

# Appendix F

## Administrative Costs of Cost Containment

This appendix describes the method of estimating the administrative costs of cost-containment practices, including the data collection process, and presents the estimates for each practice covered by the study. This information is provided primarily to explain the sources and limitations of the overall cost estimates presented in chapter 2. Readers are cautioned to keep the data limitations in mind when reviewing the detailed results.

### Data Sources and Limitations

The six case study States did not collect specific data on the administrative costs associated with cost-containment practices. Federal reporting requirements do not require identification of these costs, so none of the States tracked the costs at the necessary level of detail.<sup>1</sup> Only one State, California, had studied some of these costs.

Due to the absence of data, this study relied on estimates of staff time (and other costs, where possible) collected from WIC agency officials through structured interviews. This approach depended on a combination of experience and subjective estimates, but provided the best available insight into the administrative costs of cost-containment practices.

The State and local staff members were asked to identify which of these tasks they performed, how often they did each task, and how much time they spent on each task (per event or per year). To convert time estimates into costs, data were collected on salaries, fringe benefits, and indirect costs for the staff involved in cost containment.<sup>2</sup>

If a task was not performed solely for cost containment, staff members were asked to estimate what proportion was attributable to the cost-containment practice. This estimate was based on the relative importance of cost-containment objectives or the share of resources attributable to them. For example, some local staff members were most comfortable estimating the total time spent providing training to new participants on program objectives and procedures. They then gave their best estimates of the proportion of this training devoted to restrictions on food purchases shaped by cost-containment practices (for example, requirements to purchase the least expensive brand).

With rare exceptions, the respondents could identify only labor costs. Several cost-containment practices require support from automated data processing (ADP) systems, but these ADP costs could not be broken out, either for operations or for initial implementation, because of the highly integrated nature of the ADP systems.<sup>3</sup>

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<sup>1</sup> State WIC agencies report their WIC nutritional and administrative service (NSA) costs to FNS, by function. The functional framework does not differentiate the very specific administrative costs associated with cost containment.

<sup>2</sup> Some States (e.g., Connecticut) do not charge indirect costs against their WIC NSA grants. Indirect costs are included in the administrative cost estimates for all States so that the estimates are complete and comparable.

<sup>3</sup> State staff members often noted that the most significant expenditure of ADP resources to facilitate cost containment was in the development stage of their systems, when the staff and contractors were designing and testing the on-line functions and reports.

To incorporate other costs associated with staff activities, State and local indirect cost rates were added to the hourly cost of staff time (including salaries and fringe benefits).<sup>4</sup> Respondents occasionally noted other costs that might theoretically be included (such as a share of travel costs for store visits to collect prices and other information onsite). There was no basis for estimating these costs, however, and they were generally thought to be too small to affect the estimates in a noticeable way.

The cost estimates in this chapter are presented with the recognition that they rely on subjective interpretation of experience. Individual responses may be subject to random estimation error, and respondents may have been biased toward estimating their costs high or low. The interviewers probed carefully to minimize the likelihood of error or bias. The availability of multiple estimates for each activity provides the opportunity for errors and biased responses to offset each other. Therefore, the discussion in the chapter focuses primarily on the average administrative cost for each cost-containment practice, rather than on the extremes.

Each table of administrative cost estimates includes an average cost figure for all six States or a subset of the States. In computing these averages, the State-level estimates were given equal weight, without regard to the size of the State. This approach, used both here and in the main report, is appropriate because the study is treating the experiences in the States as case studies. The averages are not meant to be generalizable to a larger population of States.

## **Costs of Using Price Data in Vendor Authorization**

As shown in table F-1, five of the six States provided data to estimate the administrative costs of using price data in vendor authorization. The estimated costs ranged from \$0.01 per participant per year (PPY) in Ohio to \$0.10 PPY in Oklahoma. Among the States with estimated costs for this practice, the average was \$0.06 PPY. Three States (California, Connecticut, and Texas) had costs within \$0.02 PPY of the average. North Carolina did not identify any costs associated with this practice, because it did not restrict vendor authorization based on price. Instead, the State included costs for its price surveys in its costs for using price data to limit vendor payments (discussed in appendix G).

The State respondents varied in their treatment of the costs of collecting and processing vendor data, because they used the data for several purposes: to check the prices of applicants and authorized vendors, to set or modify maximum food prices, and to gather information for projecting food package costs. Therefore, the responses were affected by the different approaches to using price data in vendor authorization, as follows:

- For California and Connecticut, the costs of price surveys used during authorization cycles were included in the costs of using price data for vendor authorization. The costs of price surveys between authorization cycles were included in the cost of another function, using price data to limit vendor payments.<sup>5</sup>
- For North Carolina, all costs associated with collecting and analyzing price survey forms were included in the costs of using price data to limit vendor payments.

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<sup>4</sup> Indirect cost rates typically included generic expenses such as telephone service, postage, paper, copying, office equipment, and space.

<sup>5</sup> See appendix G for further information on this vendor management function.

- For Ohio and Oklahoma, only the in-store price checks at the time of application were included, because the States relied primarily on these price checks for authorization decisions. All price survey costs were included in the costs of using price data to limit vendor payments.<sup>6</sup>
- For Texas, costs for this function included price checks by local WIC staff members during preauthorization visits and monitoring of prices based on redemption data to identify vendors subject to warnings for excessive prices. Texas did not use vendor price surveys for authorization or reauthorization.

**Table F-1—Use of price data in vendor selection**

State	Total labor (w/ fringe)	Total indirect	Total loaded labor	Cost per participant per year	FY 2001 average participation
		<i>Dollars</i>			<i>Number</i>
California <sup>a</sup>	46,641	8,395	55,036	0.04	1,243,509
Connecticut <sup>a,b</sup>	2,902	1,103	4,005	0.08	49,253
North Carolina <sup>c</sup>	—	—	—	—	200,121
Ohio <sup>a</sup>	1,416	318	1,733	0.01	247,092
Oklahoma <sup>d</sup>	7,443	1,063	8,506	0.10	87,467
Texas <sup>e</sup>	45,871	4,239	50,111	0.07	750,122
Average <sup>f</sup>				0.06	

a Includes all vendor price survey costs (see text).

b State indicated uncertainty of plus or minus 20 percent.

c Not applicable; see text.

d Some uncertainty about cost-containment percentage.

e Redemption data used for renewals.

f Includes all but North Carolina.

Source: Interviews with State officials.

Each State's costs represent the activities necessary for the State's use of price data in vendor authorization. Only in Texas did the interim monitoring of vendor prices between authorization cycles have a direct effect on the reauthorization of vendors. In the other States, the interim monitoring of prices through periodic surveys was a vendor management practice linked to the setting of maximum values for food instruments. Vendor management might have had an indirect effect on vendor authorization, but not a sufficient connection to warrant inclusion of interim survey costs in table F-1.

The scope of the included activities does not fully explain the differences in estimated costs per participant between California and Connecticut, which used price surveys, and also between Ohio and

<sup>6</sup> As discussed in chapter 2, Ohio's vendor price criteria became effective only when vendor applications for a given county exceeded the State's limit on the number of vendors. Although the numeric limits have not been reached, the presence of the price criteria entails the cost of the onsite price checks. Therefore, Ohio has a cost for this practice, even though it is non-binding.

Oklahoma, which relied on onsite visits to vendors for price data used in authorization. Several other factors may have contributed to these differences. The differences in scale of WIC operations may help explain higher costs in Connecticut and Oklahoma, the two smallest of the study States. The other States that used similar methods might have been able to process vendor price information more efficiently. Second, there might have been differences in the quantity of price information obtained for each vendor or the quality of the information provided by the vendors. Such differences would affect the costs of compiling and using the vendor price data. Oklahoma put greater emphasis on using vendor price data in authorization than Ohio, and this difference may have contributed to staff spending more time to collect price data during store visits. Third, the estimates are based on the experience of State officials, but there is a subjective element. The Connecticut and Oklahoma respondents may have perceived cost-containment tasks as more time-consuming than did the other respondents; lacking direct objective measures of time spent, it was not possible to determine whether such a bias was present or which States' perceptions were more accurate.<sup>7</sup>

More generally, the data do not indicate whether the cost differences are the result of real differences in process and cost structure, measurement error, or a combination of these factors. Given these uncertainties, the cost data should be used with appropriate caution, with more reliance on the averages than on individual State estimates.

## **Costs of Using Cost Criteria for Food-Item Restrictions**

The administrative costs of food-item restrictions include three components, each analyzed separately for this report:

- Using cost criteria in constructing WIC food lists;
- Communicating information on price-based restrictions on allowable foods to participants; and
- Communicating information on price-based restrictions on allowable foods to vendors.

The study also analyzed the administrative costs associated with infant cereal rebate contracts in the three States that had them.

### **Constructing WIC Food Lists**

Estimates for the first component, using cost criteria in constructing WIC food lists, are presented in table F-2. As indicated, these costs were estimated for four of the six States, excluding California and Ohio. Both those States applied cost criteria in constructing and updating their food lists, but neither was able to provide information on the associated level of effort and administrative costs. The estimated costs were \$0.03 PPY or less for North Carolina, Oklahoma, and Texas. In contrast, the estimated cost for Connecticut was \$0.71 PPY.

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<sup>7</sup> The Connecticut estimates were obtained through in-person interviews, whereas the other estimates were obtained through telephone interviews and correspondence. The method of obtaining the data may have influenced the estimates. Lacking other data from in-person interviews, there was no way to determine whether the data collection method affected the results, or which approach should be considered more reliable.

**Table F-2—Use of price data in selecting allowable brands, varieties, and packages**

State	Total labor (w/ fringe)	Total indirect	Total loaded labor	Cost per partici- pant per year
	<i>Dollars</i>			
California <sup>a</sup>	—	—	—	—
Connecticut <sup>b</sup>	25,395	9,650	35,045	0.71
North Carolina <sup>c</sup>	4,714	844	5,558	0.03
Ohio <sup>d</sup>	—	—	—	—
Oklahoma <sup>e</sup>	1,517	217	1,733	0.02
Texas <sup>e</sup>	1,756	116	1,872	<0.01
Average <sup>f</sup>				0.19

a Did not provide data; excluded from average.

b Half of food package formulation cost—percentage may be high.

c Cost-containment percentage uncertain—cost containment total could range  $\pm$  50 percent.

d No cost-containment percentage estimate, but appears very small from description.

e See text regarding changes over time.

f Includes all but California and Ohio.

Source: Interviews with State officials.

Several of the States were able to estimate their overall administrative effort for constructing their WIC food lists, but had difficulty estimating the proportion of time spent on cost issues. This was the primary barrier to formulating estimates for California and Ohio. The process descriptions indicate that the California WIC staff spent a substantial amount of time looking at the cost of foods under consideration, but that the Ohio staff did not. For North Carolina, estimating this cost left a substantial amount of uncertainty—as much as 50 percent of the estimated \$0.03 PPY cost. Given the small size of the overall cost, however, the uncertainty would not translate into a large dollar amount PPY. Connecticut respondents estimated that half the time spent on food list development was related to cost containment. In Connecticut, a low proportion of stores are supermarkets, and the other WIC vendors necessary to assure adequate access have relatively high prices. This situation makes it particularly challenging to hold down food package costs.<sup>8</sup> Texas and Oklahoma, on the other hand, were able to estimate directly the modest amount of time spent by their staffs on cost-containment issues related to their food lists.

The proportion of WIC food-list development time devoted to cost issues may vary considerably over time. In discussions of the evolution of their WIC food lists, the States indicated that their relative degree of concern over food costs had fluctuated a good deal over the last decade, as the challenges of growth had been supplanted by the challenges of maintaining participation. The States did not

<sup>8</sup> The Connecticut estimate would also vary substantially if the proportion attributed to cost containment were increased or decreased. As a hypothetical example, if the cost-containment portion of food package development costs in Connecticut were 25 percent instead of 50 percent, the estimated cost would be \$0.36 PPY and the overall average for the four States with estimated costs would be \$0.10 PPY. The estimated level may appear high, but food cost is clearly an important consideration in this process. Connecticut was investigating the costs of implementing a more culturally appropriate food package for its increasing minority populations. As a result, the overall level of effort for food package development may have been greater than usual.

discuss the effect of these shifts on the allocation of staff time. It is likely that some States—especially Texas and Oklahoma—devoted more staff time to analyzing the cost implications of food-list choices in the early- to mid-1990s than they did later. In the late 1990s, as economic conditions improved, these States were under less pressure to minimize food costs.

Differences in scale played a minor role in the cost differences among the States for this function. Food-list development is a centralized activity, and the level of effort is almost entirely independent of the State’s size. Thus, a very large State (such as Texas) will have a much smaller cost on a PPY basis than a smaller State (such as Oklahoma) that spends a similar amount of staff time on this function. The small size of the Connecticut WIC population may have contributed to the high cost per participant for this activity.

### Communicating Information on Price-Based Food Restrictions to Participants

The estimated costs for communicating information on price-based restrictions on allowable foods to participants averaged \$0.52 PPY among the four States providing cost data on this function, as shown in table F-3. This involved providing training and other information on all cost-containment practices affecting food selections by participants, including least expensive or store-brand restrictions, package-size restrictions, and specific brands or food types authorized by the State. This activity represented by far the largest average administrative cost of all of the cost-containment practices analyzed in this report. The range was relatively narrow (in percentage terms), from \$0.44 PPY in North Carolina to \$0.67 PPY in California. Costs were not estimated for Connecticut and Oklahoma, as discussed below.

**Table F-3—Communicating information on price-based food restrictions to participants**

State	Total labor (w/ fringe)	Total indirect	Total loaded labor	Other costs	Grand total	Cost per participant per year
	<i>Dollars</i>					
California <sup>a</sup>	731,136	104,883	836,019	—	836,019	0.67
Connecticut <sup>b</sup>	—	—	—	—	—	—
North Carolina <sup>c</sup>	85,252	3,027	88,279	—	88,279	0.44
Ohio <sup>d</sup>	100,971	11,106	112,078	—	112,078	0.45
Oklahoma <sup>e</sup>	—	—	—	—	—	—
Texas <sup>f</sup>	315,514	30,395	345,908	26,819	372,727	0.50
Average <sup>f</sup>						0.52

a Local costs ranged from \$.36 to \$.88 per participant.

b Two sites said no impact; one could not estimate. See text for discussion.

c Local costs ranged from \$0.00 (two sites) to \$1.32 per participant.

d Local costs ranged from \$0.00 (one site) to \$1.30 per participant.

e No cost-containment impact identified. See text for discussion.

f Local costs ranged from \$.16 (one site) to \$1.00 (one site) per participant.

g Includes all but Connecticut and Oklahoma.

Source: Interviews with State and local officials.

Unlike other costs analyzed for this chapter, the costs for this function were derived almost entirely from local agency interviews. For each local agency, the cost PPY was estimated from the interview data. For each State, the simple average of the local agency estimates was computed to estimate the statewide cost PPY, and the statewide annual cost was computed using this figure and the average statewide participation level for FY2001. This method was used for other local agency costs, but these were rarely identified for other functions. State costs were included in this function when reported (primarily for developing training materials and training local agencies). The interview sample was very small for statewide estimates, but the average cost PPY is representative of the areas where participant data were collected for the study.<sup>9</sup>

In 8 of the 18 local agencies contacted for the study (including 2 of the Connecticut sites and all 3 Oklahoma sites), local respondents expressed the view that cost-containment restrictions had no impact on participant training costs. This response can be interpreted two ways. The respondents may have meant that they truly spent no resources (or at least so little as to be immaterial) on this function, or they may have meant that their training costs would be the same if the restrictions were eliminated (thus assuming that training on other functions would be increased to substitute for time spent on cost containment). In the States with a broad range of estimated costs for this function, the analysis conservatively assumed that the intent was to report that the costs were essentially zero, and the data from these sites were included in the averages. On the other hand, in the absence of any positive estimates from local agencies in Connecticut and Oklahoma, we chose not to estimate this cost for those States. It is impossible to tell whether these local agencies truly experienced no costs or whether they were just unable to separate this portion of participant training from other aspects (nutritional content of WIC foods, use of food instruments, etc.).

The estimated costs for informing participants about price-based restrictions on food selection are larger than for other cost-containment functions because this task requires direct communication with individuals or groups. Thus, there are no great economies of scale, although larger agencies sometimes provided training on WIC shopping in a group setting. The relatively consistent cost PPY among the four States with estimates reflects similarities in the training process and in the average time devoted during training to cost-containment restrictions.

This consistency should not be overemphasized, because the local agencies varied widely in the magnitude and precision of their estimates. Among the local agencies with non-zero estimates, the range was from \$0.06 PPY in the largest Ohio site to \$1.32 PPY in one of the North Carolina sites. In 3 of the 4 States, the highest local estimate for this task was \$1.00 PPY or more. The presence of estimates of this magnitude in North Carolina and Ohio is particularly surprising, given the minimal restrictions on food choices in these States. California and Texas had the clearest evidence that local agencies generally spent a measurable amount of resources on this function, with minimum local agency estimates of \$0.36 PPY and \$0.16 PPY, respectively. Given the amount of variation among the local agencies, it is unclear whether the differences among States reflect State policies or the specific practices of the local agencies in the sample.

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<sup>9</sup> As discussed in appendix A, the local agencies selected for interviews served the largest number of participants in the sample frame for the participant survey.

## Communicating Information on Price-Based Food Restrictions to Vendors

### *Training and Responding to Inquiries*

Table F-4 presents the estimated costs for communications with vendors regarding price-based restrictions on allowable foods. The average cost among the three States that provided estimation data was \$0.07 PPY, ranging from \$0.02 PPY in Oklahoma and Texas to \$0.16 PPY in Connecticut. These costs include training vendors and answering inquiries from vendors about all price-based food-item restrictions, including least expensive and store-brand restrictions, package-size limitations, and specific brands or types authorized by the State.

**Table F-4—Communicating information to vendors on price-based food restrictions and monitoring vendor compliance**

State	Total labor (w/ fringe)	Total indirect	Total loaded labor	Cost per participant per year
	<i>Dollars</i>			
California <sup>a</sup>	—	—	—	—
Connecticut <sup>b</sup>	5,750	2,185	7,934	0.16
North Carolina <sup>c</sup>	—	—	—	—
Ohio <sup>d</sup>	—	—	—	—
Oklahoma <sup>e</sup>	1,817	260	2,076	0.02
Texas <sup>f</sup>	16,507	1,300	17,807	0.02
Average <sup>g</sup>				0.07

a Provided total training time; missing cost-containment percentage— excluded from average.

b May include vendor communications on other cost-containment practices not covered elsewhere.

c State said not applicable, but did have least expensive milk restriction that must be explained to vendors.

d No State cost; one county estimated \$214/year. According to State, no other local agencies did this.

e No cost-containment percentage estimated for compliance enforcement; not a priority, but State does test.

f Includes vendor calls handled by local agencies (two at \$0, one at \$0.02 PPY). No compliance cost.

g Includes all but California, North Carolina, and Ohio.

Source: Interviews with State officials.

The States that provided estimates for this function were generally able to identify the overall time spent on vendor training, which was a scheduled and standardized activity. To the extent that the training addressed specific cost-containment practices, such as least expensive brand requirements, the States could estimate the amount of time spent explaining these practices in vendor training. Practices that revolved around the specification of particular brands or types did not generally require any identifiable training effort, other than presentation of the authorized food lists. Thus, the States that relied more on brand/type selection had little or no identifiable time spent on vendor training on food-item restrictions. In particular, California, North Carolina, and Ohio had no identifiable staff time for vendor training on cost-containment practices. Although North Carolina had a least expensive brand restriction on milk, this was not a significant topic of discussion in vendor training, according to the State, because the policy was long-standing and vendor compliance was high.



The cost of answering vendor questions about food-item restrictions was very difficult for the States to estimate. They recognized that State staff members (and sometimes local agencies) received frequent inquiries on this topic, but there were no tracking systems to quantify the calls or the time spent answering them. At best, the States made educated guesses as to how much time in a typical day their vendor management staff spent on these inquiries.

There is no clear reason why the Connecticut estimate in table F-4 is eight times that of the Texas and Oklahoma estimates. Connecticut had a lower ratio of participants to vendors and more independent vendors, so the training costs can be expected to be somewhat higher, but not by as much as indicated. Connecticut had more WIC foods subject to least expensive brand requirements, so this may also have been a factor. Connecticut's estimate includes training on the hidden maximum (or "not-to-exceed") value policy as well on as the food-item restrictions.<sup>10</sup> The responses from Oklahoma and Texas were less clear as to whether training on their maximum value policies was included, although the cost-containment time during preauthorization visits in these States may include some explanation of maximum value and least expensive brand policies. It is possible that the Connecticut estimate more completely accounted for (or even overstated) the level of effort to respond to vendor questions. Finally, as with other cost-containment practices, the measurement method or the perspective of the respondents may have contributed to the difference in estimated costs.

### ***Monitoring Vendor Compliance***

None of the States estimated any time for the enforcement of food-item restrictions. As noted in chapter 2, compliance enforcement efforts focused on more serious violations, and the States relied mainly on complaints from participants to detect violations of food-item restrictions. Of the three States with any estimated costs for this function, only Oklahoma indicated that a number of investigations included violations of food-item restrictions. The State could not estimate a share of investigative costs attributable to food-item restrictions, because tests for these violations were combined with other violations in the same "buys."

## **Costs of Infant Cereal Rebate Contracts**

### **Establishing and Renewing the Contracts**

The estimated administrative costs for establishing and renewing rebate contracts for infant cereal are presented in table F-5 for the three study States that had these contracts: California, Connecticut, and Texas.<sup>11</sup> The estimated costs of establishing and reviewing the rebate contracts ranged from less than \$0.01 PPY in Texas to \$0.05 PPY in the other two States, and the average was \$0.03 PPY. The relatively small cost reflects, in part, the fact that all three States had these rebates in place for several contracting cycles, so the effort was less than when they first solicited the contracts. In addition, the cost estimates reflect the fact that the winning bidder has been the same manufacturer each time, so there were no costs for changing food instruments and training materials.

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<sup>10</sup> Connecticut staff were unable to separate time for explaining item restrictions (a cost-containment practice) from time spent explaining maximum values (a vendor-management practice).

<sup>11</sup> Other States had similar rebate contracts with food manufacturers in 1999, as shown in appendix E, table E-4.

**Table F-5—Establishing/reviewing rebate contracts (nonformula)**

State	Total labor (w/ fringe)	Total indirect	Total loaded labor	Cost per partici- pant per year
			<i>Dollars</i>	
California	48,886	8,799	57,685	0.05
Connecticut	1,659	630	2,289	0.05
North Carolina <sup>a</sup>	—	—	—	—
Ohio <sup>a</sup>	—	—	—	—
Oklahoma <sup>a</sup>	—	—	—	—
Texas	1,726	114	1,841	<0.01
Average <sup>b</sup>				0.03

a Not applicable.

b Includes California, Connecticut, and Texas.

Source: Interviews with State officials.

It is surprising that the total estimated administrative cost is so much larger in California (\$57,685 per year) than in Connecticut (\$2,289 per year) and Texas (\$1,841 per year). It is reasonable to expect that this cost is largely independent of the size of the WIC program in the State, because a single contract covers the State. One factor in the cost difference is that California resolicits its infant cereal rebate contract every two years, whereas the other two States resolicit their contracts every three years. It is possible that California's procurement process is more elaborate, or that State WIC staff are more involved than in the other two States, but the interview data are insufficient to determine the role of these factors.<sup>12</sup>

### Tracking and Claiming the Rebates

The administrative costs for tracking and claiming infant cereal rebates are presented in table F-6. These costs were estimated for the three States that have these contracts: California, Connecticut, and Texas. All three States estimated very small costs for this function—from less than \$0.01 PPY in California and Texas to \$0.03 PPY in Connecticut, with an overall average of \$0.01 PPY. Unlike the cost of renewing these contracts, the estimates show evidence of economies of scale, in that the total cost for California is larger than for Connecticut, but the cost PPY is much smaller. On the other hand, it is unclear why the total cost for Texas was so much smaller than for California, because both States obtained direct counts of infant cereal purchases from redemption data.

<sup>12</sup> California's cost reflects a level of effort of 1,127 hours per year. Some of this time may be devoted to infant formula rebates.

**Table F-6—Tracking and claiming manufacturer rebates (nonformula)**

State	Total labor (w/ fringe)	Total indirect	Total loaded labor	Cost per partici- pant per year
			<i>Dollars</i>	
California	4,018	723	4,741	<0.01
Connecticut	1,161	441	1,602	0.03
North Carolina <sup>a</sup>	—	—	—	—
Ohio <sup>a</sup>	—	—	—	—
Oklahoma <sup>a</sup>	—	—	—	—
Texas	737	49	785	<0.01
Average <sup>b</sup>				0.01

a Not applicable.

b Includes California, Connecticut, and Texas.

Source: Interviews with State officials.

## Total Administrative Costs of Cost-Containment Practices

Table F-7 summarizes the administrative cost estimates for the six States in the study, including State and local costs for all of the functions for which estimates were previously presented. The total administrative costs ranged from \$0.14 PPY in Oklahoma to \$1.03 PPY in Connecticut, with an average of \$0.58 PPY.<sup>13</sup> Each State's total reflects only the functions for which positive costs were estimated. Thus, to the extent that some States' estimates did not include all functions for which the true cost was not zero, these States' total cost estimates are not entirely comparable to the totals for States that provided data for all functions. The totals for California and Connecticut are most likely to be underestimated, but missing data may affect the totals for the other States as well. Along with missing data, the totals are also affected by the uncertainty of responses, as discussed.

The most important conclusion from the administrative cost totals is that these cost-containment practices were quite inexpensive to operate, when compared with the overall costs of NSA operations. Even Connecticut's cost was only 0.6 percent of its FY2001 NSA cost of \$177.96 PPY. The Oklahoma estimate of \$0.14 PPY was only 0.1 percent of the State's NSA cost of \$155.45 PPY. Even if the administrative costs are substantially underestimated, it is clear that the ongoing administrative burden of these practices was very small. The overall average administrative cost of cost-containment practices is estimated at \$0.58 PPY. Across the six States, the estimated cost-containment costs represented an average of 0.4 percent of the total NSA cost.

<sup>13</sup> The average cost of \$0.58 effectively treats both "zero" and "missing" estimates as zeroes. It does not equal the sum of the averages for the individual functions, which exclude missing and zero values.

**Table F-7—Annual cost per participant by State and function**

<b>Function</b>	<b>CA</b>	<b>CT</b>	<b>NC</b>	<b>OH</b>	<b>OK</b>	<b>TX</b>	<b>Average</b>
				<i>Dollars</i>			
Use of price data in vendor selection	0.04	0.08	–	0.01	0.10	0.07	0.06
Use of cost criteria in constructing WIC food lists	–	0.71	0.03	–	0.02	<0.01	0.19
Communicating information on price-based restrictions on allowable foods to participants	0.67	–	0.44	0.45	–	0.50	0.52
Communicating information to vendors on price-based food restrictions	–	0.16	–	–	0.02	0.02	0.07
Establishing/renewing rebate contracts (nonformula)	0.05	0.05	–	–	–	<0.01	0.03
Tracking and claiming manufacturer rebates (nonformula)	<0.01	0.03	–	–	–	<0.01	0.01
Total <sup>a</sup>	0.77	1.03	0.47	0.46	0.14	0.59	0.58
NSA cost	146.71	177.96	136.87	148.68	155.45	140.11	150.97
				<i>Percent</i>			
Total as percent of NSA cost <sup>a</sup>	0.5	0.6	0.3	0.3	0.1	0.4	0.4

a Includes zeros for not applicable or not available.

Source: Interviews with State and local officials.

As noted before, these estimates do not include implementation costs. States considering the adoption of these cost-containment practices would need to develop their own estimates of implementation costs, in order to make a more comprehensive determination of the financial impact and viability of these practices.