



Report to the Chairman, Committee on
Finance, U.S. Senate

May 2013

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Potential Options to Improve Performance and Oversight



G A O

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Highlights of [GAO-13-431](#), a report to the Chairman, Committee on Finance, U.S. Senate

Why GAO Did This Study

In 1996, Congress made sweeping changes to federal welfare policy by replacing the previous cash assistance program with the TANF block grant. Since then through fiscal year 2011, the federal government and states have spent a total of nearly \$434 billion for TANF. The block grant was reauthorized under the Deficit Reduction Act of 2005, and is currently authorized through September 30, 2013. To inform a potential reauthorization of TANF, GAO was asked to discuss its key findings on TANF performance and oversight from its previous work and identify potential options that would address these findings. This report discusses issues and options in three selected areas: (1) TANF's role in providing cash assistance to low-income families, (2) measurement of TANF work participation, and (3) information on states' use of TANF funds. In addition to summarizing its previous work on these issues, GAO reviewed relevant federal laws, regulations, and agency documents as well as transcripts from relevant congressional hearings from 2009 through 2012 to identify potential options. GAO also spoke with HHS officials and selected three TANF experts with a range of views to share their perspectives on these issues.

What GAO Recommends

GAO is not making recommendations, but rather identifying some potential options that might improve TANF performance, depending on Congress' goals for the program. These options are not intended to be exhaustive, and there may be a number of other options that warrant further analysis. HHS provided technical comments on a draft of this report.

View [GAO-13-431](#). For more information, contact Kay E. Brown at (202) 512-7215 or brownke@gao.gov.

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What GAO Found

Temporary Assistance for Needy Families' (TANF) role in providing cash assistance has evolved; fewer eligible families receive cash assistance and the composition of the caseload has changed. GAO noted in 2010 that 87 percent of the dramatic decline from 1995 through 2005 in the number of families receiving cash assistance was due a decline in eligible families participating in TANF, rather than increased incomes. Changes to state TANF programs, such as mandatory work requirements and lower benefits, account in part for this decline. Relatively modest caseload increases in recent years nationwide, as well as decreases in some states, have raised questions about TANF's responsiveness to changing economic conditions. GAO also reported in 2011 that the composition of the TANF caseload has changed, with about 40 percent of cases now comprised of children only, with the adult not receiving benefits, and little known nationwide about state policies for aiding these children. Potential options to better understand TANF's role as a cash assistance program may include: improving information on the extent to which states provide cash assistance to eligible low-income families, and requiring states to include more information—for example in TANF state plans submitted to the Department of Health and Human Services (HHS)—on features such as benefit amounts and services provided.

The current approach used to measure the extent to which states engage TANF recipients in work activities as defined by federal law has limitations. GAO reported in 2010 and 2011 that most states relied on several factors allowed in law, including credits for caseload reductions, to reduce the percentage of families they needed to engage in work to meet their work participation rate requirements. GAO also reported that current policies may be discouraging states from serving some families who are not "work-ready" through TANF, such as those with significant barriers to employment or complex needs. Potential options to address these issues may include: eliminating, limiting, or modifying some of the credits states may use to reduce their work participation rate requirements; adjusting requirements to better ensure states engage those not work-ready; and developing an additional or alternate set of measures that focus on employment outcomes. However, more information may be needed to assess the potential impacts of any changes to work participation requirements.

Limitations exist in the information available to assess states' use of federal TANF funds and state expenditures related to minimum state spending requirements under TANF, known as maintenance of effort (MOE) requirements. GAO reported in 2012 that the TANF block grant has evolved into a flexible funding stream that states use to support a broad range of non-cash services, but information requirements for assessing TANF performance have not kept pace with this evolution. For example, there are no reporting requirements mandating performance information specifically on families receiving non-cash services or their outcomes. GAO also reported in 2012 that states have reported increased levels of MOE spending for a variety of reasons, including helping them reduce their work participation rate requirements as allowed by law. Potential options to better understand federal and state TANF spending may include: improving reporting and performance information to encompass the full breadth of states' use of TANF funds, and requiring a review of MOE expenditures used to meet TANF requirements.

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Abbreviations

AFDC	Aid to Families with Dependent Children
CRS	Congressional Research Service
DRA	Deficit Reduction Act of 2005
GPRA	Government Performance and Results Act of 1993
HHS	U.S. Department of Health and Human Services
MOE	maintenance of effort
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
TRIM3	Transfer Income Model, version 3

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United States Government Accountability Office
Washington, DC 20548

May 15, 2013

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate

Dear Mr. Chairman:

In 1996, the federal government made sweeping changes to federal welfare policy by replacing the previous cash assistance program with the Temporary Assistance for Needy Families (TANF) block grant to states. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA),¹ which created TANF, ended the Aid to Families with Dependent Children (AFDC) program that had entitled eligible low-income families to monthly cash assistance. Instead, Congress has provided \$16.5 billion per year in fixed federal TANF funding to states to operate their own welfare programs within federal guidelines. This can help cover the costs of cash benefits, administrative expenses, and services primarily targeted to needy families; the amount does not vary according to the number of cash assistance recipients, referred to as the TANF caseload. States are also required to maintain a specified level of their own past welfare spending to receive all of their TANF funds. At the federal level, the U.S. Department of Health and Human Services (HHS) is responsible for overseeing TANF programs. From fiscal years 1997 to 2011, the most recent year with data available, the federal government and states have spent nearly \$434 billion for TANF, about 60 percent of which were federal funds. The Deficit Reduction Act of 2005 (DRA)² reauthorized TANF, and the block grant is currently authorized through September 30, 2013.

This federal-state partnership has undergone multiple changes, including a dramatic drop in the number of families receiving monthly cash assistance benefits, legislative actions that were generally expected to strengthen TANF work requirements, and new trends in states' TANF spending. In recent years, several GAO reports and testimonies have

¹ Pub. L. No. 104-193, 110 Stat. 2105.

² Pub. L. No. 109-171, § 7101, 120 Stat. 4, 135.

presented findings on TANF performance and oversight in these areas (see Related Products appendix). To inform deliberations on a potential extension or reauthorization of TANF, you asked us to discuss key findings related to TANF performance and oversight from our previous work and identify potential options that would address these findings. This report discusses issues and potential options in our selected areas: (1) TANF's role in providing cash assistance to low-income families, (2) measuring TANF work participation, and (3) information on states' use of TANF funds.

To conduct our work, we reviewed GAO reports published since TANF became effective in 1997 and summarized findings related to TANF cash assistance, work participation requirements, and TANF spending trends. These reports generally reflected a variety of methodologies, including national surveys of state TANF administrators, analyses of state data and national statistical surveys, and interviews and visits to selected state and local TANF program staff. These reports are cited throughout this report. In addition, we reviewed recommendations we had made previously that have not been implemented, but have continued relevance to current circumstances. We also reviewed transcripts from relevant congressional hearings from 2009 through 2012, which provided information on issues and options identified by members of Congress and other witnesses in addition to GAO.³ This information helped us identify potential options in these areas that would address findings in our previous reports and would not require changes to TANF purposes or the current financing structure established by law. In our discussion of potential options, we included considerations, such as advantages and disadvantages of implementation and possible unintended consequences, as appropriate. We used GAO guidance on performance measurement, GAO's *Standards for Internal Control in the Federal Government*,⁴ the

³ This review included eight hearings before the Senate Committee on Finance, House Committee on Ways and Means (Subcommittees on Human Resources and Income Security and Family Support), House Committee on Education and the Workforce (Subcommittee on Higher Education and Workforce Training), and House Committee on the Budget. Our review generally included opening statements by Members, oral and written statements of witnesses, and the transcripts of the question and answer period. Witnesses included representatives of state TANF agencies, the National Association of State TANF Administrators, and a range of advocacy and research organizations.

⁴ GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999).

Government Performance and Results Act of 1993 (GPRA),⁵ and the GPRA Modernization Act of 2010⁶ as criteria to help identify potential options and considerations for implementation. In addition, we selected three individuals with TANF expertise, including researchers and representatives from advocacy organizations, that represent a range of viewpoints to provide their perspectives on our work.⁷ We also consulted with cognizant GAO staff, reviewed relevant federal laws, regulations, and agency documents, and spoke with HHS officials. The listed options are not intended to be exhaustive. In this report, we are not recommending or endorsing the adoption of any particular policy option or package of options. Rather, we identify them as potential options for Congress to consider, along with other relevant proposals, as it prepares to extend or reauthorize the TANF program.

We conducted our work from January 2013 to May 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

TANF, created as part of the 1996 welfare reforms, gives states the authority to make key decisions about how to allocate federal and state funds to assist low-income families. States generally determine cash assistance benefit levels and eligibility requirements for low-income families seeking support under state welfare programs.⁸ When states set their TANF cash assistance benefit levels, the amount a family receives depends, in part, on who is in the assistance unit. An assistance unit is a

⁵ Pub. L. No. 103-62, 107 Stat. 285.

⁶ Pub. L. No. 111-352, 124 Stat. 3866 (2011).

⁷ The following individuals provided technical comments on a draft version of this report, which we incorporated as appropriate and when consistent with our scope and methodology: Gene Falk, Specialist in Social Policy, Congressional Research Service (CRS); Dr. Ron Haskins, Senior Fellow in Economic Studies and Co-Director of the Center on Children and Families, Brookings Institution; and Dr. LaDonna Pavetti, Vice President for Family Income Support Policy, Center on Budget and Policy Priorities.

⁸ According to CRS, states generally made such determinations under AFDC also.

group of people living together, often related by blood or some other legal relationship. States can exclude adults from the assistance unit but still allow the children to receive some assistance. In these child-only cases, the adults in the family are excluded from the assistance unit and are generally not considered when calculating the benefit amount. States are also generally allowed to spend TANF funds on other services as long as these services support TANF purposes,⁹ which are: (1) to provide assistance to needy families so that children may be cared for in their own homes or homes of relatives; (2) to end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) to prevent and reduce out-of-wedlock pregnancies; and (4) to encourage two-parent families.

Federal law sets other conditions for states receiving federal funds for TANF. For example, in order to receive all of their TANF funds, states must maintain a specified level of their own past spending on certain welfare programs, a requirement referred to as state maintenance of effort (MOE). In addition, states must ensure that a minimum percentage of families with an individual considered work-eligible that are receiving cash assistance meet work participation requirements set in law, referred to as the work participation rate.¹⁰ Activities creditable towards meeting work participation rates are defined in federal law and are generally

⁹ 42 U.S.C. § 604(a).

¹⁰ Federal law governing TANF generally refers to the term “assistance” and does not make distinctions between different forms of aid funded by TANF. However, HHS draws distinctions between “assistance” and “nonassistance.” HHS regulations define assistance to include cash, payments, vouchers, or other forms of benefits designed to meet families’ ongoing, basic needs. 45 C.F.R. § 260.31. HHS also generally includes in assistance services, such as child care and transportation assistance for parents who are unemployed. HHS uses the term nonassistance to refer to TANF expenditures that fulfill one of the four TANF purposes, but do not meet this regulatory definition. In our report, we refer to HHS’s definition of assistance as “cash assistance” and its reference to nonassistance as “non-cash services.”

focused on participants gaining employment and work-related skills.¹¹ States that do not meet minimum work participation rates may be penalized by a reduction in their block grant. Several factors may help states meet their work participation rates, such as reductions in their cash assistance caseloads and spending state funds for TANF purposes above the required MOE amount. In addition, states are limited in the amount of time they can provide federal cash assistance to families. In general, states may not use federal TANF funds to provide cash assistance to a family that includes an adult who has received cash assistance for 5 years or more.¹² Such time limits do not apply to child-only cases or to other TANF-funded services.

Federal law sets forth the basic TANF reporting requirements for states. For example, states are required to provide information and report to HHS on their use of TANF funds in TANF state plans outlining how each state intends to run its TANF program (generally filed every 2 years), quarterly reports on demographic and economic circumstances and work activities of families receiving cash assistance, quarterly financial reports providing data on federal TANF and state MOE expenditures, and annual reports on state programs funded with MOE funds, among other things. HHS reviews state information and reports to ensure that states meet the

¹¹ To be counted as engaging in work activities for a month, many families receiving TANF cash assistance are required to participate in work activities for an average of 30 hours per week in that month. However, federal law sets different weekly work hour requirements for teen parents attending school, single parents of children under age 6, and two-parent families. There are 12 work activities that may count toward meeting the specified work participation rate: unsubsidized employment, subsidized private sector employment, subsidized public sector employment, work experience (if sufficient private sector employment is not available), on-the-job training, job search and job readiness assistance, community service programs, vocational educational training, job skills training directly related to employment, education directly related to employment (if the recipient has not received a high school diploma or certificate of high school equivalence), satisfactory attendance at secondary school or in a course of study leading to a certificate of general equivalence, and providing child care services to others in community service. TANF recipients may engage in activities provided or permitted under the state's TANF program beyond those activities that count toward meeting the federal work participation requirements. In addition, TANF recipients may engage in work activities for less than the minimum required number of hours each week although they do not count as being engaged in work for purposes of the federal requirements.

¹² States may extend federal cash assistance benefits beyond 5 years for up to 20 percent of their caseloads for families experiencing "hardship," which is defined by the states. States may also use their own state MOE funds to provide cash benefits to families beyond 5 years.

conditions outlined in federal law. For example, HHS uses the reported information to determine whether states are meeting work participation rates.

In creating the TANF block grant, Congress emphasized the importance of state flexibility, and restricted HHS's regulatory authority over the states except to the extent expressly provided in the law. For example, HHS generally has limited authority to impose new TANF reporting requirements on states unless directed by Congress, so many changes to the types of information that states are required to report would require congressional action.

As a fixed federal funding stream, the federal TANF block grant amount does not automatically adjust as caseloads or needs change, and the level of the federal grant has not been adjusted for inflation since the program's creation in 1996. States may reserve federal TANF funds under a "rainy day fund" for use in future years, providing states additional flexibility in their budget decisions. In fact, we reported in 2010 that many states had some TANF reserves that they drew down to meet increasing needs in the recent economic downturn.¹³ The federal law that established TANF also created a TANF Contingency Fund that states could access in times of economic distress.¹⁴ Similarly, during the recent economic recession, the federal government created a \$5 billion Emergency Contingency Fund for state TANF programs through the American Recovery and Reinvestment Act of 2009, available in fiscal years 2009 and 2010.¹⁵ In addition, TANF supplemental funds had been awarded to 17 states with historically low welfare spending per person and high population growth each year, although these grants expired in June 2011.

¹³ GAO, *Temporary Assistance for Needy Families: Implications of Recent Legislative and Economic Changes for State Programs and Work Participation Rates*, [GAO-10-525](#) (Washington, D.C.: May 28, 2010).

¹⁴ Pub. L. No. 104-193, § 103(a)(1), 110 Stat. 2105, 2122. For example, collectively, states in economic distress can access up to \$612 million in the TANF Contingency Fund in each of fiscal years 2013 and 2014, but they must spend more than a specified amount of state funds to do so.

¹⁵ Pub. L. No. 111-5, § 2101(a)(1), 123 Stat. 115, 446.

TANF's Role in Providing Cash Assistance to Needy Families Has Evolved

Fewer Eligible Families Receive Cash Assistance

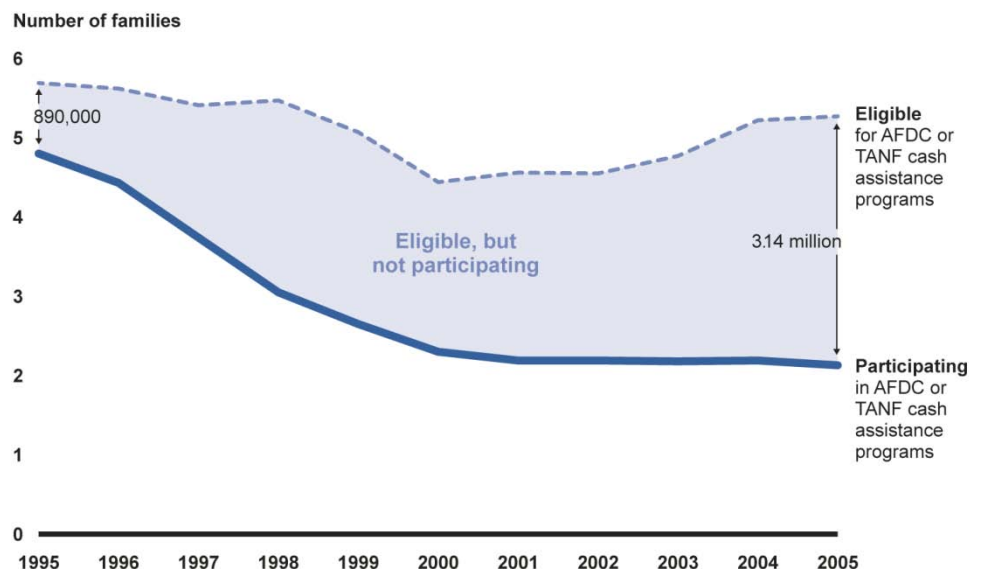
A key TANF purpose stated in law is to provide assistance to needy families so that children may be cared for in their own homes or homes of relatives. With the TANF block grant in effect replacing AFDC—a key federal cash welfare program for needy families—in fiscal year 1997, much attention has focused since then on the decline in the number of families receiving TANF cash assistance and the implications for poor children and families. The law does not explicitly state that poverty reduction is a TANF purpose, and there are generally no federal requirements or benchmarks as to eligibility criteria or benefit amounts, or on the percentage of low-income families who are to be covered by a state's TANF program.

When states implemented TANF during fiscal year 1997, a monthly average of 3.9 million families were receiving cash assistance. This number declined by over half within the first 5 years of TANF. Since that time, the average number of families receiving cash assistance each month has remained well below the initial number of 3.9 million families, and averaged about 1.9 million families in 2011. Our previous work shows that although TANF caseloads have declined, many families with incomes still low enough to receive aid did not do so for a variety of reasons. In a 2010 report, we assessed changes in the number of families eligible for and receiving cash assistance under AFDC and TANF from 1995 to 2005, the most recent data available at that time.¹⁶ The strong economy of the 1990s, TANF's focus on work, and other factors such as additional funding for child care and expansions in the Earned Income Tax Credit contributed to increases in the share of single mothers working and fewer families receiving TANF cash assistance.

¹⁶ GAO, *Temporary Assistance for Needy Families: Fewer Eligible Families Have Received Cash Assistance Since the 1990s, and the Recession's Impact on Caseloads Varies by State*, [GAO-10-164](#) (Washington, D.C.: Feb. 23, 2010). This work was based on the Urban Institute's Transfer Income Model, version 3, known as TRIM3; we have not updated this analysis.

While some families worked more, had higher incomes, and were not eligible for cash assistance, others had income that left them still eligible; however, many of these eligible families were not participating in the program. According to our estimates, the majority—87 percent—of that caseload decline can be explained by the decline in eligible families participating in the program, in part because of changes to state welfare programs. These changes include mandatory work requirements; changes to application procedures; lower benefits; policies such as lifetime limits on assistance; diversion strategies such as providing one-time, non-recurring benefits instead of monthly cash assistance to families facing temporary hardships; and sanctions for non-compliance, according to a review of the research. Among eligible families who did not receive cash assistance, 11 percent did not work, did not receive means-tested disability benefits, and had very low incomes (see fig. 1). We have not updated this analysis; however, some recent research shows that this potentially vulnerable group may be growing.¹⁷

Figure 1: Families Estimated as Eligible for and Participating in AFDC/TANF, Monthly Average, by Calendar Year, 1995 through 2005 (in millions)



Source: GAO analysis of data from HHS's *Indicators of Welfare Dependence*, based on the Transfer Income Model, version 3, known as TRIM3, developed and maintained by the Urban Institute.

¹⁷ Pamela Loprest and Austin Nichols, *The Dynamics of Disconnection for Low-Income Mothers*, *Focus*, Vol. 28, No. 2, (Fall/Winter 2011-2012).

We have also reported in 2012 that during and after the recent significant recession, caseloads increased in most states, and the overall national increase totaled about 15 percent from fiscal years 2008 to 2011.¹⁸ This has been the first test of TANF—with its capped block grant structure—during severe economic times. We noted that almost 40 percent of households with children and income below 200 percent of the federal poverty threshold that had exhausted Unemployment Insurance benefits received aid through the Supplemental Nutrition Assistance Program (SNAP)(formerly known as food stamps); however, less than 10 percent received TANF cash assistance in 2009.¹⁹ The relatively modest increase in TANF caseloads—and decreases in some states—has raised questions about the responsiveness of TANF to changing economic conditions.²⁰ After initial declines in the poverty rate among children—from 21 percent in 1995 (prior to TANF’s implementation) to 16 percent in 2000—the rate had risen to 22 percent in 2011, according to the Bureau of the Census.

¹⁸ It is also important to note that states used TANF to provide other assistance to families who are not reflected in caseload data. In our 2012 report, we noted that interviews with TANF officials in 16 states suggest they provided a wide range of services throughout the recession, in part funded through American Recovery and Reinvestment Act of 2009 funds. Many of these states reported providing families with some of the following: one-time emergency benefits for housing, winter heat assistance, child care, food (such as through food banks, vouchers, or meal programs), transportation, education, and clothing allowances. GAO, *Unemployment Insurance: Economic Circumstances of Individuals Who Exhausted Benefits*, [GAO-12-408](#) (Washington, D.C.: Feb. 17, 2012).

¹⁹ This analysis was meant to illustrate receipt of TANF and other government benefits among relatively low-income families of Unemployment Insurance exhaustees with minor children. We used the 200 percent poverty level for the purposes of our analysis only. States generally determine cash assistance benefit levels and eligibility requirements for TANF. We noted in our report that not all families with children and incomes below 200 percent of the federal poverty threshold are eligible for TANF benefits. While families generally must have income below the federal poverty threshold to be initially eligible for ongoing TANF cash assistance, in many states, once a family has been receiving TANF benefits, income earned from employment may be disregarded for some time to compensate for work-related expenses or to serve as an incentive to work. This means that a family with income greater than the level for initial eligibility may continue to receive TANF. See Urban Institute, *Welfare Rules Databook: State TANF Policies as of July 2009* (Washington, D.C.: Aug. 2010).

²⁰ [GAO-12-408](#). We reported that during the fiscal year 2008 to 2011 time period, most states (39) experienced increases in their TANF cash assistance caseloads and 12 experienced declines, according to HHS data. The District of Columbia was included in our discussion of states.

In our recent work, we identified several actions that states have taken to address increased needs while also experiencing budgetary distress.²¹ These include drawing down TANF reserves and accessing TANF Contingency Funds.²² In addition, nearly all states received a combined total of \$4.3 billion of the \$5 billion TANF Emergency Contingency Fund, created by Congress under the American Recovery and Reinvestment Act of 2009, in fiscal years 2009 through 2011.²³ States used these funds in part to create or expand subsidized employment programs.²⁴

Setting eligibility criteria and benefit levels are ways that states may manage the costs of their TANF cash assistance programs, directly affecting the number of families served and the amount of assistance they receive.²⁵ For example, 3 of the 10 states we selected for study in our 2012 report cited tension between the need to provide cash assistance and the need to provide other state services during the recent economic downturn.²⁶ Officials in one state said that the state enacted more

²¹ [GAO-12-408](#) and [GAO-10-525](#).

²² For example, 18 states spent \$1.1 billion in TANF Contingency funds—which are provided to states when certain triggers indicate increased need—in fiscal year 2009.

²³ These funds were provided in fiscal years 2009 and 2010 to states with increased caseloads, or with increased expenditures on non-recurrent short-term benefits or subsidized employment. \$4.3 billion is the amount states qualified to receive; there is no time limit on the actual expenditure of those funds.

²⁴ We have not reviewed states' use of these funds. However, according to a 2011 study prepared under contract with HHS, more than a quarter of a million individuals were placed in programs supported by these funds, with summer youth participants representing more than half of this total. However, the report noted that after this funding ended, many of the programs also ended, and others sharply reduced the number of people served. See MDRC, *Subsidizing Employment Opportunities for Low-Income Families: A Review of State Employment Programs Created Through the TANF Emergency Fund*, OPRE Report 2011-38 (New York, NY: Dec. 2011). Information for the study was based on telephone interviews with TANF administrators, site visits to subsidized employment programs, and reports that states provided to the research team.

²⁵ Eligibility criteria and benefit amounts for cash assistance can vary greatly by state. For example, in Arkansas, as of July 2011, for a family of three, earnings had to be equal to or below \$279 per month in order to be eligible for cash assistance, and their maximum benefit amount was \$204. In contrast, in California, as of July 2011, a family of three's income had to be equal to or below \$1,224 per month to be eligible for cash assistance, and their maximum benefit amount was \$714. See Urban Institute, *Welfare Rules Databook: State TANF Policies as of July 2011* (Washington, D.C.: Aug. 2012).

²⁶ GAO, *Temporary Assistance for Needy Families: More Accountability Needed to Reflect Breadth of Block Grant Services*, [GAO-13-33](#) (Washington, D.C.: Dec. 6, 2012).

stringent eligibility criteria and reduced benefit amounts for cash assistance to help manage costs. We estimated in a 2010 report that had certain 2005 TANF eligibility-related rules been in place in 1995, 1.6 percent fewer families overall would have been eligible for cash assistance in 1995.^{27,28} We also noted in that report that the value of TANF cash benefits had fallen over time; average cash benefits under 2005 TANF rules were 17 percent lower than they were under 1995 AFDC rules.^{29,30}

States are required to report on some features of their cash assistance programs, but there is no requirement for them to report on eligibility criteria, benefit amounts, or coverage rates. In 2012, HHS officials noted that they do not have the authority to require states to provide basic information about the cash assistance programs, including state TANF eligibility criteria, benefits levels, and other program features.³¹ HHS provides support to the Urban Institute to create and maintain the Welfare Rules Database on characteristics of state TANF programs, including features such as eligibility criteria and benefit levels. Regarding information on TANF coverage of low-income families, in our 2005 report on several means-tested programs including TANF, we noted that having participation or coverage rate information is an important tool for program managers and policymakers, even among programs that were not intended to serve everyone eligible for program benefits. However, HHS

²⁷ [GAO-10-164](#). We noted in our report that these estimates are based on analyses conducted for our study by the Urban Institute using TRIM3 data.

²⁸ In some states, families with children must have income below the federal poverty level to be initially eligible for ongoing TANF cash assistance, and in other states, their income must be well below the federal poverty level, according to Urban Institute, *Welfare Rules Databook: State TANF Policies as of July 2009* (Washington, D.C.: Aug. 2010).

²⁹ [GAO-10-164](#). This reduction occurred because cash benefit levels in many states have not been updated or kept pace with inflation—24 states had maximum cash benefits set at the same levels in 2006 as in 1996, and 6 states had maximum cash benefit levels that were lower than in 1996.

³⁰ According to CRS, cash benefit amounts represent a fraction of the federal poverty-level income. TANF cash recipients typically also receive benefits from other programs, including SNAP and Medicaid. See CRS, *The Temporary Assistance for Needy Families Block Grant: An Introduction*, R40946 (Washington, D.C.: Jan. 23, 2013).

³¹ [GAO-13-33](#).

generally does not include these rates in TANF annual performance plans or the agency's TANF Annual Report to Congress.³²

Composition of the Cash Assistance Caseload Has Changed

Much of the federal welfare policy discussion has focused on how to help low-income parents caring for their children become employed and less dependent on government assistance. Yet in 2010, over 40 percent of families receiving TANF cash assistance were "child-only," meaning the adults in the household were not included in the benefit calculation, and aid was provided only for the children. There are four main categories of child-only cases in which the caregiver (a parent or non-parent) does not receive TANF benefits: (1) the parent is receiving Supplemental Security Income;³³ (2) the parent is a noncitizen or a recent legal immigrant;³⁴ (3) the child is living with a non-parent caregiver, often a relative; and (4) the parent has been sanctioned and removed from the assistance unit for failing to comply with program requirements, and the family's benefit has been correspondingly reduced. Families receiving child-only assistance are generally not subject to federal work requirements and time limits.³⁵

HHS collects descriptive information from states on the number and selected characteristics of child-only cases; however, information on state

³² See GAO, *Means-Tested Programs: Information on Program Access Can Be an Important Management Tool*, [GAO-05-221](#) (Washington, D.C.: March 11, 2005). In that report, we noted that HHS does include coverage rate information for TANF and other programs in reports submitted to Congress that are required under the Welfare Indicators Act of 1994 (Pub. L. No. 103-432). However, we noted that HHS had not included this information in the agency's TANF Annual Report to Congress. We had recommended that HHS include TANF coverage rate information in key TANF reports. In its response to our recommendation, HHS raised the concern that increasing coverage rates may conflict with other TANF program goals and that coverage rates are not an appropriate performance measure for the TANF program. We maintained that making such information more readily and regularly available as a part of TANF reporting can help inform policymakers on the reach of the program, even when no specific standards or goals for coverage are part of the program. For this report, HHS officials noted that starting with the TANF 9th Report to Congress, published in 2012, HHS included TANF coverage rates from 1992 to 2005 and that they expected to do so in the future. These data are at the national level and do not include state-level coverage rate information.

³³ Supplemental Security Income is federally administered by the Social Security Administration and provides cash assistance to low-income aged, blind, and disabled individuals.

³⁴ Under PRWORA, legal immigrants who entered the country after August 1996 must be in the United States for 5 years to be eligible for TANF. 8 U.S.C. § 1612(b).

³⁵ See 45 C.F.R. § 261.2(n).

policies and plans for specifically assisting these families is not required and not available at the national level. As the number of TANF cases with an adult in the assistance unit has declined significantly, child-only cases have become more prominent. We reported in 2012 that the percentage of child-only cases increased from about 23 percent from July through September 1997 to over 40 percent in fiscal year 2010.³⁶

Our work and other research have pointed out the need for more attention to child-only cases. Our 2011 report focused on non-parent caregivers in TANF child-only cases, often relatives, who have stepped in to help raise children for a variety of reasons, in some cases due to child abuse or neglect by a parent.³⁷ We noted that the level of benefits and services available to children living with non-parents depends on the extent to which a child welfare agency becomes involved in the family's situation, among other things. However, we reported that information sharing between TANF and child welfare services to better serve children living with relative caregivers was a challenge. Another study, prepared under a grant from HHS and issued in December 2012, noted that child-only cases have not been a focus of TANF policies, yet the program can serve as an important source of support for vulnerable children in these situations, although this support is not uniform among the states.³⁸ It also noted the significant differences among the various types of child-only cases, concluding that future attention needs to take into account the varying policy contexts—child welfare, disability, and immigration policies—involved.

Some Potential Options

The size and composition of the TANF cash assistance caseload has changed significantly over time, and potential options are available to provide additional information that could be useful in decision-making for

³⁶ [GAO-13-33](#).

³⁷ GAO, *TANF and Child Welfare Programs: Increased Data Sharing Could Improve Access to Benefits and Services*, [GAO-12-2](#) (Washington, D.C.: Oct. 7, 2011).

³⁸ Jane Mauldon, Richard Speiglmann, Christina Sogar and Matt Stagner, *TANF Child-Only Cases: Who Are They? What Policies Affect Them? What is Being Done?* (Chicago, IL: Dec. 11, 2012). Information for the study was based on analyses of state information, HHS data on TANF caseloads, data from population-based surveys, and interviews with state agency staff, policymakers and advocates.

Congress and program managers.³⁹ Such information may also help clarify states' TANF policies for providing income support for low-income families and children (see table 1).⁴⁰

Table 1: Selected Potential Options Related to TANF’s Performance as a Cash Assistance Program^a

If the objective is to:	Potential options	Some considerations
Better understand TANF’s role in providing cash assistance in general	Require states to provide more information, for example in their TANF state plans, on eligibility criteria and benefit amounts for their cash assistance programs.	Even though generally no federal requirements or benchmarks exist as to eligibility criteria or benefit amounts, having such information available can provide a better understanding of TANF’s reach and level of support as a cash assistance program in each state, and provide policymakers with better information on changes over time. Any efforts to require more information or make changes to existing reporting must also consider the potential reporting burden for states.
	Require the inclusion of information on the extent to which eligible families are receiving TANF cash assistance, or coverage rates, in key TANF reports already required by law.	This kind of information could provide a basic understanding of the extent to which needy populations are being served by states through TANF and help policymakers in setting priorities and targeting scarce resources. Data on TANF caseloads, poverty levels, and participation in cash assistance programs are available to HHS and can serve as one indicator of changes over time and among states. This may place greater emphasis on the extent to which states provide cash assistance than originally envisioned under TANF, which did not include any measures of state performance in this area.

³⁹ In the hearing documents we reviewed, other options beyond our scope were noted, including, for example, adjusting the TANF block grant for inflation and redesigning the TANF contingency fund for use during times of high unemployment and increased levels of poverty.

⁴⁰ We reported that such information must meet diverse users’ needs for completeness, accuracy, validity, timeliness, and ease of use, and that the GPRA Modernization Act of 2010 puts into place several requirements that could also address these needs. GAO, *Managing for Results: GPRA Modernization Act Implementation Provides Important Opportunities to Address Government Challenges*, [GAO-11-617T](#) (Washington, D.C.: May 10, 2011).

If the objective is to:	Potential options	Some considerations
Better understand TANF's role in helping families receiving child-only assistance	Require states to include additional information, for example in their TANF state plans, about the status and needs of child-only families as well as plans for coordinating with child welfare agencies and other agencies and programs as appropriate. ^b	Although this information is not currently required under the law, it may be useful now, given the increasing prominence of child-only cases. As noted above, any efforts to require more information or make changes to existing reporting must also consider the potential reporting burden for states.

Source: GAO analysis of relevant prior GAO reports and transcripts from congressional hearings related to TANF convened from 2009 through 2012.

^aIn this report, GAO is not recommending or endorsing the adoption of any particular policy option or package of options. Rather, we identify them as potential options for Congress to consider, along with other relevant proposals, as it prepares to extend or reauthorize the TANF program.

^bThis is related to our 2011 report, where we recommended that HHS do more to encourage information sharing between TANF agencies and child welfare agencies in the states. HHS agreed with our recommendation and indicated it will provide additional guidance to states and tribes concerning the ability to share information between TANF and child welfare agencies, although this recommendation has yet to be addressed. [GAO-12-2](#).

Approach to Measuring Work Participation Has Limitations

States Have Generally Met Work Participation Rates by Using Credits Allowed by Law

One of the four TANF purposes is to end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; TANF's work participation rate requirement is in keeping with the purpose of helping parents prepare for and find jobs. PRWORA established higher work participation rate requirements and eliminated many exemptions from these requirements for recipients compared to what was in place prior to TANF.⁴¹ This reflected research that found that mandatory work requirements could reduce welfare receipt and increase

⁴¹ See 64 Fed. Reg. 17,720, 17,722 (April 12, 1999).

employment among single mothers and help address concerns about long-term welfare receipt.⁴²

Our work has shown that over the years, states have engaged about one third of families receiving TANF cash assistance in federally-defined work activities nationwide, both before and after the Deficit Reduction Act of 2005 (DRA)⁴³ that reauthorized TANF and included provisions generally expected to strengthen the work requirements.⁴⁴ States are generally held accountable for ensuring that at least 50 percent of all families receiving TANF cash assistance and considered work-eligible include an individual who participates in one or more of the federally-defined activities for the required number of hours each week. Federal law also provides that states may apply for a caseload reduction credit to reduce the required rate they must meet to avoid risk of financial penalties. In its final rule, HHS stated that the caseload reduction credit was created to ensure that states get credit for families that become self-sufficient and exit the welfare rolls.⁴⁵ These requirements generally constitute minimum standards, and states are free to increase the requirements if they choose. For example, states may design their programs to have a more restrictive set of allowable activities or require more hours of participation than the federal standard.

In our 2010 review of state participation rates post-DRA and our 2011 update, we noted that most states have relied on a combination of factors, including caseload reduction credits and excess MOE, to meet their work participation rate requirements.⁴⁶ The factor that states have commonly relied on to help them meet their required work participation rates is the caseload reduction credit. Specifically, decreases in the

⁴² For a summary of this research, see CRS, *Temporary Assistance for Needy Families (TANF): Welfare-to-Work Revisited*, R42768 (Washington, D.C.: Oct. 2, 2012).

⁴³ Pub. L. No. 109-171, 120 Stat. 4 (2006).

⁴⁴ [GAO-10-525](#).

⁴⁵ 64 Fed. Reg. 17,720, 17,783 (April 12, 1999). The caseload reduction credit is provided to states based on overall caseload declines and does not take into account the employment or income status of families exiting the program. A caseload decline may also be due to fewer families entering the program. In order for a state to get the credit, the caseload decline must not be due to policy changes.

⁴⁶ [GAO-10-525](#) and GAO, *Temporary Assistance for Needy Families: Update on Families Served and Work Participation*, [GAO-11-880T](#) (Washington, D.C.: Sept. 8, 2011).

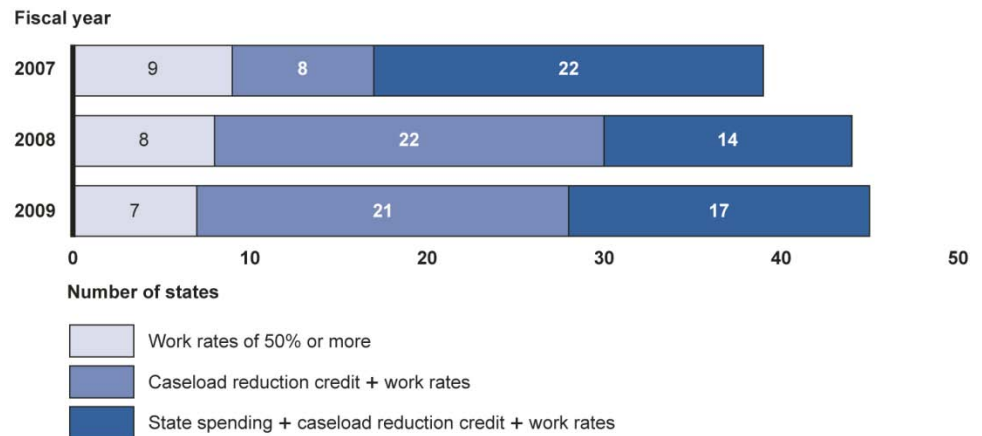
numbers of families receiving TANF cash assistance over a specified time period are accounted for in each state's caseload reduction credit, which essentially then lowers the states' required work participation rate from 50 percent.⁴⁷ For example, if a state's caseload decreases by 20 percent during the relevant time period, the state receives a caseload reduction credit equal to 20 percentage points, which results in the state work participation rate requirement being adjusted from 50 to 30 percent. Because of the dramatic declines in the number of families receiving cash assistance after TANF implementation, caseload reduction credits effectively eliminated work participation rate requirements in some states. For example, we reported that in fiscal year 2006, 18 states had caseload reductions that were at least 50 percent, which reduced their required work participation rates to 0. We noted that state caseload declines have generally been smaller after DRA changed the base year for measuring caseload reductions from fiscal year 1995 to fiscal year 2005, among other things.⁴⁸ However, many states are still able to use caseload declines to help them lower their required work participation rates. For example, for the most recent data available in fiscal year 2009, 38 of the 45 states that met their required work participation rates for all TANF families did so in part because of their caseload declines (see fig. 2).⁴⁹

⁴⁷ 42 U.S.C. § 607(b)(3).

⁴⁸ For example, in fiscal year 2006 before the DRA changes were implemented, states' caseload declines ranged from 11 to 91 percent, and 18 states had declines that were at least 50 percent, which reduced their required work participation rates to 0. However, in fiscal year 2007, following the implementation of the DRA changes, 3 states did not have caseload declines, and the declines in the remaining states ranged from 1 to 26 percent.

⁴⁹ The American Recovery and Reinvestment Act of 2009 modified the caseload reduction credit calculation for fiscal years 2009-2011, by allowing states the option to use the lower total number of cash assistance recipients in their state in fiscal year 2007 or fiscal year 2008 as the comparison caseload for calculating the credit. For example, if a state had 20,000 families receiving TANF cash assistance in fiscal year 2007, and 21,000 such families in fiscal year 2009, it could opt to use 20,000 for the purposes of calculating its fiscal year 2010 caseload reduction credit, resulting in a greater credit and a lower required work participation rate.

Figure 2: Factors That Helped States That Met Their Required Work Participation Rates in Fiscal Years 2007 through 2009



Source: GAO analysis of HHS data.

Additionally, we reported that while states' caseload reduction credits before DRA were based primarily on their caseload declines, after DRA, states' spending of their own funds on TANF-related services also became a factor in some states' credits. Specifically, states are required to spend a certain amount of funds every year—their MOE funds—in order to receive all of their federal TANF block grant.⁵⁰ However, if states spend in excess of the required amount ("excess MOE"), they are allowed to functionally increase their caseload reduction credits.⁵¹ We reported that, in fiscal year 2009, 32 of the 45 states that met their required work participation rates for all families receiving cash assistance claimed excess MOE toward their caseload reduction credits. In addition, 17 states would not have met their rates without claiming these expenditures (see fig. 2).

⁵⁰ 42 U.S.C. § 609(a)(7). To receive all of its annual federal TANF block grant, each state is generally required to spend 75 or 80 percent of what it was spending in fiscal year 1994 on certain welfare-related programs, including AFDC, Job Opportunities and Basic Skills Training, Emergency Assistance, and welfare-related child care programs.

⁵¹ 45 C.F.R. § 261.43. When calculating the caseload reduction credit, federal regulations allow a state that spent in excess of its required amount in the year preceding the current one to include only the pro rata share of the total number of families receiving state-funded cash assistance required to meet the state's basic requirement.

Measure Has Limitations as a National Performance Measure for TANF

In 2010, we concluded that because of the various factors that affect the calculation of states' work participation rates, the rate's usefulness as a national performance measure for TANF is limited, and changes intended to improve data quality may be creating new challenges for states.⁵² In addition to the caseload reduction credits and excess MOE discussed above, we reported that some states have made changes to their TANF programs that may affect which families are counted in their work participation rates, such as providing some families assistance in non-TANF programs, discussed in the next section. Given these various factors, we have noted that the work participation rate does not allow for clear comparisons across state TANF programs or comparisons of individual state programs over time. This is the same conclusion we reached in our 2005 report that recommended changes to improve this measure of states' performance.⁵³ In that report, we found differences across states that contributed to an inconsistent measurement of work participation. For example, we found that some states reported the hours recipients were scheduled to work, rather than those actually worked, as work participation. DRA contained changes generally expected to increase internal controls and improve data quality, however it also created new challenges for states. In our 2010 review of work participation rates, many states cited challenges in meeting work performance standards under DRA, such as new requirements to verify participants' actual activity hours and certain limitations on the types and timing of activities that count toward meeting the requirements.⁵⁴ Local TANF officials noted that verification of TANF families' work participation requires significant time and collaboration between TANF staff and employers and other staff at work activity sites. Because of this, some noted that they have had to designate or hire specific staff to manage the tracking and verification of families' work participation, and yet these activities also remain a routine part of all local TANF staff's responsibilities. We concluded at the time that the TANF work participation rate requirements may not yet have achieved the appropriate balance between flexibility for states and accountability for federal TANF goals.

⁵² [GAO-10-525](#).

⁵³ GAO, *Welfare Reform: HHS Should Exercise Oversight to Help Ensure TANF Work Participation Is Measured Consistently across States*, [GAO-05-821](#) (Washington, D.C.: Aug. 19, 2005).

⁵⁴ [GAO-10-525](#).

States May Not Serve Some Families that are Not Work-Ready

Work participation rate requirements can play an important role in encouraging states to move TANF recipients into work; however, our work indicates some ways that current policies may be discouraging states from engaging some TANF recipients with complex needs and from providing an appropriate mix of activities.⁵⁵ According to the preamble to a TANF final rule from 1999, several provisions of the law, including time limits, higher participation rate requirements, and fewer individual exemptions from participation requirements, taken together, signal that states must broaden participation beyond the "job ready."⁵⁶ However, some state TANF officials we interviewed for a 2012 report said the pressure to meet TANF work participation rate requirements causes them to focus on the "ready to work" cash assistance population, which can leave the "harder-to-serve" population without services.⁵⁷ States may generally only count a family's participation in job readiness assistance, which can include mental health and substance abuse treatment, towards the work participation rate for six weeks in a year.⁵⁸ A 2012 MDRC study conducted for HHS suggested that combining work-focused strategies with treatment or services may be more promising than using either strategy alone, especially for people with disabilities and behavioral health problems.⁵⁹ Additionally, we have reported that some states find the restrictions on the amount of time they are allowed to count vocational educational training towards the work participation rate to be a challenge. State TANF administrators have expressed concerns that the 12-month lifetime limit on vocational educational training may be insufficient for TANF participants to progress to higher-wage employment that will prevent them from needing assistance in the future. Officials we interviewed more recently also noted that the restrictions may not match

⁵⁵ See [GAO-10-525](#) for information on states' perspectives on a range of issues related to meeting work participation rates after the DRA changes.

⁵⁶ 64 Fed. Reg. 17,720, 17,722 (April 12, 1999).

⁵⁷ [GAO-13-33](#).

⁵⁸ While the time limit on job search and job readiness assistance is generally 6 weeks, states can extend this limit to 12 weeks under certain circumstances. Specifically, individuals qualify for the extended limit if the state meets specific criteria related to increases in unemployment or participation in SNAP. 42 U.S.C. § 607(c)(2)(A)(i).

⁵⁹ MDRC, *What Strategies Work for the Hard-to-Employ? Final Results of the Hard-to-Employ Demonstration and Evaluation Project and Selected Sites from the Employment Retention and Advancement Project*, OPRE Report 2012-08 (Washington, D.C., Mar. 2012).

the needs of workers who lost jobs during the recession, who may require more education or retraining to find a new job.⁶⁰ Finally, we have reported that many states choose to provide cash assistance to two-parent families outside of TANF. State officials have told us that two-parent families often have as many or more challenges as single parents, and states' work participation rate requirement for two-parent families is 90 percent minus any caseload reduction credit the state receives. In 2010, we reported that 28 states provide cash assistance to two-parent families through separate programs funded solely with state dollars, and that families for whom states use these programs to provide cash assistance are those that typically have the most difficulty meeting the TANF work requirements.

Some Potential Options

In view of our prior work that has identified limitations in the work participation rate's usefulness, potential options are available that may motivate states to engage more families in work activities and provide a more accurate picture of state performance (see table 2).⁶¹

⁶⁰ [GAO-12-408](#).

⁶¹ Our previous work has highlighted the importance of measuring performance to allow organizations to track the progress they are making toward their goals and provide crucial information for decision-making. We also noted that performance measures can create powerful incentives to influence organizational and individual behavior. Monitoring such information would allow for assessments of the quality of performance over time and ensure that any issues warranting attention are promptly resolved. GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GGD-96-118 (Washington, D.C.: June 1996) and [GAO/AIMD-00-21](#).3.1.

Table 2: Selected Potential Options Related to TANF Work Measures ^a

If the objective is to:	Potential options	Some considerations
Better ensure that states engage a specified percentage of TANF recipients in work or work-related activities	Eliminate or limit the caseload reduction credit.	Eliminating credits could focus states on achieving work goals directly, since these credits effectively lower the work participation standard states currently face. Without the credit, states may have difficulty achieving their required work participation rates and would likely need to shift TANF funds currently spent in other areas to increase spending on work-related activities for the cash assistance population.^b States may also find ways to meet the rates without increasing the number of recipients engaged in activities, such as by serving more families outside of TANF with state funds not counted toward their maintenance of effort requirement.
	Eliminate or limit the use of excess MOE to increase states' caseload reduction credits.	In addition to focusing states on achieving work goals directly, this would also address some concerns about MOE discussed in the next section. Limiting use of excess MOE would no longer provide, in effect, "extra credit" for states that spend more than required to provide assistance to needy families.
Reduce the reporting burden on state program staff while maintaining sufficient internal controls	Reconsider the specific procedures currently required to verify TANF recipients' actual activity hours.	Adjustments could allow caseworkers to spend less time documenting individual activity hours and devote more time to helping families move to work and self-sufficiency. This may be particularly beneficial given recent state budget constraints which have resulted in more TANF cases per worker in some areas. Any adjustments to current verification procedures would need to consider the circumstances that led to the increased requirements under DRA, including lack of adequate internal controls in some states. For example, we mentioned above that some states counted participants' scheduled hours, regardless of their actual level of attendance.^c
Better ensure that states engage TANF recipients that are not work-ready	Allow some activities to count towards the work participation rate with fewer restrictions, if monitored.	Reducing restrictions on states' ability to count certain activities toward the work participation rate, such as substance abuse and mental health treatment, and adjusting the number of activity hours required may provide states more flexibility to serve families with complex needs. Additionally, easing time limits for activities such as vocational educational training may more accurately reflect the efforts of states that currently provide these activities even when they are not counted toward the work participation rate requirement and possibly encourage states to provide more intensive training when needed that may result in improved employment outcomes. Increasing the range of activities and amount of time some activities may count toward a state's work participation rate could change TANF's current emphasis on engaging recipients in work or work-related activities while they are receiving cash assistance.^d In addition, reducing restrictions could possibly result in some of the shortcomings identified in its predecessor program, such as education and training placements that did not lead to work.^e This would increase the importance of ensuring that participants are making satisfactory progress in these activities. In addition, if states provide more education and training activities to cash assistance recipients, this may increase the attractiveness of TANF and increase cash assistance receipt, as some individuals seek the education, training, and support services offered.

If the objective is to:	Potential options	Some considerations
	Eliminate the 90 percent participation rate requirement for two-parent families.	As states have sometimes served these families outside of their TANF programs and may not have involved them in job preparation or employment services, this change may better ensure that states help the adults in these families prepare for and find employment. Two-parent families are included in the 50 percent work participation rate that applies to all families. The higher two-parent work participation rate reflects an expectation that families with two work-eligible adults should contribute a greater work effort than families with one; eliminating the two-parent rate would reduce this expectation.
	Replace the caseload reduction credit with an employment credit.	Pressure to meet work participation rates may discourage states from serving those with barriers to employment, and eliminating the caseload reduction credit could exacerbate this further. If Congress wants to retain a credit to provide states more flexibility in meeting the rate, other options may be available. For example, one substitute may be an employment credit that rewards states based on the extent to which families leaving welfare include an employed adult. However, the implications of an employment credit have not been fully explored and could have unintended consequences, such as discouraging states from serving participants that are hard to employ.
Supplement or replace the work participation rate to increase focus on employment outcomes	Develop an additional or alternative set of performance measures such as job placement, job retention, and earnings increases.	States could be given more flexibility on allowable activities, but be held accountable for longer-term outcomes. This option could also reduce administrative burden on states by de-emphasizing verification of participants' actual activity hours. Additionally, employment-based outcome measures could align TANF's measures more closely with those of workforce programs, which could help ease coordination with workforce agencies.^f Any employment outcome measures would need to be carefully developed. Prior to DRA, HHS awarded states performance bonuses based in part on employment outcomes. These bonuses were discontinued by DRA in part because these broad outcome measures could not be tied to what states were doing in their TANF programs.^g Employment outcomes can be affected by many factors outside of the control of TANF programs, including the state of the economy. Additionally, research on performance measures has noted that outcome measures can be particularly susceptible to manipulation of who is counted in the measure. As a result, extra efforts would be needed to ensure that states met the needs of participants with significant barriers to employment.

Source: GAO analysis of relevant prior GAO reports and transcripts from congressional hearings related to TANF convened from 2009 through 2012.

^aIn this report, GAO is not recommending or endorsing the adoption of any particular policy option or package of options. Rather, we identify them as potential options for Congress to consider, along with other relevant proposals, as it prepares to extend or reauthorize the TANF program.

^bResearch on welfare-to-work programs indicates that states may not be able to achieve a 50 percent monthly participation rate without credits, so phasing out credits may also require re-examination of the target participation rate. According to an MDRC report, even in well-run programs a substantial number of recipients will be unable to participate in work activities at any given time, so in order to engage 50 percent or more of the caseload for the required hours, programs must involve nearly everyone on the caseload. MDRC, *What Works in Welfare Reform: Evidence and Lessons to Guide TANF Reauthorization* (New York, NY: June 2002).

^cGAO-05-821.

^dAccording to CRS, TANF work rules emphasize that adult recipients should be directly engaged in work or activities that emphasize quick attachment to the labor force while also allowing states to get credit for recipients who combine work with education. CRS, *Temporary Assistance for Needy Families (TANF): Welfare-to-Work Revisited*, R42768 (Washington, D.C.: Oct. 2, 2012).

^eSee GAO, *Welfare to Work: Most AFDC Training Programs Not Emphasizing Job Placement*, GAO-HEHS-95-113 (Washington, D.C.: May 19, 1995).

^fPrior GAO work has cited differing performance measures as a barrier to increased coordination between agencies that administer TANF and Workforce Investment Act programs. See GAO, *Workforce Investment Act: Coordination Between TANF Programs and One-Stop Centers is Increasing, but Challenges Remain*, [GAO-02-500T](#) (Washington, D.C.: Mar. 12, 2002) and *Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies*, [GAO-11-92](#) (Washington, D.C.: Jan. 13, 2011).

^gCRS, *The Temporary Assistance for Needy Families Block Grant: Issues for the 112th Congress* (Washington, D.C.: Oct. 11, 2011).

Additional information may be needed before adopting any of these potential options. The work participation rate is complex and has affected significant state policy decisions. Any adjustment to or replacement of the measure would likely have a profound impact on state TANF programs. For example, introducing an employment credit would constitute a significant change in the way states may meet work participation requirements, but the effects this approach would have on participation rates and state TANF programs are unknown. Additionally, it is difficult to anticipate ways that the potential options may interact with one another. We have reported that allowing states to test approaches can foster innovation and help identify possible unintended consequences.⁶² Members of Congress have raised concerns about a 2012 announcement by HHS that the agency would use waiver authority to allow states to test various strategies, policies, and procedures designed to improve employment outcomes for needy families.⁶³ The potential for waivers remains controversial and the House of Representatives passed a bill in

⁶² GAO, *Human Services Programs: Opportunities to Reduce Inefficiencies*, [GAO-11-531T](#) (Washington, D.C., Apr. 5, 2011).

⁶³ HHS made this announcement in a July 2012 Information Memorandum, Transmittal No. TANF-ACF-IM-2012-03. On September 4, 2012, we held that this Information Memorandum constitutes a rule and is subject to the Congressional Review Act's requirement that it be submitted to Congress and the Comptroller General before taking effect. See B-323772, Sept. 4, 2012. Questions have been raised about the extent of HHS's authority to take this action; however, neither this report nor our recently issued products, B-323772, Sept. 4, 2012 or [GAO-12-1028R](#), Sept. 19, 2012, address whether the Information Memorandum is a valid interpretation of statutes or regulations. Some members of Congress, including Senate Finance Committee Ranking Member Orrin Hatch and House Ways and Means Committee Chairman Dave Camp, have expressed concerns that these waivers would weaken TANF work requirements, and the House of Representatives passed a resolution of disapproval in 2012 related to the rule.

2013 aimed at preventing HHS from implementing them.⁶⁴ According to HHS, as of February 25, 2013, no state had formally submitted a request for a waiver related to TANF work requirements. Still, state experience with many of the potential options outlined above could provide valuable information to policymakers about the effects of changes if they choose to alter the work participation rate as it is currently implemented.⁶⁵ If Congress wanted to make changes, it could set parameters for testing some approaches through pilots in selected states, for example, to gather additional information for considering changes to TANF that would maintain or improve its focus on work and self-sufficiency.⁶⁶

Information Available to Assess Recent Trends in TANF Spending is Limited

Performance Information for Non-Cash Services is Incomplete

We reported in 2012 that the TANF block grant has evolved into a flexible funding stream that states use to support a broad range of allowable services, but the accountability framework currently in place in federal law and regulations has not kept pace with this evolution.⁶⁷ Declining cash assistance caseloads freed up federal TANF and state MOE funds for states, and over time, states shifted spending to other forms of aid, which we refer to as non-cash services. Non-cash services can include any

⁶⁴ *Preserving the Welfare Work Requirement and TANF Extension Act of 2013*, H.R. 890, 113th Cong. (2013).

⁶⁵ For example, in 2011, Congress renewed HHS' authority to issue waivers to allow states more flexibility in their use of federal foster care funds, and we noted that the waivers may provide useful information about the effects of state policy choices on program outcomes and costs. See GAO, *Child Welfare: States Use Flexible Federal Funds, But Struggle to Meet Service Needs*, [GAO-13-170](#) (Washington, D.C., Jan. 30, 2013).

⁶⁶ We have previously reported on the importance of engaging Congress in identifying management and performance issues to address. We noted that, in order for performance improvement initiatives to be useful to Congress for its decision making, it is critical to garner congressional buy-in on what to measure and how to present this information. [GAO-11-617T](#).

⁶⁷ [GAO-13-33](#).

other services meeting TANF purposes, such as job preparation activities, child care and transportation assistance for parents who are employed, out-of-wedlock pregnancy prevention activities, and child welfare services, as well as some cash benefits such as non-recurring short-term benefits and refundable tax credits to low-income working families.⁶⁸ In fiscal year 1997, nationwide, states spent about 23 percent of federal TANF and state MOE funds on non-cash services. In contrast, states spent almost 64 percent of federal TANF and state MOE funds for these purposes in fiscal year 2011. However, there are no reporting requirements mandating performance information specifically on families receiving non-cash services or their outcomes. There is also little information related to TANF's role in filling needs in other areas like child welfare, even though this has become a more prominent spending area for TANF funds in many states. We reported that while states prepare state plans and expenditure reports that individually provide some information on non-cash services, even when considered together, these do not provide a complete picture on state goals and strategies for uses of TANF funds. For instance, we noted that state plans currently provide limited descriptions of a state's goals and strategies for its TANF block grant, including how non-cash services fit into these goals and strategies, and the amount of information in each plan can vary by state. We reported that HHS is taking some steps to improve expenditure reports from states.⁶⁹ Still, we concluded that without more information that encompasses the full breadth of states' uses of TANF funds, Congress will not be able to fully assess how funds are being used, including who is receiving services or what is being achieved. We included a Matter for Congressional Consideration regarding ways to improve reporting and performance information, though Congress has not yet enacted such legislative changes.⁷⁰

⁶⁸ While we refer to nonassistance as "non-cash services," some portion of spending in this category includes some cash benefits, such as those mentioned above as well as costs that may not be considered services, such as administration and systems costs.

⁶⁹ [GAO-13-33](#). We recommended that as HHS takes steps to revise expenditure reporting for TANF to better understand how states use TANF funds, it should develop a detailed plan with specific timelines to assist in monitoring its progress for revising its financial reporting categories for expenditures of federal TANF and state MOE funds.

⁷⁰ We noted that generally HHS has limited authority to impose new TANF reporting requirements on states unless directed by Congress, so many changes to the types of performance information that states are required to report would require congressional action.

Questions Exist on Whether Increases in State MOE Reflect New Spending on Low-Income Families

Increases in the expenditures states have claimed as MOE, including expenditures by third parties, may warrant additional attention. We reported in 2012 that MOE is now playing an expanded role in TANF programs.⁷¹ As shown in figure 3, according to HHS data, until fiscal year 2006, MOE levels remained relatively stable, hovering around the 80 percent required minimum or the reduced rate of 75 percent for states that met their work participation rate requirements.⁷² From fiscal years 2006 through 2009, they increased each year. We reported that several reasons account for the increase during this period:

- Many states claimed additional MOE to help them meet the work participation rate requirements, as discussed above.
- During the recession states accessed TANF Contingency Funds, which required them to meet a higher MOE level, and Emergency Contingency Funds, which required them to have had increases in certain expenditures or in the number of families receiving cash assistance.
- An interim rule temporarily broadened the types of activities on which states could spend state funds and be countable for MOE purposes.⁷³

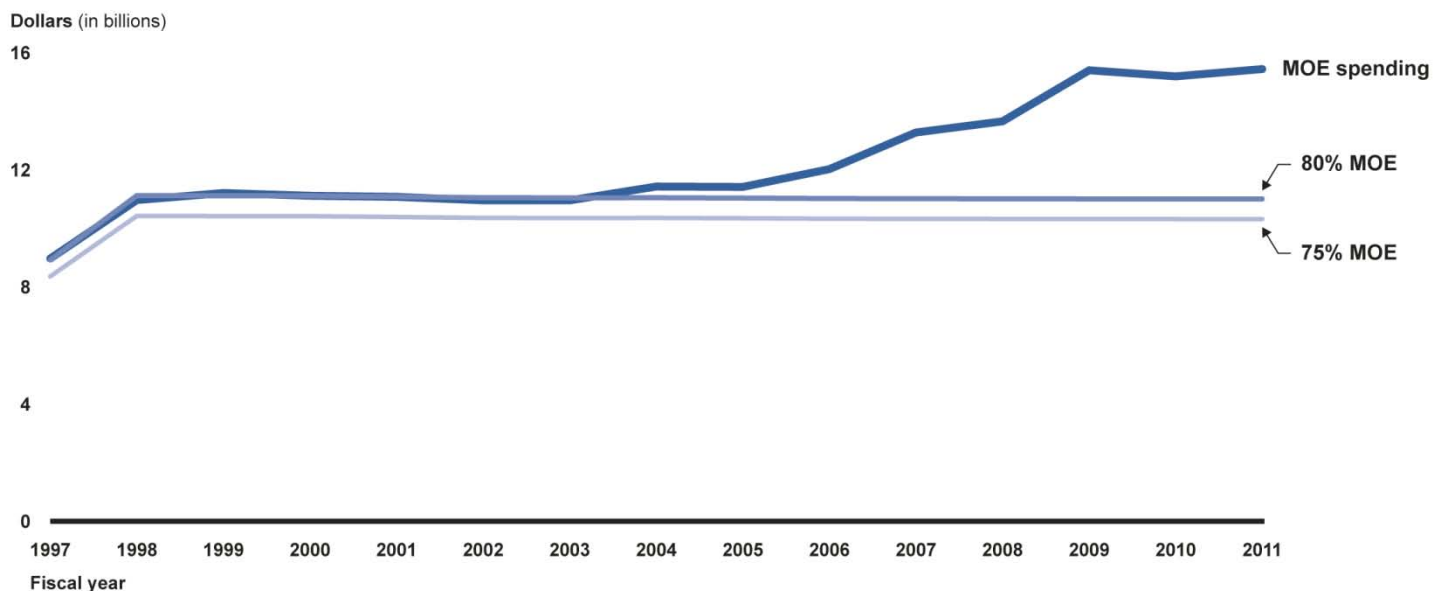
We noted that this greater emphasis on the use of MOE increases the importance of understanding whether effective accountability measures are in place to ensure MOE funds are in keeping with requirements.

⁷¹ GAO, *Temporary Assistance for Needy Families: State Maintenance of Effort Requirements and Trends*, [GAO-12-713T](#) (Washington, D.C.: May 17, 2012).

⁷² To receive all of its federal TANF funds, a state must generally spend state funds in an amount equal to at least 80 percent (75 percent if it meets work participation requirements) of the amount it spent on certain welfare and related programs in fiscal year 1994. 42 U.S.C. § 609(a)(7).

⁷³ Between the interim rule issued in 2006 and the final rule issued in 2008, HHS allowed states to claim total expenditures related to TANF purposes three and four—the prevention and reduction of out-of wedlock pregnancies and the formation and maintenance of two-parent families. These expenditures did not need to be directed solely at “eligible families,” and states had significant flexibility to determine allowable expenditures in those areas. The final rule issued in 2008 limited the types of expenditures that states may count in these areas for individuals that do not meet the “eligible families” definition to those “healthy marriage” and “responsible fatherhood” activities specified in federal law.

Figure 3: State MOE Expenditures, Fiscal Years 1997 through 2011



Source: GAO analysis of HHS data.

Note: State MOE requirements are generally 80 percent (75 percent if the state meets its work participation rate) of the amount they spent on certain welfare and related programs in fiscal year 1994, before TANF was created. Not all states had implemented TANF for the full fiscal year in 1997.

These recent increases in state MOE have raised questions about how to ensure that state expenditures represent a sustained commitment to spending in line with TANF purposes. We noted in 2012 that if MOE claims do not actually reflect maintaining or increasing service levels, low-income families and children may not be getting the assistance they need and federal funds may not be used in the most efficient manner.⁷⁴

However, the recent increases in state MOE spending which states have used to access contingency funds and meet work participation rate requirements may not represent new state spending. For example, officials in one state told us in 2012 that they began claiming MOE expenditures for an existing state early-childhood education program for needy families in fiscal year 2008.⁷⁵ Officials in two other states said they hired consultants during the economic downturn to identify opportunities to claim MOE expenditures from existing state programs that were not

⁷⁴ [GAO-12-713T](#).

⁷⁵ [GAO-13-33](#).

originally used for TANF purposes. For example, one state found that many of its programs could be counted under TANF as “prevention of out-of-wedlock pregnancies” so it claimed funds spent on these programs as MOE.

Additionally, we reported in 2012 that many states have recently begun to count third party nongovernmental expenditures to help meet TANF MOE spending requirements.⁷⁶ In addition to its own spending, a state may count toward its MOE certain in-kind or cash expenditures by third parties—such as nongovernmental organizations—as long as the expenditures meet other MOE requirements, including those related to eligible families and allowable activities.⁷⁷ We reported that between fiscal years 2007 and 2011, about half of all states reported counting third party nongovernmental expenditures toward MOE in at least one year, and 17 states reported that they intend to count these expenditures in the future.

Some Potential Options

Potential options are available to provide additional information on non-cash services and state MOE expenditures that may be useful for making decisions regarding the TANF block grant and better ensure accountability for TANF funds (see table 3).⁷⁸ In particular, requiring additional information on non-cash services would be consistent with our 2012 Matter for Congressional Consideration on improving performance and reporting information.

⁷⁶ GAO, *Temporary Assistance for Needy Families: More States Counting Third Party Maintenance of Effort Spending*, [GAO-12-929R](#) (Washington, D.C.: July 23, 2012).

⁷⁷ 45 C.F.R. § 263.2(e).

⁷⁸ We previously reported on the trade-offs and challenges associated with performance accountability in federal grants, particularly the delicate balance between performance accountability and state and local grantee flexibility as well as a possible lack of consensus on goals and performance measures. However, we noted that because credible performance information and performance measures form the basis for well-functioning accountability provisions, it remains critical for Congress and the executive branch to continue to encourage the development and use of such measures. We discussed a number of opportunities for Congress and the executive branch to improve the design and implementation of performance accountability mechanisms in our report. GAO, *Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results*, [GAO-06-1046](#) (Washington, D.C.: Sept. 29, 2006).

Table 3: Selected Potential Options to Better Understand Recent Trends in TANF Spending^a

If the objective is to:	Potential options	Some considerations
Better understand how TANF funds are used to provide non-cash services	Require states to provide additional information on non-cash services in the TANF state plans they provide to HHS.	Additional information could include a description of the services provided, the amount of money spent on those services, and the numbers of families served beyond the adult cash assistance population. This might be particularly appropriate when significant proportions of TANF funds are used in discrete areas, such as child welfare. However, we have also recognized that the need for additional performance information must be balanced with other considerations. Our previous work has noted that successful performance information systems take into account stakeholder concerns and real world considerations, such as the cost and effort involved in gathering and analyzing data, while striving to collect sufficiently complete, accurate, and consistent data to be useful for decision makers.^b
Better understand expenditures states claim as MOE	Request a review of state MOE expenditures.	Recent increases in state MOE spending raise questions about whether current MOE rules, guidance, and oversight are sufficient, and whether all claimed spending is allowable. We have not reviewed existing efforts to monitor MOE and cannot comment on their effectiveness. Given the increasing role of MOE, such a review may be warranted. However, some questions surrounding the current use of MOE may be beyond the scope of any such study. These include issues that are more appropriate for congressional review, including: whether there is a need for further definition of what non-cash MOE expenditures constitute spending on needy families; and the appropriate role of third party nongovernmental expenditures, including whether there should be defined allowable activities or limits on the portion of MOE spending that may be comprised of these expenditures.^c

Source: GAO analysis of relevant prior GAO reports and transcripts from congressional hearings related to TANF convened from 2009 through 2012.

^aIn this report, GAO is not recommending or endorsing the adoption of any particular policy option or package of options. Rather, we identify them as potential options for Congress to consider, along with other relevant proposals, as it prepares to extend or reauthorize the TANF program.

^bGAO, Executive Guide: Effectively Implementing the Government Performance and Results Act, [GAO/GGD-96-118](#) (Washington, D.C.: June, 1996).

^cSome concerns about whether states' use of MOE is in keeping with expectations could also apply to states' use of federal TANF funds. For more information on the purpose of state MOE and federal nonsupplant requirements generally, see GAO, Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership, [GAO-01-828](#) (Washington, D.C.: Aug. 10, 2001). Nonsupplant requirements are generally aimed at helping to limit states' abilities to use federal funds to replace rather than supplement their own spending. TANF includes a state MOE requirement but does not include a nonsupplant requirement; that is, it does not include a requirement that federal TANF funds not be used to replace state spending.

Concluding Observations

We have identified a number of potential options that could improve TANF performance and oversight as the program is currently designed, based on our prior work. These options are not intended to be exhaustive, and it is not the purpose of this report to recommend or endorse any particular policy option. In addition, there may be a number of other options that would warrant further analysis. However, it is clear that TANF has evolved beyond a traditional cash assistance program and now also

serves as a source of funding for a broad range of services states provide to eligible families. The past 16 years has shown many changes in how states use TANF funds and the populations they serve. Any extension or reauthorization of TANF presents an opportunity to re-examine how it provides assistance to needy families and whether TANF, as currently structured, continues to address Congress' vision for the program.

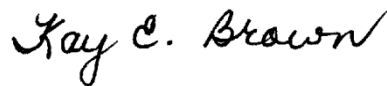
Agency Comments

We provided a draft of our report to HHS for review and comment. HHS provided technical comments which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Health and Human Services, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-7215 or brownke@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix I.

Sincerely,



Kay E. Brown
Director, Education, Workforce, and Income Security Issues

Appendix I: GAO Contacts and Staff Acknowledgments

GAO Contact

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Staff Acknowledgements

In addition to the contact named above, Gale Harris (Assistant Director), Nhi Nguyen, and Michael Pahr made significant contributions to all aspects of this report. Also contributing to this report were James Bennett, Caitlin Croake, Alexander Galuten, Almeta Spencer, and Walter Vance.

Related GAO Products

Temporary Assistance for Needy Families: More Accountability Needed to Reflect Breadth of Block Grant Services. [GAO-13-33](#). Washington, D.C.: December 6, 2012.

Temporary Assistance for Needy Families: More States Counting Third Party Maintenance of Effort Spending. [GAO-12-929R](#). Washington, D.C.: July 23, 2012.

Temporary Assistance for Needy Families: Update on Program Performance. [GAO-12-812T](#). Washington, D.C.: June 5, 2012.

Temporary Assistance for Needy Families: State Maintenance of Effort Requirements and Trends. [GAO-12-713T](#). Washington, D.C.: May 17, 2012.

Unemployment Insurance: Economic Circumstances of Individuals Who Exhausted Benefits. [GAO-12-408](#). Washington, D.C.: February 17, 2012.

TANF and Child Welfare Programs: Increased Data Sharing Could Improve Access to Benefits and Services. [GAO-12-2](#). Washington, D.C.: October 7, 2011.

Temporary Assistance for Needy Families: Update on Families Served and Work Participation. [GAO-11-880T](#). Washington, D.C.: September 8, 2011.

Temporary Assistance for Needy Families: Implications of Caseload and Program Changes for Families and Program Monitoring. [GAO-10-815T](#). Washington, D.C.: September 21, 2010.

Temporary Assistance for Needy Families: Implications of Recent Legislative and Economic Changes for State Programs and Work Participation Rates. [GAO-10-525](#). Washington, D.C.: May 28, 2010.

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Welfare Reform: Better Information Needed to Understand Trends in States' Uses of the TANF Block Grant. [GAO-06-414](#). Washington, D.C.: March 3, 2006.

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Welfare Reform: Federal Oversight of State and Local Contracting Can Be Strengthened. [GAO-02-661](#). Washington, D.C.: June 11, 2002.

Welfare Reform: States Provide TANF-Funded Services to Many Low-Income Families Who Do Not Receive Cash Assistance. [GAO-02-564](#). Washington, D.C.: April 5, 2002.

Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership. [GAO-01-828](#). Washington, D.C.: August 10, 2001.

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