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United States Government Accountability Office  
Washington, DC 20548

June 30, 2005

The Honorable Wally Herger  
Chairman  
Subcommittee on Human Resources  
Committee on Ways and Means  
House of Representatives

Subject: *Administrative Expenditures and Federal Matching Rates of Selected Support Programs*

Dear Mr. Chairman:

The federal government spends billions of dollars annually for programs that help low-income families and other individuals. A significant portion of these funds cover administrative costs rather than direct benefits and services. To provide information on how these administrative costs compare across programs and the federal government's role in funding these programs' administrative costs, we examined (1) total funding and the amounts and types of administrative expenditures for selected programs and (2) the federal matching rates for these administrative expenditures.

Our review included seven programs: Medicaid, State Children's Health Insurance Programs (SCHIP), Food Stamp Program, Foster Care, Adoption Assistance, Child Support Enforcement (CSE), and Child Care and Development Fund (CCDF).<sup>1</sup> The Food Stamp Program is administered by the U.S. Department of Agriculture (USDA), and the remaining programs are administered by the U.S. Department of Health and Human Services (HHS). To determine the amounts and types of administrative expenditures for these programs as well as the federal role in funding their administrative costs, we examined information publicly available from legislation, governmentwide publications, and the relevant federal agencies. We determined that this information is sufficiently reliable for the purpose of this correspondence. We conducted our work during May and June 2005 in accordance with generally accepted government auditing standards.

Total expenditures, including administrative and all other expenditures, for the seven programs in our review ranged from \$2.9 billion for Adoption Assistance to \$295 billion for Medicaid, including both federal and state expenditures, as shown in table 1. Total expenditures generally include the costs of direct benefits, such as the costs of food stamps and medical services, as well as all other costs of administering the programs and

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<sup>1</sup>See enclosure I for descriptions of these programs. We agreed with your staff on this set of programs that provide assistance to low-income families and other individuals. Each of these programs is jointly funded by federal and state governments, employs federal matching rates, and has annual federal outlays of over \$1.5 billion.

providing benefits. For each of the programs in our review, both the federal and state governments provide program funding. The federal share of total program expenditures ranged from 53 percent for Foster Care to 91 percent for the Food Stamp Program.

**Table 1: Total Federal and State Expenditures for Selected Programs, Fiscal Year 2004**

| Dollars in billions       |                                 |                            |                                       |
|---------------------------|---------------------------------|----------------------------|---------------------------------------|
| Program name              | Total expenditures<br>(percent) | Federal share<br>(percent) | State share <sup>a</sup><br>(percent) |
| Medicaid                  | \$294.7<br>(100)                | \$174.1<br>(59)            | \$120.6<br>(41)                       |
| Food Stamp Program        | \$29.8<br>(100)                 | \$27.2<br>(91)             | \$2.6<br>(9)                          |
| CCDF                      | \$9.4<br>(100)                  | \$6.9<br>(73)              | \$2.5<br>(27)                         |
| Foster Care               | \$8.6<br>(100)                  | \$4.5<br>(53)              | \$4.0<br>(47)                         |
| SCHIP                     | \$6.6<br>(100)                  | \$4.6<br>(70)              | \$2.0<br>(30)                         |
| Child Support Enforcement | \$3.3 <sup>b</sup><br>(100)     | \$2.9<br>(88)              | \$0.4<br>(12)                         |
| Adoption Assistance       | \$2.9<br>(100)                  | \$1.6<br>(54)              | \$1.3<br>(46)                         |

Source: GAO analysis of HHS and USDA data.

<sup>a</sup>Includes local expenditures, where applicable.

<sup>b</sup>Federal and state expenditures are reduced by child support collections that are used to reimburse the Temporary Assistance for Needy Families (TANF) and Foster Care programs and by fees collected for certain services. The federal total also includes administrative costs, payments to states that meet established performance measures, and costs for certain grants.

Administrative expenditures for these programs are listed in table 2. The specific types of expenditures that are considered administrative differ considerably across the programs. For example, administrative costs for Foster Care include case planning, recruitment and licensing of foster care homes, and eligibility determination activities, as well as other activities. In contrast, administrative costs for CCDF do not include the costs of providing direct services, such as determining eligibility and placing children in child care. Both federal and state funds are used for administrative expenditures. The federal share of administrative expenditures ranged from 49 percent for the Food Stamp Program to 70 percent for SCHIP.

**Table 2: Federal and State Administrative Expenditures for Selected Programs, Fiscal Year 2004**

Dollars in billions

| Program name                           | Administrative expenditures (percent) | Federal share (percent) | State share (percent) | Types of expenses included in administrative costs                                                                                                                                                                                                                |
|----------------------------------------|---------------------------------------|-------------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Medicaid                               | \$14.4<br>(100)                       | \$8.0<br>(55)           | \$6.4<br>(45)         | Includes marketing, enrollment, customer services, overhead, claims processing, and profits of for-profit entities.                                                                                                                                               |
| Child Support Enforcement <sup>a</sup> | \$5.3<br>(100)                        | \$3.5<br>(66)           | \$1.8<br>(34)         | Includes all expenses for administration and operation of the program. For example, personnel, payroll, travel expenses, and costs related to carrying out the basic program activities.                                                                          |
| Food Stamp Program                     | \$5.1<br>(100)                        | \$2.5<br>(49)           | \$2.6<br>(51)         | Includes all expenses other than benefits. For example, certification of eligibility, issuance of benefits, quality control and fraud investigations, nutrition education, outreach, system development and operation, and employment and training of recipients. |
| Foster Care                            | \$5.0<br>(100)                        | \$2.6<br>(52)           | \$2.4<br>(48)         | Includes all expenses other than payments to foster families. For example, case planning, recruitment and licensing of foster care homes, eligibility determination activities, development and operation of information system, training, and overhead.          |
| Adoption Assistance                    | \$0.6<br>(100)                        | \$0.3<br>(52)           | \$0.3<br>(48)         | Includes all expenses other than payments to adoptive parents. For example, case planning, review, and management, recruitment of adoptive homes, eligibility determination, negotiation and review of adoption agreements, training, and overhead.               |
| SCHIP                                  | \$0.3<br>(100)                        | \$0.2<br>(70)           | \$0.1<br>(30)         | Includes "reasonable costs" to administer the program. Does not include outreach, case management, and other services.                                                                                                                                            |
| CCDF                                   | \$0.2                                 | NA                      | NA                    | Administrative costs include, for example, program planning and monitoring, travel costs, and office equipment and supplies. Administrative costs do not include eligibility determination, child care placement, training, and computerized information systems. |

Source: GAO analysis of HHS and USDA data.

<sup>a</sup>CSE administrative expenditures exceed total expenditures because total expenditures are reduced by child support collections distributed to TANF and Foster Care programs and fees collected for certain services.

NA = data not available.

The sharing of administrative costs between the federal and state governments is based largely on federal matching rates, in accordance with federal laws and regulations.<sup>2</sup> Table 3 provides information on the federal matching rates and other rules governing federal expenditures for administrative costs for each program. The federal matching rate is 50 percent for most administrative expenditures for Medicaid, the Food Stamp Program, Foster Care, and Adoption Assistance, although higher federal matching rates may apply to certain expenses. For CSE, the federal matching rate is 66 percent for most administrative expenditures. For a portion of CCDF administrative expenditures, the federal matching rate varies by state and ranges from 50 percent to 77 percent. For SCHIP, the federal matching rate also varies by state and ranges from 65 percent to

<sup>2</sup>The federal matching rate and the actual share of expenditures that the federal government pays, in practice, differ slightly, because of the detailed rules governing the sharing of expenses and application of the federal matching rate.

about 84 percent. In addition, administrative expenditures in SCHIP and CCDF are capped at 10 percent and 5 percent, respectively, of total expenditures.<sup>3</sup>

**Table 3: Federal Matching Rates and Other Rules Governing Federal Expenditures of State Administrative Costs**

| <b>Program name</b> | <b>Federal matching rate</b>                                           | <b>Other rules</b>                                                                                                                    |
|---------------------|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Medicaid            | 50 percent                                                             | 75, 90, and 100 percent federal matching rates for certain administrative functions.                                                  |
| Food Stamps         | 50 percent <sup>a</sup>                                                | 100 percent federal grant coverage of some employment and training costs.                                                             |
| Foster Care         | 50 percent                                                             | 75 percent federal matching rate for training expenditures.                                                                           |
| Adoption Assistance | 50 percent                                                             | 75 percent federal matching rate for training expenditures.                                                                           |
| CCDF                | 50 to 77 percent, as determined by formula for each state <sup>b</sup> | 5 percent limit on administrative expenditures.                                                                                       |
| SCHIP               | 65 to 84 percent, as determined by formula for each state <sup>c</sup> | 10 percent limit on use of federal funds for administration, outreach, health initiatives, and certain other child health assistance. |
| CSE                 | 66 percent                                                             | 90 percent federal matching rate for certain lab costs.                                                                               |

Source: GAO analysis of HHS and USDA data.

<sup>a</sup>The 50 percent federal share of state and local administrative expenses is reduced by \$197 million a year to account for costs covered by grants for TANF, resulting in an actual federal share paid under the Food Stamp Program that is slightly below 50 percent.

<sup>b</sup>Federal matching rates for CCDF are determined using the Federal Medical Assistance Percentages. States' federal matching rates are inversely related to their average per capita income levels. Federal matching rate applies only to one component of CCDF funding, which is available to states that achieve required levels of state spending.

<sup>c</sup>Federal matching rates for SCHIP are determined using the Enhanced Federal Medical Assistance Percentages. States' federal matching rates are inversely related to their average per capita income levels.

We shared a draft of this document with knowledgeable officials from each program for their technical review. We discussed the draft with Child Care and Development Fund and Food Stamp Program officials and incorporated their comments where appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this letter until 30 days after its date. At that time, we will send copies of this letter to the Secretaries of HHS and USDA, appropriate congressional committees, and other interested parties. We will also make copies available to others upon request and on GAO's Web site at <http://www.gao.gov>.

<sup>3</sup>The 10 percent cap applies to expenditures for administration, outreach, health initiatives, and certain other child health assistance.

If you have any questions about this letter, please contact me at (415) 904-2272. You may also reach me by e-mail at [bellisd@gao.gov](mailto:bellisd@gao.gov). Gale Harris served as assistance director on this engagement. Heather Hahn was the analyst-in-charge. Cindy Ayers, Rebecca Christie, Susan Higgins, and Carolyn Taylor provided key information.

Sincerely yours,

A handwritten signature in black ink that reads "David D. Bellis". The signature is written in a cursive style with a large, looped 'D' at the beginning and a long, sweeping tail for the 's'.

David D. Bellis  
Director, Education, Workforce,  
and Income Security Issues

Enclosure

## **Enclosure I**

### **PROGRAM DESCRIPTIONS**

#### **Adoption Assistance**

The purpose of the Adoption Assistance program, authorized under title IV-E of the Social Security Act, is to assist states in finding adoptive homes for eligible children with special needs. This program provides funds to states to assist in providing adoptive families with ongoing financial and medical assistance for adopted children with special needs as well as funds to support staff training and administrative costs.

#### **Child Care and Development Fund**

This program, authorized by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104-193, assists low-income families, families receiving temporary public assistance, and those transitioning from public assistance in obtaining child care so that they can work or attend training or education. With this block grant, states develop and pay for child care programs. Within certain federal guidelines, states have discretion in deciding how these funds will support child care, who will be eligible, and what payment mechanism will be used.

#### **Child Support Enforcement**

The Child Support Enforcement (CSE) program is a joint federal and state partnership established in 1975 under title IV-D of the Social Security Act to ensure that parents provide support to their children. State CSE programs are responsible for carrying out the basic activities for locating absent noncustodial parents, establishing paternity and support orders, and collecting and distributing child support payments. Although the states administer the child support enforcement program, the federal government plays a major role, which includes funding most of the program, establishing policies and guidance, and overseeing and monitoring state CSE programs' compliance with federal requirements.

#### **Food Stamp Program**

The Food Stamp Program, established in 1964 and administered at the federal level by the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS), is designed to provide basic nutrition to low-income individuals and families in the United States by supplementing their income with benefits to purchase food. FNS pays the full cost of food stamp benefits and shares the states' administrative costs. FNS is responsible for promulgating program regulations and ensuring that state officials administer the program in compliance with program rules. The states administer the program by determining whether households meet the program's income and asset requirement, calculating monthly benefits for qualified households, and issuing benefits to participants on an electronic benefits transfer card.

## **Enclosure I**

### **Foster Care**

The purpose of the Foster Care program, authorized under title IV-E of the Social Security Act, is to help states provide proper care for eligible children who need placement outside their homes—in a foster family home or an institution. This program provides funds to states to assist with the costs of foster care maintenance for eligible children, administrative costs to manage the program, and training for program staff and foster parents.

### **Medicaid**

Medicaid (title XIX of the Social Security Act) is an entitlement program that pays for medical assistance for certain individuals and families with low incomes and few resources. This program became law in 1965 and is jointly funded by the federal and state governments (including the District of Columbia and U.S. territories) to assist states in providing medical assistance to people who meet certain eligibility criteria. Medicaid is the largest source of funding for medical and health-related service for people with limited income. Within broad federal guidelines, each state (1) establishes its own eligibility standards; (2) determines the type, amount, duration, and scope of services; (3) sets the rate of payment for services; and (4) administers its own program.

### **State Children’s Health Insurance Program (SCHIP)**

SCHIP programs are established and administered by a state, jointly funded with the federal government, to provide child health assistance to uninsured, low-income children through a separate child health program, a Medicaid expansion program, or a combination program. Title XXI of the Social Security Act, enacted by the Balanced Budget Act of 1997, authorizes federal grants to states for provision of child health assistance to uninsured, low-income children. Within broad federal rules, each state decides eligible groups, types and ranges of services, payment levels for benefit coverage, and administrative and operating procedures.

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