United States General Accounting Office

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Report to the Chairman, Committee on the Budget, House of Representatives

June 1997

WIC

States Had a Variety of Reasons for Not Spending Program Funds

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GAO

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

Resources, Community, and
Economic Development Division

B-276975

June 12, 1997

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is designed to improve the health of low-income, pregnant, breast-feeding, and postpartum women; infants; and children up to age 5 who are at nutritional risk. The program provides annual cash grants to states for food, nutrition benefits, and administrative expenses—about $3.7 billion in fiscal year 1997. The Food and Consumer Service (FCS) of the U.S. Department of Agriculture administers WIC.

In the past, the Congress had raised concerns about the amount of WIC grant funds that some states did not spend by the end of the fiscal year and returned to FCS for reallocation to states the following fiscal year (known as unspent recoverable funds). These funds totaled about $137.5 million of the about $3.5 billion WIC appropriation in fiscal year 1995, the most recent year for which data were available.

You requested that we identify the reasons that states had unspent recoverable funds. In doing this, we also asked states whether unspent recoverable funds indicated that they had more WIC funds available than necessary to meet their needs. In performing our work, we interviewed state WIC officials in 8 of the 47 states that had unspent recoverable funds in fiscal year 1995 and 2 of the 3 states that had no unspent recoverable funds that year. The eight states accounted for about 50 percent of the unspent recoverable funds in fiscal year 1995.

Results in Brief

State officials identified a variety of reasons why their states had unspent recoverable funds. Some of these reasons were related to how WIC is structured. For example, because the federal grant is the only source of funds for WIC in most states, states exercise caution to ensure that they do not spend more than their federal grant. In addition, because states use vouchers and checks to distribute food benefits, it is difficult for them to determine the program's food costs until the vouchers and checks have been redeemed and processed. Some other reasons contributing to states' having unspent recoverable funds relate to specific situations or

circumstances that limited program participation. For example, in one state the installation of a new computer system temporarily reduced the amount of time clinic staff had to certify and serve new clients because they had to instead spend time learning new software and operating procedures.

Having unspent recoverable funds does not necessarily indicate a lack of need for program benefits. According to all eight WIC directors who we contacted in states having fiscal year 1995 unspent recoverable funds, more eligible individuals could have been served by WIC had it not been for reasons such as those identified above.

Background

Established in 1972, WIC provides federal grants to states for supplemental foods, health care referrals, and nutrition education for low-income, pregnant, breast-feeding, and postpartum women; infants; and children up to age 5 who are at nutritional risk. To qualify for the program, WIC applicants must show evidence of health or nutritional risk that is medically verified by a health professional. In addition, participants must have incomes at or below 185 percent of the poverty level. WIC operates in the 50 states (as well as on 33 Indian reservations), the District of Columbia, Guam, the U.S. Virgin Islands, American Samoa, and the Commonwealth of Puerto Rico.

Federal WIC appropriations totaled $3.47 billion in fiscal year 1995 and $3.73 billion annually in fiscal years 1996 and 1997. The program is primarily funded by federal appropriations, with some states supplementing their federal grant with their own funds. In fiscal years 1995 and 1996, average monthly WIC participation was about 6.9 million and 7.2 million, respectively, and in fiscal year 1997, average monthly participation was 7.4 million participants through February 1997.

Grants to states are divided into food grants and Nutrition Services and Administration (NSA) grants. Food grants are allocated to states through a formula that is based on the number of individuals in each state who are eligible for WIC benefits because of their income. NSA grants are allocated to states through a formula that is based on factors such as the state's number of program participants and WIC salary costs. Both food and NSA grants have a stability feature that attempts to ensure that prior year funding levels are maintained. Since 1995, food grants have represented about 74 percent of WIC grant funds and NSA grants about 26 percent. Food grants cover the costs of supplemental foods. NSA grants cover costs

for program administration, start-up, monitoring, auditing, the development of and accountability for food delivery systems, nutrition education, breast-feeding promotion and support, outreach, certification, and developing and printing food vouchers or checks.

FCS provides preliminary grant estimates to states in October, followed by official notification of grant amounts in January. A state can increase its grant amount during the year by qualifying for and requesting additional funds through FCS' reallocation process. FCS reallocates unspent recoverable funds as well as current-year funds that the states voluntarily return. In fiscal year 1995, FCS reallocated funds four times: in January, April, July and August. In fiscal year 1996, FCS reallocated funds five times: in January, February, May, July and August. Priority for these funds in fiscal years 1995 and 1996 was given to states that had not received funds commensurate with their percentage of potentially eligible women, infants, and children.

In fiscal year 1990, unspent recoverable funds totaled about $28.1 million.[1] The amount increased to about $137.5 million in fiscal year 1995, with FCS estimating a decline to about $121.6 million in fiscal year 1996. The unspent recoverable funds as a percentage of the WIC appropriation for fiscal years 1990 through 1996 ranged from about 1.3 to 4.3 percent. See table 1.

Table 1: Unspent Recoverable Funds, WIC Appropriations, and Unspent Recoverable Funds as a Percentage of Appropriations, Fiscal Years 1990-96

Fiscal year	Unspent recoverable funds ($ millions)	WIC appropriation ($ billions)	Unspent recoverable funds as percentage of appropriation
1990	$28.07	$2.13	1.32
1991	73.38	2.35	3.12
1992	66.23	2.60	2.55
1993	97.26	2.86	3.40
1994	136.77	3.21	4.26
1995	137.48	3.47	3.96
1996	121.57	3.73	3.26

Most WIC food benefits are provided to participants through vouchers or checks. These vouchers or checks allow participants to purchase a monthly food package designed to supplement their diets. The foods they

[1]Besides unspent recoverable funds that states must return to FCS for reallocation to states the next fiscal year, WIC regulations allow states to carry a certain percentage of funds into the next fiscal year for their spending. These funds are called spend-forward funds.

can purchase are high in protein, calcium, iron, and vitamins A and C—nutrients frequently lacking in the diets of WIC's target population. Vouchers or checks can be issued monthly, bimonthly, or every 3 months.

Mothers participating in WIC are encouraged to breast-feed their infants if possible, but states still spend hundreds of millions of dollars a year for infant formula for WIC participants. Federal law requires that states enter into cost-containment contracts for the purchase of infant formula used in WIC. These contracts typically involve a rebate to a state by an infant formula manufacturer for each can of the manufacturer's formula purchased through WIC. By negotiating contracts for rebates with formula manufacturers, states greatly reduce average per person food costs so that more people can be served. In fiscal year 1995, savings from rebates totaled $1.1 billion.

Reasons Contributing to Unspent Recoverable Funds

State officials we contacted identified a variety of reasons that contributed to states' having unspent recoverable funds. Some of these reasons are associated with the overall structure of WIC, while others are due to specific circumstances that affect program operations within individual states.

Reasons Associated With Program Structure

State officials identified five reasons for having unspent recoverable funds that were related to WIC's basic structure. First, WIC directors pointed out that the federal grant was the sole source of WIC funding in their states, and as a result, they needed to be cautious to avoid overspending their WIC grant. This careful approach to managing their WIC grant can result in a considerable amount of unspent recoverable funds because of the size of WIC grants. For example, in fiscal year 1995, California had unspent recoverable funds of almost $16 million, which represented about 3 percent of its federal grant. In contrast to California, New York had no unspent recoverable funds in fiscal year 1995. New York was one of 12 states that provided supplemental funds that year. According to a WIC official in New York, having the supplemental state funds was one of the reasons the state did not have unspent recoverable funds in fiscal year 1995. Furthermore, the group of states that supplemented their WIC grants in fiscal year 1995 returned a smaller percentage of their combined WIC grants as unspent recoverable funds than did the states that did not supplement their grants (1.8 percent and 4.6 percent, respectively).

Second, states had unspent recoverable funds because the use of vouchers and checks to distribute benefits made it difficult for states to determine

program food costs until the vouchers and checks were redeemed and processed, according to WIC directors. Two features of the voucher and check distribution method can contribute to states' having unspent recoverable funds. First, some portion of the benefits issued in the form of vouchers and checks may not be used, thereby reducing projected food costs. Participants may not purchase all food items specified on the voucher or check or not redeem the voucher or check at all. Second, because of the time it takes to process vouchers and checks, states may find after the end of the fiscal year that their actual food costs were lower than projected. For example, most states do not know the cost of the vouchers and checks issued for August and September benefits until after the fiscal year ends because program regulations require states to give participants 30 days to use a voucher or check and retailers 60 days after receipt of the voucher or check to submit it for payment.

The difficulty in projecting food costs in a timely manner can be exacerbated in states that issue participants 3 months of vouchers or checks at a time. In such states, vouchers or checks for August benefits could be provided as early as June but not be submitted for payment by the retailer until the end of October. Some states, such as Texas, now issue 3 months of vouchers to reduce crowded clinic conditions and serve more participants with available resources.

Third, some state WIC officials reported that they had unspent recoverable funds in part because they accepted reallocated WIC funds too late in the fiscal year to allow them to spend all of the additional funds. According to the California WIC director, a state with a growing caseload could have an incentive to accept more funds during the summer than could be spent because its next fiscal year's grant is partially based on the current year's grant, including reallocations. However, states can be penalized if they do not spend a certain percentage of their total food grant, including reallocated funds. In fiscal years 1995 and 1996, this percentage, known as a performance standard, was 96 percent, and in fiscal year 1997, it is 97 percent.

Fourth, some state WIC directors said that they had unspent recoverable funds in part because the level of NSA funds they received was, in their view, insufficient to support the WIC program infrastructure needed to distribute the food grants they receive. These infrastructure needs included new clinics, extended clinic hours to serve working women, updated information processing systems, and additional staff. The Illinois WIC director, for example, reported that to meet its existing caseload, the

state needs additional clinic space that cannot be met with its current NSA grant. To compensate for this shortage of space, Illinois now issues 3 months of vouchers at one time to reduce crowded clinic conditions.

Fifth, several WIC directors pointed out that higher-than-expected increases in rebates on infant formula when new contracts were negotiated contributed to states' having unspent recoverable funds. For example, the Texas WIC director reported that one of the reasons the state had unspent recoverable funds in fiscal year 1996 was an increase of $19 million in rebates, from $104 million in fiscal year 1995 to $123 million in fiscal year 1996, after a new contract went into effect. Program regulations allow states to carry forward into the next fiscal year some of the additional funds that result from new rebate contracts. However, the amount of additional rebate funds Texas experienced as a result of its new contract was more than the amount that is allowed to be carried forward. At the end of the fiscal year, any additional rebate funds that are not spent or allowed to be carried forward are returned to FCS as unspent recoverable funds for reallocation in the next fiscal year.

Reasons Related to Specific State Situations

In addition to the reasons related to the structure of WIC, some state officials reported specific situations that contributed to their state's having unspent recoverable funds. Several examples of state-specific situations follow.

In Texas, installation of a new computer system contributed to the state's having unspent recoverable funds of about $6.8 million in fiscal year 1996. The state WIC director reported that there were eligible individuals who were not served in part because of problems experienced in implementing the new computer system, which is used to certify WIC eligibility and issue WIC food vouchers. According to the WIC director, eligible individuals were not served because it took time for clinic managers and staff to learn new system software and operating procedures, thereby reducing the time available for providing services to new clients.

In Florida, a hiring freeze contributed to the state's having unspent recoverable funds of $7.7 million in fiscal year 1995. According to the state WIC director, although WIC funds were available to increase the number of WIC staff at the state and local agency level, state programs were under a hiring freeze that affected all programs, including WIC. The hiring freeze hindered the state's ability to hire the staff needed to serve the program's expanding caseload.

In Mississippi, changes in the health care delivery system for Medicaid patients contributed to that state's having unspent recoverable funds of $8 million in fiscal year 1995. The state WIC director said that many clients "dropped through the cracks" because the state shifted health care for Medicaid patients from public health centers, where WIC staff certified eligibility and provided benefits, to private health maintenance organizations that did not provide WIC services. Under the new system, potential WIC participants have to go to an additional location to obtain WIC benefits. This change made it more difficult to obtain WIC benefits, thereby reducing program participation.

Unspent Recoverable Funds Do Not Necessarily Mean All States' Needs Met

Although states had unspent recoverable funds, they reported that they had eligible individuals who were not served. According to all eight WIC directors that we contacted in states' having fiscal year 1995 unspent recoverable funds, more eligible individuals could have been served by WIC had it not been for the reasons related to the program's structure and/or state-specific situations. The Ohio WIC director, for example, reported that although the state had unspent recoverable funds in fiscal years 1995 and 1996, more eligible individuals could have been served if additional NSA funds had been available to hire more staff. The director pointed out that Ohio's WIC reaches about 72 percent of WIC-eligible individuals, and he believed that the state could serve 78 percent of eligible individuals.

Agency Comments

We provided copies of a draft of this report to the U.S. Department of Agriculture's Food and Consumer Service for its review and comment. We met with Food and Consumer Service officials, including the Director, Grants Management Division, and the Acting Director, Supplemental Food Programs Division. They agreed with the report's findings and provided technical corrections, which we incorporated into the report.

Scope and Methodology

We judgmentally selected 10 states to contact regarding their reasons for having or not having unspent recoverable funds. Using FCS program data for fiscal year 1995, the most recent available at the time we selected the states, we identified the six states (California, Florida, Illinois, Ohio, Mississippi, and Texas) with the greatest amount of unspent recoverable funds, the two states with the highest percentage of unspent recoverable funds in relation to their WIC grant (Montana and Wyoming), and two states that had no unspent recoverable funds (Georgia and New York). We contacted each state's WIC director (or representative) by telephone to

discuss the reasons that the state had or did not have unspent recoverable funds. Because we judgmentally selected the states, the results we obtained cannot be used to make statements about the universe of all states participating in WIC. As agreed, we excluded Indian tribal organizations, the District of Columbia, and the territories from our potential sample. We also asked states whether unspent recoverable funds indicated that their state had more WIC funds available than necessary to meet the state's needs.

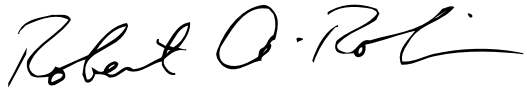
In addition to talking with state WIC officials, we reviewed WIC regulations and FCS financial documents, and discussed program operations with staff at FCS headquarters and the six regional offices that monitor the 10 states we contacted. Furthermore, we discussed WIC operations with the Executive Director, National Association of WIC Directors; and the Executive Director and staff from the Center for Budget and Policy Priorities, an organization that has conducted a number of studies on WIC.

We conducted our review from December 1996 through May 1997 in accordance with generally accepted government auditing standards. We did not independently verify the financial information contained in the FCS database.

We are sending copies of this report to the appropriate congressional committees and the Secretary of Agriculture. We will also make copies available to others on request.

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

Sincerely yours,



Robert A. Robinson
Director, Food and
Agriculture Issues

States' WIC Grants and Unspent Recoverable Funds, Fiscal Years 1995 and 1996

	Fiscal year 1995		Fiscal year 1996	
State	WIC grant	Unspent recoverable funds	WIC grant	Unspent recoverable funds[a]
Alabama	$64,611,410	$2,918,859	$61,217,277	$577,765
Alaska	14,950,896	1,180,022	16,005,387	500,772
Arizona	51,575,185	2,559,178	58,927,576	3,320,350
Arkansas	40,736,964	761,538	42,362,221	0
California	528,264,582	15,950,928	631,052,167	36,651,129
Colorado	36,958,426	1,192,418	38,360,902	2,545,461
Connecticut	38,720,671	1,778,925	36,586,494	2,282,418
Delaware	7,926,995	80,672	8,244,816	119,344
Florida	163,876,394	7,735,081	176,189,537	672,456
Georgia	107,253,724	0	109,730,495	2,603,317
Hawaii	22,089,495	3,079,333	22,652,211	33,586
Idaho	19,009,593	2,704,452	17,736,340	2,106,815
Illinois	134,576,605	7,722,076	145,988,966	783,517
Indiana	62,746,560	1,788,687	66,369,206	278,630
Iowa	31,202,554	1,304,187	33,024,358	1,906
Kansas	28,797,513	831,671	28,194,852	1,368,262
Kentucky	58,848,075	1,525,130	60,376,983	1,887,377
Louisiana	73,526,079	4,524,832	73,035,770	0
Maine	13,610,310	834,941	13,987,474	1,078,613
Maryland	44,861,177	1,348,600	48,997,345	1,901,410
Massachusetts	52,660,857	1,605,171	55,424,377	0
Michigan	106,563,052	2,538,542	112,191,242	3,463,741
Minnesota	43,027,616	0	45,264,013	0
Mississippi	57,764,023	8,000,314	55,850,694	7,342,817
Missouri	64,158,981	3,683,036	67,251,953	3,377,648
Montana	12,106,893	1,885,585	12,590,028	1,442,734
Nebraska	17,782,146	400,183	18,659,852	0
Nevada	15,723,968	1,640,476	17,467,771	515,513
New Hampshire	9,691,047	323,896	9,465,600	0
New Jersey	70,886,124	371,253	74,029,481	3,879,861
New Mexico	25,468,382	52,476	27,276,366	0
New York	237,732,790	0	253,009,178	0
North Carolina	86,156,248	3,350,351	89,939,421	2,501,167
North Dakota	8,930,948	347,061	8,767,349	25,949
Ohio	121,153,627	4,706,154	124,621,932	8,104,571
Oklahoma	41,082,326	759,306	42,418,976	0

(continued)

	Fiscal year 1995		Fiscal year 1996	
State	WIC grant	Unspent recoverable funds	WIC grant	Unspent recoverable funds[a]
Oregon	39,378,115	1,357,113	43,775,330	1,527,110
Pennsylvania	128,033,346	1,139,154	134,322,962	4,457,144
Rhode Island	11,837,294	509,801	11,777,659	91,985
South Carolina	58,179,048	4,031,474	59,951,078	1,617,017
South Dakota	11,545,103	1,440,989	10,968,497	119,806
Tennessee	71,592,650	2,048,077	77,232,944	211,417
Texas	290,772,155	21,238,422	290,896,733	6,787,112
Utah	29,034,990	3,230,678	30,017,807	592,300
Vermont	8,837,753	275,149	8,969,678	275,705
Virginia	66,135,980	551,490	70,872,396	3,502,451
Washington	60,412,019	1,200,000	77,160,239	6,767,714
West Virginia	28,733,148	3,287,465	29,367,162	731,539
Wisconsin	55,275,738	2,048,790	55,295,823	0
Wyoming	7,214,584	1,563,897	6,301,585	590,777
American Samoa	[b]	[b]	4,345,329	1,577,791
District of Columbia	9,183,395	0	9,793,974	415,282
Guam	5,163,965	563,790	5,199,580	792,431
Puerto Rico	123,933,180	801,211	132,779,345	0
U.S. Virgin Islands	5,866,193	3,896	6,025,014	456,702
Indian Tribal Organizations	40,162,705	2,702,015	45,585,584	1,693,516
Total	**$3,566,323,597**	**$137,478,745**	**$3,809,562,000**	**$121,574,928**

[a]Preliminary, subject to final reconciliation.

[b]Did not participate in fiscal year 1995.

Source: U.S. Department of Agriculture's Food and Consumer Service.

Major Contributors to This Report

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