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FOOD ASSISTANCE

WIC Program Issues

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Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to contribute to your reauthorization hearings on the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). WIC provides federal grants to states for supplemental foods, health care referrals, and nutrition education for low-income[1] pregnant, breast-feeding, and postpartum women; infants; and children up to age 5 who are at nutritional risk. The food benefits are typically provided in the form of vouchers that can be exchanged for WIC-approved food items at authorized stores. The federal WIC cash grants to states totaled $3.7 billion in fiscal year 1997.

My testimony today is based on our three recently completed reviews of WIC.[2] These reviews addressed the (1) reasons that states had for not spending all of their federal grant funds, (2) efforts of WIC agencies to improve access to WIC benefits for working women, and (3) various practices states use to lower the costs of WIC and ensure that the incomes of WIC applicants' meet the program's eligibility requirements for participation. We are also currently reviewing WIC's experiences with rebates from the manufacturers of infant formula. This statement contains information on the scope of this ongoing work.

In summary, we found the following:

- States had unspent WIC funds for a variety of reasons. In fiscal year 1996, these funds totaled about $121.6 million, or about 3.3 percent of that year's $3.7 billion WIC grants. Some of these reasons were associated with the way WIC is structured.
- Virtually all the directors of local WIC agencies report that their clinics have taken steps to improve access to WIC benefits for working women. The two most frequently cited strategies are (1) scheduling appointments instead of taking participants on a first-come, first-served basis and (2) allowing a person other than the participant to pick up the food vouchers, as well as nutrition information, and to pass these benefits on to the participant.

[1]Participants must have incomes at or below 185 percent of the poverty level. In 1998, for example, the WIC's annual limit on income for a family of four is $30,432 in the contiguous state, the District of Columbia, Guam and the territories. Poverty guidelines are established separately for Alaska and Hawaii.

[2]WIC: States Had A Variety of Reasons for Not Spending Program Funds (GAO/RCED-97-166, Jun.12, 1997); Food Assistance: Working Women's Access to WIC Benefits (GAO/RCED-98-19, Oct. 16, 1997); and Food Assistance: A Variety of Practices May Lower the Costs of WIC (GAO/RCED-97-225, Sep. 17, 1997).

- The states are using a variety of cost containment initiatives that have saved millions of dollars annually for WIC and enabled more individuals to participate in the program. Some of these initiatives include obtaining rebates on WIC foods, limiting participants' food choices to lowest cost items, and limiting the number of stores that participate in WIC.

Unspent WIC Funds

In June 1997, we reported on the results of our interviews with state WIC officials in 8 states that had unspent federal funds in fiscal year 1995 and 2 states that did not have unspent funds that year. These state officials identified a variety of reasons for having unspent federal WIC funds that were returned to the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) for reallocation. In fiscal year 1996, the states returned about $121.6 million, or about 3.3 percent, of that year's $3.7 billion WIC grant for reallocation to the states in the next fiscal year. Some of the reasons cited by the WIC directors for not spending all available federal funds related to the structure of the WIC program. For example, the federal grant is the only source of funds for the program in most states. Some of these states prohibit agency expenditures that exceed their available funding. As a result, WIC directors reported that they must be cautious not to overspend their WIC grant. Because WIC grants made to some states are so large, even a low underspending rate can result in millions of returned grant dollars. For example, in fiscal year 1995, California returned almost $16 million in unspent WIC funds, which represented about 3 percent of its $528 million federal grant. Unlike California, New York State had no unspent grant funds in fiscal year 1995. New York was one of 12 states that supplemented its federal WIC grant with state funds that year and hence did not have to be as cautious in protecting against overspending its federal grant. Overall, the group of states that supplemented their WIC grants in fiscal year 1995 returned a smaller percentage of their combined WIC funds than did the states that did not supplement their federal grants.

States also had unspent federal funds because the use of vouchers to distribute benefits made it difficult for states to determine program costs until the vouchers were redeemed and processed. Two features of the voucher distribution method can contribute to the states' difficulty in determining program costs. First, some portion of the benefits issued as vouchers may not be used, thereby reducing projected food costs. Participants may not purchase all of the food items specified on the voucher or not redeem the voucher at all. Second, because of the time it takes to process vouchers, 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 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 and retailers 60 days after receiving the voucher to submit it for payment. The difficulty in projecting food costs in a timely manner can be exacerbated in some states that issue participants 3 months of vouchers at a time to reduce crowded clinic conditions. In such states, vouchers for August benefits could be provided as early as June but not submitted for payment until the end of October.

Other reasons for states having unspent WIC funds related to specific circumstances that affect program operations within individual states. For example, in Texas the installation of a new computer system used to certify WIC eligibility and issue WIC food vouchers contributed to the state's having unspent funds of about $6.8 million in fiscal year 1996. According to the state WIC director, the computer installation temporarily reduced the amount of time that clinic staff had to certify and serve new clients because they had to spend time instead learning new software and operating procedures. As a result, they were unable to certify and serve a number of eligible individuals and did not spend the associated grant funds. In Florida, a hiring freeze contributed to the state's having unspent funds of about $7.7 million in fiscal year 1995. According to the state WIC director, although federal 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.

Having unspent federal WIC funds did not necessarily indicate a lack of need for program benefits. WIC directors in some states with fiscal year 1995 unspent funds reported that 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 or circumstances.

WIC Access for Working Women

On the basis of our nationwide survey of randomly selected local WIC agencies, we reported in October 1997 that these agencies have implemented a variety of strategies to increase the accessibility of their clinics for working women. The most frequently cited strategies—used by every agency—are scheduling appointments instead of taking participants on a first-come, first-served basis and allowing other persons to pick up participants' WIC vouchers.[3] Scheduling appointments reduces participants' waiting time at the clinic and makes more efficient use of the agency staff's time. Allowing other persons, such as baby-sitters and family members, to pick up the food vouchers for participants can reduce the number of visits to the clinic by working women. Another strategy to increase participation by working women used by almost 90 percent of local agencies was issuing food vouchers for 2 or 3 months. As California state officials pointed out, issuing vouchers every 2 months, instead of monthly, to participants who are not at medical risk reduces the number of visits to the clinic. Three-fourths of the local WIC agencies had some provision for lunch hour appointments, which allows some working women to take care of their visit during their lunch break.

Other actions to increase WIC participation by working women included reducing the time spent at clinic visits. We estimated that about 66 percent of local WIC agencies have taken steps to expedite clinic visits for working women. For example, a local agency in New York State allows working women who must return to work to go ahead of others in the clinic. The director of a local WIC agency in Pennsylvania allows working women to send in their paperwork before they visit, thereby reducing the time spent at the clinic. The Kansas state WIC agency generally requires women to participate in the program in the county where they reside, but it will allow working women to participate in the county where they work when it is more convenient for them.

Other strategies adopted by some local WIC agencies include mailing vouchers to working women under special circumstances, thereby eliminating the need for them to visit the clinic (about 60 percent of local agencies); offering extended clinic hours of operation beyond the routine workday (about 20 percent of local agencies offer early morning hours); and locating clinics at or near work sites, including various military installations (about 5 percent of local agencies).

Our survey found that about 76 percent of the local WIC agency directors believed that their clinics are reasonably accessible for working women. In reaching this conclusion, the directors considered their clinic's hours of operation, the amount of time that participants wait for service, and the ease with which participants are able to get appointments. Despite the widespread use of strategies to increase accessibility, 9 percent of WIC directors believe accessibility is still a problem for working women. In our

[3]While we found 100 percent of the local WIC agencies we surveyed have implemented these strategies, our results are based on a sample, not the entire universe. Therefore, we would estimate that at the 95-percent confidence level our finding applies to at least 99 percent of the entire universe.

discussions with these directors, the most frequently cited reason for rating accessibility as moderately or very difficult was the inability to operate during evenings or on Saturday because of lack of staff, staff's resistance to working schedules beyond the routine workday, and/or the lack of safety in the area around the clinic after dark or on weekends.

Our survey also identified several factors not directly related to the accessibility of clinic services that serve to limit participation by working women. The factors most frequently cited related to how working women view the program. Specifically, directors reported that some working women do not participate because they (1) lose interest in the program's benefits as their income increases, (2) perceive a stigma attached to receiving WIC benefits, or (3) think the program is limited to those women who do not work. With respect to the first issue, 65 percent of the directors reported that working women lose interest in WIC benefits as their income rises. For example, one agency director reported that women gain a sense of pride when their income rises and they no longer want to participate in the program. Concerning the second issue, the stigma some women associate with WIC—how their participation in the program makes them appear to their friends and co-workers—is another significant factor limiting participation, according to about 57 percent of the local agency directors. Another aspect of the perceived stigma associated with WIC participation is related to the so-called "grocery store experience." The use of WIC vouchers to purchase food in grocery stores can cause confusion and delays for both the participant-shopper and the store clerk at the check-out counter. For example, Texas requires its WIC participants to buy the cheapest brand of milk, evaporated milk, and cheese available in the store. 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. In comparing the cost of WIC-approved items, participants must also consider such things as weekly store specials and cost per ounce in order to purchase the lowest-priced items. While these restrictions may lower the dollar amount that the state pays for WIC foods, it may also make food selections more confusing for participants. According to Texas WIC officials, participants and cashiers often have difficulty determining which products have the lowest price. Consequently, a delay in the check-out process may result in unwanted attention for the WIC participant. Finally, more than half of the directors indicated that a major factor limiting participation is that working women are not aware that they are eligible to participate in WIC. Furthermore, local agency officials in California and Texas said that WIC participants who were not working when they entered the program but who later go to work often assume that they are then no longer eligible for WIC and therefore drop out of the program.

Containing Program Costs

In September 1997, we reported that the states have used a variety of initiatives to control WIC costs. According to the WIC agency directors in the 50 states and the District of Columbia we surveyed, two practices in particular are saving millions of dollars. These two practices are (1) contracting with manufacturers to obtain rebates on 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. With respect to rebates, nine state agencies received $6.2 million in rebates in fiscal year 1996 through individual or multistate contracts for two WIC-approved foods—infant cereal and/or infant fruit juices. Four of these state agencies and seven other state agencies—a total of 11 states—reported that they were considering, or were in the process of, expanding their use of rebates to foods other than infant formula. In May 1997, Delaware, one of the 11 states, joined the District of Columbia, Maryland, and West Virginia in a multistate rebate contract for infant cereal and juices. Another state, California, was the first state to expand its rebate program in March 1997 to include adult juices. California 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 more people to participate in the program each month.

With respect to placing limits on food selections, all of the 48 state WIC directors responding to our survey reported that their agencies imposed limits on one or more of the food items eligible for program reimbursement. The states may specify certain brands; limit certain types of foods, such as allowing the purchase of block but not sliced cheese; restrict container sizes; and require the selection of only the lowest-cost brands. However, some types of restrictions are more widely used than others. For example, 47 WIC directors reported that their states' participants are allowed to choose only certain container or package sizes of one or more food items, but only 20 directors reported that their states require participants to purchase the lowest-cost brand for one or more food items. 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 limits on food selection to contain or reduce WIC costs.

Separately or in conjunction with measures to contain food costs, we found that 39 state agencies have placed restrictions on their authorized retail outlets (food stores and pharmacies allowed to redeem WIC vouchers—commonly referred to as vendors) to hold down costs. For example, the prices for WIC food items charged by WIC vendors in Texas must not exceed by more than 8 percent the average prices charged by vendors doing a comparable dollar volume of business in the same area. Once selected, authorized WIC vendors must maintain competitive prices. According to Texas WIC officials, the state does not limit the number of vendors that can participate in WIC. However, Texas' selection criteria for approving a vendor excludes many stores from the program. In addition, 18 WIC directors reported that their states restrict the number of vendors allowed to participate in the program by using ratios of participants to vendors. For example, Delaware used a ratio of 200 participants per store in fiscal year 1997 to determine the total number of vendors that could participate in the program in each WIC service area. By limiting the number of vendors, states can more frequently monitor vendors and conduct compliance investigations to detect and remove vendors from the program who commit fraud or other serious program violations, according to federal and state WIC officials. A July 1995 report by USDA's Office of Inspector General found that the annual loss to WIC as a result of vendor fraud in one state could exceed $3 million. The WIC directors in 7 of the 39 states that reported limiting the number of vendors indicated that they are planning to introduce additional vendor initiatives, such as selecting vendors on the basis of competitive food pricing.

We also found that opportunities exist to substantially lower the cost of special infant formula. Special formula, unlike the regular formula provided by WIC, is provided to infants with special dietary needs or medical conditions. Cost savings may be achieved if the states purchase special infant formula at wholesale instead of retail prices. The monthly retail cost of these special formulas can be high—ranging in one state we surveyed from $540 to $900 for each infant. These high costs occur in part because vendors' retail prices are much higher than the wholesale cost. Twenty-one states avoid paying retail prices by purchasing the special formula directly from the manufacturers and distributing it to participants. For example, Pennsylvania turned to the direct purchase of special infant formula to address the lack of availability and 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 formula in fiscal year 1996. The program is expected to save about $100,000 annually. Additional savings may be possible if these 21 states are able to reduce or eliminate the authorization and monitoring costs of retail vendors and pharmacies that distribute only special infant formula. For example, by establishing its own central distribution warehouse, Pennsylvania plans to remove over 200 pharmacies from the program, resulting in significant administrative cost savings, according to the state WIC director.

While the use of these cost containment practices could be expanded, our work found that a number of obstacles may discourage the states from adopting or expanding these practices. These obstacles include problems that states have with existing program restrictions on how additional funds made available through cost containment initiatives can be used and resistance from the retail community when states attempt to establish selection requirements or limit retail stores participating in the program. First, FNS 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 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 grant for nutrition services and administration is adjusted for the increased participation level—a process that can take up to 2 years, according to the National Association of WIC Directors. FNS officials pointed out that provisions in the federal regulations allow the states that have increased participation to use a limited amount of their food grant funds for support activities. However, some states may be reluctant to use this option because, as one director told us, doing so may be perceived as taking food away from babies.

FNS and some state WIC officials told us that limiting the number of vendors in the program is an important aspect of containing WIC costs. However, they told us the retail community does not favor limits on the number of vendors that qualify to participate. Instead, the retail community favors the easing of restrictions on vendor eligibility thereby allowing more vendors that qualify to accept WIC vouchers. According to FNS officials, the amount that WIC spends for food would be substantially higher if stores with higher prices were authorized to participate in the program. To encourage the further implementation of WIC cost containment practices, we recommended in our September 1997 report that FNS work with the states to identify and implement strategies to reduce or eliminate such obstacles.

These strategies could include modifying the 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. FNS concurred with our findings and recommendations. We will continue to monitor the agency's progress made in implementing strategies to reduce or eliminate obstacles to cost containment.

Our survey also collected information on the practices that the states are using to ensure that program participants meet the program's income and residency requirements. The states' requirements for obtaining income documentation vary. Of the 48 WIC directors responding to our survey, 32 reported that their state agencies generally require applicants to provide documentation of income eligibility; 14 reported that their states did not require documentation and allowed applicants to self-declare their income; and 2 reported that income documentation procedures are determined by local WIC agencies. Of the 32 states requiring income documentation, 30 reported that their documentation requirement could be waived under certain conditions. Our review of state income documentation polices found that waiving an income documentation requirement can be routine. For example, we found that some states requiring documentation of income will waive the requirement and permit self-declaration of income if the applicants do not bring income documents to their certification meeting. While existing federal regulations allow the states to establish their own income documentation requirements for applicants, we are concerned that basing income eligibility on the applicants' self-declarations of income may permit ineligible applicants to participate in WIC. However, the extent of this problem is unknown because there has not been a recent study of the number of program participants who are not eligible because of income. Information from a study that FNS has begun should enable that agency to determine whether changes in states' requirements for income documentation are needed. Regarding residency requirements, we found that some states have not been requiring proof of residency and personal identification for program certification, as required by federal regulations. In our September 1997 report, we recommended that FNS take the necessary steps to ensure that state agencies require participants to provide identification and evidence that they reside in the states where they receive benefits. In February 1998, FNS issued a draft policy memorandum to its regional offices that is intended to stress the continuing importance of participant identification, residency, and income requirements and procedures to ensure integrity in the certification and food instrument issuance processes. Also, at the request of FNS, we presented our review's findings and recommendations at the EBT [Electronic Benefit Transfer] and Program Integrity Conference jointly sponsored by the National Association of WIC Directors and FNS in December 1997. The conference highlighted the need to reduce ineligible participation and explored improved strategies to validate participants' income and residency eligibility.

Impacts of Rebates for WIC Infant Formula

FNS requires the states to operate a rebate program for infant formula. By negotiating rebates with manufacturers of infant formula purchased through WIC, the states greatly reduce their average per person food costs so that more people can be served. At the request of the Chairman of the House Budget Committee, we are currently reviewing the impacts that these rebates have had on non-WIC consumers of infant formula. Specifically, we will report on (1) how prices in the infant formula market changed for non-WIC purchasers and WIC agencies after the introduction of sole-source rebates, (2) whether there is any evidence indicating that non-WIC purchasers of infant formula subsidized WIC purchases through the prices they paid, and (3) whether the significant cost savings for WIC agencies under sole source rebates for infant formula have implications for the use of rebates for other WIC products.

Thank you again for the opportunity to appear before you today. We would be pleased to respond to any questions you may have.

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