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

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FOOD ASSISTANCE

A Variety of Practices May Lower the Costs of WIC

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Resources, Community, and
Economic Development Division

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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 a federally funded nutrition assistance program administered by the U.S. Department of Agriculture's Food and Consumer Service (FCS). This program provides lower-income pregnant and postpartum women, infants, and children up to age 5 with supplemental foods, nutrition counseling, and access to health care services. The food benefits are typically provided in the form of a voucher that can be used to obtain approved foods at authorized retail outlets (food stores and pharmacies), commonly referred to as vendors. Food costs accounted for about $2.7 billion, or about 74 percent, of the WIC program's total costs in fiscal year 1996. In administering WIC, the states[1] are allowed some flexibility in the policies and procedures they use. Since WIC is a discretionary program that serves as many individuals as the available funding permits, any actions the states can take to reduce the program's costs will allow them to serve more eligible people.

This report is the second in a series of reports responding to your December 20, 1996, request for information on certain aspects of WIC.[2] In this report, we (1) describe and assess the practices that the states use to contain costs by controlling the foods approved for use in the WIC program and by more closely selecting and regulating participating vendors and (2) examine practices that the states use to ensure that WIC applicants' incomes meet the program's eligibility requirements. As a part of our review, we surveyed the WIC directors in the 50 states and the District of Columbia and analyzed the information provided by the 48 who responded.[3]

[1]As treated in the FCS regulations, "states" includes the District of Columbia.

[2]Our first report was entitled WIC: States Had a Variety of Reasons for Not Spending Program Funds (GAO/RCED-97-166, June 12, 1997).

[3]We did not receive responses to our questionnaire from the state WIC directors in Minnesota, Oregon, and South Dakota. Also, we did not include the 33 Indian tribal organizations and the U.S. territories in our survey because of regulatory and program differences.

Results in Brief

The states are using a variety of cost containment initiatives to control the WIC program's costs. For example, 10 states have contracted with manufacturers to obtain rebates on WIC foods in addition to infant formula, and some states have placed greater limits on WIC participants' food choices than other states. Separately, or in conjunction with efforts to contain food costs, 39 states use various practices to restrict the number of vendors and/or ensure that the prices vendors charge for WIC food items are competitive. These and other practices to contain food costs have saved millions of dollars annually and enabled more individuals to enroll in the program, according to WIC directors. While the use of cost containment practices could be expanded, certain obstacles, including the states' concern with how the program allocates the additional funds made available through cost containment initiatives, may discourage the states from adopting or expanding their use.

Federal regulations provide that WIC program applicants who participate in the Food Stamp Program, Medicaid, and the Temporary Assistance for Needy Families Program automatically meet the income eligibility requirements of the WIC program. The states use a variety of procedures to certify the income eligibility of the applicants who do not participate in these programs. Thirty-two of the 48 state WIC directors responding to our questionnaire reported that their states generally require these applicants to provide documents, such as pay stubs and letters, to verify their income. Of the remaining 16 WIC directors, 14 reported that their states do not require documentation. These states allow applicants to declare their income without providing supporting documentation. The other two directors reported that income documentation procedures are determined individually by the local WIC agencies.

Background

Established in 1972, WIC is designed to improve the health and nutritional well-being of participants by providing nutritious supplemental foods, nutrition education, and referrals to health care services. The program is available in each state, the District of Columbia, 33 Indian tribal organizations, Puerto Rico, the U.S. Virgin Islands, American Samoa, and Guam. FCS administers the program in cooperation with state and local health departments and related agencies.

The supplemental foods that WIC provides include milk, cheese, fruit and vegetable juices, iron-fortified adult and infant cereals, dried beans or peas, peanut butter, eggs, and infant formula. Special infant formulas are also available to meet unusual dietary or health-related conditions. Each state designates the types and amounts of foods that local WIC agencies can prescribe to meet each participant's nutritional needs. The WIC food benefit (referred to as a food package) can be provided through local WIC health clinics or home delivery. More commonly, participants receive their food benefits in the form of a check or a voucher that is used to purchase the specific foods at authorized retail vendors. These vendors have been selected by the state to participate in the program for a period of time.

FCS requires the states to operate a rebate program for infant formula. By negotiating rebates with infant formula manufacturers for each can of formula purchased through WIC, the states greatly reduce their average per person food costs so that more people can be served. In fiscal year 1996, infant formula rebates to all states totaled about $1.2 billion.

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; some states supplement the federal grant with their own funds. In fiscal years 1995 and 1996, the average monthly WIC participation nationwide was about 6.9 million and 7.2 million, respectively, and in fiscal year 1997, the average monthly participation was about 7.4 million through February 1997.

Grants to the states are divided into food grants and nutrition services and administration grants. Food grants cover the costs of supplemental foods and are allocated to the 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. The nutrition services and administration grants are allocated to the states through a formula that is based on factors such as the state's number of projected program participants and WIC salary costs. Nutrition services and administration 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.

State WIC agencies establish program eligibility criteria that are based on federal guidelines. To qualify for the program, WIC applicants must show evidence of nutritional risk that is medically verified by a health professional. In addition, participants may not have incomes that exceed 185 percent of the poverty guidelines that are established annually by the

U.S. Department of Health and Human Services.[4] In 1997, for example, the annual WIC income limit for a family of four is $29,693 in the 48 contiguous states and the District of Columbia.[5] Federal regulations allow the states to individually determine their income documentation requirements for applicants seeking to participate in WIC. The states are also required by federal regulations to automatically certify as income eligible those individuals who document their participation in the Food Stamp Program, Medicaid, and the Temporary Assistance for Needy Families Program. Approximately two-thirds of all WIC participants were enrolled in one or more of these programs in fiscal year 1994, the last year for which complete data were available at the time of our review. In addition, WIC participants are required by federal regulations to reside in the jurisdiction of the state where they receive benefits, and the states are required to check the identification of all participants when they seek certification for program participation and when they receive their vouchers. Although the applicants who meet the program's health and nutrition, income, and residency requirements may be certified as eligible to participate in WIC, the number of participants that are actually served each year primarily depends on the total amount of funds available to the states. According to FCS' estimates, about 75 percent of the eligible women, infants, and children actually participated in WIC during fiscal year 1995.

Efforts to Control Food Costs and Manage Vendors Have Reduced Costs, but the Program's Structure May Discourage Wider Use

States' initiatives to control food costs by limiting the types and package sizes of WIC foods and by more carefully selecting and regulating vendors have reduced the program's costs by millions of dollars. These practices could be expanded in the states that have already implemented them and could be adopted by other states. However, the National Association of WIC Directors[6] and some WIC directors we spoke with are concerned that, among other things, the program's regulations can constrain a state's ability to effectively use the additional funds that become available as a result of cost containment initiatives.

States' Efforts to Hold Down Food Costs Have Been Successful

Two practices that some states are using to contain food costs are reported by state WIC directors to be saving millions of dollars. These two practices include (1) contracting with manufacturers to obtain rebates on

[4] In fiscal year 1996, only one state set WIC income eligibility below 185 percent of poverty: South Dakota used 175 percent of poverty.

[5] Poverty guidelines are established separately for Alaska and Hawaii.

[6] The National Association of WIC Directors, located in Washington, D.C., is a voluntary membership organization of state and local WIC directors, WIC nutrition coordinators, and members of corporate organizations that provide leadership to the WIC community.

WIC foods in addition to infant formula and (2) limiting authorized food selections by, for example, requiring participants to select brands of foods that have the lowest cost.

Use of Competitively Bid Rebate Contracts

In fiscal year 1996, nine state agencies received rebates for two WIC-approved foods—infant cereal and/or infant fruit juices. Table 1 shows the states that were receiving rebates during fiscal year 1996 from the expanded use of rebates through individual or multistate contracts.

Table 1: State WIC Agencies Receiving Infant Cereal and/or Infant Juice Rebates Through Individual or Multistate Contracts During Fiscal Year 1996

State agency	Infant cereal	Infant juice	Rebates for infant cereal and/or juice	Total rebates (including infant formula)	Food expenditures (minus rebates)
California	X[a]		$2,144,741	$184,928,836	$437,729,886
Connecticut	X		149,791	8,213,539	25,272,861
District of Columbia	X[a]	X[b]	32,757	3,511,162	6,574,543
Indiana	X		276,369	22,318,364	46,232,572
Maryland	X[a]	X[b]	236,793	16,769,477	34,033,689
Nevada	X[a]		76,116	6,375,653	11,361,869
New York	X		2,398,888	88,507,822	200,143,479
Texas	X		733,483	122,908,887	194,499,363
West Virginia	X[a]	X[b]	154,714	7,501,982	19,816,154
Total			**$6,203,652**	**$461,035,722**	**$987,026,285**

[a]Multistate contract for infant cereal.

[b]Multistate contract for infant juice.

The cost savings resulting from these infant cereal and juice rebates are relatively small in comparison with the savings resulting from infant formula rebates. As shown by the figures in table 1, the rebates for infant cereal and juices represented about 1 percent of the total rebates received in these nine states in fiscal year 1996. The $6.2 million in infant cereal and juice rebates reduced total food costs in these states by about six-tenths of a percent in fiscal year 1996.

Eleven states—Alaska, California, Delaware, the District of Columbia, Hawaii, Missouri, New Jersey, New York, Oklahoma, Rhode Island, and West Virginia—reported that their agencies were considering, or were in the process of, expanding their use of rebates to foods other than infant formula. In May 1997, Delaware joined the District of Columbia, Maryland, and West Virginia in a multistate rebate contract for infant cereal and juices. California was the first state to expand its rebate program to include adult juices, adding this option in March 1997. California currently spends about $65 million annually on adult juice purchases. California's WIC director told us that the state expects to collect about $12 million in annual rebates on the adult juices, thereby allowing approximately 30,000 additional persons to participate in the program each month.

According to FCS officials, there is the potential to reduce WIC costs further through the expanded use of rebates. They said that FCS has encouraged the states to examine and aggressively pursue rebates to stretch food dollars to serve a maximum number of eligible participants. In May 1997, FCS sent its regional directors a memorandum outlining a strategy to "manage, contain, and control" food costs using rebates on products such as special infant formula and other WIC foods in addition to infant formula. The officials told us that if federal funding for WIC remains constant or declines, more states may consider expanding the use of rebate contracts to provide funds for their WIC programs. FCS officials also told us that some states' WIC agencies may not be expanding the use of rebates because other cost containment practices have proven effective in reducing food costs. For example, the states that have elected to use only store brand foods may be incurring lower costs than the states that receive rebates on national brand products.

While these rebates reduce costs, the procurement process requires additional administrative effort by the states. The California WIC director and FCS officials told us that the process of entering into and monitoring rebate contracts can be complicated and time-consuming. In addition, FCS officials told us that bid protests filed by the manufacturers that are not awarded contracts impose additional administrative burdens on the states. The administrative burden associated with procuring and monitoring rebate contracts can be exacerbated if a state contracts with more than one manufacturer for rebates. For example, when California expanded its rebate program to include adult juices, the state requested bids on rebate contracts from juice companies for frozen and ready-to-drink apple, grape, orange, and pineapple juices that were available in all parts of the state and had to negotiate five separate contracts.

The states also need to use additional resources to manage the rebate contracts. FCS officials told us that disagreements between the states and manufacturers occur over the rebate billings that the manufacturers are obligated to pay the states. They said that the states must therefore develop billing systems that track the amount of the manufacturers' products selected by WIC clients using their vouchers. For example, the California WIC director told us that before the state implemented its adult juice rebate contracts, the state agency had to develop a system for determining the amount and quantity of each type of juice selected by WIC participants and a system for rebate billing that was acceptable to the juice manufacturers.

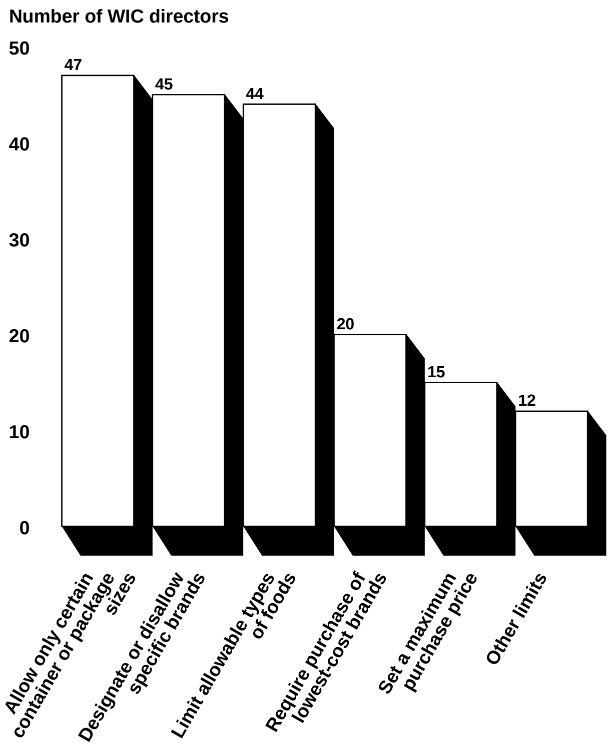
FCS officials told us that the states could become increasingly dependent on the funds provided by their rebate contracts. Historically, the annual funds received by the states from their infant formula rebate contracts have continued to increase, but this source of funding may not always be reliable. If manufacturers begin offering lower rebates, the states could have insufficient funds to provide program benefits to their current level of WIC participants.[7] According to FCS officials, such a decrease in rebate funds would be similar to an increase in food prices because of inflation, something which the program has experienced before. In such instances, the states would need to make adjustments to the foods they offer to contain the escalating costs and/or remove people from the program.

Limits on Food Selection

According to FCS officials, the prices of the food items provided by WIC can vary dramatically, depending, for example, on the brand of the item or how it is packaged. Individually wrapped sliced cheese can cost substantially more than the same cheese in block form, and a national brand of juice could cost substantially more than a vendor's own brand. All state WIC directors responding to our survey reported that their agencies imposed limits on one or more of the WIC food items. The states may specify certain brands; limit certain types of foods, such as sliced cheese; restrict container sizes; and require the selection of only the lowest-cost brands. Figure 1 shows the number of WIC directors who reported that their states use various types of limits for one or more food items.

[7]Federal regulations permit the states to use up to 3 percent of their current year's food funds to pay their prior year's food costs. This option is available to any state that experiences a reduction in its rebates, according to FCS officials.

Figure 1: Types of Food Selection Limits States Use to Control WIC Food Costs



As the figure indicates, some types of restrictions are more widely used than others. Forty-seven of the 48 WIC directors reported that their states' participants are allowed to choose only certain container or package sizes of one or more food items. For example, 27 of the 48 directors who responded to our questionnaire reported that their states limit the container or package size of infant juice. In addition, 8 states limit allowable types of infant juice, and 18 do not offer infant juice.[8] Some states have also extended limits to non-infant foods.

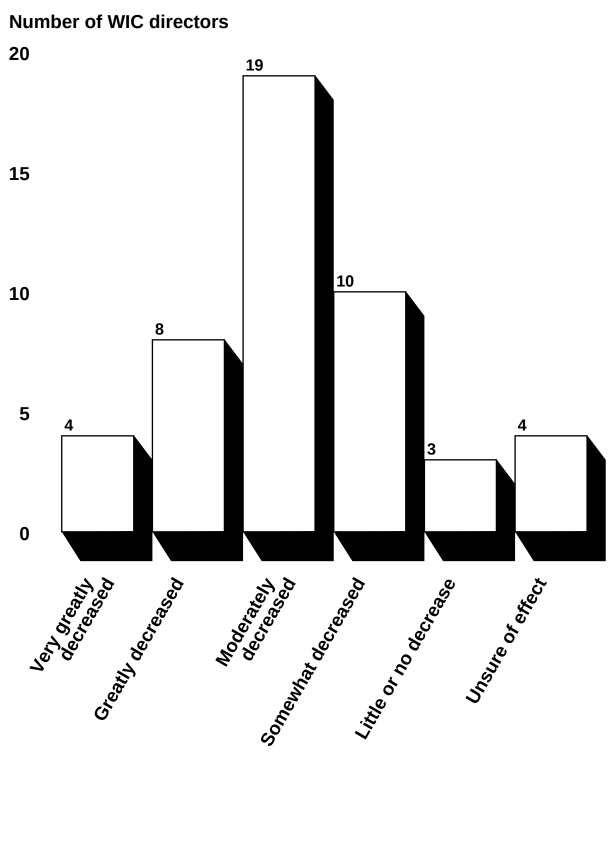
For example, Texas participants can select only cheese that is not packaged as individually wrapped slices or shredded, and milk must be in 1-gallon or half-gallon sizes and must be the least expensive brand. In Pennsylvania, dry beans or peas must be in 1-pound packages, ready-to-drink juices must be in 46-ounce cans, and the price of a dozen eggs must not exceed $1.75.

[8]The regulations require states to provide infants either single-strength adult juice or infant juice.

While all states have one or more food selection restrictions, 17 of the 48 WIC directors responding to our questionnaire reported that their states are considering the use of additional food selection limits to contain or reduce costs in the WIC program.

Most of the 48 WIC directors reported that placing selection limits on WIC foods has at least moderately decreased their food costs. Twelve of these directors reported that selection limits have greatly or very greatly reduced their WIC food costs. Figure 2 shows the range of food cost reductions that the directors reported from implementing these restrictions.

Figure 2: Impact on Food Costs Resulting From States' Use of Food Selection Limits



Texas, for example, which reported that the restrictions had a very great impact, uses a combination of food selection limits, including a least-cost brand policy. The policy requires participants to buy the cheapest brand of milk, evaporated milk, and cheese available in the store—usually the store's own brand. Texas also requires participants to buy the lowest-cost 46-ounce fluid or 12-ounce frozen fruit juices from an approved list of types (orange, grapefruit, orange/grapefruit, purple grape, pineapple, orange/pineapple, and apple) and/or specific brands. According to Texas WIC officials, the least-cost brand policy has had a "tremendous" impact on lowering the dollar amount that the state pays for WIC food products. For example, in fiscal year 1989 (the first full fiscal year that the policy was in effect), the cost of milk was reduced by about $3 million. In fiscal year 1996, Texas had a lower than average food cost per person among the 50 states and the District of Columbia even before rebates were factored in. (See app. I.)

FCS headquarters officials told us that the selection by state agencies of the foods available to participants is one of the states' most powerful cost containment tools. FCS encourages the states to approve WIC foods that are low in price. However, the officials said that while cost efficiencies are important, the states must maintain the nutritional integrity of the program's food package. The practice of limiting food items can have a negative impact if participants do not select the food products or do not eat them. For example, Texas WIC officials told us that they discontinued the least-cost brand requirement for peanut butter when they discovered that participants were not selecting the product.

In addition, FCS officials said that the restrictions may make food selections more confusing for participants and burdensome for vendors. For example, Texas WIC officials told us that participants and cashiers often have difficulty determining which products have the lowest price. A 1995 study of participants' selections of lowest-cost WIC foods performed by a Texas WIC food chain found that 95 percent of the participants were selecting one or more nonapproved food items that had to be exchanged for the correct item. In response, the food chain, among other things, upgraded the quality, location, and clarity of WIC labels and signs in all of its stores, adding color displays and descriptions of approved WIC items. The Texas WIC agency has also published and displayed a color brochure of approved items that has helped participants to select the approved foods. According to an official of the supermarket chain, these actions have reduced exchanges of food items between 19 and 50 percent.

States' Control Food Costs by Managing Vendors

Separately or in conjunction with measures to contain food costs, some state agencies have placed restrictions on vendors to hold down costs.

Some states are also selecting alternatives to vendor distribution for certain food products.

Restrictions on Vendors

Thirty-nine of the 48 states responding to our questionnaire reported that they use special selection requirements or limits to contain the number of authorized vendors. Twenty-nine WIC directors reported that they considered it extremely or very important to contain the number of vendors in order to control the program's costs, and 9 reported that it is moderately important. Of the 39 states, 34 reported using competitive food costs as one of their criteria for selecting vendors. In addition, 27 states have established price limits that vendors cannot exceed for allowable foods, and 5 states require vendors to bid competitively for vendor slots.

The food prices of WIC vendors in Texas must not exceed by more than 8 percent the average prices charged by vendors doing a comparable dollar volume in the same area. Once selected, vendors must maintain competitive prices. According to Texas WIC officials, the state does not limit the number of vendors that can participate in the WIC program. However, Texas' selection criteria for approving vendors exclude many stores from the program. By approving only stores with competitive prices, Texas officials said that they save WIC food dollars by paying competitive prices for WIC products.[9]

Similarly, Delaware's Project SAVE (Selecting Authorized Vendors Efficiently) requires vendors to bid competitively for all authorized WIC food items. Vendors that meet the minimum qualification requirements and bid the lowest prices are selected to fill the available retail outlet slots. Delaware selects vendors every 2 years.

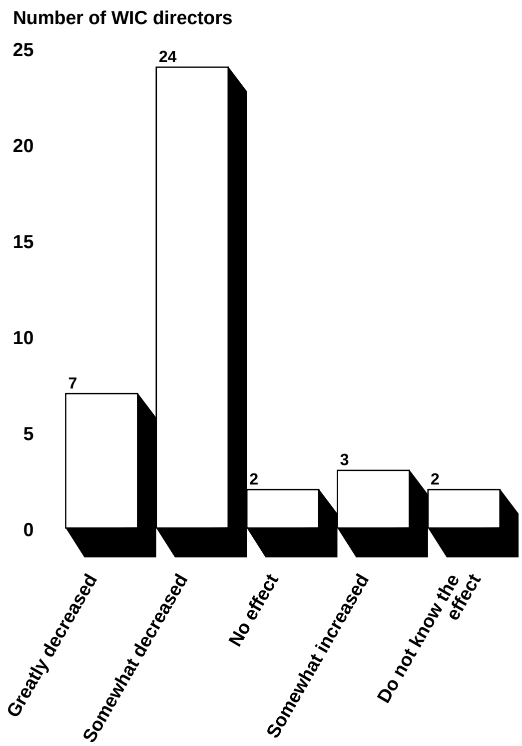
Delaware's WIC director said that while SAVE maintains the clients' access to vendors, administrative savings have been achieved by training and monitoring vendors, and the number of potentially high-risk vendors has declined. The director noted that SAVE enables the state to control unexpected price increases because the prices are locked in for 2 years through agreements with vendors, thereby allowing grant funds to be more effectively and efficiently managed. Between fiscal years 1991 and 1996, the director estimated, the agreements saved the program about $1.8 million in food costs.

[9]Texas does not have available data on the specific cost savings attributed to selecting vendors with competitive prices.

Eighteen WIC directors reported that their states use ratios of participants to vendors to restrict the number of vendors allowed to participate in the program. By limiting the number of vendors, the states can more frequently monitor stores and conduct compliance investigations, according to FCS and state WIC officials. For example, Delaware uses a ratio of 200 participants per store to determine the total number of vendors that can participate in the program in each WIC service area.

Of the 39 states reporting that they contain the number of vendors, 31 states reported that as a result, their programs' costs have decreased somewhat or greatly. Figure 3 presents the WIC directors' estimates of the cost reductions resulting from limits on vendors and selection policies.

Figure 3: Impact on the Program's Costs Resulting From States' Use of Vendor Limits and Selection Policies



The WIC directors in 7 of the 39 states (Maine, Massachusetts, Nebraska, New Mexico, Rhode Island, South Carolina, and Wisconsin) that currently contain the number of vendors allowed to participate in the program reported that they are planning to introduce additional initiatives, such as requiring competitive food pricing by currently authorized vendors, to contain the program's costs. In addition, the directors in two other states (Connecticut and North Carolina) also reported that they plan to select vendors on the basis of competitive pricing.

FCS headquarters officials told us that limiting the number of vendors and selecting vendors with competitive prices are important aspects of containing WIC costs. However, they told us that the retail community does not favor limits on the number of approved vendors. Instead, vendors have pressured state WIC agencies and FCS officials to allow all vendors that qualify to participate. According to the FCS officials, the amount that the WIC program spends for food would be substantially higher if stores with higher prices were authorized for the program.

Direct Distribution of Special Infant Formula

Upon a physician's instructions, WIC infants with special dietary needs or medical conditions may receive special infant formula. While only a small percentage of the WIC infants nationwide require these formulas, the monthly retail costs for them can be high—ranging in one state we surveyed from $540 to $900 for each infant. Twenty-one states avoid paying retail prices by purchasing the special formula at much lower wholesale prices and distributing it to participants.

Opportunities exist to substantially lower the cost of special infant formula. Cost savings may be achieved if the states purchase special infant formula at wholesale instead of retail prices. Additional savings may also be possible if these states are able to reduce or eliminate the cost of authorizing and monitoring the retail vendors and pharmacies that distribute only special infant formula to WIC participants.

Pennsylvania, for example, turned to direct purchasing to make special infant formula more available and to avoid the high cost of vendor-provided formulas. It established a central distribution warehouse for special formulas in August 1996 to serve the less than 1 percent of WIC infants in the state—about 400—who needed special formulas in fiscal year 1996. Pennsylvania purchases the special formulas directly from the manufacturers at wholesale prices, usually for between $300 to $500 for a 1-month supply. The warehouse ships the special formulas, at the participant's option, either directly to the participant or to the WIC clinic. According to the state WIC director, in many instances, the WIC warehouse delivers the formula faster than pharmacies do. The program is expected to save about $100,000 annually. In addition, by relying on its warehouse, the state can remove over 200 pharmacies from the program, resulting in significant and measurable administrative cost savings, according to the WIC director.

Appendix II provides information on the states' use of cost containment practices that affect the program's costs.

WIC Funding Structure May Discourage the Adoption of Cost Containment Practices

According to the National Association of WIC Directors and some WIC directors we spoke with, the program's funding structure can constrain a state's ability to make effective use of the additional funds that become available as a result of cost containment initiatives. FCS policy requires that during the grant year, any savings from cost containment accrue to the food portion of the WIC grant, thereby allowing the states to provide food benefits to additional WIC applicants. None of the cost containment savings are automatically available to the states for support services, such as staffing, clinic facilities, voucher issuance sites, outreach, and other activities that are needed to increase participation in the program. As a result, the states may not be able to serve more eligible persons or they may have to carry a substantial portion of the program's support costs until the federal nutrition services and administration grant is adjusted for the increased participation level—a process that can take up to 2 years—according to the National Association of WIC Directors.

FCS officials pointed out that provisions in the federal regulations allow the states where participation increases to use a limited amount of their food grant funds for program support activities. However, some states may be reluctant to use the option. For example, according to a Texas WIC official, states may not want to redirect food funds to support services because doing so may be perceived as taking food away from babies.

Although California implemented cost containment initiatives during the current and past year, the WIC director told us that the state received less funding for support services this year compared with last year. As a result, she said California has a large, multimillion-dollar imbalance between food money and program support funds that is likely to get worse. She told us that the California program has been hampered by the lack of adequate support funds to sustain its caseload. Some WIC directors told us that such shortfalls in funding for support services may discourage state agencies from expanding the use of cost containment initiatives.

FCS officials stated that while the WIC funding process does not immediately adjust the amount of funds for support services to reflect cost containment savings, such adjustments are generally made in the following year's funding allocation. FCS officials also noted that a major reason for the lack of adequate funding for program support activities is an insufficient appropriation level overall—a factor that affected California as well as all WIC state agencies.

States' Requirements for Obtaining Income Documentation From Applicants Vary, but States Report Obtaining Documentation in Most Cases

Federal regulations allow the states to establish their own documentation requirements for applicants who do not automatically meet the income requirements for participation in WIC. Thirty-two of the 48 WIC directors reported that their state agencies generally require documentation of income eligibility for these applicants. Fourteen directors reported that their states do not require documentation. These states allow applicants to declare their income without providing supporting documentation. Finally, two directors reported that income documentation procedures are determined individually by the local WIC agencies. In addition, 20 state WIC directors reported that their states do not require applicants to provide proof of residency, and 12 reported that their states do not require applicants to provide proof of identity when they seek certification for program participation.

Thirty of the 32 states that generally require applicants to document their income will waive this requirement under certain conditions. The responses to our questionnaire and our review of state policies indicate that waiving this requirement can be routine. For example, in some instances when individuals report that they are homeless or lack any income, the documentation requirement can be waived. We found that some states also allow individuals to self-declare their income if they do not bring income documents to their certification meeting.

While these states will waive their documentation requirements, 27 of the 32 state directors reported that 75 percent or more of the participants who were not automatically income eligible provided documentation, such as pay stubs and letters, to establish eligibility in fiscal year 1996. Appendix III provides information on the states' income documentation requirements and the percentage of participants who were not automatically income eligible and provided income documentation during fiscal year 1996.

In addition to meeting income requirements, WIC applicants must reside within the jurisdiction of the state where they expect to establish eligibility to receive benefits.[10] FCS allows the states to accept an applicant's declaration of state residency without documentation. While 20 of the 48 WIC directors reported that their states do not require applicants to provide any proof of state residency, 28 states do require applicants to provide proof of state residency. The types of residency documentation accepted by these states include utility bills, rent receipts, driver's licenses, voter registration cards, and bank statements. To prevent duplicate payments, the program's regulations require the local WIC agency to check the identification of each participant at certification and when issuing food or food vouchers.[11] The types of identification accepted by states include driver's licenses, birth certificates, hospital records, pay stubs, voter registration cards, or recent correspondence. Twelve of the 48 WIC directors reported that their states do not require such proof of identification at certification.

There has not been a study of the incidence and magnitude of errors in determining income eligibility for the WIC program since 1988.[12] The 1988 study found that 5.7 percent of the participants were not eligible. According to FCS officials, there is potential for error in making income eligibility decisions, and income documentation requirements may need to be tightened. FCS has begun a nationwide study, scheduled to be completed in 1999, that will develop a national estimate of the number of people participating in the program who are not income eligible. The study will also assess the extent to which various income documentation procedures reduce the level of participation by individuals who are ineligible. The information from this study will assist FCS in determining what changes are needed in income documentation to ensure that the states provide benefits only to applicants who are eligible.

FCS officials told us they strongly encourage the states to obtain income documentation. However, they said that imposing stricter documentation requirements could result in increased administrative costs for state and local agencies and might discourage some eligible individuals from applying for benefits. They also noted that certain subgroups of the WIC population, such as aliens, may find stricter documentation requirements a

[10] 7 C.F.R. 246.7(c)(1).

[11] 7 C.F.R. 246.7(l)(2).

[12] WIC Income Verification Study (1988), U.S. Department of Agriculture's Food and Consumer Service.

barrier to participation because individuals may be intimidated by the paperwork.

FCS officials also expressed concern that the states not requiring proof of personal identification may not be able to ensure that they are complying with the federal requirement that they check the identification of participants when they are certified and when they receive vouchers. Also, FCS officials expressed concern that the states not obtaining evidence of participants' residency may not be able to ensure that the participants are residents of their states as required by federal regulations.

Conclusions

A number of the states are making effective use of a variety of practices to contain the WIC program's costs and to extend coverage to more women and children. However, these states have had to overcome various obstacles to implement cost containment. These obstacles include incurring the increased administrative burden associated with procuring and monitoring rebate contracts, ensuring that cost reduction does not result in a food package that is unacceptable to participants, and overcoming resistance from the retail community when attempting to establish special selection requirements or limits on vendors authorized to participate in the program. Given such obstacles, and the states' concern with how the program allocates the additional funds made available through cost containment initiatives, some states may be discouraged from adopting or expanding the use of cost containment practices.

As they seek to expand cost containment practices, FCS and the states can benefit from the experiences of those states that have implemented such practices effectively. Expanding cost containment depends, in part, on reducing or eliminating the obstacles that can discourage the states from initiating such practices. The expansion of these practices can have a substantial impact on the WIC program because for every 1-percent reduction in food costs that may result from these initiatives, the federal food expenditure of about $2.7 billion could be reduced by about $27 million annually. Cost savings could be used to provide benefits to additional participants, improve the quality of WIC services, and/or reduce the cost of the program to the federal government.

The states that base income-eligibility decisions on WIC applicants' declarations of income without documentation may be allowing applicants who are not eligible to participate in the WIC program. It is clear that this policy may result in unintentional or deliberate misreporting of income information. However, the extent of the problem is unknown because there has not been a recent study of the number of participants in the program that are not income eligible. Information from the new study FCS has begun should enable the agency to determine what changes are needed in the program's income documentation requirements.

Similarly, WIC participants must reside in the jurisdiction of the state where they receive benefits and provide identification at the time they are certified to participate in the program and when they receive their vouchers. However, some states are not requiring proof of residency or identity. Without such proof, the states cannot ensure that these requirements are being met.

Recommendations

To encourage further implementation of WIC cost containment initiatives, the Secretary of Agriculture should direct the Administrator of FCS to work with the states to identify and implement strategies, including policy and regulatory and legislative revisions, to reduce or eliminate the obstacles that may discourage such initiatives. These strategies could include modifying policies and procedures that allow the states to use cost containment savings for the program's support services and establishing regulatory guidelines for selecting vendors to participate in the program.

The Secretary should also direct the Administrator to take the necessary steps to ensure that the state agencies are requiring participants to provide evidence that they reside in the states where they receive WIC benefits and to provide identification when their eligibility is certified and when they receive food or food vouchers.

Agency Comments and Our Evaluation

We provided the Food and Consumer Service with copies of a draft of this report for review and comment. We met with agency officials, including the Administrator, the Acting Deputy Administrator for Special Nutrition Programs, and the Director of the Supplemental Food Program Division. FCS generally agreed with the report's findings and recommendations, but FCS suggested revising the presentation of our first recommendation that FCS work with the states to reduce or eliminate the obstacles that may discourage the use of cost containment initiatives. FCS believed that the clarity of our recommendation could be improved by emphasizing that a variety of additional approaches could be taken by the agency to reduce or eliminate cost containment obstacles or provide additional incentives to encourage more cost containment. In response to these concerns, we revised the wording of the recommendation.

FCS also provided us with a number of technical comments that we incorporated into the report as appropriate.

Scope and Methodology

In developing information for this report, we spoke with and obtained documents from officials at FCS headquarters. We also spoke with officials at all seven of FCS' regional offices. We interviewed state WIC officials in California, Delaware, Pennsylvania, and Texas. In addition, we collected pertinent information from the National Association of WIC Directors. We reviewed federal laws and regulations applicable to the establishment and operation of the WIC program. We also mailed questionnaires to the WIC agency directors in the 50 states and the District of Columbia. We received responses to our questionnaire from 48 directors (94 percent).

We conducted our work from December 1996 through August 1997 in accordance with generally accepted government auditing standards. We did not, however, independently verify the accuracy of the state WIC agency directors' responses to our questionnaire.

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

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

Sincerely yours,

Robert A. Robinson
Director, Food and
Agriculture Issues

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Tables

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Abbreviations

FCS	Food and Consumer Service
WIC	The Special Supplemental Nutrition Program for Women, Infants and Children

Average State Pre- and Postrebate Monthly Food Costs Per Person for Fiscal Year 1996

State	Prerebate average food cost per person	Postrebate average food cost per person
Alabama	$48.25	$30.75
Arizona	45.70	29.69
Alaska	47.78	38.69
Arkansas	44.11	29.03
California	45.45	31.95
Colorado	41.32	30.07
Connecticut	44.63	33.69
Delaware	43.60	30.17
District of Columbia	52.15	34.00
Florida	48.02	32.45
Georgia	41.46	27.28
Hawaii	62.72	50.57
Idaho	37.95	26.94
Illinois	52.50	36.21
Indiana	43.10	29.07
Iowa	41.94	29.66
Kansas	43.65	30.45
Kentucky	43.25	30.04
Louisiana	50.96	34.87
Maine	39.39	28.60
Maryland	48.13	32.24
Massachusetts	39.90	28.09
Michigan	44.91	31.47
Minnesota	41.88	29.09
Mississippi	28.38	28.38
Missouri	45.80	31.27
Montana	39.35	25.59
Nebraska	44.51	32.21
Nevada	41.84	26.80
New Hampshire	37.52	25.93
New Jersey	42.07	30.71
New Mexico	43.01	31.15
New York	50.18	34.35
North Carolina	43.04	27.74
North Dakota	43.97	33.65
Ohio	41.04	26.64
Oklahoma	44.08	30.34

(continued)

State	Prerebate average food cost per person	Postrebate average food cost per person
Oregon	38.79	28.91
Pennsylvania	43.23	31.00
Rhode Island	42.82	29.95
South Carolina	41.07	28.22
South Dakota	40.92	29.64
Tennessee	48.65	33.00
Texas	41.26	25.28
Utah	42.03	31.39
Vermont	32.44	32.44
Virginia	44.80	32.18
Washington	45.11	32.30
West Virginia	42.02	30.48
Wisconsin	41.96	30.47
Wyoming	37.88	27.54
Average	**$43.54**	**$30.84**

Source: Special Nutrition Programs Integrated Information System, FCS.

States' Use of Cost Containment Practices That Affect Their Programs' Costs

Table II.1: Number of States Using Various Practices That Can Affect Their Programs' Costs as Reported in Our Survey of State WIC Program Directors

Practice	Number of states using practice
Limiting participants' selections for one or more WIC food items by:	
Designating specific brands or disallowing specific brands	45
Allowing only certain container or package size for one or more WIC food items	47
Limiting allowable types of food (e.g., block rather than sliced cheese) for one or more WIC food items	44
Setting a maximum purchase price for one or more WIC food items	15
Requiring purchase of lowest cost brand for one or more WIC food items	20
Direct distribution of food packages	5
Home delivery of food	5
Contracted rebates on WIC foods other than infant formula	10
Noncontracted rebates on WIC foods	18
Direct purchase of special infant formula	21
Printing maximum price for each food item on WIC voucher	3
Printing maximum price for the entire WIC food package on voucher	23
Reimbursing vendors for actual costs, up to a state-set maximum	29
Reimbursing vendors for reasonable costs, as determined by state, not actual shelf prices	9
Using competitive food cost as a vendor selection criterion	34
Vendor food prices cannot exceed limits set by the state	27
Containing number of WIC vendors based on a ratio of number of vendors to participants or other ratios	18
Competitive bidding for vendor slots	5
Vendor monitoring	46

Source: WIC Directors Questionnaire, GAO, Mar. 1997.

Table II.2: States Using Practices Described in Report to Contain Their Programs' Costs

State	Require purchase of lowest cost brand for one or more WIC food items	Ratios to contain the number of vendors	Using competitive food cost as a vendor selection criterion	Competitive bidding for vendor slots	Vendor food prices cannot exceed limits set by the state	Direct purchase of special infant formula
Alabama			X			X
Arizona			X		X	
Alaska		X				
Arkansas	X	X				X
California			X		X	X
Colorado						X
Connecticut	X					X
Delaware		X	X	X		
District of Columbia		X	X			
Florida	X		X		X	X
Georgia	X		X		X	X
Hawaii						X
Idaho						
Illinois	X	X	X		X	
Indiana		X	X			
Iowa	X					
Kansas	X		X		X	
Kentucky			X		X	
Louisiana	X		X	X	X	X
Maine	X		X		X	
Maryland			X		X	X
Massachusetts	X	X	X	X	X	
Michigan		X	X			
Mississippi						X
Missouri		X	X		X	
Montana						
Nebraska			X		X	
Nevada	X		X		X	X
New Hampshire	X		X			
New Jersey		X	X	X	X	
New Mexico	X	X	X		X	
New York		X			X	
North Carolina	X					X

(continued)

State	Require purchase of lowest cost brand for one or more WIC food items	Ratios to contain the number of vendors	Using competitive food cost as a vendor selection criterion	Competitive bidding for vendor slots	Vendor food prices cannot exceed limits set by the state	Direct purchase of special infant formula
North Dakota						
Ohio		X	X			
Oklahoma	X	X	X		X	
Pennsylvania		X	X		X	X
Rhode Island	X		X		X	X
South Carolina			X		X	X
Tennessee			X		X	
Texas	X		X		X	X
Utah	X	X	X		X	X
Vermont				X		X
Virginia	X	X	X			X
Washington						
West Virginia	X	X	X		X	
Wisconsin			X		X	
Wyoming			X		X	X

Note: Minnesota, Oregon, and South Dakota are not listed because they did not respond to our survey.

Source: WIC Directors Questionnaire, GAO, Mar. 1997.

State Income Documentation Requirements and Percentage of Applicants Who Were Not Automatically Income Eligible and Provided Documentation During Fiscal Year 1996

	Reported income documentation requirement			
State	Documentation of income is required—but requirement can be waived in certain circumstances	Local agencies establish their own requirement	Documentation is not required, self-declaration of income is allowed in all cases	Percentage of applicants who were not automatically income eligible and provided documentation
Alabama			X	6-25
Arizona	X			76-95
Alaska	X			76-95
Arkansas			X	0-5
California	X			76-95
Colorado		X		26-75
Connecticut	X			96-100
Delaware	X			76-95
District of Columbia	X			76-95
Florida			X	0-5
Georgia			X	0-5
Hawaii	X			96-100
Idaho	X			26-75
Illinois	X			96-100
Indiana	X			96-100
Iowa			X	No basis to judge
Kansas	X			96-100
Kentucky			X	0-5
Louisiana			X	No basis to judge
Maine	X			96-100
Maryland	X			96-100
Massachusetts	X			76-95
Michigan	X			No basis to judge
Minnesota				No response
Mississippi		X		No basis to judge
Missouri	X			76-95
Montana	X			96-100
Nebraska			X	0-5
Nevada	X			No basis to judge
New Hampshire	X			76-95
New Jersey	X			96-100
New Mexico	X			96-100
New York	X			6-25

(continued)

	Reported income documentation requirement			
State	Documentation of income is required—but requirement can be waived in certain circumstances	Local agencies establish their own requirement	Documentation is not required, self-declaration of income is allowed in all cases	Percentage of applicants who were not automatically income eligible and provided documentation
North Carolina			X	6-25
North Dakota	X			96-100
Ohio	X			96-100
Oklahoma			X	No basis to judge
Oregon				No response
Pennsylvania	X			96-100
Rhode Island	X			96-100
South Carolina			X	0-5
South Dakota				No response
Tennessee			X	0-5
Texas	X			96-100
Utah	X			96-100
Vermont			X	No basis to judge
Virginia	X			No basis to judge
Washington			X	0-5
West Virginia	X			96-100
Wisconsin	X			96-100
Wyoming	X			96-100

Source: WIC Directors Questionnaire, GAO, Mar. 1997.

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