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Report to the Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

September 2006

HUMAN SERVICE PROGRAMS

Demonstration Projects Could Identify Ways to Simplify Policies and Facilitate Technology Enhancements to Reduce Administrative Costs

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GAO-06-942

September 2006

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Highlights

Highlights of GAO-06-942, a report to Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The cost of administering human service programs has been a long-standing concern among policy makers interested in ensuring that federal programs are run in a cost-efficient manner so that federal funds go directly to helping vulnerable people. Little is known about how administrative costs compare among programs, or about opportunities to better manage these costs. GAO looked at (1) how administrative costs are defined and what rules govern federal and state participation in funding these costs; (2) what is known about the amounts of administrative spending and how they have changed over time; and (3) what opportunities exist at the federal level to help states balance cost savings with program effectiveness and integrity. GAO's review included seven programs: Adoption Assistance, Child Care and Development Fund (CCDF), Child Support Enforcement (CSE), food stamps, Foster Care, Temporary Assistance for Needy Families (TANF), and Unemployment Insurance (UI). To address the questions, GAO reviewed laws, analyzed spending data, and visited five states.

What GAO Recommends

To identify ways to reduce administrative costs, Congress should consider authorizing state and local demonstration projects designed to simplify eligibility determination and other processes for federal human service programs. None of the responsible agencies commented on the recommendation to Congress.

www.gao.gov/cgi-bin/getrpt?GAO-06-942.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Cynthia Fagnoni at (202) 512-7215 or fagnonic@gao.gov.

HUMAN SERVICE PROGRAMS

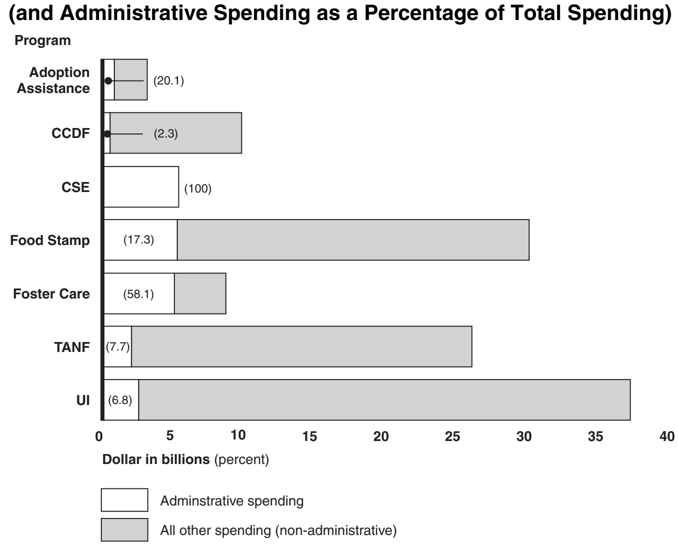
Demonstration Projects Could Identify Ways to Simplify Policies and Facilitate Technology Enhancements to Reduce Administrative Costs

What GAO Found

The statutes and regulations for the seven programs define administrative costs differently, even though many of the same activities are performed to administer the programs. The laws for each program also include different mechanisms for state and federal participation in funding administrative costs, including matching rates, block grants, and spending caps.

The seven programs combined spent $21 billion on administration, as defined in law, making up about 18 percent of total program spending in fiscal year 2004. However, amounts varied widely across the programs and states. Administrative spending varied from 2 percent in CCDF to 58 percent in Foster Care, with the exception of CSE in which all program spending is considered administrative. Between fiscal years 2000 and 2004, administrative spending increased in five of the seven programs, generally at a lower rate than total program spending.

Fiscal Year 2004 Combined Federal and State Administrative and Other Spending (and Administrative Spending as a Percentage of Total Spending)



Source: GAO analysis of data from HHS, DOL, and USDA.

The federal government may help balance administrative cost savings with program effectiveness and integrity by simplifying policies and facilitating technology improvements. Simplifying policies—especially those related to eligibility determination processes and federal funding structures—could save resources, improve productivity, and help staff focus more time on performing essential program activities. By helping states facilitate technology enhancements across programs, the federal government can help streamline processes and potentially reduce long-term costs. Over the past 20 years, many attempts to streamline processes across programs have had limited success due, in part, to the considerable challenges that streamlining program processes entail. GAO believes one challenge in particular—the lack of information on the effect streamlining efforts might have on program and administrative costs—is thwarting progress in this area.

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Abbreviations

ACF	Administration for Children and Families
AFDC	Aid to Families with Dependent Children
CalWIN	CalWORKs Information Network
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CSE	Child Support Enforcement
DOL	U.S. Department of Labor
FNS	Food and Nutrition Service
FY	fiscal year
HHS	U.S. Department of Health and Human Services
IT	Information Technology
LIHEAP	Low-Income Home Energy Assistance Program
N/A	not applicable
OMB	Office of Management and Budget
SCHIP	State Children's Health Insurance Program
SSA	Social Security Administration
SSI	Supplemental Security Income
TANF	Temporary Assistance for Needy Families
UI	Unemployment Insurance
USDA	U.S. Department of Agriculture

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United States Government Accountability Office
Washington, DC 20548

September 19, 2006

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

Dear Mr. Chairman:

The federal government spends hundreds of billions of dollars annually on programs that support vulnerable people. While most of this money is used for direct benefits and services, such as cash assistance or child care services, a portion of the money also goes toward the cost of administering the programs. Spending on administration has been a long-standing concern among policy makers interested in ensuring that federal programs are run in a cost-efficient manner so that federal funds go directly to helping vulnerable people. While each of the human service programs typically has some information available on the costs associated with administrative activities, little is known about how these administrative costs compare among the programs and whether opportunities exist to better manage these costs at the federal level. The importance of administering federal programs in an efficient manner is heightened by the fiscal challenges facing the nation and the need to update the federal government's programs and priorities to meet current and future challenges.

Both federal agencies and states play important roles in administering and funding many of the federal programs that support vulnerable people. These programs may have different goals, but all were established to assist vulnerable populations, and as such, the federal and state administrators are tasked with the common goal of serving those eligible for program benefits and services. Likewise, federal and state administrators must ensure that funds allocated for program benefits and services are provided only to those who are eligible.

To better understand these issues, we examined: (1) how administrative costs are defined in selected programs and what rules govern federal and state participation in funding these costs; (2) what is known about the amounts of federal and state administrative spending for selected programs and how they have changed over time; and (3) what opportunities exist at the federal level to help states balance cost savings with program effectiveness and integrity. As agreed with your office, we focused our study on seven key programs: Adoption Assistance, Child Care & Development Fund (CCDF), Child Support Enforcement (CSE), the Food Stamp Program, Foster Care, Temporary Assistance for Needy Families (TANF), and Unemployment Insurance (UI). These programs are among the largest programs serving vulnerable populations and each has annual federal outlays of over $1 billion. Each of the programs also is funded in part through state contributions.

To address all of our research questions, we interviewed federal officials from each of the programs and the Office of Management and Budget (OMB), and we conducted state and local interviews in California, Maryland, Michigan, Ohio, and South Carolina. We selected these states to provide a range of total program spending and share of spending on administration as well as a mixture of state and county administrative structures, urban and rural demographics, and geographic location. Although our selection includes a range of states, our findings are not generalizable beyond the states included in our study. In addition, to address our first research question, we reviewed laws and regulations on definitions of administrative costs and federal-state participation in funding these costs for the selected programs. We also reviewed relevant circulars issued by the OMB. To address our second question, we analyzed administrative spending data, as defined for financial reporting purposes by program laws and regulations, for each program for fiscal years 2000-2004, including federal and state shares of spending. Fiscal year 2004 data were the most recent data available for all seven programs at the time of our review. We assessed the reliability of the administrative spending data by interviewing (1) agency officials knowledgeable about the data and (2) state officials in the five states we visited knowledgeable about the data as reported to the federal government. We also reviewed state single audit reports and talked to state auditors in the states we visited to identify any known problems with the administrative spending data or the technology systems that store the data. Our reviews and discussions did not identify significant problems with the data. We determined that these data were sufficiently reliable for the purposes of this report.

To address our third question, we interviewed federal officials from each of the programs and the OMB as well as state and local program officials about administrative costs, options for reducing costs while preserving services, and challenges to and consequences of these options. During the interviews we also inquired about any interactions between our key programs and other programs that support vulnerable people, including

Medicaid, the State Children's Health Insurance Programs (SCHIP), the Low-Income Home Energy Assistance Program (LIHEAP), and housing programs. In addition, we interviewed state audit officials from the five states about any similar work they have conducted. We also reviewed our prior work related to this issue.

We issued two related reports in June and July 2006 that focused on the administrative costs of the Adoption Assistance and Foster Care programs (GAO-06-649, *Foster Care and Adoption Assistance: Federal Oversight Needed to Safeguard Funds and Ensure Consistent Support for States' Administrative Costs*, June 2006) and the Child Support Enforcement program (GAO-06-491, *Child Support Enforcement: More Focus on Labor Costs and Administrative Cost Audits Could Help Reduce Federal Expenditures*, July 2006). We coordinated our data collection efforts for all three reports. Therefore, some of the information on the Child Support Enforcement, Adoption Assistance, and Foster Care programs in this report is drawn from work conducted for the earlier reports. For example, for this report, we supplemented our data collection efforts with administrative spending data collected for the other two reports as well as information collected from interviews conducted for the other reports. We also coordinated efforts to assess the reliability of the administrative spending data used in the three reports.

We conducted our work between July 2005 and August 2006 in accordance with generally accepted government auditing standards. See appendix I for more details on our scope and methodology.

Results in Brief

The activities that are defined as administrative costs in statutes and regulations differ across the seven programs in our review, and the programs are subject to various federal funding rules and funding types. In the states we visited, state and local program officials conduct similar activities to operate each program, such as determining eligibility, monitoring program quality, and developing and maintaining information technology (IT) systems. However, for financial reporting purposes, these activities may be defined as administrative costs in one program but not in another, in accordance with federal statutes and regulations. For example, the TANF regulations and CCDF legislation defining administrative costs specifically exclude costs associated with providing direct program services, while Food Stamp legislation specifically includes the costs of providing direct program services such as certifying applicant households and issuing food stamp benefits as administrative costs. The statutes and regulations defining administrative costs differ across the programs in part because these programs have evolved separately over time. The programs have different missions, priorities, services, and clients, and jurisdiction for these programs is spread among numerous congressional committees and federal agencies, each of which has a role in defining what is an administrative cost. In addition to differences in definitions of administrative costs, the laws for each program also include different mechanisms for state and federal participation in funding administrative costs, including specific matching rates, block grants, and spending caps. These funding mechanisms play a role in managing the federal government's financial risk and can affect state spending decisions by providing financial incentives and funding restrictions. While funding mechanisms can create incentives for states to limit administrative spending, officials in each of the states we visited cautioned that if administrative spending is reduced too far, it can negatively affect client services.

In recent years, combined federal and state administrative spending generally increased at a lower rate than the increase in total spending in five of the seven selected programs, but varied widely across programs. In fiscal year 2004, the seven programs combined spent $21 billion on administrative costs, as defined by each program's statutes and regulations, amounting to about 18 percent of total program spending. The percentage spent on administration varied from 2 percent in CCDF, to 58 percent in Foster Care, with the exception of CSE in which all program spending is considered administrative. Because of the differences in which activities are defined as administrative costs for financial reporting purposes, a program with high administrative spending is not necessarily less efficient than a program with low administrative spending. In recent years, the amounts spent on administration increased in five of the seven selected programs, but, in most cases, increased at a lower rate than total program spending. As a result, the percentage spent on program administration declined in five of the programs. In addition, while there are limited federal data on what specific costs make up administrative spending, officials in the five states we visited reported that staff costs and IT were among the largest costs associated with running their programs. Officials reported that for some of the programs in our review, personnel costs may be higher than necessary, in part because of complex administrative processes and outdated information systems that require substantial staff time.

The federal government may help balance long-term administrative cost savings with program effectiveness and integrity by simplifying policies and facilitating technology improvements. Simplifying policies—especially those related to eligibility determination processes and federal funding structures—could save resources, improve productivity, and help staff focus more time on performing essential program activities, such as providing quality services and accurate benefits to recipients. For example, the Food and Nutrition Service (FNS) allows some states to use TANF, Medicaid, and Supplemental Security Income (SSI) income and resource definitions for purposes of determining Food Stamp Program eligibility. In addition, by helping states facilitate technology enhancements across programs, the federal government may help streamline processes and potentially reduce long-term costs. For example, by receiving verified electronic data from the Social Security Administration (SSA), some states are able to determine SSI recipients' eligibility for food stamp benefits without having to separately collect and verify applicant information. Officials told us that this arrangement saves administrative dollars and reduces duplication across programs while protecting program integrity. Together, simplified policies and improved technology could streamline administrative processes and potentially reduce administrative costs. We acknowledge that all levels of government have attempted to streamline processes across human service programs for the past 20 years. However, many of these efforts have had limited success due, in part, to the considerable challenges that streamlining program processes entail, such as the challenge of achieving consensus among the numerous congressional committees and federal agencies involved in shaping human service program policies and a lack of information on how program changes would affect particular populations. We believe one challenge in particular—the lack of information on the effect streamlining efforts might have on program and administrative costs—is thwarting progress in this area.

We suggested in our prior work (GAO-02-58) in 2001 that Congress consider authorizing state and local demonstration projects designed to simplify and coordinate eligibility determination and other processes for federal human service programs. While both the House and Senate have considered proposals to authorize such demonstration projects, legislation was not enacted. We continue to believe that demonstration projects would provide more information on how streamlining processes may help reduce administrative costs and, further, believe that any projects should have an evaluation component to test the long-term cost-effectiveness of the projects. In commenting on the draft report, the U.S. Department of Health and Human Services (HHS) agreed with the report's emphasis on the need for cost-effective administration of federal programs, FNS officials suggested we add more detailed information to the report in several areas, and the U.S. Department of Labor (DOL) provided only technical comments. None of the agencies commented on our suggestion to Congress.

Background

The federal government funds a wide array of programs intended to provide benefits and services or both to individuals, families, and households needing financial assistance or other social supports. Representing a range of programs available through federal and state partnerships, the seven programs in this review have different goals and purposes, and, thus, provide a range of benefits and services to specific target populations. For example, the Food Stamp Program provides nutrition assistance to low-income individuals, while the CSE program helps custodial parents, regardless of income, collect child support payments from noncustodial parents.[1] Table 1 provides a brief description of each of the programs covered in this report.

[1] Noncustodial parents are those who do not have custody of their children.

Table 1: Description of the Seven Selected Programs

Program	Description
Adoption Assistance	The Adoption Assistance program, authorized under title IV-E of the Social Security Act, assists states in finding adoptive homes for eligible children with special needs. The 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.
CCDF	CCDF, authorized by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, 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.
CSE	CSE is a joint federal and state partnership established in 1975 under title IV-D of the Social Security Act to ensure that parents financially support to their children. State CSE programs are primarily responsible for carrying out the basic activities for locating 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 66 percent 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, 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. The federal government pays the full cost of food stamp benefits and shares the states' administrative costs. The federal government promulgates program regulations and ensures that state officials administer the program in compliance with federal rules. The states administer the program by determining whether households meet the program's income and asset requirements, calculating monthly benefits for qualified households, and issuing benefits to participants on an electronic benefits transfer card.
Foster Care	The Foster Care program, authorized under title IV-E of the Social Security Act, helps states provide 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.
TANF	Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced Aid to Families with Dependent Children (AFDC) with TANF, which marked the end of federal entitlement assistance. TANF ended unlimited matching funding for family cash welfare and created fixed-block grants to states. The block grant covers benefits, administrative expenses, and services targeted to needy families and gives states great flexibility to design their own TANF programs. States must spend a specified amount of state funds on eligible low-income families—known as the maintenance-of-effort requirement.
UI	The UI program, established in 1935, serves to: (1) temporarily replace a portion of earnings for workers who become unemployed through no fault of their own and (2) facilitate the reemployment of UI claimants. UI is made up of 53 state-administered programs that are subject to broad federal guidelines and oversight.

Source: GAO.

The programs included in this review also represent a wide range of spending, from $2.9 billion for Adoption Assistance to $37 billion for UI. For fiscal year 2004, total spending, including administrative and all other spending, for the seven programs was $119 billion. Additionally, each of the seven selected programs is administered or overseen by one of three different federal departments. Table 2 shows the agency responsible for each program and total program expenditures for fiscal year 2004, the most current year available.

Table 2: Fiscal Year 2004 Federal and State Program Spending and Agencies Responsible for Administering the Seven Selected Programs

Agency	Program	Total program spending, fiscal year 2004 (in billions)
Department of Agriculture/Food and Nutrition Service	Food Stamp Program	$29.8
Department of Health and Human Services/Administration for Children and Families	Adoption Assistance	2.9
	CCDF	9.4
	CSE	3.2[a]
	Foster Care	8.6
	TANF	25.8
Department of Labor/Employment and Training Administration	UI	37.0[b]

Source: GAO analysis of HHS, USDA, and DOL data.

[a]All CSE spending is administrative. The CSE program reported total federal and state administrative expenditures as $5.3 billion for fiscal year 2004. However, total spending on the program is offset by child support collections for families who received benefits from the TANF and Foster Care programs, resulting in net program expenditures of $3.2 billion.

[b]In the UI program, federal law gives responsibility for administrative funding to the federal government; however, some states supplement federal funding with state funds. We did not include the state share in our analysis because historical data on state spending were not available for all of the years included in our review.

The programs covered by this review have varying federal-state relationships in administering and funding the programs. The level of government with responsibility for designing the rules, services, and processes varies by program. Some programs have federally standardized designs while other programs provide states with flexibility to develop their own eligibility criteria, benefit levels, and program rules. All of the programs are funded through some form of federal-state partnership; however, the rules governing funding responsibility vary widely by program. Table 3 summarizes the level of government with which responsibility for the design and funding resides for each of the seven programs.

Table 3: Level of Government Responsible for Design and Funding of the Seven Selected Programs

		Funding for[b]	
Program	**Design[a]**	**Benefits/services**	**Administration**
Adoption Assistance	Federal/state	Federal/state	Federal/state
CCDF	Federal/state	Federal/state	Federal/state
CSE	Federal/state	N/A[c]	Federal/state
Food Stamp Program	Federal	Federal	Federal/state
Foster Care	Federal/state	Federal/state	Federal/state
TANF	Federal/state	Federal/state	Federal/state
UI	Federal/state	State[d]	Federal

Source: GAO.

[a]Defined as the level of government that is primarily responsible for availability, eligibility, and benefit amount determination.

[b]Defined as the level of government that supplies the primary source of funding for the benefit or for administering the benefit. If substantial funding comes from more that one source, both sources are listed. Some additional funding may come from sources not listed in the table.

[c]All CSE spending is considered administrative.

[d]State unemployment taxes pay for regular benefits and half of extended benefits, while federal taxes pay half of extended benefits.

An individual low-income family is likely to be eligible for and participate in several human service programs. For example, in 2001, 88 percent of families receiving TANF also received food stamp benefits and 98 percent received Medicaid. The programs are typically administered out of a local assistance office that offers benefits from several programs. Depending on the administrative structure of the local assistance office, a family or individual might provide necessary information to only one caseworker who determines eligibility and benefits for multiple programs, or they might work with several caseworkers who administer benefits for different programs.

Because eligibility determination as well as other activities are often conducted jointly for multiple programs, some programs require states to have a process to ensure that costs are appropriately charged to the correct federal programs for federal reimbursement purposes. The cost allocation process is the formal process for sharing the costs of activities that are performed jointly for more than one program. Formal “cost allocation plans” specify how costs for those activities are to be covered by the various programs. For example, when a local eligibility worker determines that an applicant is eligible for TANF, food stamp benefits, and CCDF, the cost of her or his time is allocated across these programs in accordance with the state's approved cost allocation plan. These costs are then reported as administrative or programmatic costs, depending on the laws and regulations governing funding for each of the programs.

Although Similar Types of Administrative Activities Occur across Programs, Definitions of Administrative Costs and the Federal Funding Role Vary

Across the seven programs in our review, the legal definitions and the federal funding rules for administrative costs vary. The statutes and regulations for each program define administrative costs differently, even though many of the same activities are performed to administer the programs. The laws for each program also include different mechanisms for state and federal participation in funding administrative costs, including specific matching rates, block grants, and spending caps, which can affect state decisions on administrative spending.

Definitions of Administrative Costs Vary across Programs

Although many of the programs we reviewed conduct similar activities to administer the program, not all of the activities are defined in laws and regulations as administrative costs for financial reporting purposes.[2] Based on our analysis of information collected from state and local officials, we identified several categories of administrative activities that are common across many of these programs. In particular, we found that the administration of each program involves at least (1) determining who is eligible to participate in the program or processing applications for new participants, (2) monitoring program quality, (3) conducting general program management and planning, (4) developing and maintaining IT systems, and (5) training employees, either at the state or local levels. All of the programs also issue benefits or provide services to eligible participants, with the exception of CSE, which generally collects and distributes payments from noncustodial parents to custodial families. Additional activities, such as case management and outreach, are performed in only some of the programs or some states.

[2] As used in this report, the phrase "administrative spending as defined for financial reporting purposes" is used to describe federal and state spending that, by applicable federal statutes and regulations, is reportable as administrative expenses of the program.

However, the statutes and regulations for each program differ on which of these activities are defined as administrative costs and which are not. For example, the TANF regulations and CCDF statute defining administrative costs specifically exclude costs associated with providing direct program services, while Food Stamp statute specifically includes the costs of providing direct program services, such as certifying applicant households and issuing food stamp benefits, as administrative costs. In addition, some statutes and regulations are more comprehensive in identifying which activities or items are specifically included or excluded from the definition of administrative costs. For example, while UI legislation allows for amounts "necessary for the proper and efficient administration" of state programs with few other qualifiers, the Food Stamp legislation and regulations list dozens of specific costs, including such items as audit services, advisory councils, building lease management, and certain advertising costs. Appendix II identifies the activities and items that are specifically included in the definitions of administrative costs in the statutes and regulations for each program. Nonetheless, most of the lists of activities in program statutes and regulations are only illustrative and not exhaustive. Phrases such as "these activities may include but are not limited to…" are commonplace and leave the exact definitions of administrative costs somewhat ambiguous. Such ambiguity may lead to inconsistent interpretation of the definitions of administrative costs. Our prior work on administrative costs in the Adoption Assistance and Foster Care programs found that state program officials and HHS regional offices make different decisions as to what costs are appropriate to claim as administrative.

The statutes and regulations defining administrative costs differ across the programs in part because these programs have evolved separately over time and have different missions, priorities, services, and clients. The CSE program, in particular, differs from the other programs in our review in that CSE does not provide public financial benefits to its participants; rather, CSE services include collecting and distributing payments from noncustodial parents to custodial families, other states, and federal agencies. In addition, although the programs conduct similar activities, differences in missions and priorities may add to differences in spending on particular activities. For example, the Food Stamp Program's extensive requirements for monitoring program quality may result in more spending on this activity than for a program with few quality control requirements.

The number of congressional committees and federal agencies involved in developing laws and regulations for these programs has also contributed to differences in the definitions of administrative costs and can make coordination across programs difficult. The division of legislative and executive responsibility allows multiple points of access for Members of Congress, interest groups, and the affected public, but the various legislative committees and executive agencies do not necessarily collaborate with each other to develop consistent laws and regulations across programs. Federal legislation for all of the programs in our review, except the Food Stamp Program, is under the jurisdiction of the Senate Finance Committee and the House Ways and Means Committee, although some aspects of these programs are under the jurisdiction of other congressional committees. Federal regulations for Adoption Assistance and Foster Care, CCDF, CSE, and TANF are developed by various offices within the HHS Administration for Children and Families; Food Stamp Program regulations are developed by the U.S. Department of Agriculture (USDA) Food and Nutrition Service; and UI regulations are developed by the DOL Employment and Training Administration.

Federal and state officials we interviewed disagreed on whether it was problematic to have different definitions of administrative costs across programs. According to officials from the OMB, whose role is to improve administrative management of federal programs, differences in legal definitions of administrative costs across programs are not a barrier to program management. OMB officials stated that it is important to accept that programs are different and that it may not be possible to compare costs across programs. A number of state budget officials responsible for financial reporting, however, described how the variation in definitions of administrative costs creates difficulties. For example, one budget official stated that it can be difficult to develop coding for accounting and budgeting that can be used across programs and, as a result, it can be difficult to monitor costs accurately. A budget official in another state argued, similarly, that having consistent definitions of administrative costs and consistent caps on administrative spending would help to simplify the process for allocating costs across programs and, therefore, might reduce costs. On the other hand, state officials responsible for developing program policies and overseeing local implementation of the programs reported fewer difficulties with the differences in administrative cost definitions. Several of these officials reported that they pay little attention to which aspects of their jobs are defined as administrative activities and which are not.

Federal and State Participation in Funding Administrative Costs Is Governed by Matching Rates, Block Grants, and Spending Caps

Federal and state participation in funding the administrative costs of human service programs is governed by federal laws that establish matching rates, block grants, spending caps, and other funding mechanisms. These funding mechanisms, described below, play an important role in managing the federal government's risk and can affect states' spending behavior by producing financial incentives and funding restrictions.

- Matching rates—In programs funded through federal matching rates, the federal government covers a portion of states' spending on program administration. For example, if a program has a 50-percent matching rate, the federal government is obligated to reimburse states for 50 percent of their spending on administration, as defined in law.[3] Funding of Foster Care, Adoption Assistance, CSE, the Food Stamp Program, and a portion of CCDF include matching rates.[4]

- Block grants—Block grants provide states with a statutorily fixed amount of funding. TANF[5] and a portion of CCDF are funded through block grants. The TANF block grant does not change when caseloads change, nor is it adjusted for inflation. In both TANF and CCDF, states are required to spend a certain amount of their own funds to be eligible to receive the full amount of federal funds.

[3] The federal matching rate and the actual share of expenditures that the federal government pays, in practice, may differ slightly, because of the detailed rules governing the sharing of expenses and application of the federal matching rate.

[4] CCDF is funded by a combination of discretionary and entitlement funding through the Child Care and Development Block Grant (CCDBG). Discretionary funds are subject to the annual appropriations process and are allocated among states according to a formula; states are not required to match these discretionary funds. CCDF also provides entitlement (or "mandatory") funding to states. After reserving an amount for payments to Indian tribes and tribal organizations, remaining entitlement funds are allocated to states in two components. First, each state receives a fixed amount each year, as established in law; no state match is required for these funds. Second, remaining entitlement funds are allocated to states according to each state's share of children under age 13. States must meet maintenance-of-effort and matching requirements to receive these funds. In addition to amounts provided to states specifically for child care, states may also transfer up to 30 percent of their TANF block grant allotment into their CCDBG.

[5] The bulk of federal TANF funds are provided to states in a basic block grant called the *State Family Assistance Grant*, totaling $16.5 billion for the 50 states and the District of Columbia. The TANF statute also provides for supplemental grants to states that meet certain criteria and matching contingency funds that can provide additional funding during recessionary periods if certain conditions are met.

- Spending caps—Spending caps limit the amount or percent of state or federal funds that can be spent for particular purposes. For example, the TANF statute prohibits states from spending more than 15 percent of federal funds received on administrative costs, while the CCDF statute prohibits states from spending more than 5 percent of aggregate program funds on administrative costs.[6]

- Other funding rules—The legislation governing the funding of administrative costs for the UI program gives responsibility for administrative funding to the federal government. DOL uses information gathered from the states to determine how much of the available funds each state will receive. While states are not required to spend their own funds on administrative costs, over 40 states chose to provide additional state funds to cover some administrative costs of the UI program in 2004.

Table 4 summarizes the rules governing state and federal funding of administrative costs. The table identifies for each program the federal funding mechanism and any federal matching rates, caps on administrative expenditures, and other rules regarding funding of administrative costs.

[6] The 5-percent spending cap applies to the total Child Care and Development Fund, and need not be applied individually to each of the component funds -- the discretionary, mandatory, and matching (including the state share) funds. However, the spending cap does not apply to the states' maintenance-of-effort expenditures.

Table 4: Rules Governing State and Federal Funding of State Administrative Costs

Program	Federal funding mechanism	Federal matching rate for administrative expenditures	Cap on administrative expenditures	Other rules regarding funding of administrative costs
Adoption Assistance	Matching rate	50%	N/A	75% federal matching rate for training expenditures
CSE	Matching rate	66%	N/A	90% federal matching rate for lab costs of paternity testing[a] The federal government also provides incentive funds to encourage states to achieve program goals.
Food Stamp Program	Matching rate	50%[b]	N/A	100% federal grant coverage for some employment and training costs
Foster Care	Matching rate	50%	N/A	75% federal matching rate for training expenditures
CCDF	Combination of block grant and matching rate	50% to 77%, as determined by formula for each state[c]	5% of aggregate funds	N/A
TANF	Block grant	N/A	15% of State Family Assistance Grant	N/A
Unemployment Insurance	Other	N/A	N/A	N/A

Source: GAO analysis of HHS, USDA, and DOL data.

[a]As a result of the Deficit Reduction Act of 2005, Pub.L. 109-171 (Feb. 8, 2006), the higher federal matching rate for laboratory costs of paternity testing will be reduced to the general federal CSE matching rate of 66-percent beginning October 1, 2006.

[b]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.

[c]Federal matching rate applies only to one component of CCDF funding, which is available to states that achieve required levels of state spending.

Administrative Funding Mechanisms Can Affect State Spending

Administrative funding mechanisms can create financial incentives that affect state spending behavior; however, state responses to these incentives vary, according to the federal and state officials we interviewed. In some cases, matching rates can encourage states to spend more money on a program because for each dollar of its own resources the state invests, the state receives additional federal funding for the program. For example, the grants manager in one of the states we visited said that the federal matching rate gives the state an incentive to maintain its funding and to provide more services. In other cases, however, state officials reported that they limit their use of federal matching funds because they have limited state resources to invest in the program. For example, a budget official in one of the states we visited reported that when a new expenditure could be charged to either the Food Stamp Program, which has a matching rate, or the TANF block grant, the state or county might decide to use the TANF funds to avoid the need for the state to provide additional funding to meet its share of the matching funds. However, block grants also create general incentives for states to meet demand for services with limited spending because the federal funding amount is fixed. CCDF officials in Michigan stated that because they receive a fixed amount of funding, running the program efficiently is always in the front of their minds.

Spending caps on the percentage of a block grant that can be spent on administrative costs are, by definition, designed to limit spending. However, officials in four of the five states we visited said that the CCDF and TANF caps on administrative spending were not a major factor in their administrative spending decisions. TANF administrative spending in the states we visited was well below the 15-percent cap. Nationally, state spending on administration was 7.7 percent for TANF and 2.3 percent for CCDF in fiscal year 2004. Some CCDF officials reported that their administrative spending decisions were influenced more by state limits on administrative spending than by the federal spending cap. For example, the California Department of Education estimates that for fiscal year 2006-2007, only 1 percent of program funds will be available for program administration due to current state budget constraints. This amount is well below the federal 5-percent cap, because, according to CCDF program officials in California, the state legislature wanted to put every possible dollar into additional child care vouchers.

In addition, the funding allocation method for the UI program is designed to encourage states to administer their programs efficiently. Total funding appropriated for the UI program is less than the amount the states report needing to administer their UI programs. To promote efficiency, DOL reduces the requests of states with higher costs for certain “controllable” aspects of the budget by greater percentages than lower cost states. For example, the longer it takes a state to process claims, the greater its reduction in the allocation process. Federal UI officials we interviewed argued that this process provides states with an incentive to increase efficiency. However, some state officials argued that the funding process creates disincentives for states to improve efficiency and reduce administrative spending. For example, they argued that if they invest in technologies that improve their efficiency in administering the program, they do not get to keep the savings they gain. Rather, spending less in one year could result in less federal funding the next year.

While funding mechanisms can create incentives for states to limit administrative spending, officials in each of the states we visited cautioned that if administrative spending is reduced too far, it can negatively affect client services. Several officials described how reduced administrative spending due to state budget cuts had already affected the quality of their services. For example, state human service officials in Maryland stated that a hiring freeze has resulted in a slower rate of application processing and an increase in Food Stamp administrative errors, such as eligible applicants being denied benefits. Local human service officials in Michigan reported that budget cuts had resulted in increased office waiting times for applicants and the elimination of services such as home visits and prevention services.

Administrative Spending Varied across Programs but Generally Increased at a Lower Rate Than Total Spending

Administrative spending for the seven programs combined, as defined for financial reporting purposes by program statutes and regulations, made up about 18 percent of total program spending in fiscal year 2004. However, amounts varied widely across the programs and states. Between fiscal years 2000 and 2004, administrative spending increased in five of the seven programs, but generally increased at a lower rate than total program spending. Officials in the five states we visited reported that staff and technology made up a large portion of the administrative spending in their programs.

In 2004, Administrative Spending for the Selected Programs Combined Was about 18 Percent of Total Program Spending, but Spending Varied Greatly across Programs and States

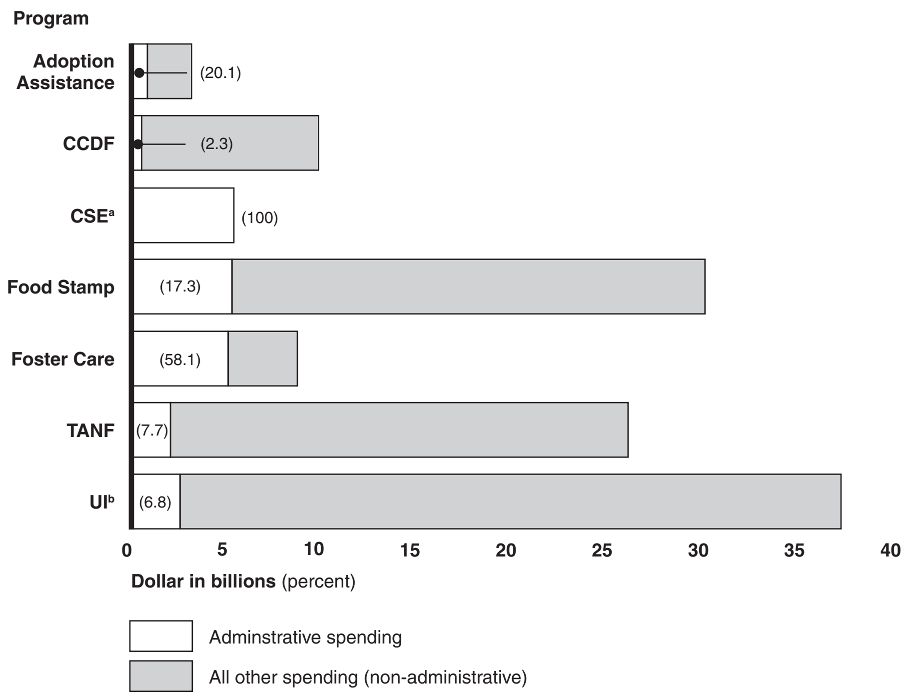
In fiscal year 2004, administrative spending, as defined for financial reporting purposes by program statutes and regulations, amounted to about 18 percent[7]—or $21 billion—of the $119 billion in total program spending for the seven programs combined; however, there were large differences in the amounts spent by programs and states. As shown in figure 1, the amount spent on administration varied widely among the seven programs, ranging from $200 million in CCDF to $5.2 billion in the Food Stamp Program and $5.3 billion in CSE. As a percentage of total program spending, administrative spending ranged from 2 percent in CCDF to 58 percent in the Foster Care program, with the exception of CSE

[7] All CSE spending is considered administrative. When including CSE, the programs combined spent 17.5 percent of total program spending on administration. When excluding CSE from the calculation, the other programs combined spent 13.6 percent of total program spending on administration.

in which all program spending is considered administrative.[8] While administrative spending amounts varied significantly across the seven programs, this variation does not necessarily indicate that certain programs are more efficiently administered. Instead, differences in spending largely reflect the differences in how each program's laws and regulations define what counts as an administrative cost. As a result, comparing spending across programs is not a useful means for determining efficiency.

[8] In addition, in fiscal year 2004, CSE collected $4.38 in child support payments for every dollar spent on the program, also known as the cost-effectiveness ratio.

Figure 1: Fiscal Year 2004 Combined Federal and State Administrative and Other Spending in Billions (and Administrative Spending as a Percentage of Total Spending)



Source: GAO analysis of data from HHS, DOL, and USDA.

[a]All CSE spending is administrative. The CSE program reported total federal and state administrative expenditures as $5.3 billion for fiscal year 2004. However, total spending on the program is offset by child support collections for families who received benefits from the TANF and Foster Care programs, resulting in net program expenditures of $3.2 billion.

[b]UI data are only estimates because the administrative spending data provided by DOL were by fiscal year, while the benefit data were provided by calendar year. In addition, in the UI program, federal law gives responsibility for administrative funding to the federal government; however, some states chose to supplement federal funding with state funds. We did not include the state share in our analysis because historical data on state spending were not available for all of the years included in our review. The state share accounted for about $260 million in administrative spending in 2004.

Each of the seven programs in our review is funded through a combination of federal and state contributions. For the seven programs combined, federal funds made up roughly 60 percent—or $13 billion—of the

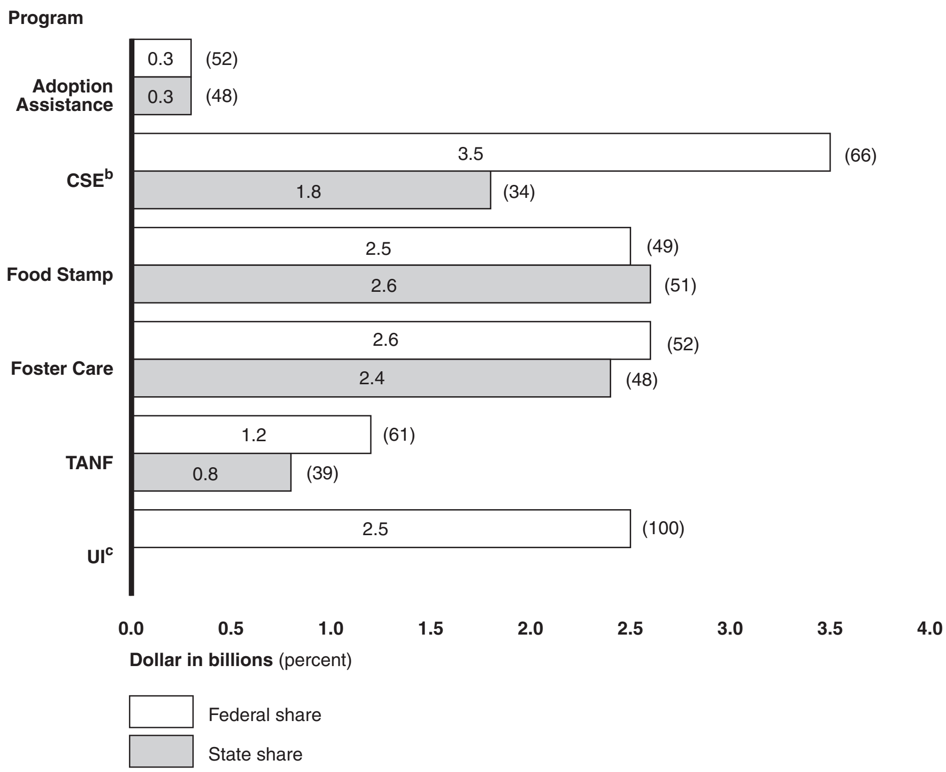
$21 billion spent on administration in fiscal year 2004.[9] Federal spending accounted for roughly half or more of the total amount spent to administer each of the seven programs. Figure 2 shows the federal and state shares of administrative spending for each program. These shares are largely representative of the different funding requirements set in law for each program, as described earlier in the report.[10] For example, the federal government matches state administrative spending at specified rates in four of the seven programs. The federal match rate set out by law for administrative spending in the CSE program is 66 percent, while the match rate for the Adoption Assistance, Food Stamp, and Foster Care programs is 50 percent.[11] (See table 4, for a description of the matching rates and other funding rules that govern state and federal spending in each program.)

[9] Data on the state and federal shares of administrative spending are not collected for the CCDF program. In fiscal year 2004, combined federal and state administrative spending for CCDF equaled $212 million. With or without including the $212 million in CCDF administrative spending, total administrative spending for the selected programs combined equaled roughly $21 billion.

[10] These funding requirements have not changed significantly since fiscal year 2000 and the state and federal shares of administrative spending have remained largely the same over time.

[11] CCDF also has matching rates that are determined by a formula set in law and that vary by state from 50 percent to 77 percent.

Figure 2: Fiscal Year 2004 State and Federal Shares of Administrative Spending[a]



Source: GAO analysis of data from HHS, DOL, and USDA.

Note: The federal matching rate and the actual share of spending that the federal government pays, in practice, may differ slightly, because of the detailed rules governing the sharing of expenses and application of the federal matching rate.

[a]State and federal shares of administrative spending for the CCDF program are not available.

[b]The $3.5 billion in federal spending does not include amounts that the federal government paid to states in incentive payments. In addition, as reported in GAO–06-491, net federal expenditures—those that are reduced by child support collections distributed to TANF and Foster Care programs and fees charged for certain services—for fiscal year 2004 were about $2.8 billion. In this report, we did not deduct these collections from the reported spending amounts.

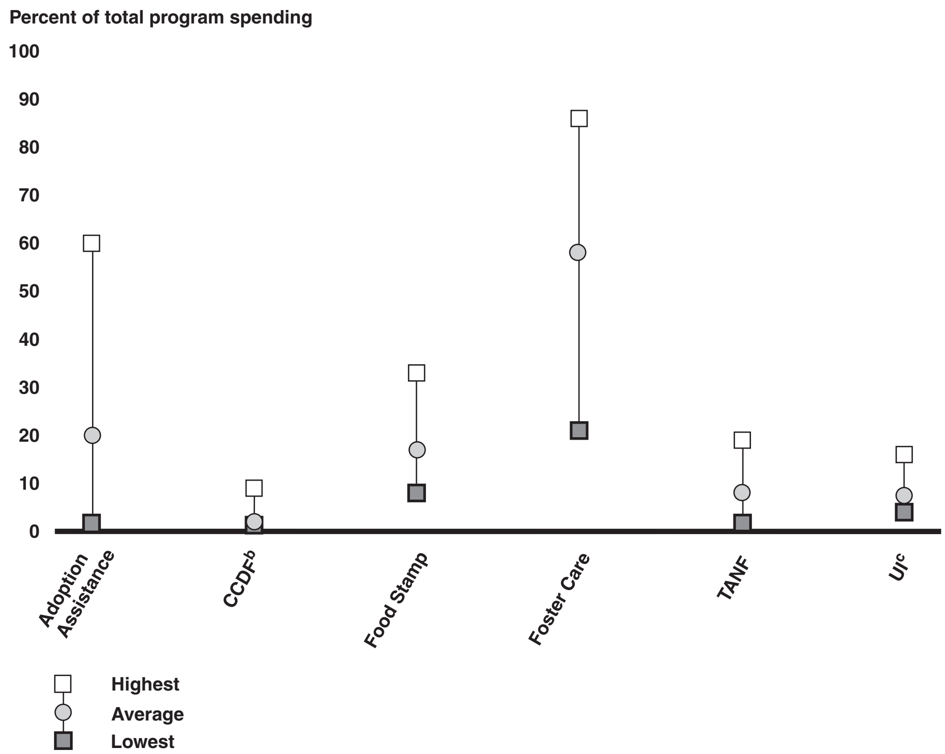
[c]In the UI program, federal law gives responsibility for administrative funding to the federal government; however, some states supplement federal funding with state funds. We did not include the state share in our analysis because historical data on state spending were not available for all of the years included in our review. The state share accounted for about $260 million in administrative spending in 2004, amounting to 9 percent of UI administrative spending.

As with spending across programs, in fiscal year 2004, the combined federal and state amount spent on administration also varied greatly by state within programs, as shown in figure 3. In some programs, this variation is considerable. For example, in the Foster Care program, the percentage of total program spending on administration in fiscal year 2004 ranged from 21 percent to 86 percent. Such variation may suggest some opportunities for improved administrative efficiencies in some states; however, other factors also may account for the wide ranges in the percent spent on administration. Specifically, in the Foster Care and Adoption Assistance programs, our prior work cited differences in states' claiming practices as well as differences in oversight among HHS regional offices that may contribute to differences in state administrative spending.[12] In addition, federal officials we interviewed said that, given high fixed costs, a small state might expend a higher percentage of its total program budget on administration than a larger state that serves more people with the same fixed costs. Our recent work on administrative costs in CSE suggests that states' structures for administering their support programs may also contribute to the cost of running the programs.[13] Specifically, we reported that from fiscal year 2000 to fiscal year 2004, the median net federal expenditure for CSE agencies with state-operated programs decreased about 4 percent while the median net federal expenditure for county-operated programs increased about 11 percent. A few officials we interviewed said that states with county-administered programs required more administrative spending due to the duplication of effort at the county and state levels. However, in Ohio—a state with a county-administered structure—officials reported that while the county-administered system may contribute to some inefficiencies, moving to a state-administered system would require the state to equalize pay scales and building costs around the state, which would likely increase administrative spending.

[12] See GAO, *Foster Care and Adoption Assistance: Federal Oversight Needed to Safeguard Funds and Ensure Consistent Support for States' Administrative Costs*, GAO-06-649 (Washington, D.C.: June 15, 2006).

[13] See GAO, *Child Support Enforcement: More Focus on Labor Costs and Administrative Cost Audits Could Help Reduce Federal Expenditures*, GAO-06-491 (Washington, D.C.: July 6, 2006).

Figure 3: Distribution of Combined Federal and State Administrative Spending by States for Fiscal Year 2004 (as a Percentage of Total Program Spending)[a]



Source: GAO analysis of data from HHS, DOL, and USDA.

[a]All CSE spending is considered administrative; therefore, there is no range across the states of percent of total spending on administration.

[b]Our calculation for percent of total spending on CCDF administrative costs includes maintenance of effort spending and expenditures from all open appropriation years in FY 2004. The cap on CCDF administrative spending excludes maintenance of effort spending and applies to a single fiscal year's appropriation, the funds from which need not necessarily be spent in the year of the appropriation. Thus, the percentages shown above do not necessarily indicate that some states are spending above the legal cap.

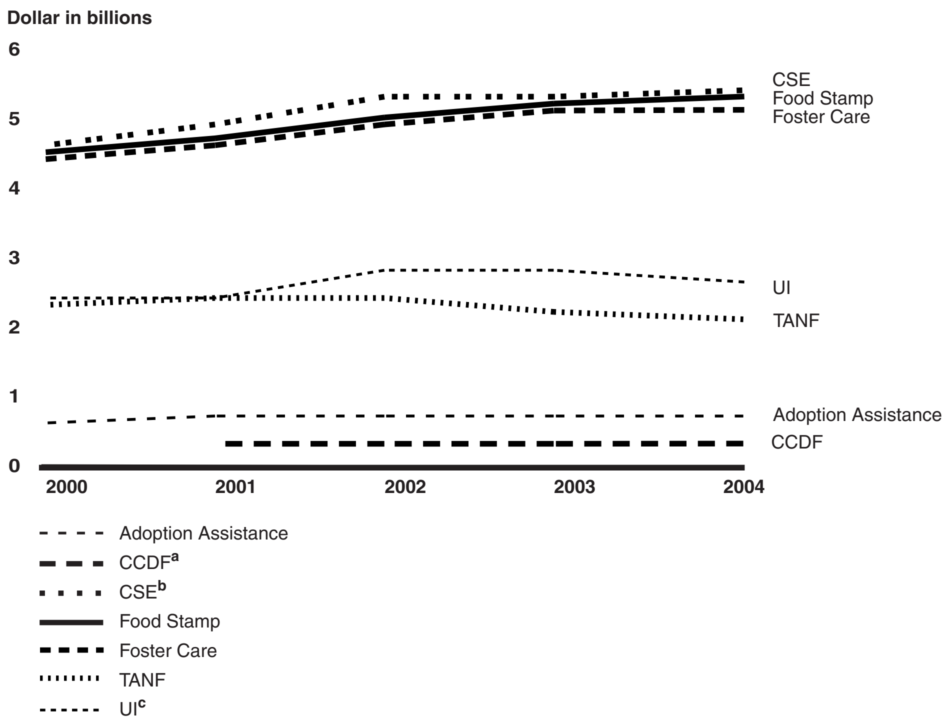
[c]For the UI program, the figure only includes federal administrative spending and does not include additional state spending.

In Recent Years, Administrative Spending Has Risen in Most of the Selected Programs, but at a Lower Rate Than Total Program Spending

From fiscal years 2000 to 2004, administrative spending increased in most of the seven programs covered in this review, but at a lower rate than total program spending. As shown in figure 4, from fiscal years 2000 to 2004, combined federal and state administrative spending rose in five of the seven programs: Adoption Assistance, CSE, Food Stamp, Foster Care, and UI. In the remaining two programs, CCDF and TANF, administrative spending declined. CCDF administrative spending hovered just above

$200 million,[14] declining slightly, while TANF administrative spending declined by $300 million over the 5 years.[15]

Figure 4: Combined Federal and State Administrative Spending, Fiscal Years 2000 to 2004 (Nominal Dollars)



Source: GAO analysis of data from HHS, DOL, and USDA.

[a]CCDF administrative spending data are not available prior to 2001.

[b]The CSE program reported total federal and state administrative expenditures as $5.3 billion for fiscal year 2004. However, total spending on the program is offset by child support collections for families who received benefits from the TANF and Foster Care programs, resulting in net program expenditures of $3.2 billion.

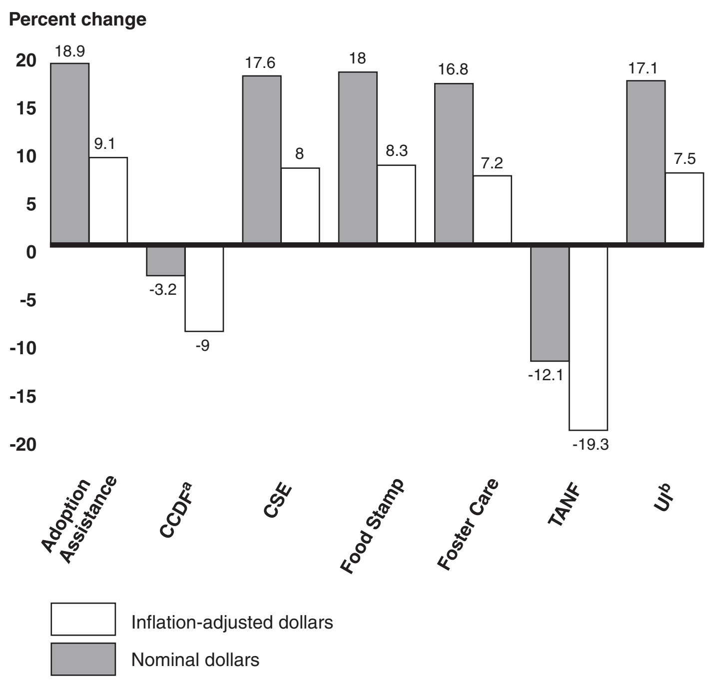
[c]UI administrative spending data only include the federal share. State shares are only available from 2002 through 2004.

[14] Administrative spending data for CCDF are not available prior to 2001; thus, changes in administrative spending in CCDF are based on fiscal years 2001 through 2004 data.

[15] Nominal dollar spending amounts and percentages are used in the text of the report, unless otherwise noted.

In each of the five programs in which administrative spending rose, it increased by between about 17 and 19 percent over the 5 years. Administrative spending declined by 3 percent in CCDF and by 12 percent in TANF. Figure 5 shows the percent change in administrative spending during this time period for each of the seven programs. Over the same period, the rate of price inflation was 9 percent.[16] Therefore, as illustrated in the figure, in the five programs in which administrative spending increased between fiscal years 2000 and 2004, the increase was much smaller when adjusted for inflation, shrinking to an increase of less than 10 percent in each program.

Figure 5: Percent Change in Combined Federal and State Administrative Spending, Fiscal Years 2000 to 2004



Source: GAO analysis of data from HHS, DOL, and USDA.

[a]Administrative spending data for CCDF are not available prior to 2001; thus, changes in administrative spending in CCDF are based on 2001 through 2004 data.

[b]The UI administrative spending data only include the federal share because state spending was only available for 2002 through 2004. When including the state share, the nominal percent change in combined federal and state administrative spending for 2002 to 2004 was -4 percent.

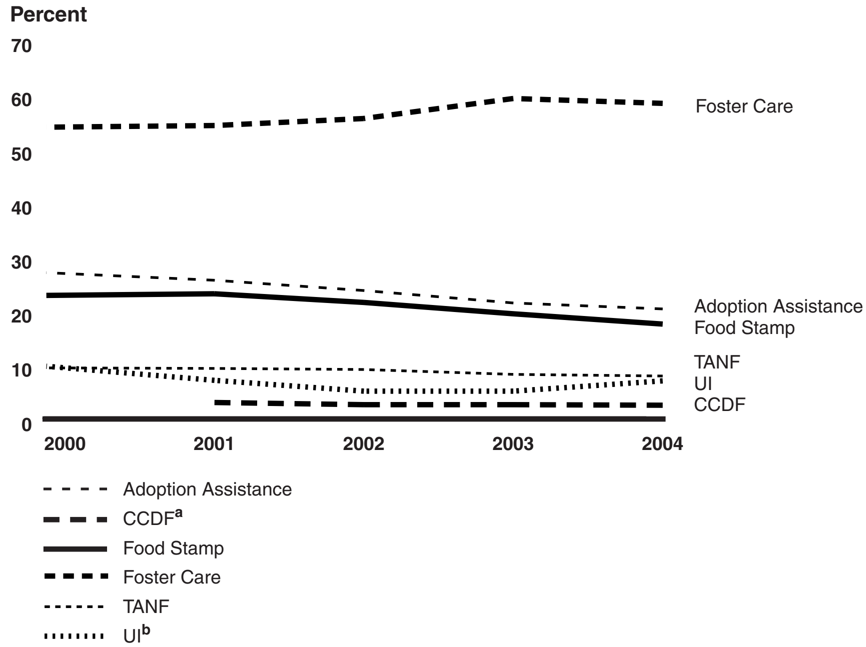
[16] We used the Gross Domestic Product (GDP) price index to calculate inflation-adjusted dollars.

In the five states we visited, officials reported that staff salaries and benefits were among the largest costs associated with running their programs. According to DOL's wage index, average salaries and benefits for state and local government workers increased by 16 percent between 2000 and 2004.[17] The percent change in administrative spending for the majority of the programs in this review was slightly higher than this average, ranging between about 17 percent and 19 percent, as previously stated. In two of the programs, CCDF and TANF, the percent change fell below this average. While administrative spending may include several other types of spending beyond staff salaries and benefits, such as overhead and IT, rising salaries and benefits may explain some of the increase in spending among the programs in this review.

Although administrative spending increased between fiscal years 2000 and 2004 in the Adoption Assistance, Food Stamp, and UI programs, it increased at a lower rate than total program spending. As a result, in these three programs, as well as CCDF and TANF, administrative spending declined compared to total program spending between fiscal years 2000 and 2004, as shown in figure 6, indicating that the amount spent on direct benefits and services was rising faster than the amount spent on administering these benefits and services. Administrative spending increased compared to total program spending in one program, Foster Care.

[17] Data from the DOL's Bureau of Labor Statistics Employment Cost Index.

Figure 6: Federal and State Administrative Spending as a Percentage of Total Program Spending, Fiscal Years 2000 to 2004



Source: GAO analysis of data from HHS, DOL, and USDA.

Note: All CSE spending is considered administrative; therefore, there are no changes over time in the percentage of administrative spending.

[a]Administrative spending data for CCDF are not available prior to 2001.

[b]UI administrative spending data only include the federal share. State shares are only available from 2002 through 2004. In addition, UI data are only estimates because the administrative spending data were available by fiscal year, while the benefit data were available by calendar year.

In the Five States We Visited, Many Program Officials Told Us That They Spend a Large Portion of Their Administrative Dollars on Staff Costs and Technology

Officials in the five states we visited reported that staff and IT account for substantial portions of the spending related to operating their programs. In all five states we visited, officials reported that spending on staff, including salaries and benefits, was among the largest costs associated with running their programs, in part because certain program rules are complicated, requiring a considerable amount of staff time. To the extent that these costs are included in programs' definitions of administrative costs, this will affect the programs' reported administrative spending. As we have reported in our prior work,[18] eligibility determination activities make up a

[18] *Means-Tested Programs: Determining Financial Eligibility is Cumbersome and Can Be Simplified*, GA0-02-58 (Washington, D.C.: Nov. 2, 2001).

substantial portion of administrative spending for some programs. Policy experts and researchers have found that the complexity and variations in eligibility rules have increased substantially the staff resources needed to determine eligibility and benefit levels and thereby increased the costs of administering programs. Some of the officials in the states we visited said that multiple or outdated IT systems also require a great deal of staff time. For example, front-line staff and officials we interviewed reported that in order to determine eligibility, staff must manually work outside the computer systems to work around problems in the systems. In addition, county officials we interviewed in one state said that the same client information must be entered into three separate systems.

While outdated IT systems increase the staff resources needed at the local level, officials in four of the five states we visited reported that developing and maintaining IT systems also require a significant amount of administrative dollars. For example, in California, county officials we interviewed reported that two new case management systems have been expensive to develop and implement. They said that initial system problems and training for staff to learn the new systems added to the costs. However, officials in a few states said they believed that their new systems will eventually reduce administrative effort and they expected administrative costs to decrease as a result.

The Federal Government May Help Balance Administrative Cost Savings with Program Effectiveness and Integrity by Simplifying Policies and Facilitating Technology Enhancements

The federal government, including both Congress and the executive agencies, may help balance long-term administrative cost savings with program effectiveness and integrity by simplifying policies and facilitating technology improvements. Simplifying policies—especially those related to eligibility determination processes and federal funding structures—could save resources, improve productivity, and help staff focus more time on performing essential program activities, such as providing quality services and accurate benefits to recipients. In addition, by helping states facilitate technology enhancements across programs, the federal government can help streamline processes and potentially reduce long-term costs. Together, simplified policies and improved technology could streamline administrative processes and potentially reduce administrative costs. We acknowledge that all levels of government have attempted to streamline processes across human service programs for the past 20 years. However, many of these efforts have had limited success due, in part, to the considerable challenges that streamlining program processes entail, such as the challenge of achieving consensus among the numerous congressional committees and federal agencies involved in shaping human service program policies, and a lack of information on how program changes would affect particular populations. We believe one challenge in particular—the lack of information on the effect streamlining efforts might have on program and administrative costs—is thwarting progress in this area.

Simplifying Federal Policies May Save Administrative Costs by Reducing Cumbersome and Duplicative Work

Our current and previous reviews indicate that simplifying policies—especially those related to eligibility determination processes and federal funding structures—could potentially save resources, improve productivity, and help staff focus more time on performing essential program activities, such as providing quality services and accurate benefits to recipients. Simplifying policies is particularly important for those programs that are administered jointly at the local level. In many localities, single offices administer TANF, food stamp benefits, CCDF, Medicaid, and SCHIP, and make referrals to or have some interaction with CSE, Adoption Assistance, Foster Care, UI, LIHEAP, and housing programs. Even though the programs are administered jointly, each has its own funding structure and eligibility rules, which can be cumbersome and require duplicative effort from staff. For example, when a family applies for TANF and food stamp benefits, the caseworker applies different rules and tests to determine who is eligible for benefits from either or both programs. This determination can be complicated as most programs have different definitions of who is a part of an eligible unit. In the Food Stamp Program, an eligible unit, or household, generally consists of all the persons who purchase food and prepare meals together. In TANF, the eligible unit (which states define in accordance with certain federal requirements) often includes only dependent children, their siblings, and the parents or other caretaker relatives. Consequently, a family member may be eligible for benefits in one program and ineligible for benefits in another program. To ensure that time is divided among and allocated to the correct programs, most of the local staff we spoke with track the amount of time they spend working on different programs and report this information to financial managers. Local financial managers then determine what portion of staff's time is defined as administrative costs in each of the programs and charge the programs appropriately. Our current and previous reviews show that these involved procedures stem, in part, from programs having different target populations, different federal funding silos, and different statutory and regulatory requirements. Excessive time spent working through complex procedures can consume resources and diminish staff's ability to focus on other activities that preserve program effectiveness and integrity. Many of the state and local officials we visited emphasized that one of the best ways to balance cost savings with program integrity and effectiveness is to simplify program eligibility determination processes and funding structures across programs:

Simplify Eligibility Determination Processes: According to state and local officials, the complexity and variation in financial eligibility rules have contributed to the time-consuming and duplicative administrative processes. The administrative processes can be particularly time consuming when caseworkers determine eligibility for more than one program at a time, a common practice when applicants may be eligible for multiple programs. The issues raised during our site visits echo what we reported to Congress in 2001.[19] In that report, we identified federal statutes and regulations as a source of some of this variation, although states do have considerable flexibility, especially in programs such as TANF, in setting eligibility rules. Some states have taken advantage of recent changes and additional flexibility granted by the federal government to simplify eligibility determination processes across programs. For example, states may automatically extend eligibility to food stamp applicants based on their participation in the TANF cash assistance program—a provision referred to as "categorical eligibility." Another way states have simplified eligibility processes is by aligning program rules. For example, officials in Maryland told us that they took advantage of the flexibility offered by the Farm Security and Rural Investment Act of 2002 (the "Farm Bill") and matched the Food Stamp Program rules for counting income and assets to TANF and Medicaid rules. This allows them, for example, to determine the value of a car the same way across programs. Maryland officials believe that this change has helped them to provide benefits and services more quickly and accurately. While some states have taken advantage of such flexibility, others have not. In a 2004 report on state implementation of the Farm Bill's options, we concluded that although federal law and program rules allowed states to align food stamp reporting rules with those of other assistance programs, state officials in most states had not made the broad changes that would result in greater consistency among programs.[20] State decisions to increase program alignment may have been hindered by concerns regarding the cost of programming changes into state computers and the concern that benefit costs may increase. On the other hand, savings could result from reducing the administrative burden on

[19] GAO-02-58.

[20] GAO, *Food Stamp Program: Farm Bill Options Ease Administrative Burden, but Opportunities Exist to Streamline Participant Reporting Rules among Programs*, GAO-04-916 (Washington, D.C.: Sept. 16, 2004).

caseworkers. Ultimately, it is not clear whether costs would rise or savings would be realized.

Simplify Funding Structures: Because the programs are financially supported through different federal funding streams and mechanisms, state officials argue that serving the needs of families comprehensively and efficiently is difficult. Similar to the variation in eligibility rules, program administrators face an array of different funding sources associated with different federal programs, each with its own financial reporting requirements, time frames, and other rules. Often, to meet individuals or families' needs, states fund a range of services drawn from multiple programs and funding sources. For example, to provide child care subsidies, some states use funding from both TANF and CCDF to assist families, but very different rules apply to reporting requirements and funding restrictions, complicating program administration. Many believe that being able to draw funds from more than one federal assistance program, simplifying the administrative requirements for managing those funds, consolidating small grants, or standardizing administrative spending caps across programs would ease states' administrative workload and reduce administrative spending. To experiment with simplifying funding structures, Ohio's child welfare department officials told us they received a waiver in 1997 to implement a flexible-funding demonstration project. Participating counties received a monthly allotment to fund any child services free of any eligibility and allocation restrictions. According to Ohio state officials, during the first 6 years of the demonstration, 11 of the 14 counties operated below the average costs, resulting in a total savings of $33 million.

The need for simplifying program policies, including both those related to simplifying eligibility determination processes and funding structures, has been voiced recurrently for the past several decades. Stretching as far back as the 1960s, studies and reports have called for changes to human service programs, and we issued several reports during the 1980s that focused on welfare simplification. In the early 1990s, a national commission as well as a congressionally created advisory commission suggested ways to simplify policies and procedures, including steps such as developing a common framework for streamlining eligibility requirements, formulating standard definitions, and easing administrative and documentation requirements. To address these issues, Congress has acted in the past to simplify the federal grant system. For example, the Omnibus Budget Reconciliation Act of 1981 consolidated a number of human service programs into several block grants that allowed for greater state and local autonomy and flexibility in designing strategies to address federal objectives.[21] More recently, in 1996 Congress replaced the previous welfare program with the TANF block grant and consolidated several child care programs into one program, providing states with additional flexibility to design and operate programs.[22] In addition, numerous pilot and demonstration projects have given particular states and localities flexibility to test approaches to integrating and coordinating services across a range of human service programs. While the need for simplification of program policies has been widely acknowledged, there has also been a general recognition that achieving substantial improvements in this area is exceptionally difficult. For example, implementing systematic changes to the federal rules for human service programs can be challenging because of differences among federal program goals and purposes and because jurisdiction for these programs is spread among numerous congressional committees and federal agencies.

An additional challenge to systematic policy simplification efforts is the lack of information on the costs and effects of these efforts. Lack of information on the potential cost to the federal government of streamlining policies has been a limiting factor in moving forward in this area. In our 2001 report, we concluded that determining eligibility across human service programs is cumbersome and can be simplified; however, we said that additional information is needed about the effects these simplification efforts would have on both program and administrative costs. Similarly, a Congressional Research Service review of pilot and demonstration projects on service integration strategies—one way to simplify policies—found that there was little information on the cost-effectiveness of these strategies.[23] Information is also lacking on the potential effects that streamlining policies would have on various populations. Streamlining policies could expand client access and increase caseloads, but it could also limit access for particular populations, depending on which policies were adopted. In addition, no definitive

[21] For more information, see GAO, *Block Grants: Characteristics, Experience, and Lessons Learned*, GAO/HEHS-95-74 (Washington, D.C.: Feb. 9, 1995).

[22] For more information, see GAO, *Welfare Reform: States Are Restructuring Programs to Reduce Welfare Dependence*, GAO/HEHS-98-109 (Washington, D.C.: June 17, 1998) and GAO, *Welfare Reform: With TANF Flexibility, States Vary in How They Implement Work Requirements and Time Limits*, GAO-02-770 (Washington, D.C.: July 5, 2002).

[23] Cheryl Vincent, *The "Superwaiver" Proposal and Service Integration: A History of Federal Initiatives* (Washington, D.C.: Congressional Research Service, April 13, 2005).

information exists to demonstrate the type and extent of changes that might result in reduced administrative costs or to demonstrate how strategies might work differently in different communities. To help address this issue, we asked Congress in our 2001 report to consider authorizing state and local demonstration projects designed to simplify policies. Recent legislative proposals in both the House and the Senate have sought to increase states' abilities to waive federal program rules to address program simplification issues, although some provisions have been criticized by policy makers and others for allowing states too much latitude to set aside federal rules considered important to protecting program integrity and services to people in need. One legislative proposal, included as part of broader welfare legislation, passed in the House but has not been enacted into law.

Facilitating Technology Enhancements across Programs May Save Administrative Costs by Creating More Efficient Processes

Our previous and current work indicates that the federal government can help streamline processes and potentially reduce long-term costs by facilitating technology enhancements across programs. Technology plays a central role in the management of human service programs and keeping up with technological advancements offers opportunities for improving the administration of human services. Recognizing the importance of automated systems in state-administered federal human service programs, for more than 2 decades, Congress has provided varying levels of federal funding to encourage states to implement certain systems to improve the efficiency of some programs. The federal agencies have also played a role in helping states implement IT systems to streamline their processes. For example, agencies responsible for child welfare, CSE, and the Food Stamp Program must review and approve states' IT planning documents before federal technology funds are passed down to states. In contrast, no specific federal regulations guide states' use of federal TANF or CCDF funds for IT systems. DOL provides some technical assistance to states under the UI program.

With congressional and federal support, states have increasingly relied on technology to streamline their program processes. Having modern systems that support multiple human service programs is important for streamlining eligibility processes and providing timely and accurate services. For example, the counties we visited in California developed a single IT system, known as CalWIN.[24] This system—like others around the

[24] The two counties we visited, San Mateo and Santa Cruz, are a part of an 18-county consortium that helped to develop CalWIN.

country—replaced several separate IT systems and automated the eligibility determination processes across multiple and complex programs, such as TANF, the Food Stamp Program, and Medicaid. According to some officials, while the new system has experienced some problems, it has already improved program integrity and is intended to reduce administrative costs. Additionally, many believe that sharing data across programs and agencies can further streamline processes. Data-sharing arrangements allow programs to share client information that they otherwise would each collect and verify separately, thus reducing duplicative effort, saving money, and improving integrity. For example, by receiving verified electronic data from SSA, state human service offices are able to determine SSI recipients' eligibility for food stamp benefits without having to separately collect and verify applicant information. According to South Carolina officials we interviewed, this arrangement saves administrative dollars and reduces duplicative effort across programs.

While most agree that IT can help streamline processes, our previous and current work shows that technology projects are difficult, and many fall short of expectations, creating additional work for staff or compromising program integrity. Although many states' computer systems for TANF, the Food Stamp Program, and Medicaid are already integrated, we found that states are often using IT systems that are outdated, error-prone, and do not effectively share information with additional human service programs. This compounds the challenges in updating technology in a human services environment that increasingly requires coordination across programs. For example, the Michigan Department of Human Services is in the process of implementing a new integrated IT system that is intended to replace the three systems that staff currently use to process eligibility for several programs. Michigan officials explained that the third system was initially intended to replace the other two systems. However, due to political and financial reasons and a lack of commitment, only the first phase of the project was implemented. As a result, the system failed to replace the other systems and created an additional step in the enrollment process. The ability to share data across programs also may be limited by laws that have been established to protect individuals' privacy. For example, while state CSE programs sometimes utilize information from other federal programs, they are often prohibited by law from sharing information about their own clients. Michigan CSE officials noted that the CSE program must protect its clients' information because it handles money from private citizens rather than providing government benefits. Another concern regarding efforts to further enhance technology is that there is limited information available on the cost-effectiveness of some of these systems. Finally, our previous collaborative work with other organizations highlighted challenges related to obtaining federal funding for information systems.[25] To the extent that state IT systems support more than one human services program, state cost allocation plans for systems development and acquisition projects must be approved by each federal agency expected to provide funding, in addition to the regular approval process.

To address concerns about IT systems funding and to identify other ways that the federal government may facilitate states' technology improvements, we recommended in April 2000 that a multiagency federal working group be created.[26] In response to this recommendation as well as state complaints about the approval process, agencies within HHS and USDA convened a working group to improve the federal approval process. This group made some progress in identifying needed changes to the federal process. However, after about a year of work, the progress stalled, due to changes in leadership at the agencies involved and a lack of consensus among the federal partners about the direction to take in improving the federal process.[27] This helps to highlight the challenges involved in identifying and reaching agreement on needed improvements to existing processes, particularly when multiple programs and agencies are involved. More information on specific barriers that states face when attempting to make technology improvements when federal funds are involved could help facilitate progress in this area.

Progress on technology improvements could be further facilitated through greater collaboration across program agencies and levels of government. At the time of our visit, officials in Ohio said that in their efforts to replace their outdated IT system for TANF and the Food Stamp Program, they would have appreciated more information about what other states were doing to implement more efficient and economical IT systems. Officials stated that while they had talked to other states about their experiences developing IT systems, more comprehensive information on best practices would save states time and money. Some agencies are successfully

[25]GAO, *Human Services Integration: Results of a GAO Cosponsored Conference on Modernizing Information Systems*, GAO-02-121 (Washington, D.C.: Jan. 31, 2002).

[26] GAO, *Welfare Reform: Improving State Automated Systems Requires Coordinated Federal Effort*, GAO/HEHS-00-48 (Washington, D.C.: Apr. 27, 2000).

[27] GAO, *Human Services: Federal Approval and Funding Processes for States' Information Systems*, GAO-02-347T (Washington, D.C.: July 9, 2002).

collaborating and sharing best practices. For example, counties that we visited in California successfully shared technology information that helped to save resources. Officials in San Mateo County, California, reported that by automating the case management process for the Medicaid and Food Stamp programs through call centers, they avoided spending additional dollars on personnel costs associated with rising case levels. According to county officials, this strategy has helped them reduce staff's workload, avoid increased administrative costs, and increase integrity across programs. Officials in nearby Santa Cruz County reported that they adopted this strategy after learning of its effectiveness in San Mateo County. Michigan UI officials reported that DOL has a strong partnership with state UI agencies. DOL sponsors a central online forum for sharing technology information. Michigan UI officials noted that this effort provides a forum for exchanging ideas and learning from the mistakes of others. DOL's initiative has helped states develop call centers and developed sample computer programming code for Internet claims systems, which it shared with states. Further sharing of technology strategies like these across programs, states, and agencies potentially could yield more cost savings elsewhere.

Conclusion

To use taxpayer dollars responsibly, federal programs must be administered in a cost-efficient manner. Administrative costs are an important component of the total cost of providing supports to vulnerable people. This report shows slow but steady increases in administrative spending among many of the human service programs included in this review, although administrative spending increased at a lower rate than total program spending. Spending data cannot be compared across programs due to programmatic differences, and little information is available regarding what level of administrative spending for human service programs is appropriate. Even so, there are opportunities available to the federal government to assist state and local governments in better identifying and implementing cost-saving initiatives that also ensure accurate and timely provision of benefits and services. However, minimal information is available on which opportunities are most effective and what any actual cost savings might be.

The costs associated with running human service programs have been a long-standing concern for policy makers interested in maximizing the dollars that go directly to helping vulnerable people. While all levels of government have made efforts to reduce the time and money required to run these programs, it is unclear the extent to which these efforts have actually reduced costs. This is especially true with efforts to streamline processes across programs by simplifying program rules and facilitating technology enhancements. Simplifying policies across programs may increase or decrease the number of eligible individuals, which in turn may affect program costs. Technology enhancements likely come with start-up costs and may initially create additional work for staff. Because of the complexities of such strategies for streamlining processes, there are no easy solutions for reducing administrative costs. However, it is appropriate to move forward to test the cost-effectiveness of various strategies. Only then can more systematic approaches be taken to maximize the dollars that are spent to run human service programs.

Our previous work recommended that Congress consider authorizing state and local demonstration projects designed to simplify and coordinate eligibility determination. Maintaining the status quo of stovepiped program rules and policies related to eligibility determination and other processes will continue to result in program rules that are complex and vary across programs and processes that are duplicative and cumbersome to administer. Providing states with demonstration opportunities would allow them to challenge the current stovepipes and open the door to new cost-efficient approaches for administering human service programs. Demonstration projects would allow for testing and evaluating new approaches that aim to balance cost savings with program effectiveness and integrity. The information from these evaluations would help the federal government determine which strategies are most effective without investing the time and resources in unproven strategies. Congress can allow for such approaches to thrive by not only giving states opportunities to test these approaches but by following up to identify and implement successful strategies. While it may be difficult to fully determine the extent to which observed changes are the result of the demonstration projects, such projects would be useful to identify lessons learned. Members of Congress have identified the usefulness of demonstration projects, and both the House and Senate have considered proposals to authorize such demonstration projects, although legislation has not been enacted. Therefore, continued efforts are needed to move forward.

Matter for Congressional Consideration

As suggested in our prior work (GAO-02-58), we continue to believe that Congress should consider authorizing state and local demonstration projects designed to streamline and coordinate eligibility determination and other processes for federal human service programs. Such projects would provide states and localities with opportunities to test the cost-effectiveness of changes designed to simplify or align program rules, expand data sharing across agencies, or enhance information technology systems to facilitate eligibility determinations and other processes.

Once authorized, states and localities or both could submit proposals for demonstration projects and relevant federal agencies working in a coordinated manner could review them, suggest modifications as needed, and make final approval decisions. Federal agencies should consider certain criteria for the demonstration projects, including oversight and internal controls to help ensure that effectiveness and integrity are preserved and vulnerable populations are protected. Demonstration projects would include waivers of federal statutes and regulations as needed and deemed appropriate. While our review covered seven federal support programs, we are not suggesting that the demonstration projects must include all of these programs or exclude others. States should be given the opportunity to try various approaches aimed at streamlining processes that consider all feasible programs.

Projects must be given sufficient time to be fully implemented and must include an evaluation component. Cost neutrality of both administrative and program costs would be most desirable for federal approval of these projects. However, projects should not be rejected solely because they are unable to guarantee cost neutrality over the short run. It would be expected that, over a period of time, state and federal efforts to streamline processes would create administrative cost savings that could help offset any increased program costs. Evaluations of the projects should include an analysis of whether administrative cost savings were indeed achieved in the long-run, which specific laws or regulations were waived to facilitate the project, and whether the effectiveness and integrity of program services were maintained. To enhance the information from each of the projects, Congress should consider authorizing a capping report that would compile information from each the individual demonstration projects and identify lessons learned.

Agency Comments

We shared a draft of this report with HHS, USDA, and DOL for comment. HHS agreed with the report's emphasis on the need for cost-effective administration of federal programs and noted that HHS has taken steps to increase cost-effectiveness in a number of the programs it oversees. HHS also provided a number of specific examples of Child Care Bureau efforts. HHS's written comments appear in appendix III.

In their comments, officials from the USDA Food and Nutrition Service suggested that, in order to acknowledge the complexity of the Food Stamp Program, we add more detailed information to the report on several topics, including: differences in administrative cost definitions, how programmatic requirements may affect costs, state by state cost comparisons, program level impact analyses on past proposed changes to eligibility rules, and strategies for facilitating technology. We added more information where appropriate, although our focus in this report remains on a national perspective across programs rather than in-depth, program specific or state-level analyses. In addition, the officials questioned the use of the GDP to adjust for inflation and stated that staff salaries and benefits constitute a large proportion of total costs. As we state in the report, we used nominal dollars to discuss historical administrative spending. In addition to nominal dollars, we used GDP to discuss the percent change in spending over time. Recognizing that staff salaries and benefits make up a large portion of spending, we also used DOL's Employment Cost Index to discuss how average salaries and benefits for state and local government workers changed over time.

DOL, as well as HHS, provided technical comments, which we incorporated in the report where appropriate. None of the agencies commented directly on the matter for congressional consideration.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of the report until 30 days after its issue date. At that time, we will send copies of this report to the Secretaries of the Departments of Agriculture, Health and Human Services, and Labor; relevant congressional committees; and others who are interested. Copies will be made available to others upon request, and this report will also be available on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me on (202) 512-7215. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Additional GAO contacts and acknowledgments are listed in appendix IV.

Sincerely,

Cynthia M. Fagnoni

Cynthia M. Fagnoni
Managing Director, Education, Workforce, and Income Security Issues

Appendix I: Objectives, Scope, and Methodology

We designed our study to provide information on (1) how administrative costs are defined in selected programs and what rules govern federal and state participation in funding these costs; (2) what is known about the amounts of federal and state administrative spending for selected programs and how they have changed over time; and (3) what opportunities exist at the federal level to help states balance cost savings with program effectiveness and integrity. To obtain information on these issues, we compiled expenditure data for each of the programs covered in this review, conducted state and local site visits, interviewed federal program officials, and reviewed relevant laws, regulations, and reports. We focused our study on seven key programs: Adoption Assistance, Child Care & Development Fund (CCDF), Child Support Enforcement (CSE), the Food Stamp Program, Foster Care, Temporary Assistance for Needy Families (TANF), and Unemployment Insurance (UI).

We issued two related reports in June and July 2006 that focused on the administrative costs of the Adoption Assistance and Foster Care programs (GAO-06-649, *Foster Care and Adoption Assistance: Federal Oversight Needed to Safeguard Funds and Ensure Consistent Support for States' Administrative Costs*, June 2006) and the Child Support Enforcement program (GAO-06-491, *Child Support Enforcement: More Focus on Labor Costs and Administrative Cost Audits Could Help Reduce Federal Expenditures*, July 2006). We coordinated our data collection efforts for all three reports, so some of the information on the CSE, Adoption Assistance, and Foster Care programs in this report is drawn from work conducted for the earlier reports. For example, for this report, we supplemented our data collection efforts with spending data collected for the other two reports as well as information collected from interviews conducted for the other reports. We also coordinated efforts to assess the reliability of the administrative spending data used in the three reports.

We conducted our work between July 2005 and August 2006 in accordance with generally accepted government auditing standards.

Analyses of Program Spending Data

We obtained spending data for each of the seven programs from the departments of Agriculture, Health and Human Services, and Labor. We analyzed administrative spending data for each program, as defined for financial reporting purposes by program laws and regulations, for fiscal years 2000-2004, including federal and state shares of spending. Fiscal year 2004 data were the most current data available at the time of our review. We also analyzed 2004 state spending data to learn about the variations in spending across states. We assessed the reliability of the administrative spending data by interviewing (1) agency officials knowledgeable about the data and (2) state officials in the five states we visited knowledgeable about the data as reported to the federal government. We also reviewed state single audit reports and talked to state auditors in the five states we visited to identify any known problems with the administrative spending data or the systems that store the data. Our reviews and discussions did not identify significant problems with the data. We determined that these data were sufficiently reliable for the purposes of this report.

Visits to State Agencies and County Offices

We visited state agencies and county offices in five states—California, Maryland, Michigan, Ohio, and South Carolina. The counties we visited were: San Mateo and Santa Cruz Counties in California, Wicomico County in Maryland, Wayne County in Michigan, Butler and Licking Counties in Ohio, and Newberry County in South Carolina. We selected the states to provide a range of total program spending and share of spending on administration, as well as a mixture of state and county administrative structures, urban and rural demographics, and geography. Although our selection includes a range of states, our findings are not generalizable beyond the states included in our study. In each of the five states, we visited at least one county office to talk to county program officials and local staff. We developed a questionnaire to capture the types of administrative activities that occur in each program at the state and local levels. We asked the state and local program officials we visited to fill out the questionnaire, and we analyzed the results to learn how administrative activities compared across the programs. We interviewed state and local program officials and staff about administrative activities, costs, options for reducing costs while preserving services and challenges to and consequences of these options. During the interviews, we also inquired about any interactions between our key programs and other programs that support vulnerable people, including Medicaid, the State Children's Health Insurance programs (SCHIP), the Low-Income Home Energy Assistance Program (LIHEAP), and housing programs.

Interviews of Federal Officials, State Auditors, and Experts

We interviewed federal program officials at the departments of Agriculture, Health and Human Services, and Labor and the Office of Management and Budget about administrative costs, options for reducing costs while preserving services and challenges to and consequences of these options. In addition, we conducted phone interviews with state audit officials from the five states about any similar work they have conducted. We also discussed our objectives with representatives from the American Public Human Services Association, Center for Law and Social Policy, and

National Governors Association. These discussions covered each of the objectives and the participants shared their views and insights.

Reviews of Laws, Regulations, and Reports

We reviewed laws and regulations on definitions of administrative costs and federal/state participation in funding these costs for the selected programs. We also reviewed relevant circulars issued by the Office of Management and Budget. We obtained and reviewed A-133 state single audit reports for the states we visited. In addition, we reviewed documents and reports prepared by the Center for Law and Social Policy, Congressional Research Service, and other research organizations as well as several prior GAO reports.

Appendix II: Administrative Cost Activities Recognized by Program Statutes and Regulations

	Adoption Assistance and Foster Care	CCDF
Eligibility determination/enrollment	• Determination and re-determination of eligibility • Fair hearings and appeals	
Benefit issuance		
Quality control		• Audit services as required by regulation • Coordinating the resolution of audit and monitoring findings • Maintaining substantiated complaint files in accordance with regulatory requirements • Monitoring program activities for compliance with program requirements
Program management and planning	• Providing short-term training to current or prospective foster or adoptive parents and the members of the state licensed or approved child care institutions providing care to children foster care or adoption assistance • Rate setting • Training personnel employed or preparing for employment by the state or local agency administering the plan	• Coordinating the provision of Child Care and Development Fund services with other federal, state, and local child care, early childhood development programs, and before-and after-school care programs • Developing agreements with administering agencies in order to carry out program activities • Evaluating program results • Planning, developing, and designing the Child Care and Development Fund program • Preparing the application and plan
Outreach	• Recruitment and licensing of foster homes and institutions	• Providing local officials and the public with information about the program, including the conduct of public hearings
Case management	• Case management and supervision • Case reviews • Development of the case plan • Placement of the child • Preparation for and participation in judicial determinations • Referral to services	

Food Stamps	TANF	UI[a]
• Costs of certifying applicant households • Fair hearings	• Activities related to eligibility determinations	
• Acceptance, storage, protection, control, and accounting of coupons • Issuance of coupons to all eligible households		
• Audit services • Program investigations and prosecutions	• Fraud and abuse units	
• Advisory Councils • Management studies[b] • Proposal costs[b] • Training and education	• Monitoring programs and projects • Preparation of program plans, budgets, and schedules	
• Advertising (for limited purposes) • Exhibits • Food stamp informational activities, but not including recruitment activities	• Public relations	

	Adoption Assistance and Foster Care	CCDF
IT Systems	• All expenditures of a state to plan, design, develop, install and operate the statewide automated child welfare information system (without regard to whether the system may be used with respect to foster or adoptive children other than those on behalf of whom foster care maintenance or adoption assistance payments may be made) • Costs related to data collection	
Reporting	• Costs related to reporting	• Preparing reports and other documents related to the program for submission to the Secretary of Health and Human Services
Overhead	• A proportionate share of related agency overhead	• Administrative services, including such services as accounting services, performed by grantees or subgrantees or under agreements with third parties • Indirect costs as determined by an indirect cost agreement or cost allocation plan pursuant to regulation • Managing or supervising persons with certain administrative and implementation responsibilities • Other costs for goods and services required for the administration of the program, including rental or purchase of equipment, utilities, and office supplies • Salaries and related staff costs • Travel costs incurred for official business in carrying out the program

Source: GAO analysis of applicable program statutes and regulations.

Food Stamps	TANF	UI
• Automated data processing and information retrieval systems[b] • Implementing and operating the immigration status verification system	• Management information systems not related to the tracking and monitoring of TANF requirements (e.g., for a personnel and payroll system for state staff)	• All of the reasonable expenditures attributable to the costs of the implementation and operation of the immigration status verification system
	• Preparing reports and other documents	
• Accounting • Bonding • Budgeting • Building lease management • Building space and related facilities[b] • Capital expenditures[b] • Central stores • Communications • Costs incurred by agencies other than the State[b] • Depreciation and use allowance • Disbursing service • Employee fringe benefits • Employee morale, health, and welfare costs • Insurance[b] • Legal expenses • Maintenance and repair • Materials and supplies • Memberships, subscriptions, and professional activities • Motor pools • Payroll preparation • Personnel administration • Preagreement costs[b] • Printing and reproduction • Procurement service • Professional services[b] • Salaries • Taxes • Transportation • Travel	• Costs for general administration and coordination of programs, including contract costs and all indirect or overhead costs • Costs for the goods and services required for administration of the program such as the costs for supplies, equipment, travel, postage, utilities, and rental of office space and maintenance of office space, provided that such costs are not excluded as a direct administrative cost for providing program services • Procurement activities • Salaries and benefits of staff performing administrative and coordination functions (but not salaries and benefits for program staff) • Services related to accounting, litigation, audits, management of property, payroll, and personnel • Travel costs incurred for official business and not excluded as a direct administrative cost for providing program services	• The cost of mailing unemployment compensation statements, even if information about the earned income credit is mailed along with it (except that a portion of the mailing costs may be counted as a non-administrative cost if the inclusion of materials related to the tax credit increases the postage required to mail the information)

Note: Child Support Enforcement program statutes and regulations do not contain specific definitions of administrative costs.

[a]While the UI program legislation does identify two specific activities that are covered as administrative costs, a much broader range of activities is actually covered because each state receives "such amounts as the Secretary of Labor determines to be necessary for the proper and efficient administration of its unemployment compensation law."

[b]These costs are allowable only with approval from the USDA Food and Nutrition Service.

Appendix III: Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

AUG 22 2006

Ms. Cynthia M. Fagnoni
Managing Director
Education, Workforce, and
Income Security Issues
U.S. Government Accountability Office
Washington, DC 20548

Dear Ms. Fagnoni:

Enclosed are the Department's comments on the U.S. Government Accountability Office's (GAO) draft report entitled, "HUMAN SERVICE PROGRAMS—Demonstration Projects Could Identify Ways to Reduce Administrative Costs" (GAO-06-942), before its publication. These comments represent the tentative position of the Department and are subject to reevaluation when the final version of the report is received.

The Department provided several technical comments directly to your staff.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

Daniel R. Levinson

Daniel R. Levinson
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designed focal point and coordinator for U.S. Government Accountability Office reports. OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "HUMAN SERVICE PROGRAMS–DEMONSTRATION PROJECTS COULD IDENTIFY WAYS TO REDUCE ADMINISTRATIVE COSTS" (GAO-06-942)

The Department of Health and Human Services (HHS) appreciates the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft report.

General Comments

We strongly agree with the report's emphasis on the need for cost-effective administration of Federal programs and HHS has taken steps to increase cost-effectiveness in a number of the programs that it oversees. For example, ACF's Child Care Bureau (CCB) identifies and disseminates information about the cost-effectiveness of various administrative strategies that States, Territories, and Tribes might use when implementing the Child Care and Development Fund (CCDF). CCB has incorporated analyses looking at cost-effectiveness into many of its research and evaluation efforts, including projects looking at child care provider training approaches and at market rate surveys used to set provider payment rates. CCB's improper payments initiative is pilot-testing a method to measure errors associated with client eligibility determination, which includes an analysis of the costs involved. As part of the improper payments initiative, CCB is providing technical assistance to facilitate States' technology enhancements—another key area highlighted in the GAO report. Through a technology conference in 2005 and other means, CCB is providing opportunities for States to learn from each other about strategies and best practices, including efforts to integrate data and systems across programs.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Cynthia Fagnoni (202) 512-7215

Acknowledgments

The following staff members made major contributions to the report: Heather McCallum Hahn (Assistant Director), Cady S. Panetta (Analyst-in-Charge), David Bellis, William Colvin, Cheri Harrington, Gale Harris, Sheila McCoy, Luann Moy, and Tovah Rom.

Related GAO Products

Child Support Enforcement: More Focus on Labor Costs and Administrative Cost Audits Could Help Reduce Federal Expenditures. GAO-06-491. Washington, D.C.: July 6, 2006.

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