minnesota and the federal government agreed to two different methodologies to estimate the food stamp benefit and administrative costs that would have been incurred if the demonstration project had not been implemented. The formal agreements for the demonstration project are between HHS and Minnesota and are spelled out in a document known as Special Terms and Conditions, which was effective on March 31, 1994. According to HHS, MFIP's requirements to ensure cost neutrality are more restrictive than those of other, more recent welfare demonstration projects.

Different Methodologies Were Agreed Upon for Estimating Benefit and Administrative Costs

To estimate benefit costs, Minnesota agreed to use a research design that (1) randomly assigns applicant families to a control group eligible for traditional welfare program benefits, including food stamps, or to a group eligible for MFIP benefits and (2) uses the cost of food stamp benefits provided to families assigned to the control group to estimate what the cost would have been to provide traditional food stamp benefits to those assigned to MFIP. To help ensure comparability of the two groups, Minnesota is to assign families to each group in accordance with an agreed-upon random sampling plan. Minnesota agreed to estimate food stamp benefit costs by applying specific formulas to data on the cost of providing food stamp benefits to the control group.⁴ These estimates are to be calculated annually by March 31. Therefore, the estimate for fiscal year 1994 was due by March 31, 1995.

Minnesota and the federal government have not agreed upon certain other methodologies relating to food stamp benefits that are required by section 22 of the Food Stamp Act. These methodologies were intended to calculate excess costs associated with those MFIP families who received food benefits in the form of food stamp coupons. While Minnesota has

⁴In fiscal year 1995, Minnesota made some adjustments to the sampling plan that could require changes in the formulas used to calculate the benefit estimate in future years.

proposed methodologies to comply with this requirement, in a January 3, 1994, letter, Minnesota requested an exemption from these requirements because they provide no additional assurance of overall cost neutrality or any additional information needed to reconcile costs. Minnesota officials told us that this is because any additional costs associated with coupons are accounted for in the methodology for estimating benefits. As of January 2, 1996, Minnesota had not received a written reply to its request from either USDA or HHS.⁵

For administrative costs, Minnesota agreed to use a cost allocation plan to ensure administrative cost neutrality. This plan involves two steps. First, Minnesota will identify the direct and indirect administrative costs that are unique to the demonstration project. These costs, such as the MFIP director's salary, are to be excluded from federal payments and are to be fully paid for by the state. Second, to allocate administrative costs that are eligible for federal reimbursement for MFIP, Minnesota agreed to use the methodology it currently uses for allocating allowable administrative costs among the Food Stamp and other federal and state programs. This methodology uses data from the state's time study survey, which measures the amount of time county employees spend on various federal and state welfare programs. The results of this survey are used to allocate administrative costs across 14 federal and state programs.

Formal Agreements on Methodologies Are With HHS

The formal agreements on the cost-neutrality methodologies for food stamps are between Minnesota and HHS, not between Minnesota and USDA. However, according to USDA officials, USDA participated in the negotiations regarding the cost-neutrality methodologies and agreed to them. The formal agreements are between Minnesota and HHS because HHS has assumed the lead role for welfare reform demonstration projects that include its programs—AFDC and Medicaid—and USDA's Food Stamp Program.

HHS has taken the lead role because the main focus of these welfare reform demonstration projects is changing AFDC. In this role, HHS formally negotiates the terms and conditions for those projects, including cost-neutrality provisions, and is responsible for ensuring that these cost-neutrality requirements are carried out. As of November 6, 1995, HHS had the lead responsibility for overseeing 36 approved welfare reform

⁵In addition, section 22(d)(3) of the Food Stamp Act contemplated that the food assistance benefits and administrative costs paid by the federal government would include certain adjustments estimated pursuant to an agreed-upon methodology. According to Minnesota officials, these adjustments were related to an earlier research design to estimate benefit costs and are no longer applicable.

demonstration projects, including MFIP, that involve USDA's Food Stamp Program. USDA and HHS have no documented procedures on how they are to work together on MFIP or on these other welfare reform demonstration projects.

Agreements With Minnesota Are More Restrictive Than Those With Other States

The cost-neutrality requirements for MFIP are more restrictive than those for more recently approved welfare reform demonstration projects. According to an HHS official, while MFIP must be cost neutral separately for benefit and administrative costs for the Food Stamp Program and for AFDC, demonstration projects are now typically only required to be cost neutral to the federal government overall. Under these latter circumstances, costs for the Food Stamp Program and AFDC would be considered in total in determining overall federal cost neutrality. In addition, in September 1994, HHS formally announced more flexible cost-neutrality principles and procedures to be used for welfare demonstration projects. In accordance with this announcement, HHS generally determines the cost neutrality over the life of a demonstration project, not annually as is required for MFIP. Because the cost-neutrality requirements for MFIP are mandated by the Food Stamp Act, the recent changes in cost-neutrality policy and practice cannot be applied to MFIP.

Minnesota Implemented Agreed-Upon Methodologies and Generated Required Estimates for Fiscal Year 1994

For fiscal year 1994, Minnesota implemented the agreed-upon cost-neutrality methodologies and generated the required estimates of food stamp benefit and administrative costs that would have been incurred in the absence of the demonstration project.

To estimate the cost of the food stamp benefits, Minnesota implemented the agreed-upon approach. This approach, which was implemented with the assistance of a contractor experienced in the design and implementation of such research projects,⁶ included the use of computerized procedures to randomly assign families to the control or the MFIP group.

To ensure proper implementation, according to Minnesota officials, county employees involved in MFIP received training on the rationale for, and the methods that would be used to make, the random assignment. The evaluation contractor and state MFIP officials monitored the implementation of the sampling procedures to ensure that established procedures were followed and to resolve any unanticipated problems.

⁶Manpower Demonstration Research Corporation.

The random assignment of families was implemented without major problems, according to Minnesota officials. Between April 1, 1994, and September 30, 1994, 3,687 families were randomly assigned to the MFIP group, and 2,796 were randomly assigned to the control group.⁷

While implementing this methodology, Minnesota encountered a data-processing problem that prevented it from obtaining needed data on the cost of the food stamp benefits. This unanticipated problem occurred because existing reports generated by the state's computer system⁸ were not identifying all of the food benefit costs associated with the control and MFIP cases. As a result, Minnesota could not generate these estimates by the agreed-upon date of March 31, 1995. By October 31, 1995, Minnesota had resolved this problem and provided the initial estimates to HHS. The final estimates were provided to HHS and USDA on November 29, 1995. Minnesota computed the estimates on the basis of the agreed-upon formulas with a minor refinement proposed by HHS.⁹ According to Minnesota officials, future estimates are expected to be more timely.

Minnesota also implemented the agreed-upon cost allocation methodology to determine what the administrative costs would have been in the absence of the MFIP demonstration project.

Methods Used Provided Reasonable Cost Estimates

The methodologies for estimating the costs of the Food Stamp Program in the absence of the MFIP demonstration project, and the manner in which they were implemented, resulted in reasonable estimates of costs for fiscal year 1994. We believe that the estimates are reasonable for both the food benefit and administrative costs.

Fiscal Year 1994 Estimate of Food Benefit Cost Was Based on Sound Methodology

The estimate used to ensure the cost neutrality of the food stamp benefits provided under MFIP was based on a sound research methodology. The strength of this methodology hinges on its use of a control group selected at random to estimate the cost for the MFIP group. Because the random assignment was, by definition, made by chance—as with a lottery or the toss of a coin—the two groups are expected to be similar except for the

⁷For evaluation purposes, the sample size for the MFIP group is greater than for the control group. This difference is taken into account in the formulas used to calculate the estimate of benefit costs for cost-neutrality purposes.

⁸MAXIS is Minnesota's integrated eligibility and benefits determination system.

⁹An adjustment was made for a small number of individuals from control group families who joined MFIP group families.

program by which they receive benefits. In fact, data provided by the evaluation contractor showed that the random assignment process was resulting in MFIP and control groups that were similar.¹⁰ Because the groups were similar, the cost of providing food stamp benefits to the control group provided the best estimate of what the cost would have been to provide food stamp benefits to the group receiving MFIP benefits.

Furthermore, Minnesota took reasonable steps to ensure the integrity of the random assignment of cases to the MFIP and control groups. For example, the random assignment procedures were designed to prevent “gaming” of who is assigned to the MFIP or control group. This was done by giving responsibility for making the random assignment to the MFIP evaluation contractor, located in New York City, not the county worker dealing with the potential MFIP recipient. In addition, the contractor used a computer program that had been used in other evaluation studies to make such random assignments. Minnesota and the contractor also monitored the integrity of the procedures by periodically comparing the characteristics of the control and MFIP groups to make sure they were similar.

**Fiscal Year 1994
Administrative Cost
Estimate Was Reasonable**

The fiscal year 1994 administrative cost estimate was reasonable even though the cost allocation approach used to calculate the estimate had some limitations. A cost allocation approach may not be the most reliable method for ensuring cost neutrality because this approach depends on the accuracy of the state’s identification of administrative costs unique to the demonstration project.

Despite this limitation, the cost allocation procedures Minnesota used produced a reasonable administrative cost estimate for fiscal year 1994. We found that the ratio of administrative to benefit costs for MFIP was comparable to the ratio of administrative to benefit costs for the Food Stamp Program in Minnesota in fiscal year 1994. Table 1 shows the ratio of benefit to administrative costs for fiscal year 1994.

¹⁰A comparison of the families assigned to the MFIP and control groups found no statistically significant differences in characteristics such as employment status, education level, previous welfare experience, and ethnicity.

Table 1: Ratio of Benefits to Federal Share of Administrative Costs for Food Stamp Program, Fiscal Year 1994

Program	Food Stamp Program benefits	Administrative costs	Ratio
Minnesota, excluding MFIP	\$236,977,553	\$22,289,005	9%
MFIP	\$1,612,634 ^a	\$111,610	7%

^aEstimate of total food stamp benefits that would have been paid to MFIP participants in the absence of the demonstration project.

Reconciliation of Cost Estimates to Payments Has Occurred for Fiscal Year 1994

From April 1, 1994, to September 30, 1994, the first 6 months of MFIP’s operations, Minnesota received \$1,728,029 in payments from USDA for MFIP food benefits, which was \$115,395 more than it would have received in the absence of the demonstration project. Because there was no way to accurately calculate in advance what USDA’s payment for MFIP families should be, Minnesota requested and received payments from USDA that were based on the state’s forecasts of what the food stamp costs would have been in the absence of the demonstration project. Table 2 shows the difference between the payments USDA made for food benefits to MFIP participants and Minnesota’s subsequent estimate of the comparable costs for food benefits under the traditional Food Stamp Program.

Table 2: MFIP Food Benefit Payments Compared With Food Benefit Estimates, Fiscal Year 1994

Actual and estimated payments	Amount of payment
USDA’s total food stamp payments—cash and coupons—to Minnesota for MFIP cases	\$1,728,029
Estimate of total food stamp benefits that would have been paid in the absence of MFIP	1,612,634
Amount Minnesota owes to USDA	\$115,395

The difference of \$115,395 is an excess cost that Minnesota must pay back to USDA to meet the cost-neutrality requirements. USDA billed Minnesota for this amount on January 30, 1996. Minnesota can choose between paying USDA within 30 days or having its current year funding reduced by this amount.

The \$115,395 in excess costs does not represent the total additional food benefits provided to MFIP families in fiscal year 1994. Minnesota calculated that it provided \$2,208,026, or \$595,392 more in food benefits for MFIP in fiscal year 1994 than it would have provided in Food Stamp Program benefits in the absence of the demonstration project. However, because of

the cost-neutrality requirement, USDA's payment liability was limited to \$1,612,634.

Because Minnesota used a cost allocation method, rather than estimating costs on the basis of a control group, it does not need to further reconcile administrative costs for fiscal year 1994. (For MFIP administrative costs, Minnesota received a total of \$111,610 for the 6-month period. Of this total, \$103,202 was for indirect administrative costs incurred by counties and \$8,408 was for indirect administrative costs incurred by the state.)

Comments From Federal Agencies and the State of Minnesota

We provided copies of a draft of this report to the Secretaries of Agriculture and Health and Human Services and to the Commissioner of Minnesota's Department of Human Services for review and comment. USDA and Minnesota agreed with the report's findings. Because of the federal government furlough, HHS did not provide comments on the draft. However, we had previously met with the HHS official responsible for the cost neutrality of welfare reform demonstration projects, who agreed with the facts as presented in the report. We incorporated his suggestions for minor technical corrections and or clarification as appropriate. USDA's and Minnesota's comments appear in appendixes I and II, respectively.

Scope and Methodology

In developing information for this report, we spoke with and obtained documents from officials with USDA, HHS, and Minnesota (state and county) and with the evaluation contractor regarding the cost-neutrality requirements, agreements on the methodologies, implementation of those methodologies and formulas, and repayment of excess costs. We also observed the implementation of MFIP procedures in one urban and one rural county in Minnesota. To assess the reasonableness of the methodologies and resulting estimates, we conducted a qualitative analysis of the methods used for estimating the food benefits. To assess the reasonableness of the administrative cost estimates, we compared the ratios of administrative costs to benefits provided for both the demonstration project and the Food Stamp Program in the state. We also obtained and compared USDA's fiscal year 1994 payments to Minnesota with the estimates of what those payments would have been in the absence of the demonstration project.

We conducted our work between June 1995 and January 1996 in accordance with generally accepted government auditing standards. However, we did not verify the accuracy and reliability of data from

Minnesota's and USDA's financial and other management information systems.

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

Please contact me at (202) 512-5138 if you or your staff have any questions. Major contributors to this report are listed in appendix III.



Robert A. Robinson
Director, Food and
Agriculture Issues

Comments From the U.S. Department of Agriculture



United States
Department of
Agriculture

Food and
Consumer
Service

3101 Park Center Drive
Alexandria, VA
22302-1500

JAN 16 1996

Robert A. Robinson, Director
Food and Agriculture Issues
Resources, Community and Economic
Development Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Robinson:

This letter is in response to the General Accounting Office (GAO) report entitled, "Food Stamp Program: Achieving Cost Neutrality in Minnesota's Family Investment Program." The United States Department of Agriculture (USDA) finds the GAO's conclusions on the methodologies for determining the cost neutrality of Minnesota's Family Investment Program to be accurately drawn and fairly presented in the report. We have no other comments.

We appreciate the opportunity provided by the GAO to review and comment on the proposed report, and we look forward to working with the GAO on the subsequent evaluation of this welfare reform demonstration.

Sincerely,

William E. Ludwig
Administrator

Comments From the State of Minnesota



State of Minnesota
Department of Human Services

Human Services Building
444 Lafayette Road N
St. Paul, Minnesota 55155

January 8, 1996

Mr. Robert A. Robinson
Director, Food and Agriculture Issues
Resources, Community, and Economic
Development Division
U.S. General Accounting Office
10th Floor
1110 Vermont Avenue Northwest
Washington, D.C. 20005

Dear Mr. Robinson:

This is in response to your letter requesting comments on the draft report entitled Food Stamp Program: Achieving Cost Neutrality in Minnesota's Family Investment Program. We find that the draft report accurately reflects the agreements and procedures in place to determine federal cost neutrality for Food Stamp Program expenditures in the Minnesota Family Investment Program.

Thank you for the opportunity to review and comment on this draft report.

Sincerely,

A handwritten signature in cursive script that reads "Maria R. Gomez".

MARIA R. GOMEZ
Commissioner

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Major Contributors to This Report

Thomas E. Slomba, Assistant Director
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