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

March 2006

WELFARE REFORM

Better Information Needed to Understand Trends in States' Uses of the TANF Block Grant

GAO-06-414

March 2006

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Highlights

Highlights of GAO-06-414, a report to the Chairman, Committee on Finance, U.S. Senate

WELFARE REFORM

Better Information Needed to Understand Trends in States' Uses of the TANF Block Grant

Why GAO Did This Study

Under the Temporary Assistance for Needy Families (TANF) block grant created as part of the 1996 welfare reforms, states have the authority to make key decisions about how to allocate federal and state funds to assist low-income families. States also make key decisions, through their budget processes, about federal and state funds associated with other programs providing assistance for the low-income population.

States' increased flexibility under TANF as well as the budgetary stresses they experienced after a recession draw attention to the fiscal partnership between the federal government and states. To update GAO's previous work, this report examines (1) changes in the overall level of welfare-related spending; (2) changes in spending priorities for welfare-related nonhealth services; and (3) the contribution of TANF funds to states' spending for welfare-related services. GAO reviewed spending in nine states for state fiscal years 1995, 2000, and 2004 and focused on spending for working-age adults and children, excluding the elderly, long-term and institutional care.

What GAO Recommends

Congress may wish to obtain additional information on the number of persons served by TANF and how funds are used to meet welfare reform goals to improve its access to useful information for oversight and policy-making purposes.

www.gao.gov/cgi-bin/getrpt?GAO-06-414.

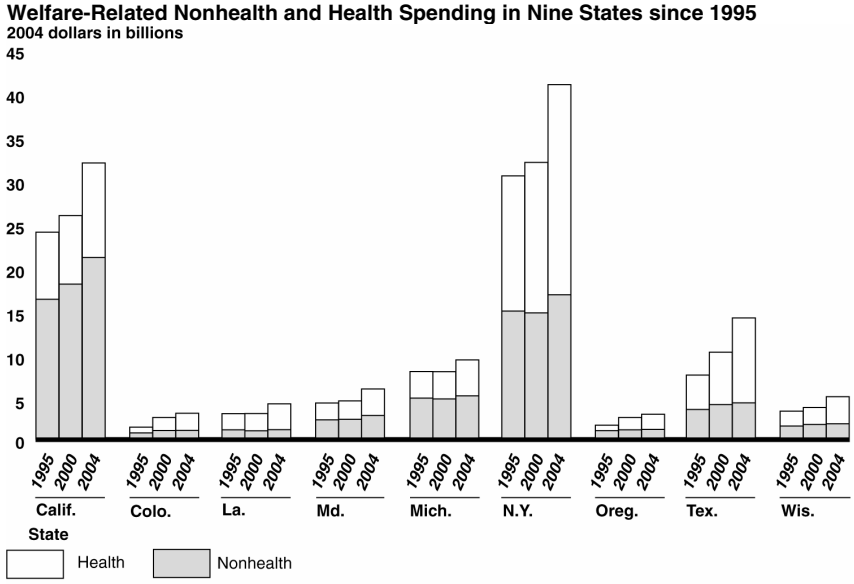
To view the full product, including the scope and methodology, click on the link above. For more information, contact David D. Bellis at (415) 904-2272 or Stanley J. Czerwinski at (202) 512-6520.

What GAO Found

GAO found that spending for low-income people for health and nonhealth services in nine states generally increased in real terms from 1995 to 2000 and from 2000 to 2004. Health spending, excluding spending for the elderly, outpaced nonhealth spending over the decade and now consumes an even greater share of total spending for low-income people, mirroring a nationwide expansion in health care costs. Spending increases were substantially supported by both federal and state funds in the health and nonhealth areas in each time period, reflecting the important federal-state partnership supporting these low-income programs. Overall, spending increases reflected changes in eligible populations and needs, increasing costs, as well as policy changes.

While nonhealth spending increased in real terms, spending priorities shifted away from cash assistance to other forms of aid, particularly work supports, in keeping with welfare reform goals. The largest increases for noncash services occurred from 1995 to 2000, with smaller increases from 2000 to 2004, when some state officials cited challenges in maintaining services. By 2004, states used federal and state TANF funds to support a broad range of services, in contrast to 1995 when spending priorities focused more on cash assistance. However, reporting and oversight mechanisms have not kept pace with the evolving role of TANF funds in state budgets, leaving information gaps at the national level related to numbers served and how states use funds to meet welfare reform goals, hampering oversight. Any efforts to address these gaps should strike an appropriate balance between flexibility for state grantees and accountability for federal funds and goals.

Welfare-Related Nonhealth and Health Spending in Nine States since 1995



Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey of expenditures about which states make key budgetary decisions. Excludes spending for long-term care, institutional care, and the elderly.

Contents

Letter

1

Results in Brief 3
Background 5
Spending on Low-Income Programs Increased over the Decade 8
Spending Priorities Shifted Away from Cash Assistance 16
TANF and MOE Funds Played an Expanding and Flexible Role across State Budgets, but Accountability Remains a Challenge 28
Conclusion 39
Matter for Congressional Consideration 39
Agency Comments 40

Appendixes

Appendix I: Objectives, Scope, and Methodology 42

Appendix II: Federal and State AFDC, TANF, and MOE Spending as a Share of Total Welfare-Related Nonhealth Spending 47

Appendix III: Total Welfare-Related Health and Nonhealth Spending from Federal and State Sources 48

Appendix IV: Welfare-Related Nonhealth Spending by Spending Category 52

Appendix V: Survey Instrument 55

Appendix VI: Comments from the Department of Health and Human Services 65

Appendix VII: GAO Contacts and Staff Acknowledgments 68

Tables

Table 1: Percentage Change in Real Spending for Welfare-Related Health Care 10
Table 2: Welfare-Related Health Spending as a Share of Total Welfare-Related Spending 12
Table 3: Percentage Change in Real Spending for Welfare-Related Nonhealth Services 13
Table 4: Federal Share of Welfare-Related Health Spending over Time 15
Table 5: Federal Share of Welfare-Related Nonhealth Spending over Time 16
Table 6: Percentage Change in Real Spending for Cash Assistance 20

Table 7: Percentage Change in Real Spending for Noncash Assistance 21
Table 8: Percentage Change in Real Spending for Employment Services and Training 22
Table 9: Percentage Change in Real Spending for Work and Other Supports 23
Table 10: Percentage Change in Real Spending for Child Care or Child Development 25
Table 11: Percentage Change in Real Spending for Aid for the At-Risk 26
Table 12: Percentage Change in Real Spending for Child Welfare 27
Table 13: Total Welfare-Related Health Spending 48
Table 14: Total Welfare-Related Nonhealth Spending 48
Table 15: Welfare-Related Health Spending from Federal and State Sources 49
Table 16: Welfare-Related Nonhealth Spending from Federal and State Sources 49
Table 17: Percentage Change in Welfare-Related Health Spending from Federal and State Sources 50
Table 18: Percentage Change in Welfare-Related Nonhealth Spending from Federal and State Sources 51
Table 19: Total Cash Assistance Spending 52
Table 20: Total Employment Services and Training Spending 52
Table 21: Total Work and Other Supports Spending 53
Table 22: Total Aid for the At-Risk Spending 53
Table 23: Total Noncash Assistance Spending 54

Figures

Figure 1: Welfare-Related Spending Categories Used in Our Analysis 3
Figure 2: Changes in Poverty Rates in Nine States from 1995 to 2000 and from 2000 to 2004 8
Figure 3: Total Welfare-Related Nonhealth and Health Spending in Real Dollars since 1995 9
Figure 4: Share of Federal and State Spending (Combined) for Welfare-Related Nonhealth Services by Category over Time (Based on Real Spending) 18
Figure 5: Percentage Change in TANF and MOE Spending for Noncash Aid and Services (Percentage Change in Real Spending from 1995 to 2004) 29
Figure 6: Share of Federal TANF and State MOE Spending for Welfare-Related Nonhealth Services by Category over Time (Based on Real Spending) 32

Figure 7: TANF Balances as a Percentage of Total TANF Funds Available by State in Federal Fiscal Years 2000 and 2004 33
Figure 8: Welfare-Related Spending Categories Used in Our Analysis 44

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United States Government Accountability Office
Washington, D.C. 20548

March 3, 2006

The Honorable Charles E. Grassley
Chairman
Committee on Finance
United States Senate

Dear Mr. Chairman:

In 1996, the federal government made sweeping changes to national welfare policy, significantly altering the federal-state partnership in assisting low-income families as well as setting new goals for states to help parents become independent of government assistance. A decade has passed since then, during which strong economic growth faded into a short recession and many states faced a period of significant budgetary stress. This warrants attention to how the 1996 changes have evolved over time. These changes, enacted through the Temporary Assistance for Needy Families (TANF) block grant, gave states authority to make key decisions about how to allocate federal and state funds to assist low-income families. Since states implemented welfare reforms, they have spent almost $200 billion in federal and state TANF funds on their programs. TANF spending is but a portion of the billions of federal and state dollars that flow through state budgets for a variety of programs for low-income working-age adults and children. These welfare-related programs and services include ongoing cash assistance, employment services and training, work and other supports, aid for the at-risk, and health services.

To provide information on how this welfare-related spending has evolved over the decade since reform and particularly after the national recession in 2001, this report responds to your request that we examine (1) changes in the overall level of welfare-related spending for nonhealth and health services in the periods before and after the recession and over the decade; (2) changes in spending priorities for nonhealth services over these same periods; and (3) the contribution of TANF funds to states' spending for welfare-related services.

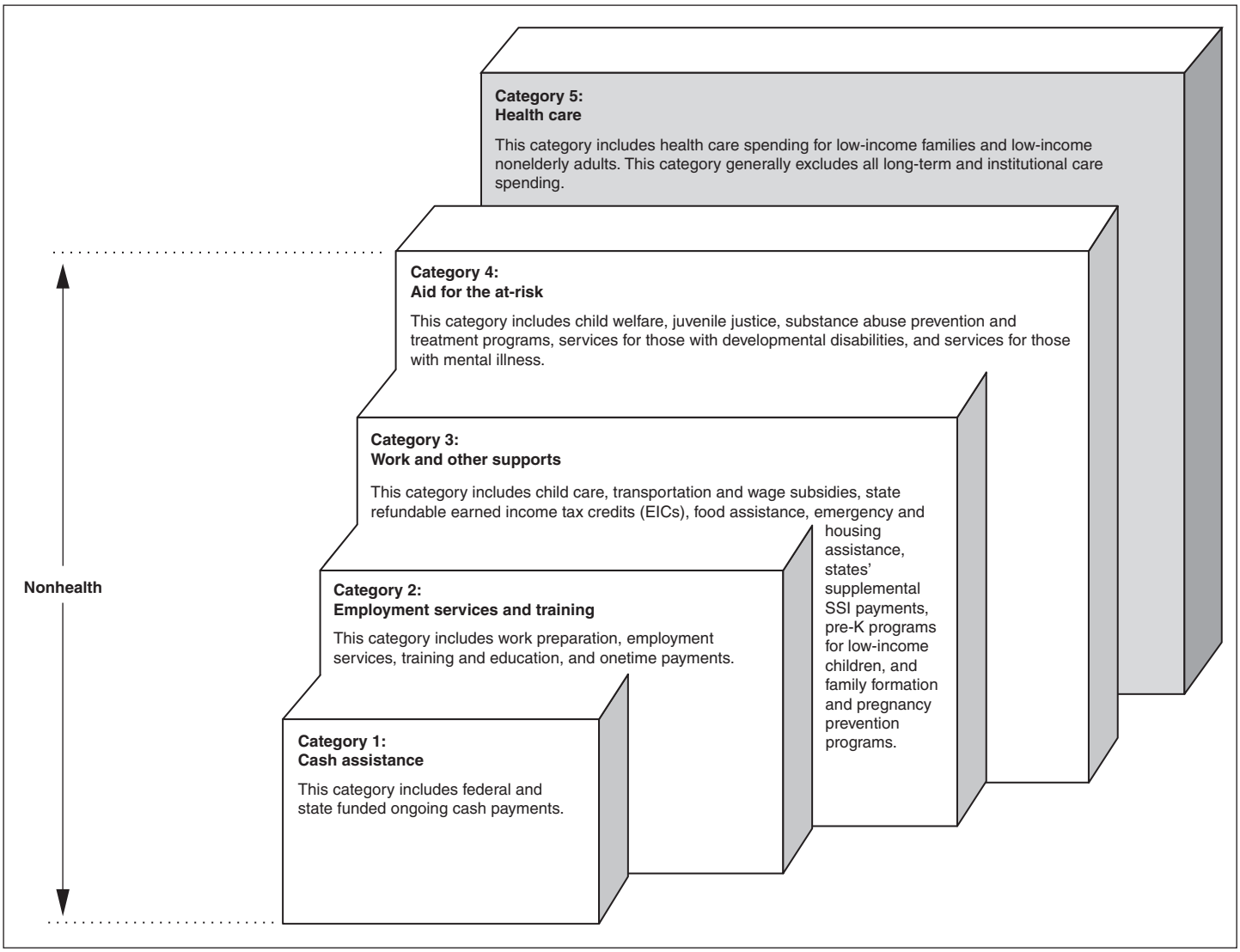
To address these questions, we collected state spending data and conducted site visits in nine states examined in our earlier reports[1] that represent a diverse set of characteristics, including geographic region, population size, and experiences with welfare initiatives. These states are California, Colorado, Louisiana, Maryland, Michigan, New York, Oregon, Texas, and Wisconsin.[2] Together, these states represented about 50 percent of all federal TANF spending nationwide in 2004. In each of these states, we collected budget data and program information for three points in time based on state fiscal years: for 1995 before the passage of federal welfare reform legislation; for 2000; and for 2004, the most recent year for which data were available. We focused on spending for working-age adults and children and excluded spending for the elderly, long-term care, and institutional care. We classified spending into five key areas: cash assistance, employment services and training, work and other supports, aid for the at-risk, and health care. We also spoke with budget and program officials in these states and at the Department of Health and Human Services (HHS), which oversees TANF at the federal level.

Our study includes federal, state, and local spending associated with a broad array of programs, including Medicaid, TANF, housing assistance, and child care and welfare programs for which states make key budgetary decisions. (See fig. 1.) We also focused specifically on federal TANF funds and state funds—referred to as maintenance of effort (MOE) funds—that states must spend at a specified level under law to receive their federal TANF funds. We excluded federal program spending about which states do not make key budget decisions, such as food stamp benefits, the Earned Income Tax Credit (EIC), and others; as a result, our data do not capture all federal spending for low-income individuals. We adjusted spending data for each of our three study years to 2004 dollars in order to make the spending more comparable over time. While information on real spending levels is important, additional data on the extent to which eligible individuals targeted by these programs are being served—information not routinely available—would be needed to draw conclusions about how service needs are being met at these spending levels.

[1]See GAO, *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, GAO-01-828 (Washington, D.C.: Aug. 10, 2001), and *Welfare Reform: Early Fiscal Effects of the TANF Block Grant*, GAO/AIMD-98-137 (Washington, D.C.: Aug. 18, 1998).

[2]Although Connecticut was part of our 2001 report, it is not included in this update because state spending data and supporting documentation were not adequate for completing the analysis (which was modified from the approach used in the 2001 report).

Figure 1: Welfare-Related Spending Categories Used in Our Analysis



Source: GAO.

We conducted our work from October 2004 through February 2006 in accordance with generally accepted government auditing standards.

Results in Brief

Over the decade, state spending from both federal and state sources increased for welfare-related health and nonhealth services in the nine

states. Health spending, excluding that for the elderly, increased in all of these states in both periods (1995 to 2000 and 2000 to 2004), reflecting upward trends in health spending nationwide, and, according to state officials, increasing caseloads and costs for delivering health services. Because health spending outpaced nonhealth spending since 1995, health spending consumed an increasing portion of spending for welfare-related populations in each of the nine states by the end of the decade. Nonhealth spending also increased—in six states during the first time period and in all nine states in the second time period—due to changes in eligible populations and needs as well as federal and state policy changes. Spending increases were substantially supported by both federal and state funds in the health and nonhealth areas in each time period, demonstrating the important federal-state partnership supporting these low-income programs. For nonhealth programs, the federal share of spending appeared to change with economic conditions, while it remained fairly constant for health programs.

The overall nonhealth spending increases during the decade mask substantial changes that occurred in the types of spending. By 2004, the nonhealth portion of state spending for low-income people looked substantially different than it did in 1995. Cash assistance spending fell by at least 50 percent in the nine states over the decade, driven by falling caseloads. In general, noncash spending—for employment services and training, work and other supports, and aid for the at-risk combined—increased significantly from 1995 to 2000, then increased more slowly from 2000 to 2004. Several factors played a role in these increases, including an increased emphasis on supporting working families in their efforts to avoid the welfare rolls, increased demand for child welfare and other services, and increased costs in areas such as mental health. Officials in some states said that they faced challenges in maintaining the services and programs that expanded from 1995 to 2000, as spending then slowed in the following time period.

The combination of a substantial decline in cash assistance caseloads, increased state flexibility under TANF rules, and states' implementation of their new welfare programs resulted in a changing role for TANF and MOE dollars across state budgets. Since welfare reform, states have increasingly spent TANF and MOE funds for aid and services outside of traditional cash assistance payments, as allowed under TANF. We found that the states used these TANF and MOE funds to support a wide range of state priorities, such as child care and development, including prekindergarten; child welfare services; mental health and substance abuse treatment; and

refundable state EIC; among others. This shift was curtailed somewhat from 2000 to 2004, when cash assistance caseloads and related spending increased in several states, associated with a contraction of spending for other forms of aid and services. Still, by 2004, in seven of the nine states cash assistance spending accounted for less than 40 percent of total TANF and MOE spending. However, TANF reporting and oversight mechanisms at the federal level have not kept pace with the evolving uses of TANF funds. As a result, little information exists on the numbers served by TANF funds and limited information is available nationwide on how funds are used to meet welfare reform goals.

To address these information gaps, Congress should direct the Secretary of HHS, in consultation with states, to identify and assess cost-effective options for obtaining additional information on the numbers served by TANF and how funds are used to meet welfare reform goals. These options should take into account the need to strike an appropriate balance between flexibility for state grantees and accountability for federal funds and goals.

Background

The TANF block grant was created by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA),[3] and changed the federal role in financing welfare programs in states. PRWORA ended families' entitlement to cash assistance by replacing the Aid to Families with Dependent Children (AFDC) program—essentially a federal-state matching grant—with the TANF block grant, a $16.5 billion per year fixed federal funding stream to states. PRWORA coupled the block grant with an MOE provision, which requires states to maintain a significant portion of their own historic financial commitment to their welfare programs as a condition of receiving their full TANF allotments.[4] This helped to ensure that states remained strong fiscal partners. PRWORA provided states greater flexibility and responsibility for administering and implementing their welfare programs. Importantly, with the fixed federal funding stream,

[3]Pub. L. No. 104-193, 110 Stat. 2105, August 22, 1996.

[4]States' MOE requirements are based on their own spending in federal fiscal year 1994 on AFDC, Job Opportunities and Basic Skills Training (JOBS); Emergency Assistance (EA); and AFDC-related child care programs: AFDC/JOBS child care program, Transitional Child Care, and At-Risk Child Care programs. A state that does not meet the act's work participation rates must maintain at least 80 percent MOE. A state that meets its work participation rate must maintain at least 75 percent of its MOE. For more information, see GAO/AIMD-98-137.

states must assume the fiscal risks in the event of a recession or increased program costs.

In addition to increased flexibility and the new fiscal structure, PRWORA charged HHS with oversight of states' TANF programs and gave HHS new responsibilities for tracking state performance. PRWORA also set federal requirements that states must impose on many families receiving cash or other ongoing assistance, including time limits and work requirements for adults. At the same time, the law restricts HHS's authority to regulate states' programs and reduced the number of federal employees involved in the program.

TANF and MOE spending is one component of federal, state, and local spending on a range of programs aimed at serving low-income and needy populations, which in this report we will refer to as welfare-related spending. In state fiscal year (SFY) 2004, among the nine states in our study, TANF and MOE spending represented from 12 to 28 percent of all federal, state, and local spending flowing through the state budgets for welfare-related services outside of the health spending captured in our survey. (See app. II.) Outside of TANF and MOE, welfare-related spending provides a wide range of services and comes from a variety of federal, state, and local sources. Transportation subsidies, rental assistance, child care subsidies, heating and energy assistance, and low-income tax preferences, among others, can all serve low-income and needy populations and are funded through multiple federal agencies, such as the Department of Housing and Urban Development, HHS, and the Department of Transportation, as well as by state and local governments.

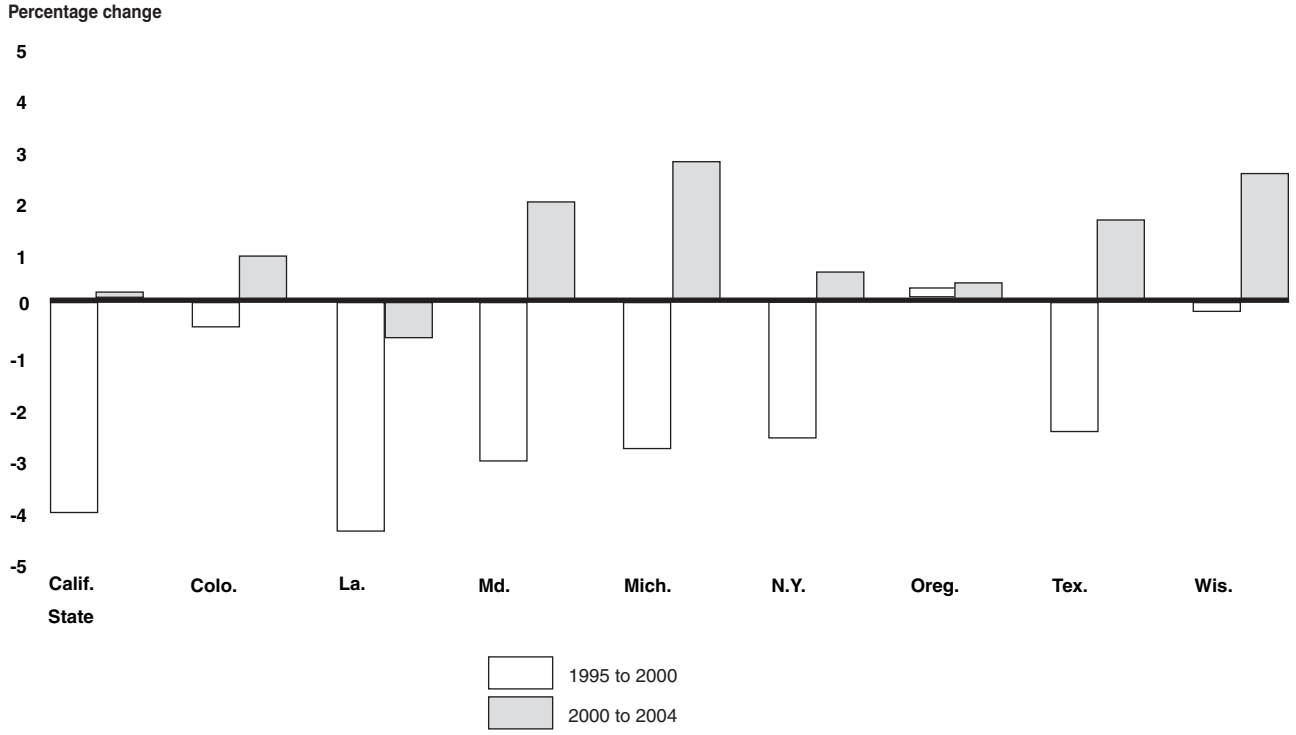
In 2001, we examined welfare-related spending in 10 selected states before and after the passage of welfare reform, from SFY 1995 to SFY 2000.[5] We reported that after welfare reform, since both the amount of flexible federal TANF funds and required MOE remain fixed regardless of the number of people served with these funds, and since cash assistance caseloads declined dramatically since the mid-1990s, states had additional budgetary resources available for use toward a variety of welfare-related purposes and spending. From SFY 1995 to SFY 2000, while total spending levels for all welfare-related services generally increased, states began using these additional budgetary resources to enhance spending for noncash services, such as training, education, and a range of other welfare-

[5]GAO-01-828.

related spending—an allowable practice under TANF. As state TANF programs and welfare-related spending evolved after welfare reform, the nation's welfare system now looks quite different than it did under AFDC.

Our previous findings focused on a period of sustained economic growth and increasing tax collections in states. From 1995 to 2000, state government tax collections grew in inflation-adjusted terms, and unemployment and poverty rates were generally falling, although there was some variation among the nine states we studied. Overall, these circumstances suggest that states were generally faced with declining spending demands from low-income populations and increasing fiscal resources to meet those demands. In 2001, however, the nation experienced a recession from March through November, and a contrasting set of economic and fiscal circumstances developed. A period of rising unemployment and declining state tax collections ensued. In seven of the nine states, poverty rates that fell from 1995 to 2000 increased from 2000 to 2004, as shown in figure 2. These shifts suggest that, in general, states were faced with an increased demand for services aimed at low-income populations at a time when fewer fiscal resources were available to meet these demands after the recession.

Figure 2: Changes in Poverty Rates in Nine States from 1995 to 2000 and from 2000 to 2004



Source: GAO analysis of U.S. Census Bureau data.

Notes: The poverty rate for 1995 and 2000 is a 3-year centered average, that is, the poverty rate for 1995 is the simple average of the poverty rates of 1994, 1995, and 1996, and the poverty rate for 2000 is the average of those for 1999, 2000, and 2001. However, the poverty rate for 2004 is a 2-year average of 2003 and 2004, the latest available year. The change in the poverty rate is the difference of these averages from 1995 to 2000 and from 2000 to 2004.

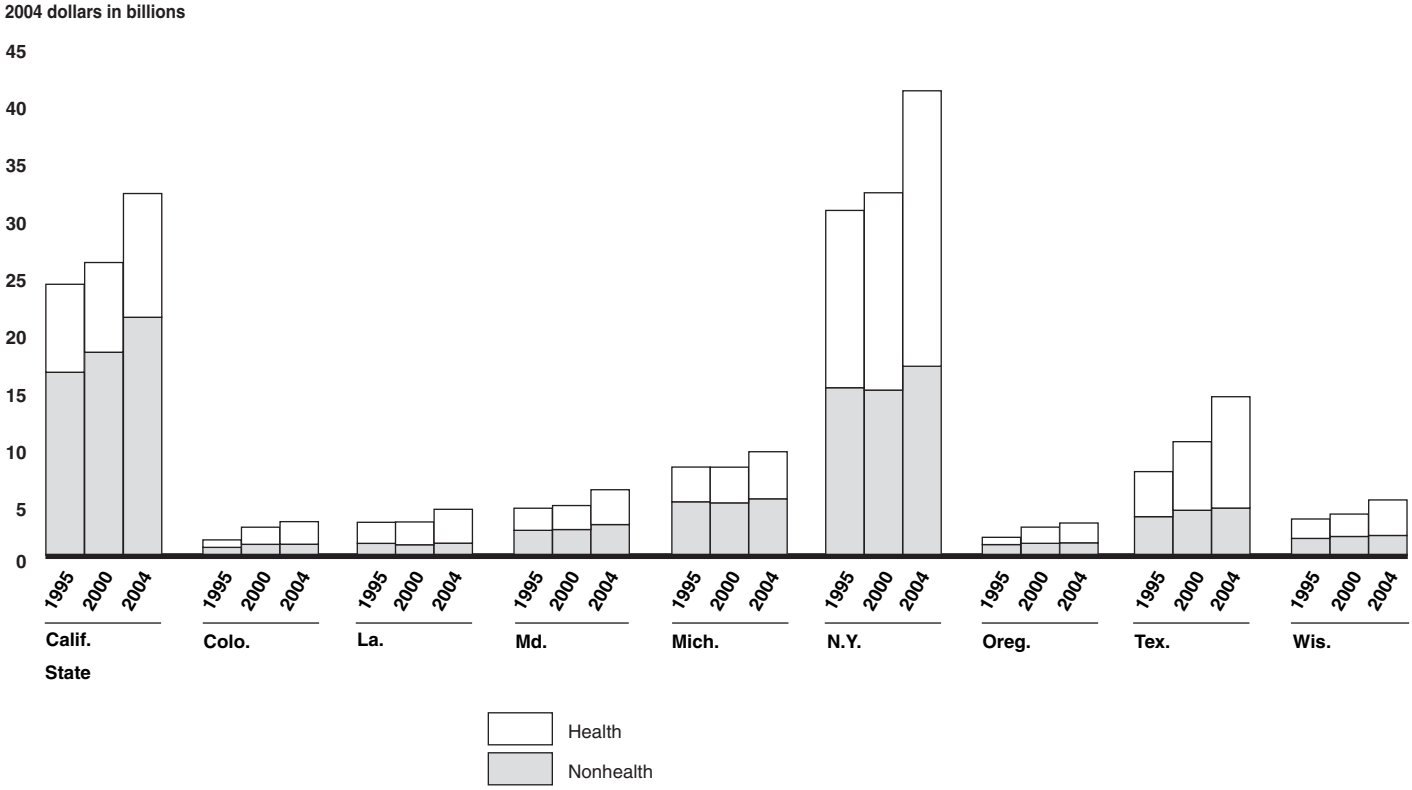
Spending on Low-Income Programs Increased over the Decade

According to data provided by the states, total welfare-related spending rose over the decade in each of the nine states. Health spending accelerated as the decade progressed, increasing faster over the decade than nonhealth spending, which varied somewhat by state and period. Health and nonhealth spending from both federal and state sources increased over the decade, a reflection of the strong fiscal partnership between the federal government and states in supporting low-income individuals. However, while the federal share of health care spending remained fairly consistent over the decade, the federal share of nonhealth spending varied over time.

Total Spending for Welfare-Related Services Increased over the Decade

In the nine states, spending for low-income people for health and nonhealth services increased over the decade since welfare reform. These spending levels, shown in figure 3 for each of the three points in time we examined, include federal and state funds that flowed through state budgets for programs targeting low-income and at-risk individuals. The figure excludes spending for the elderly, for those in institutions, and for long-term care.

Figure 3: Total Welfare-Related Nonhealth and Health Spending in Real Dollars since 1995



Source: GAO survey and analysis of state spending data.

Note: Includes federal, state, and local spending captured in our survey of expenditures about which states make key budgetary decisions. Excludes spending for long-term care, institutional care, and the elderly.

Health Spending Grew Faster Than Nonhealth Spending

In general, health spending accelerated over the decade. The median growth rate increased from 11 percent in the first period (from 1995 to 2000) to 40 percent in the second period (2000 to 2004), as shown in table 1. Colorado and Oregon were exceptions, with larger increases during the strong economy of the late 1990s. States often cited increases in eligible populations and rising pharmaceutical and service delivery costs as the primary reasons for the rapid spending growth in this area.

Table 1: Percentage Change in Real Spending for Welfare-Related Health Care

Based on real 2004 dollars

	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	2	38	41
Colorado	129	32	202
Louisiana	8	48	61
Maryland	8	45	58
Michigan	3	32	36
New York	11	40	55
Oregon	123	22	173
Texas	52	62	147
Wisconsin	15	59	83
Median	**11**	**40**	**61**
Maximum	**129**	**62**	**202**
Minimum	**2**	**22**	**36**

Source: GAO survey and analysis of state spending data.

Note: Includes federal, state, and local spending captured in our survey. Excludes spending for long-term care, institutional care, and the elderly.

The health spending we examined in this report included state spending from federal and state sources for any health care program for working age adults and children, excluding long-term and institutional care. While this spending included such services as public health initiatives—outreach, prevention, diagnosis, care, and children's vaccines, most funds were spent on the State Children's Health Insurance Program (SCHIP) and the Medicaid program. Medicaid is a complex program that serves many different low-income populations. Nationwide, children and their families constitute 75 percent of those served but only account for 30 percent of expenditures, while those with disabilities represent 16 percent of

beneficiaries and 45 percent of expenditures.[6] Between 1995 and 1997, the number of able-bodied adults and children on Medicaid fell, which may be due in part to changes in the relationship between TANF and Medicaid triggered by the 1996 welfare legislation.[7] At the same time, states were starting to enroll low-income children in SCHIP, a new federal-state partnership created by Congress in 1997. It extends health insurance to low-income children whose families earn too much to be eligible for Medicaid but are unable to obtain insurance another way, either through an employer or outright purchase of private insurance. Nationwide, enrollments in Medicaid and SCHIP generally increased from 2000 to 2004.[8] Even so, not all low-income individuals are eligible for Medicaid or SCHIP, and some of those who are eligible are not enrolled for a variety of reasons, including lack of information about the program or choosing not to enroll.[9]

Because health spending grew faster than nonhealth spending since 1995, it now consumes a greater share of welfare-related spending in the state budgets we examined, as shown in table 2. In eight of our nine states, health care accounted for at least 45 percent of welfare-related spending for low-income programs from federal and state sources by 2004. This mirrors a nationwide trend of rising health costs, raising concerns about growing government expenses for health programs.

[6]The elderly make up the remainder of the Medicaid caseload and expenditures, but they are excluded from this study.

[7]For more information see GAO, *Medicaid Enrollment: Amid Declines, State Efforts to Ensure Coverage After Welfare Reform Vary*, GAO/HEHS-99-163 (Washington, D.C.: Sept. 10, 1999).

[8]For more information see Elicia J. Herz, Congressional Research Service, *Coverage of the TANF Population Under Medicaid and SCHIP*, RS22035 (Washington, D.C.: Jan. 27, 2005).

[9]For more information, see GAO, *Means-Tested Programs: Information on Program Access Can Be an Important Management Tool*, GAO-05-221 (Washington, D.C.: Mar. 11, 2005).

Table 2: Welfare-Related Health Spending as a Share of Total Welfare-Related Spending

Percentages based on real 2004 dollars

	SFY		
State	**1995**	**2000**	**2004**
California	32	31	34
Colorado	48	61	67
Louisiana	64	68	74
Maryland	47	49	53
Michigan	40	40	45
New York	51	54	59
Oregon	41	58	62
Texas	54	60	70
Wisconsin	54	54	64
Median	**48**	**54**	**62**
Maximum	**64**	**68**	**74**
Minimum	**32**	**31**	**34**

Source: GAO survey and analysis of state spending data.

Note: Includes federal, state, and local spending captured in our survey. Excludes spending for long-term care, institutional care, and the elderly.

Spending for a Broad Range of Nonhealth Services Increased

Nonhealth spending also generally increased after 1995, although at a slower rate and with more variation among the states and time periods, as shown in table 3. Nonhealth spending includes the following categories: cash assistance, employment services and training, work and other supports, and aid for the at-risk. Spending in these combined categories occurs through a wide variety of federal and state programs that can serve low-income and needy populations. While we found that spending increased overall when looking at all these programs combined, some differences emerged when compared with health spending. Since 1995, median nonhealth spending increased 17 percent, in contrast to the 61 percent median growth rate for health.

Table 3: Percentage Change in Real Spending for Welfare-Related Nonhealth Services

Based on real 2004 dollars

	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	11	17	30
Colorado	38	2	40
Louisiana	-12	15	2
Maryland	2	23	25
Michigan	-1	8	7
New York	-1	14	13
Oregon	12	4	17
Texas	17	5	22
Wisconsin	12	5	17
Median	**11**	**8**	**17**
Maximum	**38**	**23**	**40**
Minimum	**-12**	**2**	**2**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. The nonhealth category reflects total spending from the following previously defined GAO categories: cash assistance, employment services and training, work and other supports, and aid for at-risk. See app. I for a further explanation of these categories.

Because nonhealth spending includes so many different federal and state programs and services, it is difficult to clearly identify factors that explain spending changes overall. However, our previous work and our discussions with state officials show that the spending outcomes reflect a multitude of factors, including changes in the numbers and needs of eligible populations and in federal and state policy and fiscal situations. We provide more information on the factors affecting spending changes in this area in the next section.

After Welfare Reform, State Spending for Low-Income Programs Generally Increased from Both Federal and State Sources

Federal and state governments are important fiscal partners when it comes to providing many types of assistance to low-income and at-risk individuals. Our analysis of state expenditures showed that the spending increases evident since 1995 were substantially supported by both federal and state funds in the health and nonhealth areas in both time periods. (For more details on federal and state spending, see app. III.) The state contribution is noteworthy particularly during the second time period

when states experienced declining revenues. States generally are required to balance their operating budgets, and may need to raise revenues or reduce spending to do so. At the same time, many of the key federal programs for low-income individuals are structured in a way to help ensure that states maintain their financial commitment to these programs in order to receive continued federal support.

In the health area, federal and state funds spent on health services grew at roughly the same rate over the decade, resulting in a fairly stable split in federal and state shares of spending over time. As shown in table 4, in 2004, the median federal share of health spending totaled 58 percent, which would correspond to a state share of 42 percent. The higher federal shares in some states, such as Louisiana, may be explained in part by the greater role the federal government plays in funding Medicaid costs in states with lower per capita incomes. At the same time, because the health spending data include services other than Medicaid, the federal share will not correspond directly to the share under Medicaid.[10]

[10]One of the design features of the Medicaid program is the nature of the cost-sharing arrangement between states and the federal government. The federal share is guided by a matching rate related to the per capita income for each state.

Table 4: Federal Share of Welfare-Related Health Spending over Time

Percentages based on real 2004 dollars			
	SFY		
State	**1995**	**2000**	**2004**
California	49	49	52
Colorado	53	50	53
Louisiana	73	70	75
Maryland	49	49	54
Michigan	56	54	58
New York	42	50	49
Oregon	62	61	64
Texas	63	62	61
Wisconsin	57	58	60
Median	**56**	**54**	**58**
Maximum	**73**	**70**	**75**
Minimum	**42**	**49**	**49**

Source: GAO survey and analysis of state spending data.

Note: Excludes spending for long-term care, institutional care, and the elderly.

In the nonhealth spending area, we also found spending increases generally supported by both federal and state funds, although the federal share showed more variation over the two time periods for nonhealth than for health spending. As shown in table 5, the median federal share fell in 2000 (from 50 percent to 44 percent), possibly as states responded to higher state revenues during the late 1990s. In 2004, the median federal share rose to 49 percent, possibly as a reflection of the tighter fiscal conditions states faced in this time period. In addition, the federal share of nonhealth spending grew more consistent among the states over the decade. The federal share ranged from 33 to 73 percent in 1995, tightening to range from 43 to 61 percent by 2004.

Table 5: Federal Share of Welfare-Related Nonhealth Spending over Time

Percentages based on real 2004 dollars			
	SFY		
State	**1995**	**2000**	**2004**
California	46	44	44
Colorado	50	39	49
Louisiana	73	52	58
Maryland	42	42	45
Michigan	53	51	54
New York	33	38	43
Oregon	61	60	61
Texas	51	56	58
Wisconsin	39	41	46
Median	**50**	**44**	**49**
Maximum	**73**	**60**	**61**
Minimum	**33**	**38**	**43**

Source: GAO survey and analysis of state spending data.

Note: Excludes spending for long-term care, institutional care, and the elderly.

It is important to highlight the distinction between the health and nonhealth areas again when discussing the federal and state shares of spending. In contrast to the health area where much of federal and state financial participation is guided by federal Medicaid statute and regulations, nonhealth spending—comprising numerous federal and state programs—is guided by an array of different laws and rules about federal and state financial participation. Specifically, supports for low-income people vary in terms of whether they are funded with federal funds, state-local funds, or a combination. While several key funding sources, such as the TANF block grant, foster care, food stamp administrative costs, and others require state matching and MOE provisions, others do not. In these cases, funding decisions are left entirely up to states.

Spending Priorities Shifted Away from Cash Assistance

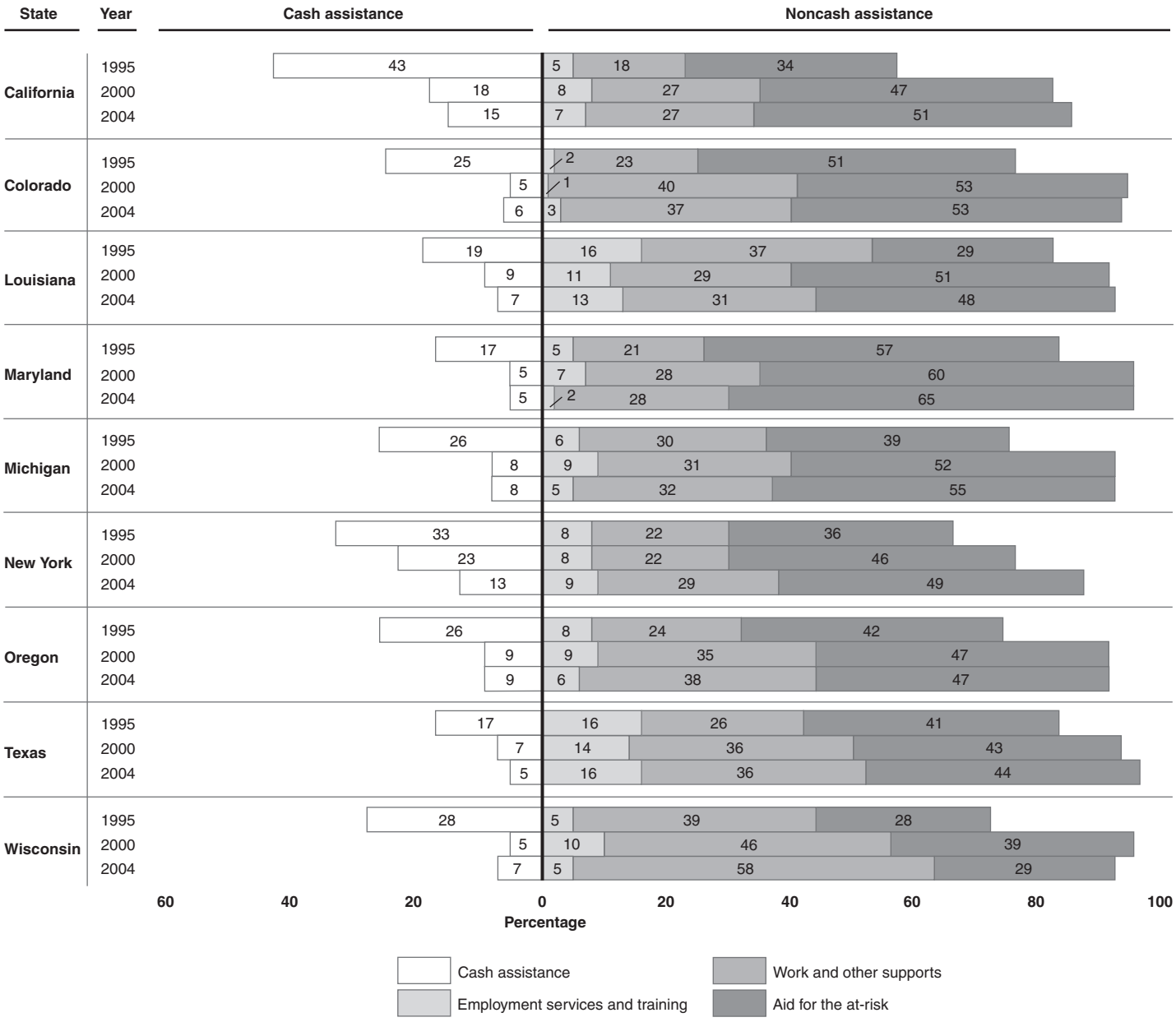
The overall increases in spending for nonhealth services in the nine states mask some substantial shifts over the decade in how states spent federal and state funds for low-income people. Two trends emerged. First, spending shifted away from cash assistance programs toward other types of aid and services (excluding health). Second, this expansion in noncash spending was strongest from 1995 to 2000, and spending increased

further—but more slowly—from 2000 to 2004. Spending for work and other supports, particularly child care and development, was a key growth area in several states, reflecting state efforts to support welfare reforms that focused on employment. Spending on the various nonhealth services varied among the states, reflecting to some extent different state spending priorities. In general, states reported that increases in these areas were driven by policy changes to welfare and other social programs, increased program costs and demand, and increases in federal grants.

Spending Priorities for Low-Income Programs Changed Significantly from 1995 to 2004

By 2004, the nonhealth portion of state spending (from federal and state sources) for low-income services looked substantially different than it did in 1995. In all of the nine states, the total portfolio of nonhealth services shifted away from cash assistance toward other programs, as demonstrated in figure 4. For example, in New York, 33 percent of total nonhealth spending was devoted to cash assistance in 1995, compared with 13 percent in 2004. Other shifts among the noncash assistance categories varied by state and period, reflecting differing spending priorities. For example, work and other supports increased from 39 percent to 58 percent of the welfare-related budget in Wisconsin over the decade, while in Louisiana, the same category declined from 37 percent to 31 percent.

Figure 4: Share of Federal and State Spending (Combined) for Welfare-Related Nonhealth Services by Category over Time (Based on Real Spending)



Source: GAO survey and analysis of state spending data.

Notes: Each bar represents 100 percent of all welfare-related state spending—from federal and state sources—for nonhealth services captured in our survey in each state for each year. Bars may not total to 100 percent due to rounding.

Figure 4 also shows the relative size of the nonhealth categories. Employment services and training remained the smallest category in most of these states over the decade. Although cash assistance began the decade as a larger category in many states, by 2004 it was generally the second smallest category. Over the decade, work and other supports grew to become the second largest category in most states, and aid for the at-risk generally remained or became the largest category. The aid to the at-risk category includes spending for child welfare, juvenile justice, mental health, and other related services.

Cash Assistance Spending Declined Significantly, Largely from 1995 to 2000

Cash assistance spending declined dramatically from 1995 to 2000 in all case study states and varied from 2000 to 2004, as shown in table 6. Although some states increased spending after 2000, all nine states experienced at least a 50 percent decline in cash assistance spending over the decade. In all of the states, a dramatic decrease in cash assistance caseloads led to the decline in spending in this area, particularly from 1995 to 2000.[11]

[11]We asked each state to provide cash assistance spending and caseload data for any income support programs available in the state. TANF-funded cash assistance is only available to families with children. While some states reported all cases to us, including those that are 100 percent state funded, some states did not. This does not affect the overall trends we identified.

Table 6: Percentage Change in Real Spending for Cash Assistance

Based on real 2004 dollars			
	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	-54	1	-53
Colorado	-71	26	-64
Louisiana	-59	-2	-60
Maryland	-69	7	-66
Michigan	-70	13	-66
New York	-32	-35	-55
Oregon	-62	3	-61
Texas	-53	-20	-62
Wisconsin	-80	56	-69
Median	**-62**	**3**	**-62**
Maximum	**-32**	**56**	**-53**
Minimum	**-80**	**-35**	**-69**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the cash assistance category.

In our previous work, we found that several factors have been cited to explain the large reductions in cash assistance caseloads. These include changes in welfare programs; the strong economy of the late 1990s; and other policy changes, such as expansions of the federal EIC and increased federal spending for child care subsidies.[12] One state attributed the more recent caseload increases to the economy. Many state officials also noted changes in the characteristics of those who remained on the welfare rolls. They told us that after the shift to a work-first approach, the caseloads stabilized as the most employable recipients transitioned into the workforce. They said that the remaining cash assistance recipients tend to have multiple barriers to employment and require a wider and costlier range of services to enable them to be self-sufficient.

[12]For more information, see GAO, *Welfare Reform: More Information Needed to Assess Promising Strategies to Increase Parents' Incomes*, GAO-06-108 (Washington, D.C.: Dec. 2, 2005).

Other Nonhealth Spending Increased Rapidly until 2000, Then Growth Generally Slowed

In general, spending for other noncash categories combined (employment services and training, work and other supports, and aid for the at-risk) increased significantly after welfare reform, but slowed from 2000 to 2004 in most of these states, as shown in table 7. While most states increased spending after 2000, some states cited challenges in maintaining their initial rate of growth as their fiscal situations tightened. In contrast to cash assistance spending, which declined sharply during the first period, noncash expenditures rose dramatically in the first period and generally continued to rise during the second period, but at a slower rate.

Table 7: Percentage Change in Real Spending for Noncash Assistance

Based on real 2004 dollars

	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	60	21	94
Colorado	73	0	74
Louisiana	-1	17	16
Maryland	17	24	45
Michigan	22	7	31
New York	14	29	47
Oregon	38	5	44
Texas	31	7	40
Wisconsin	48	3	52
Median	**31**	**7**	**45**
Maximum	**73**	**29**	**94**
Minimum	**-1**	**0**	**16**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. Noncash assistance spending reflects total spending from the following previously defined GAO categories: employment services and training, work and other supports, and aid for at-risk. See app. I for a further explanation of these categories.

Changes in Spending for Employment Services and Training Varied

State spending patterns for training and education varied, although one trend related to welfare reform was evident. As shown in table 8, six states expanded employment services and training spending after 1995, in part to meet the increased employment focus of their TANF programs. Then five of these states cut this spending back as state revenues declined after 2000.

For example, as cash assistance caseloads declined in Wisconsin from 1995 to 2000, it more than doubled spending for employment services and training. However, as cash assistance caseloads increased after 2000, spending for employment services and training was reduced 44 percent. Even so, spending for employment services and training ended more than 30 percent higher at decade end than at its beginning. In addition, in California, a large amount of TANF funds were moved into the training and education area from 1995 to 2000, but some of these funds were removed after 2000. In contrast, two states reduced their training and education spending during the period immediately following welfare reform, but expanded this spending after 2000.

Table 8: Percentage Change in Real Spending for Employment Services and Training

Based on real 2004 dollars

	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	74	-6	64
Colorado	0	173[a]	172
Louisiana	-35	35	-13
Maryland	43	-59	-42
Michigan	41	-34	-7
New York	-6	31	23
Oregon	28	-26	-5
Texas	3	18	21
Wisconsin	138	-44	34
Median	**28**	**-6**	**21**
Maximum	**138**	**173**	**172**
Minimum	**-35**	**-59**	**-42**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the employment services and training category.

[a]Colorado state officials said that this large increase was due in part to data reporting issues associated with the transition from the Job Training Partnership Act employment and training programs to those of the Workforce Investment Act. As a result, this number overstates the increase in actual spending for employment services and training.

Increases in Spending for Work and Other Supports Reflect State Welfare Reform Goals

Over the decade, state spending generally increased by a higher percentage for work and other supports than for any other nonhealth category. In most case study states, this was the second largest nonhealth category in 2004. In each period, most of these states increased spending in this area, although the median increase was much smaller after 2000, as shown in table 9. These expansions are consistent with our previous work, which found that many states expanded the availability of supports that promote employment and economic independence for low-income families.[13]

Table 9: Percentage Change in Real Spending for Work and Other Supports

Based on real 2004 dollars

	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	69	18	99
Colorado	143	-6	129
Louisiana	-31	24	-14
Maryland	38	24	71
Michigan	5	10	15
New York	-1	47	46
Oregon	64	15	88
Texas	59	4	66
Wisconsin	32	32	74
Median	**38**	**18**	**71**
Maximum	**143**	**47**	**129**
Minimum	**-31**	**-6**	**-14**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the work and other supports category.

Louisiana was the only state to experience a substantial spending decline in this category from 1995 to 2000. Louisiana increased spending for two areas in this category, including child care and development, as discussed below. However, these increases were more than offset by other spending areas that decreased, including administrative costs for food stamps,

[13]See GAO, *Supports for Low-Income Families: States Serve a Broad Range of Families Through a Complex and Changing System*, GAO-04-256 (Washington, D.C.: Jan. 26, 2004).

associated with declining food stamp caseloads in the state.[14] After 2000, spending for work and other supports increased as Louisiana invested TANF funds in additional programs, particularly prekindergarten. In contrast, Colorado increased spending on refundable tax credits for working families during the robust economic growth of the 1995-2000 period, but decreased spending slightly from 2000 to 2004.

The child care and development area was the main driver of spending changes in this category in many of these states, with high rates of growth as shown in table 10. In five states, more than half of all growth in the category was due to increased spending for child care and development. Several states reported that child care continued to be in demand, even as TANF caseloads fell, because many working parents relied on subsidized child care to help them keep their jobs. While most spending in this area is focused on child care subsidy programs, some states also increased spending for prekindergarten and other child development programs. As part of the 1996 welfare reform, the federal government increased funding to states through the Child Care and Development Fund (CCDF) to subsidize child care assistance for low-income families who were working or preparing for work through education and training, with a special emphasis on families working their way off welfare. In addition to CCDF, funds allocated by the nine states for child care or development included TANF, MOE, and other funds. Table 10 shows that substantial investments of these funds for child care and development accompanied welfare reforms in the first period and continued, in almost all of these states at a slower rate of increase, in the second period.[15]

[14]Declining food stamp caseloads during this time period were not unique to Louisiana. For more information, see GAO, *Food Stamp Program: Various Factors Have Led to Declining Participation*, GAO/RCED-99-185 (Washington, D.C.: July 2, 1999), and *Food Stamp Program: Steps Have Been Taken to Increase Participation of Working Families, but Better Tracking of Efforts is Needed*, GAO-04-346 (Washington, D.C.: Mar. 5, 2004).

[15]For more information on recent changes in federal and state child care subsidy programs, see GAO, *Child Care: Additional Information Is Needed on Working Families Receiving Subsidies*, GAO-05-667 (Washington, D.C.: June 25, 2005), and *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*, GAO-03-588 (Washington, D.C.: May 5, 2003).

Table 10: Percentage Change in Real Spending for Child Care or Child Development

Based on real 2004 dollars			
	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	215	19	275
Colorado	112	10	133
Louisiana	178	12	212
Maryland	33	5	39
Michigan	4	6	10
New York	124	41	216
Oregon	32	8	44
Texas	71	19	104
Wisconsin	219	48	373
Median	**112**	**12**	**133**
Maximum	**219**	**48**	**373**
Minimum	**4**	**5**	**10**

Source: GAO survey and analysis of state spending data.

Note: Includes federal, state, and local spending (from CCDF, TANF, and other sources) captured in our survey for child care or child development programs for low-income individuals, including prekindergarten and state spending for Head Start.

Other areas of expansion included some entitlement or federal grant programs, such as tax credits, housing, or food assistance. Four states (Colorado, Maryland, New York, and Wisconsin) began or expanded state EIC programs to complement the federal EIC program, which offers work incentives in the form of a tax credit based on income.[16] Food assistance spending increased in most states due to increased administrative costs related to expanding food stamp benefit rolls, although the benefit costs are not reflected here. Two states told us they had engaged in publicity campaigns to encourage eligible recipients to sign up for federally funded programs such as food stamps or EIC.

[16]Our study includes the refundable portion of state EICs. A refundable tax credit provides a payment to those eligible applicants when the amount of the credit is greater than the taxpayer's tax liability. Federal EICs were not included because they do not flow through the state budget.

Aid for the At-Risk Spending Increased Steadily and Remains the Largest Nonhealth Category

Spending on aid for the at-risk, generally the largest nonhealth category, increased for all nine states in both periods, although growth slowed considerably in most states after 2000, as shown in table 11. This category includes spending for child welfare, mental health, developmental disabilities, juvenile justice, substance abuse prevention and treatment, and related spending. Among these, the largest areas of spending were child welfare, mental health, and developmental disabilities. Officials in several states told us that there were increases in the costs of providing services for these three areas, as well as increased demand for child welfare and other services.

Table 11: Percentage Change in Real Spending for Aid for the At-Risk

Based on real 2004 dollars

	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	54	27	95
Colorado	44	1	46
Louisiana	57	9	71
Maryland	7	33	42
Michigan	33	13	50
New York	27	20	53
Oregon	26	3	30
Texas	23	5	30
Wisconsin	54	-20	23
Median	**33**	**9**	**46**
Maximum	**57**	**33**	**95**
Minimum	**7**	**-20**	**23**

Source: GAO survey and analysis of state spending data.

Note: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the aid for the at-risk category.

Wisconsin was the only state to experience a decline in spending in this area for either period, mainly because of a substantial drop in mental health spending after 2000. However, several states had growth rates under 10 percent after 2000, because of decreases in spending areas such as juvenile justice, substance abuse, and developmental disabilities.

Child welfare spending increased considerably in most of the nine states over the decade, primarily from 1995 to 2000, as shown in table 12. This

includes spending for key federal/state partnership programs such as foster care, adoption assistance, and other child welfare services. Nationwide, child welfare systems investigate abuse and neglect, provide placements to children outside their homes, and deliver services to help keep families together.[17] TANF and MOE funds played an important role in four states, which increased TANF-related spending until it accounted for 19 to 32 percent of child welfare spending by 2004.

Table 12: Percentage Change in Real Spending for Child Welfare

Based on real 2004 dollars

	SFY		
State	**1995-2000**	**2000-2004**	**1995-2004**
California	44	22	75
Colorado	50	5	57
Louisiana	23	0	23
Maryland	35	17	59
Michigan	52	40	112
New York	14	13	29
Oregon	-17	18	-1
Texas	21	19	44
Wisconsin	132	-7	116
Median	**35**	**17**	**57**
Maximum	**132**	**40**	**116**
Minimum	**-17**	**-7**	**-1**

Source: GAO survey and analysis of state spending data.

Note: Includes federal, state, and local spending captured in our survey for adoption assistance, foster care, and independent living programs; on any program intended to prevent out-of-home placements, promote reunification of families, or provide a safe environment for children; and on programs that focus on prevention of child abuse and neglect.

[17]For more information on the nation's child welfare system, see GAO, *Child Welfare: Improved Federal Oversight Could Assist States in Overcoming Key Challenges*, GAO-04-418T (Washington, D.C.: Jan. 28, 2004).

TANF and MOE Funds Played an Expanding and Flexible Role across State Budgets, but Accountability Remains a Challenge

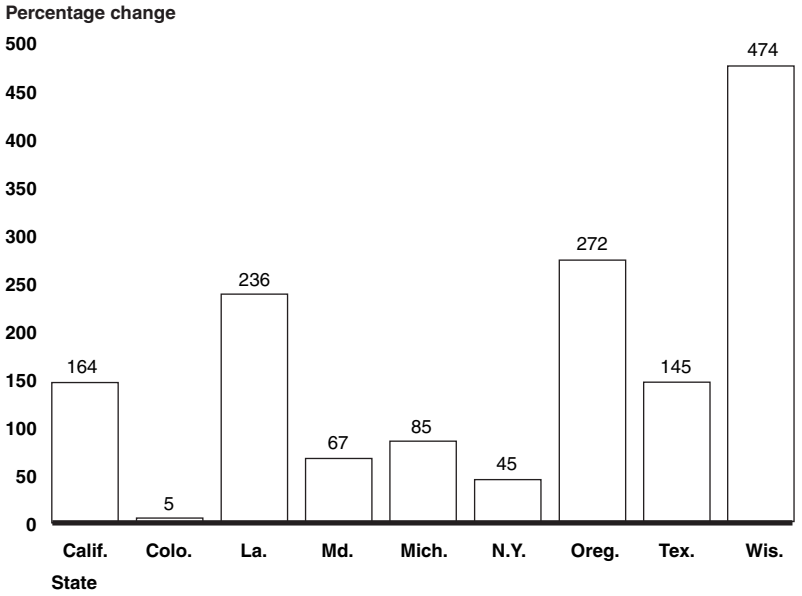
The combination of a substantial decline in traditional cash assistance caseloads, new flexibilities under PRWORA, and states' implementation of their welfare reforms resulted in a changing role for TANF and MOE dollars across state budgets. The change from the previous welfare program—with its open-ended federal funding that matched state expenditures for monthly cash assistance—to the federal TANF block grant—with fixed federal funding and a specified level of state spending—gave states broader discretion over the types of services and activities to fund toward welfare reform goals. This change also gave states broader discretion over the amount of federal TANF and state MOE funds to spend in a given year, subject to minimum levels required under the MOE provisions. Under this new fiscal framework, the landscape of spending for traditional welfare funds changed substantially since welfare reform. TANF and MOE dollars played an increasing role in state budgets outside of traditional cash assistance payments, for programs to encourage work, help former welfare recipients keep their jobs, and provide services to needy families that did not necessarily ever receive welfare payments. However, with this shift, gaps arose in the information gathered at the federal level to ensure state accountability. Existing oversight mechanisms focus on cash assistance, which no longer accounts for the majority of TANF and MOE spending. As a result, there is little information on the numbers of people served by TANF-funded programs, meaning there is no real measure of workload or of how services supported by TANF and MOE funds meet the goals of welfare reform.

Flexible TANF Funds Serve a Broad Population in Various Ways

Since welfare reform, states have increasingly spent TANF and MOE funds for aid and services outside of traditional cash assistance payments. Before welfare reform each of our study states spent some federal and state AFDC-related funds in spending categories other than cash assistance.[18] However, by 2004, most of the states had significantly increased their use of TANF and MOE funds in these noncash categories compared with the level of spending in 1995, as shown in figure 5.

[18]While the major focus of the AFDC program was monthly cash assistance, states could spend some federal and state AFDC-related funds on work preparation, child care, emergency assistance payments, and some child welfare-related activities. These program components are related to spending in the noncash categories in our analysis—employment services and training, work and other supports, and aid for the at-risk. However, states may not use TANF-related funds to pay for most medical services, which restricts their ability to supplement Medicaid spending.

Figure 5: Percentage Change in TANF and MOE Spending for Noncash Aid and Services (Percentage Change in Real Spending from 1995 to 2004)



Source: GAO survey and analysis of state spending data.

Note: This compares 1995 federal and state AFDC-related funds spent in the noncash categories—employment services and training, work and other supports, and aid for the at-risk—with the amount of federal TANF and state MOE spending in these same categories in 2004. These data will not directly correspond to amounts reported by states to HHS because of differences in fiscal years and our study methodology.

The TANF block grant played a critical role in this shift in spending priorities. Under the block grant structure, states' fixed annual TANF allotments did not change as cash assistance caseloads fell. In addition, states still had to meet maintenance of effort requirements by spending at least 75 percent of the amount they had spent in the past when caseloads were much higher. States faced choices about how to use these funds, including whether to leave some amount of their annual grant in reserve at the U.S. Treasury to help them meet any future increases in welfare costs. TANF funds not spent by states accumulate as balances in the U.S. Treasury.

New Welfare Environment Emerges after Federal and State Reforms

Our previous work showed that several trends emerged in this new welfare environment. First, many states increased their efforts to engage more welfare families in work or work-related activities in keeping with key TANF program requirements. More specifically, to avoid financial penalties, states were to meet specified work participation rates by

engaging parents receiving cash assistance in work-related activities. States generally met these rates, in part because of adjustments made in the target rates due to the drop in caseloads and other provisions that allowed states to serve some families without work requirements.[19] In strengthening their welfare-to-work programs, states emphasized the importance of work to TANF recipients and paid more attention to case management services, child care and transportation assistance, and other services to help individuals, including those who faced some barriers to employment, become job ready.[20]

Second, many states took steps to help parents who had left the welfare rolls for employment, often by continuing to provide child care assistance, sometimes using TANF funds to supplement other federal funds used for child care subsidies for low-income parents. Our work has shown that many former welfare recipients work in low-wage jobs with limited benefits and that continued assistance, such as child care subsidies, can help them maintain their jobs.

Third, states also used TANF and MOE funds to provide a range of services to families that had not previously received cash welfare payments. These services can include onetime payments to families in need, such as for rent payments that might help keep them off the welfare rolls. Some states increased efforts to promote healthy marriages and two-parent families. All of these uses of TANF and MOE funds are generally considered in keeping with the broad goals established in the legislation. As specified by law, the purpose of TANF is to

- provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;

[19]In August 2005, we recommended that HHS take steps to help improve the quality and comparability of the work participation rate data to improve this measure's usefulness in assessing states' performance. See 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).

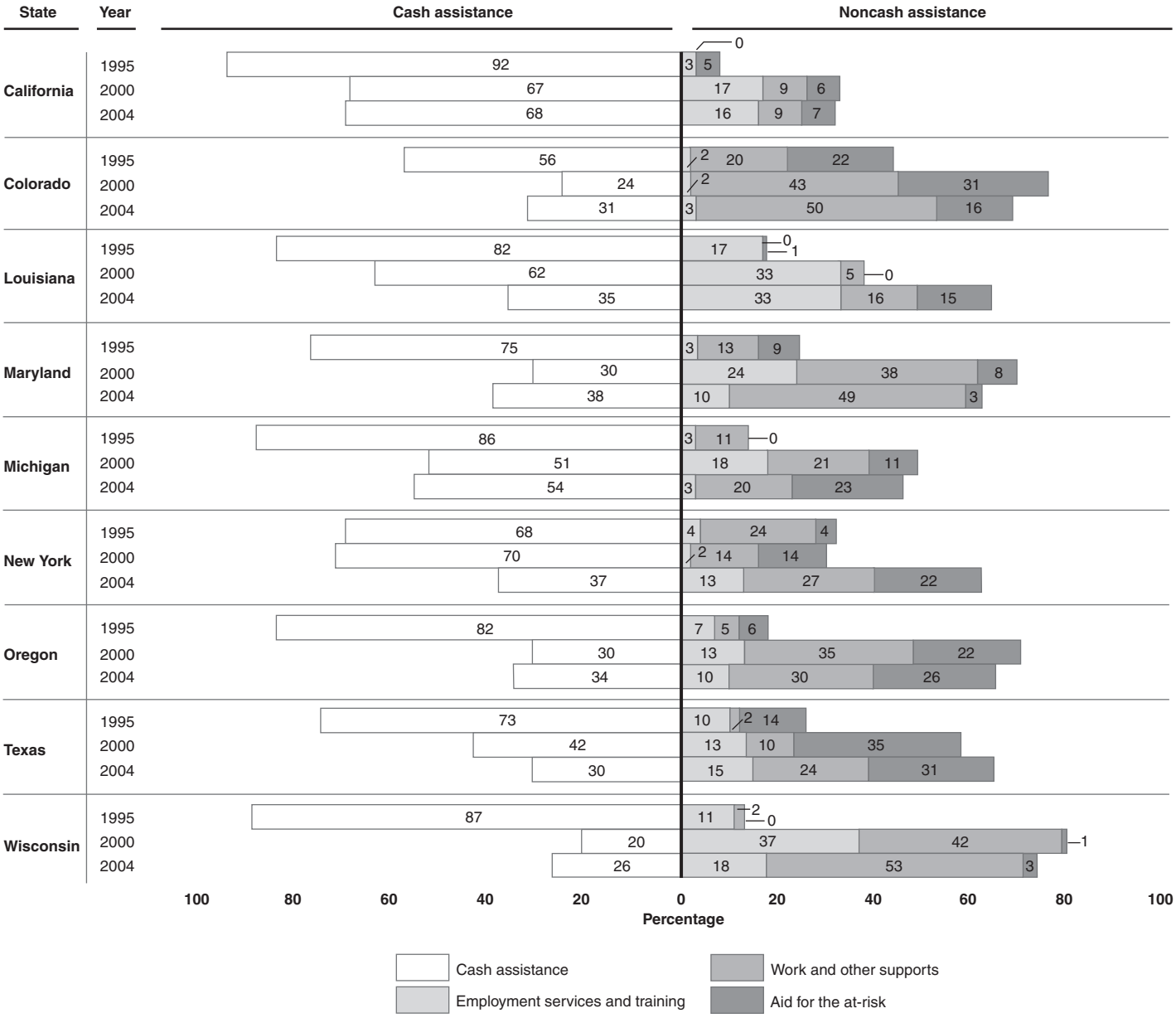
[20]Some of the costs of such welfare-to-work programs are included in the employment services and training category and in the cash assistance category (for payments to TANF recipients; costs of caseworkers; and job placements, for example), while other costs, such as child care assistance paid for with TANF and MOE funds, are included in the work and other supports category. The states may vary in how they classify some of the costs of operating welfare-to-work programs.

- end the dependence of needy families on government benefits by promoting job preparation, work, and marriage;
- prevent and reduce the incidence of out-of-wedlock pregnancies; and
- encourage the formation and maintenance of two-parent families.

Spending Priorities Shift as Policies and Programs Change

This shift to aid and services other than cash assistance is mirrored in our analysis of states' spending patterns for TANF and MOE funds. Figure 6 shows the percentage of TANF and MOE funds (combined) that each state spent in each spending category in 1995, 2000, and 2004. (This figure only includes TANF and MOE spending, in contrast to figure 4, which showed the percentage of *total* federal and state low-income spending that each state spent in each category.) For example, figure 6 shows that California spent more than 90 percent of its federal and state AFDC-related funds on cash assistance in 1995 compared with 68 percent of its federal and state TANF-related funds in 2004. As the share of funds devoted to cash assistance declined in that state, the portion devoted to employment services and training, in particular, increased. In seven of the nine states, by 2004, cash assistance spending accounted for 40 percent or less of total TANF and MOE. States varied in how their TANF and MOE funds were distributed among the noncash categories.

Figure 6: Share of Federal TANF and State MOE Spending for Welfare-Related Nonhealth Services by Category over Time (Based on Real Spending)

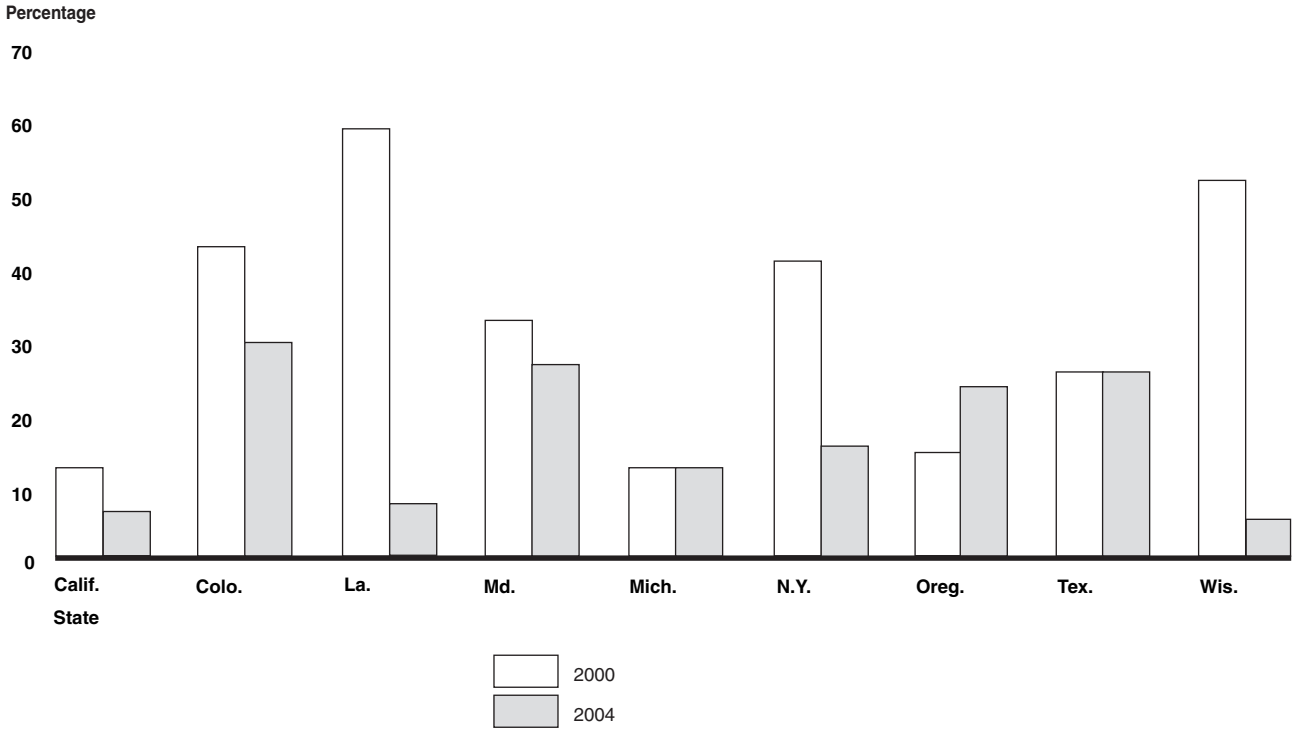


Source: GAO survey and analysis of state spending data.

Notes: Each bar represents 100 percent of the TANF and MOE spending for nonhealth services captured in our survey in each state for each year. Bars may not total to 100 percent due to rounding. To the extent that states did not report to us TANF funding spent through the Social Services Block Grant and CCDF, as allowed under law, it is not included in these data.

This shift to noncash assistance was curtailed somewhat from 2000 to 2004, when cash assistance caseloads and related spending increased in several of the states, associated with a contraction of spending for other forms of aid and services, as shown in figure 6. During this period, state officials generally had to make different choices about what services and programs they could support with TANF and MOE funds to ensure they had enough funds to support the core cash assistance program. Some state officials told us that they drew down their TANF balances or reserves to help them maintain service levels. Regarding these TANF balances, most of the nine states followed a pattern of initially building up their TANF balances and then drawing them down in the 2000-2004 time period to help them maintain services, as shown in figure 7.

Figure 7: TANF Balances as a Percentage of Total TANF Funds Available by State in Federal Fiscal Years 2000 and 2004



Source: GAO analysis of HHS data.

Note: These data represent the total amount of unspent TANF funds (including unliquidated and unobligated funds) as a percentage of the total TANF funds available to the state (the state's annual grant amount plus any unexpended grant amounts carried over from previous years).

Over the decade, we found that the states used their federal and state TANF-related funds throughout their budgets for low-income individuals, supporting a wide range of state priorities, such as refundable state EICs for the working poor, prekindergarten, child welfare services, mental health, and substance abuse services, among others. While some of this spending, such as that for child care assistance, relates directly to helping cash assistance recipients leave and stay off the welfare rolls, other spending is directed to a broader population and set of state needs. The flexibility afforded states under TANF allows them to use these funds toward their state priorities. Some examples include the following:

- Oregon—home to a large refugee resettlement population—spent TANF funds on cash benefits and other refugee services. Oregon also spent TANF and MOE funds on emergency assistance for survivors of domestic abuse.

- New York and Wisconsin use federal TANF or state MOE funds for refundable tax credits. New York has increased the extent to which it counts state spending for the refundable portion of its EIC and dependent care tax credit to help it meet its MOE requirement. Wisconsin has used federal TANF funds to finance the refundable portion of its state EIC that previously had been financed with state funds, as we reported in our earlier report on these states' use of funds.[21]

- Michigan uses TANF funds for emergency homeless shelters and programs for runaways. TANF funds are also used for individual development accounts, which provide funds to eligible families to match their own funds to encourage them to save for educational purposes.

- According to state officials, Texas used MOE funds for prekindergarten for low-income children with low English proficiency. Texas also used TANF funds for an employment retention and advancement program for working people.

- California counts state funds used for the California Food Assistance Program toward its MOE requirement and uses TANF funds for juvenile probation services and fraud prevention incentive grants to counties.

[21]GAO-01-828.

- Maryland spent TANF funds through the state Department of Education for the Children At Risk program. According to the Governor's Budget, this program provides services for pregnant and parenting teenagers and provides funds to reduce the number of students who drop out of school each year, prevent youth suicides, reduce the incidence of child alcohol and drug abuse, and reduce AIDS among students.

- According to state officials, Louisiana, after initially building up a large TANF balance, took steps from 2002 to 2004 to spend down these funds, in some cases through short-term initiatives to be supported only until funding ran out. Some of these spending initiatives included prekindergarten, which state officials noted is a priority of the governor; funds to address teen pregnancy; and support for child welfare advocates.

Much Remains Unknown about How States Use TANF Funds to Address Federal Welfare Reform Goals

While current mechanisms in place at the federal level to hold states accountable for their use of federal TANF and state MOE funds provide useful information, these reporting mechanisms still leave significant gaps that hamper oversight. The new federal welfare program goals and fiscal structure established in 1996 entailed substantial changes in federal oversight and reporting mechanisms. At the federal level, HHS is responsible for oversight of the TANF block grant, and states provide several types of information for oversight purposes. Key oversight and reporting mechanisms are

- expenditure reports on the amount and type of federal and state MOE spending;

- plans that each state must file with HHS to outline its TANF programs and goals, among other things, for reducing out-of-wedlock pregnancies;

- annual reports that each state must file with HHS to supplement its state plan information;

- aggregate caseload and individual reporting on demographic and economic circumstances and work activities of individuals receiving TANF cash assistance;

- single audit reports conducted as part of governmentwide audits of federal aid to nonfederal entities;

- performance bonuses related to measures of job entry, job retention, and wage growth for TANF recipients and also for reducing out-of-wedlock births; and

- financial penalties in 14 specified areas, including failure to meet the state MOE requirement and the minimum work participation rates.

In addition, HHS funding supports a range of research activities that provide additional information on TANF recipients and other low-income populations.

These reporting mechanisms and information sources generally provide useful information on states' use of TANF and MOE funds, although key information gaps remain. One such gap exists because the key measure of the number of people served through the block grant remains focused on families receiving TANF assistance, defined in TANF regulations as benefits designed to meet a family's ongoing basic needs, which most typically occurs through receipt of monthly cash assistance.[22] This measure does not provide a complete picture of the number of people receiving other forms of aid or services funded with TANF and MOE funds. In 2002, we estimated that in the 25 states we studied, at least 46 percent more families than are counted in the TANF caseload are provided aid or services with TANF and MOE dollars.[23] In addition, we reported in June 2005 that the lack of information on the numbers of children and families receiving child care subsidies funded by TANF and the types of care received leads to an incomplete picture of the federal role in providing child care subsidies to low-income parents.[24] We already said in that report that Congress may wish to require HHS to find cost-effective ways to address this specific gap to provide additional information of value to

[22]TANF regulations state that the term "assistance" includes cash, payments, vouchers, and other forms of benefits designed to meet a family's ongoing basic needs, such as for food, clothing, shelter, and other items. It excludes other forms of aid, including supportive services such as child care and transportation provided to employed families and refundable EICs.

[23]See GAO, *Welfare Reform: States Provide TANF-Funded Work Support Services to Many Low-Income Families Who Do Not Receive Cash Assistance*, GAO-02-615T (Washington, D.C.: Apr. 10, 2002).

[24]See GAO, *Child Care: Additional Information Is Needed on Working Families Receiving Subsidies*, GAO-05-667 (Washington, D.C.: June 29, 2005).

policymakers and program managers in ensuring the efficiency, effectiveness, and accountability of federal supports for child care.

Additional information on the full range of people served by TANF and MOE funds is essential for a better understanding of the true workload of the grant. Caseload or workload information is important for oversight and policy-making purposes, particularly those related to the amount of and needs associated with the block grant. For example, as the cash assistance caseload declined by more than half nationwide, it raised questions as to whether adjustments were needed to the block grant funding levels. At the same time, because the amount of the block grant has not been adjusted for inflation since its creation in 1996, concerns have been raised about its declining value and the possible impact on meeting needs. Better information could inform these discussions.

While having more information on the numbers served is important, it is also critical to make a distinction between those receiving cash assistance and other types of assistance, because different program requirements apply to families in different situations. More specifically, under TANF, families receiving ongoing cash assistance are generally subject to work requirements, time limits, and other requirements, in part to emphasize the transitional nature of assistance and to help ensure that recipients take steps to prepare for work. Those receiving other forms of aid outside of a state's TANF program through a separate state program, such as working parents receiving child care subsidies, are not subject to requirements such as time limits on aid.

Another information gap relates to what services are funded and how those services fit into a strategy or approach for meeting TANF goals. This would include information about intended target populations and the strategy or approach for using the funds to further welfare reform goals. For example, additional information on the extent to which TANF and MOE funds were used to support work requirements for cash assistance recipients is important to understanding the costs of supporting a state's core TANF program. It is also important to have additional information to better understand the costs involved in providing aid to those transitioning off of welfare and to a more general population, such as for prekindergarten services or to supplement a state's refundable EIC program. Such information would be useful to congressional policymakers in considering changes to TANF work requirements and implications for the provisions of other services, a key issue in TANF reauthorization deliberations.

In creating the TANF block grant, Congress emphasized the importance of state flexibility, and to that end, the legislation restricted HHS regulatory authority over the states except to the extent expressly provided in the law. Regarding collecting additional information about services beyond cash assistance, while HHS has acknowledged the value of having additional information, it has said that it will not collect this information without legislative changes directing it to do so.

In any effort to get more information or to increase or revise program and fiscal reporting requirements, important considerations should be taken into account. In our report on the current undercounting of those served by TANF, some state officials raised concerns about the possibility of additional TANF reporting requirements being imposed on states to collect information on families not included in the TANF caseload. These concerns included that (1) states lack the information systems needed to fulfill additional requirements, (2) fulfilling additional requirements will increase administrative costs, (3) additional data collection requirements could deter states and service providers from offering services because they would not want the administrative burden associated with them, and (4) requiring all service recipients to provide personal identifying information for every service may deter some people from accessing services because of the stigma associated with welfare. While many of these concerns are legitimate, they do not necessarily outweigh the importance of getting needed information for oversight and policy making and can be considered in addressing any changes. In addition, there may be a variety of ways to get needed information, some more cost-effective than others, including relying on existing data sources or special studies. Moreover, opportunities may exist to streamline or eliminate some reporting requirements to make way for more relevant ones, as determined by Congress, HHS, and the states. In the past, Congress has included in legislation a requirement that HHS cooperate with states—key stakeholders in welfare reform—in considering aspects of monitoring state programs and performance. HHS has worked with state and human services professional organizations to discuss and receive input on information requirements and performance standards in the past.

National-level data show that the trend away from cash assistance spending has occurred nationwide. States are using substantial portions of their block grants and MOE funds as large, flexible funding streams to meet their priorities in many areas of their budgets for low-income families, yet much remains unknown at the national level about how these federal TANF and state MOE funds are used to meet the overall goals of welfare reform.

Conclusion

Ten years after Congress passed sweeping welfare reforms, much has changed in how federal and state dollars support programs for low-income and at-risk individuals. Some trends raise issues for the future. Overall, spending is up, but state budgets for low-income individuals are increasingly dominated by health care spending. To the extent that this trend continues or becomes more pronounced, it warrants attention as to its effect on state spending to meet other needs of low-income individuals. Another key trend was the shift in nonhealth spending priorities away from cash assistance to greater emphasis on supporting low-income individuals' work efforts. However, the greatest increases came right after welfare reform during the strong economy, while some contraction in spending was apparent in the latter period. This raises questions about the sustainability of this shift.

In addition, in the new welfare environment, too much remains unknown about how TANF block grant funds are spent to meet welfare goals. A natural tension exists with block grants that is not easily addressed. A key challenge is to strike an appropriate balance between flexibility for states and accountability for federal goals. This is particularly important given the large dollar amount of the TANF block grant—over $16 billion in federal funds annually. With the current accountability and reporting structure for TANF, the information gaps hamper decision makers in making informed choices about how best to spend federal funds to assist vulnerable populations cost effectively. At the same time, consideration needs to be given to collecting needed information in a way that minimizes reporting burden and acknowledges the importance of flexibility in addressing state and local needs.

Matter for Congressional Consideration

To better inform its oversight and decision-making process, Congress should consider ways to address two key information gaps for the TANF block grant: (1) insufficient information on the numbers served by TANF funds and (2) limited information on how funds are used—for example, on which target populations and as part of what strategies and approaches—to meet TANF goals.

Efforts to obtain more information must take into account how to do so in the most cost-effective and least burdensome way. Some options include Congress directing the Secretary of HHS to require states to include more information in state TANF plans filed with HHS on their strategies and approaches for using funds; require states to include more information on

all aspects of TANF spending in the annual reports they must file with HHS; and revise other reporting requirements regarding the uses and recipients of TANF-related funds. Congress may wish to require the Secretary to consult with key welfare reform stakeholders in assessing and revising reporting requirements or information-gathering strategies.

Agency Comments

We provided a draft of this report to HHS for review. In its written comments, which appear in appendix VI, HHS agreed that additional information on states' use of TANF funds would be valuable and that expanded data collection requirements should be done in a cost-effective manner and in consultation with stakeholders. HHS also provided technical comments that we incorporated where appropriate.

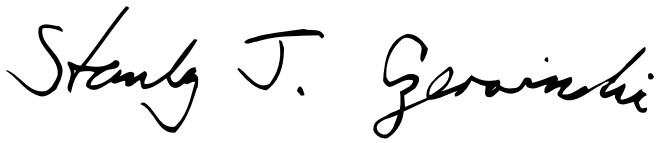
As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies of this report to the Secretary of Health and Human Services, appropriate congressional committees, and other interested parties. We will also make copies available to others upon request. In addition, the report is available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact David D. Bellis at (415) 904-2272 or Stanley J. Czerwinski at (202) 512-6520. 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 major contributions to this report are listed in appendix VII.

Sincerely yours,

David D. Bellis
Director
Education, Workforce, and Income Security Issues



Stanley J. Czerwinski
Director
Strategic Issues

Objectives, Scope, and Methodology

In order to provide information on welfare-related spending over the decade since welfare reform, we designed our study to (1) examine changes in the overall level of welfare-related spending for nonhealth and health services in the periods before and after the recession in 2001 and over the decade since 1995, (2) examine changes in spending priorities for nonhealth welfare-related services during the same time periods, and (3) review the contribution of Temporary Assistance to Needy Families (TANF) funds to states' spending for welfare-related services. To address these objectives, we used a survey instrument to collect state spending data from state budget and program officials in nine states examined in our prior reports;[1] conducted site visits in these nine states; and reviewed information available from prior GAO work, relevant federal agencies, and other organizations. The nine states in our study—California, Colorado, Louisiana, Maryland, Michigan, New York, Oregon, Texas, and Wisconsin[2]—represent a diverse set of socioeconomic characteristics, geographic regions, population sizes, and experiences with state welfare initiatives. For the purposes of this report, we focused on spending for working-age adults and children and excluded spending for the elderly, long-term care, and institutional care. The term welfare-related refers to spending for low-income and at-risk individuals, including TANF-eligible and non-TANF eligible individuals. Because our focus was on states' budgetary decisions, we excluded federal program spending about which states do not make key budget decisions, such as food stamp benefits, the Earned Income Tax Credit, Supplemental Security Income, and other programs; as a result, our data do not capture all federal spending for low-income individuals.

Welfare-Related Spending Survey

To obtain data on welfare-related spending over the decade since welfare reform, we asked state budget and program officials from each state's central budget office and relevant state agencies to identify welfare-related spending data using the same survey instrument and criteria used in our

[1]GAO, *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, GAO-01-828 (Washington, D.C.: Aug. 10, 2001), and *Welfare Reform: Early Fiscal Effects of the TANF Block Grant*, GAO/AIMD-98-137 (Washington, D.C.: Aug. 18, 1998).

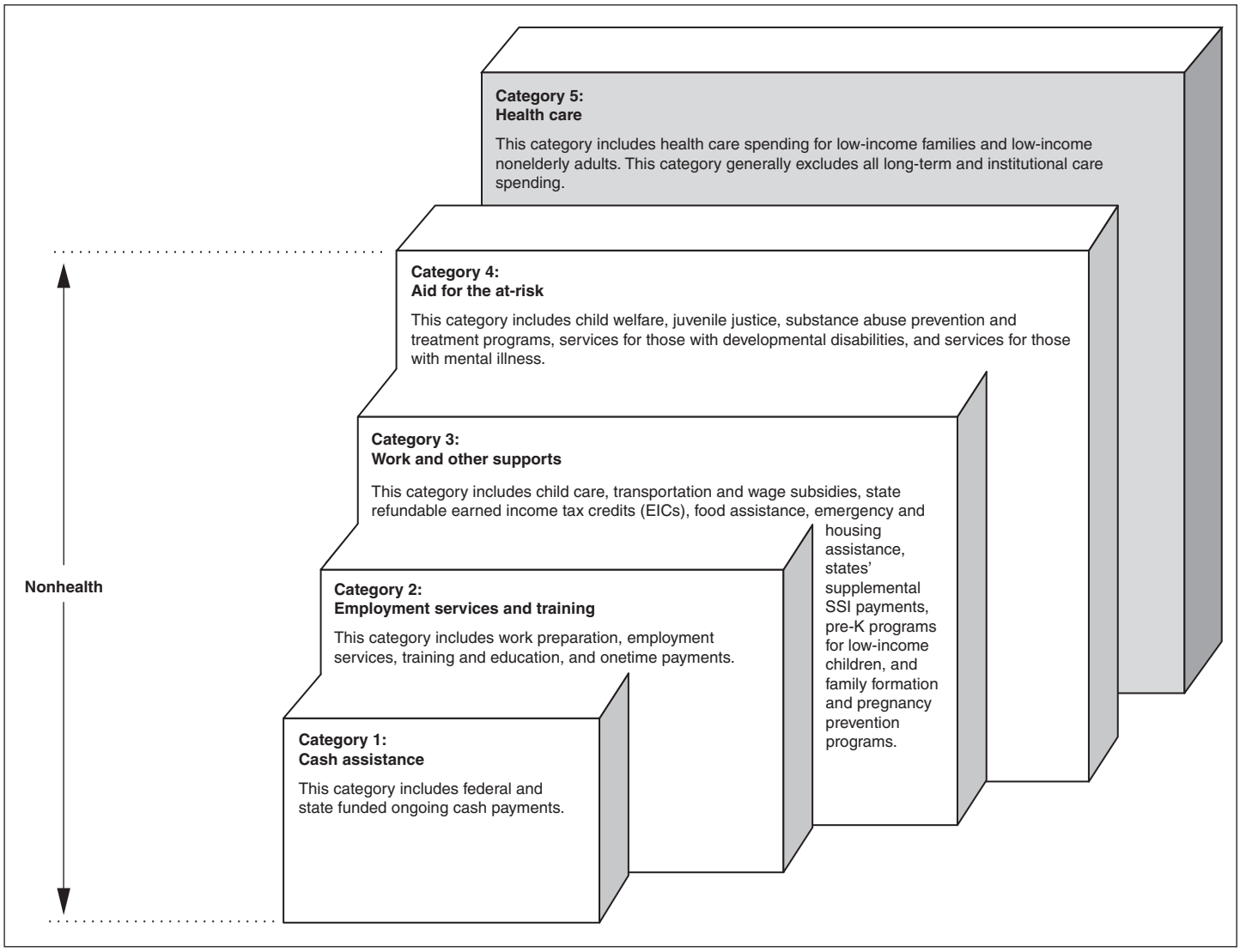
[2]Although Connecticut was part of our 2001 report, it is not included in this update because state spending data and supporting documentation were not adequate for completing the analysis (which was modified from the approach used in the 2001 report).

prior report.[3] (See app. V.) We worked closely with state officials to complete the survey during our site visits and through numerous telephone and e-mail contacts. Because parts of the survey were completed by different state officials, we also provided the states with the data we compiled for their review as well as data summaries of our analysis. We collected budget data and program information for three points in time based on state fiscal years: for 1995 before the passage of federal welfare reform legislation; for 2000; and for 2004, the most recent year for which data were available. Consistent with our prior methodology, we used the survey to take a comprehensive look at state social service program budgets by encouraging states to provide spending data on a broad array of programs, rather than just those programs that received federal TANF funding. Our study includes federal, state, and local spending associated with Medicaid, TANF, housing assistance, child care and welfare, and a myriad of other programs aimed at needy populations and for which states make key budgetary decisions.

State budget structures differ across states. Some states in our analysis used biennial budgets, others used annual budgets. States can place employment and training programs primarily in their social services departments; other states can place these programs in their economic development departments. Some states place responsibility for welfare programs with county governments. These differences make comparisons of state budgets and spending difficult. In asking states to report spending on individual programs, regardless of which state agency oversaw these programs, and then aggregating the spending into the same categories for each state, we were able to compare state spending trends across all of the states. As figure 8 shows, we classified spending data in several key ways, including nonhealth spending—cash assistance (Category 1), employment services and training (Category 2), work and other supports (Category 3), and aid for the at-risk (Category 4)—and health spending (Category 5), which we generally separated from nonhealth spending in our analysis.

[3]GAO-01-828. Specifically, we adapted a fiscal survey developed by the Nelson A. Rockefeller Institute of Government. See Deborah Ellwood and Donald Boyd, *Changes in State Spending on Social Services since Implementation of Welfare Reform: A Preliminary Report* (Albany, N.Y.: Rockefeller Institute, February 2000).

Figure 8: Welfare-Related Spending Categories Used in Our Analysis



Source: GAO.

Our first spending category includes state spending for ongoing cash assistance payments with federal or state moneys under the Aid for Families with Dependent Children (AFDC), TANF, or other state programs. This category corresponds most closely with traditional monthly cash assistance payments under the AFDC program. Our second spending category includes spending for job and training programs that seek to

prepare people for employment. Our third spending category includes programs that seek to support low-income people with other forms of aid or services, including helping families move from welfare to work or avoid welfare altogether. For example, child care subsidies and rental assistance payments can help parents remain employed even if they are working in low-wage jobs. Our fourth spending category recognizes the range of programs that states can use to develop strategies to achieve TANF's goals. These spending areas include child welfare programs, substance abuse programs, mental health programs, and programs that help the developmentally disabled attain a level of self-sufficiency, and exclude spending for any individuals in institutions. While many of these state spending areas may not have income standards to determine eligibility, a state can claim TANF funds for expenditures in these areas if the state is able to certify that participants in these programs meet the eligibility requirements set forth in the state's TANF plan. Our fifth spending category includes spending for health services aimed at low-income people but excludes spending for the elderly, long-term care, and institutional care. Analyzing health care spending helps recognize a state's true and substantial investment in spending to support these low-income and needy populations. In general, our spending categories were designed to cover all areas of a state's budget associated with the TANF-eligible population and allowable expenses under TANF as well as for other low-income children and individuals of working age.

We analyzed state spending of both federal and state funds on a wide array of programs aimed at providing services to the needy and that flowed through the state budget. In this analysis, federal spending is not defined by the level of a federal grant allocated to a state, but rather by how much of the grant the state chooses—or in some cases is required—to spend on a particular activity. For this reason we did not consider a number of 100 percent federally funded programs that do not flow through the state budget. For example, the food stamp program is administrated by the state and the shared administrative costs are included in the survey, but the value of the food stamp coupons disbursed in the fiscal year, borne 100 percent by the federal government, is not. Likewise, if a state budget action prompted local spending in these areas, through incentives like a state-local match, then local spending was included in our analysis.

We converted state spending data to real 2004 dollars in order to make our spending more comparable over time.

State Site Visits

To obtain program description and recipient eligibility information on the spending data we collected, we also spoke with budget and program officials in these nine states knowledgeable about state TANF programs, Medicaid programs, and other state programs supporting the spending we captured in our survey. We also gathered information about the fiscal and economic environment in each state since state fiscal year (SFY) 2000, the last data year in our prior report, and a period that included a national recession in 2001. We worked closely with state officials to complete the survey. Once the state program and budget officials identified the program spending to include in the survey, we verified through program documentation and discussions with these state officials that the program descriptions, targeted beneficiaries, and program goals met the survey criteria.

Review of Related Reports and Data

To obtain information about policy and program developments for welfare and other related program spending data collected in our survey, we reviewed reports and information readily available from our prior work, relevant federal agencies, state governments, and local advocacy groups.

Reliability of Data Obtained from States and HHS

We took several steps to determine the completeness and accuracy of data obtained from states. We reviewed related documentation and examined the data for obvious omissions and errors and to have reasonable assurance that the spending data were comparable over the three years in our analysis. We also collected information and audit reports on the systems state officials used to provide state spending data. We did not test the data systems ourselves. In some cases, state auditors found weaknesses with relevant agency data systems or internal controls. However, for the purposes of examining aggregate welfare-related spending across state budgets, and identifying the purposes of spending within these aggregates, we found the survey data we collected to be sufficiently reliable for use in this report.

We determined the completeness and accuracy of data obtained from the Department of Health and Human Services (HHS) based on interviews and related documentation and determined that the data were sufficiently reliable for use in this report.

Federal and State AFDC, TANF, and MOE Spending as a Share of Total Welfare-Related Nonhealth Spending

Percentage based on 2004 dollars

	SFY		
State	**1995**	**2000**	**2004**
California	47	27	23
Colorado	44	22	21
Louisiana	23	14	21
Maryland	22	17	12
Michigan	29	15	15
New York	35	27	23
Oregon	29	29	25
Texas	23	16	18
Wisconsin	32	28	28
Median	**29**	**22**	**21**
Low	**22**	**14**	**12**
High	**47**	**29**	**28**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. The nonhealth category reflects total spending from the following previously defined GAO categories: cash assistance, employment services and training, work and other supports, and aid for the at-risk. See app. I for a further explanation of these categories.

Total Welfare-Related Health and Nonhealth Spending from Federal and State Sources

Table 13: Total Welfare-Related Health Spending

2004 dollars in millions

	SFY			Percentage change		
State	**1995**	**2000**	**2004**	**1995-2000**	**2000-2004**	**1995-2004**
California	$7,676	$7,827	$10,796	2	38	41
Colorado	651	1,493	1,969	129	32	202
Louisiana	1,838	1,989	2,952	8	48	61
Maryland	1929	2,093	3,038	8	45	58
Michigan	3,029	3,113	4,106	3	32	36
New York	15,468	17,217	24,035	11	40	55
Oregon	632	1,411	1,726	123	22	173
Texas	3,930	5,983	9,713	52	62	147
Wisconsin	1,694	1,954	3,100	15	59	83

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the health category, which excludes spending for long-term care, institutional care, and the elderly.

Table 14: Total Welfare-Related Nonhealth Spending

2004 dollars in millions

	SFY			Percentage change		
State	**1995**	**2000**	**2004**	**1995-2000**	**2000-2004**	**1995-2004**
California	$15,970	$17,717	$20,768	11	17	30
Colorado	692	952	967	38	2	40
Louisiana	1,041	920	1,060	-12	15	2
Maryland	2,178	2,218	2,725	2	23	25
Michigan	4,626	4,576	4,930	-1	8	7
New York	14,622	14,413	16,493	-1	14	13
Oregon	892	1,002	1,047	12	4	17
Texas	3,371	3,930	4,122	17	5	22
Wisconsin	1,473	1,642	1,730	12	5	17

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. The nonhealth category reflects total spending from the following previously defined GAO categories: cash assistance, employment services and training, work and other supports, and aid for the at-risk. See app. I for a further explanation of these categories.

Table 15: Welfare-Related Health Spending from Federal and State Sources

2004 dollars in millions

	SFY					
	1995		2000		2004	
State	Federal	State	Federal	State	Federal	State
California	$3,774	$3,902	$3,807	$4,020	$5,595	$5,201
Colorado	347	304	742	750	1,053	916
Louisiana	1,337	501	1,398	591	2,206	746
Maryland	941	987	1,033	1,059	1,653	1,385
Michigan	1,684	1,345	1,682	1,431	2,373	1,734
New York	6,548	8,920	8,561	8,656	11,828	12,207
Oregon	392	239	858	553	1,112	614
Texas	2,487	1,442	3,682	2,302	5,885	3,828
Wisconsin	968	726	1,126	828	1,858	1,242

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the health category, which excludes spending for long-term care, institutional care, and the elderly.

Table 16: Welfare-Related Nonhealth Spending from Federal and State Sources

2004 dollars in millions

	SFY					
	1995		2000		2004	
State	Federal	State	Federal	State	Federal	State
California	$7,297	$8,666	$7,883	$9,834	$9,138	$11,631
Colorado	346	346	373	580	474	493
Louisiana	764	277	476	444	611	449
Maryland	905	1,273	939	1,279	1,220	1,505
Michigan	2,455	2,171	2,312	2,265	2,674	2,256
New York	4,776	9,846	5,488	8,926	7,153	9,340
Oregon	540	352	604	398	634	413
Texas	1,722	1,649	2,193	1,737	2,393	1,729
Wisconsin	578	895	680	962	804	926

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. The nonhealth category reflects total spending from the following previously defined GAO categories: cash assistance, employment services and training, work and other supports, and aid for the at-risk. See app. I for a further explanation of these categories.

Table 17: Percentage Change in Welfare-Related Health Spending from Federal and State Sources

Based on 2004 dollars

	1995-2000		2000-2004		1995-2004	
State	**Federal**	**State**	**Federal**	**State**	**Federal**	**State**
California	1	3	47	29	48	33
Colorado	114	147	42	22	203	201
Louisiana	5	18	58	26	65	49
Maryland	10	7	60	31	76	40
Michigan	0	6	41	21	41	29
New York	31	-3	38	41	81	37
Oregon	119	131	30	11	183	156
Texas	48	60	60	66	137	165
Wisconsin	16	14	65	50	92	71
Median	**16**	**14**	**47**	**29**	**81**	**49**
Maximum	**119**	**147**	**65**	**66**	**203**	**201**
Minimum	**0**	**-3**	**30**	**11**	**41**	**29**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the health category, which excludes spending for long-term care, institutional care, and the elderly.

Table 18: Percentage Change in Welfare-Related Nonhealth Spending from Federal and State Sources

Based on 2004 dollars

	1995-2000		2000-2004		1995-2004	
State	**Federal**	**State**	**Federal**	**State**	**Federal**	**State**
California	8	13	16	18	25	34
Colorado	8	67	27	-15	37	42
Louisiana	-38	60	28	1	-20	62
Maryland	4	0	30	18	35	18
Michigan	-6	4	16	0	9	4
New York	15	-9	30	5	50	-5
Oregon	12	13	5	4	18	17
Texas	27	5	9	0	39	5
Wisconsin	18	8	18	-4	39	4
Median	**8**	**8**	**18**	**1**	**35**	**17**
Maximum	**27**	**67**	**30**	**18**	**50**	**62**
Minimum	**-38**	**-9**	**5**	**-15**	**-20**	**-5**

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. The nonhealth category reflects total spending from the following previously defined GAO categories: cash assistance, employment services and training, work and other supports, and aid for the at-risk. See app. I for a further explanation of these categories.

Welfare-Related Nonhealth Spending by Spending Category

Table 19: Total Cash Assistance Spending

2004 dollars in millions

	SFY			Percentage change		
State	**1995**	**2000**	**2004**	**1995-2000**	**2000-2004**	**1995-2004**
California	$6,903	$ 3,174	$ 3,213	-54	1	-53
Colorado	171	49	62	-71	26	-64
Louisiana	195	80	78	-59	-2	-60
Maryland	380	119	128	-69	7	-66
Michigan	1,183	360	406	-70	13	-66
New York	4,887	3,341	2,179	-32	-35	-55
Oregon	230	87	89	-62	3	-61
Texas	574	270	215	-53	-20	-62
Wisconsin	416	82	128	-80	56	-69

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the cash assistance category.

Table 20: Total Employment Services and Training Spending

2004 dollars in millions

	SFY			Percentage change		
State	**1995**	**2000**	**2004**	**1995-2000**	**2000-2004**	**1995-2004**
California	$843	$1,463	$1,381	74	-6	64
Colorado	11	11	31	0	173	172
Louisiana	162	105	142	-35	35	-13
Maryland	109	156	63	43	-59	-42
Michigan	283	400	263	41	-34	-7
New York	1,222	1,149	1,502	-6	31	23
Oregon	71	90	67	28	-26	-5
Texas	527	541	639	3	18	21
Wisconsin	69	165	93	138	-44	34

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the employment services and training category.

Table 21: Total Work and Other Supports Spending

2004 dollars in millions

	SFY			Percentage change		
State	**1995**	**2000**	**2004**	**1995-2000**	**2000-2004**	**1995-2004**
California	$2,812	$4,765	$5,605	69	18	99
Colorado	158	383	360	143	-6	129
Louisiana	383	265	329	-31	24	-14
Maryland	451	622	773	38	24	71
Michigan	1,365	1,429	1,567	5	10	15
New York	3,246	3,221	4,748	-1	47	46
Oregon	214	351	402	64	15	88
Texas	887	1,412	1,469	59	4	66
Wisconsin	576	760	1,002	32	32	74

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the work and other supports category.

Table 22: Total Aid for the At-Risk Spending

2004 dollars in millions

	SFY			Percentage change		
State	**1995**	**2000**	**2004**	**1995-2000**	**2000-2004**	**1995-2004**
California	$5,413	$8,314	$10,569	54	27	95
Colorado	352	508	513	44	1	46
Louisiana	300	470	512	57	9	71
Maryland	1,237	1,322	1,761	7	33	42
Michigan	1,794	2,387	2,694	33	13	50
New York	5,268	6,702	8,063	27	20	53
Oregon	377	474	488	26	3	30
Texas	1,383	1,707	1,799	23	5	30
Wisconsin	412	636	507	54	-20	23

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. See app. I for a further explanation of the aid for the at-risk category.

Table 23: Total Noncash Assistance Spending

2004 dollars in millions

	SFY			Percentage change		
State	**1995**	**2000**	**2004**	**1995-2000**	**2000-2004**	**1995-2004**
California	$9,067	$14,543	$17,555	60	21	94
Colorado	521	902	904	73	0	74
Louisiana	845	840	983	-1	17	16
Maryland	1,797	2,100	2,597	17	24	45
Michigan	3,442	4,216	4,524	22	7	31
New York	9,736	11,072	14,313	14	29	47
Oregon	662	915	957	38	5	44
Texas	2,797	3,660	3,907	31	7	40
Wisconsin	1,057	1,561	1,602	48	3	52

Source: GAO survey and analysis of state spending data.

Notes: Includes federal, state, and local spending captured in our survey. Noncash assistance spending reflects total spending from the following previously defined GAO categories: employment services and training, work and other supports, and aid for the at-risk. See app. I for a further explanation of these categories.

Survey Instrument

State Social Services Spending Survey
General Instructions

When completing the survey, please keep the following in mind:

1. Provide expenditures for two *state* fiscal years (not the federal fiscal year): 1999-2000 and 2003-2004. For most states these would be the fiscal years that ended June 30, 2000 and June 30, 2004; for Texas they ended August 31, 2000 and August 31, 2004; for New York March 31, 2000 and March 31, 2004. Please note that there are four tabs at the bottom of the spreadsheet that identify four separate worksheets to be filled out. There are instructions for the childcare and healthcare surveys on their spreadsheets. Instructions for the social services survey are attached.
2. Identify all state programs serving social service needs that are targeted towards reducing dependence on public assistance. Except where noted, include programs that serve both TANF-eligible and non-TANF-eligible clients.
3. Distribute a copy of the survey to all agencies that oversee these programs. Please explain to these agencies what MOE means and what funds should be shown in the MOE column. You may wish to refer them to the spending guide at http://www.acf.dhhs.gov/programs/ofa/funds2.htm.
4. Include all federal, state and local expenditures *that are incorporated in the state budget*. For local expenditures, include local spending of locally raised revenue that is incorporated in the state budget, such as a local match. Include expenditures or estimated expenditures only (not amounts budgeted or authorized).
5. Include all expenditures for each program serving social service needs, including but not limited to TANF and MOE expenditures. Include *all* TANF spending; if some TANF expenditures do not fit into one of the specific program categories, include them in one of the lines labeled "other." If TANF funds are transferred to SSBG or the CCDF, please place them in those columns (if possible, label them separately from other SSBG or CCDF funds by inserting a row or a note).
6. Please be careful to count expenditures only once!
7. Do not include capital expenditures.
8. Do not include indirect administrative costs or management information systems (MIS) expenditures, but do include direct administrative costs such as case management expenditures in relevant program line items. If it is impossible to break out these direct costs by program, include them in the other lines under the most relevant sub-category. If necessary, estimate the percentage of direct costs that apply to the programs eligible for our survey. Include the costs of fringe benefits for state personnel. (A rough estimate of fringe benefit costs is all that is necessary.)
9. Identify funding streams included in the columns labeled "Other" on a separate worksheet.
10. For columns labeled "SSBG" (Social Services Block Grant): If state officials cannot isolate spending on individual programs, obtain either (1) estimates for these amounts, or (2) totals with an explanation of the general areas in which SSBG funds are spent. For TANF funds transferred from TANF to SSBG, document them as SSBG expenditures with a note on the level attributable to the transfer.
11. Compile and provide copies of all supporting documentation for the data entered in the survey, e.g. expenditure reports, annual financial statements.
12. When possible, identify the caseload and eligibility criteria for each program and provide supporting documentation.

Suggested format for data submission:

For example, Line 2b, Work Preparation, could include expenditures from several programs across two or more agencies. Each of these agencies would complete the survey as well as provide the supporting documentation.

Agency 1

Department of Social Service	Federal Expenditures		
	I TANF	II SSBG	III Other
2 Work Preparation and Education			
b) Work Preparation			
Program W	0	0	18,000
Program X	250,000	0	2,000

Agency 2

Department of Family Employment	Federal Expenditures		
	I TANF	II SSBG	III Other
2 Work Preparation and Education			
b) Work Preparation			
Program Y	650,000	40,000	0
Program Z	100,00	10,000	0

The various agencies' contributions could be compiled and summarized.

State Summary Totals	Federal Expenditures		
	I TANF	II SSBG	III Other
2 Work Preparation and Education			
b) Work Preparation	1,000,000	50,000	20,000

Glossary of column headings:

SSBG: Social Services Block Grant, title XX of the Social Security Act
TANF: Temporary Assistance for Needy Families
TANF-MOE: TANF Maintenance of Effort (See your state TANF director or http://www.acf.dhhs.gov/programs/ofa/funds2.htm)
Title XIX: Medicaid
Title XXI: State Children's Health Insurance Program
CCDF: Child Care Development Fund
CCDF-MOE: Child Care Development Fund Maintenance of Effort
CCDF-Match: Child Care Development Fund Matching Funds

State Social Services Spending Survey
Specific Instructions

***Line 1*: Poverty Relief**
Include expenditures in this category on lines 1a-1g below.

Line 1a: cash assistance.
Include expenditures on cash payments or vouchers provided to families to meet ongoing, basic needs. Do not include child support collections; those will go on line 1b. Any cash assistance program that was formerly funded by IV-A (the AFDC program) should be included here. (Note: This definition is adapted from the definition of basic assistance in line 5a of the ACF-196 Financial Report. See http://www.acf.hhs.gov/programs/ofa/instr196.htm) Cash payments made through a general assistance program should go in the "Other State" column.

Line 1b: child support payments.
Include all child support collections from non-custodial parents that are passed on to custodial parents who are receiving cash assistance through TANF, in excess of $50 per monthly payment.

Line 1c: emergency assistance.
Include all expenditures for emergency assistance, including prevention of eviction, utility cut-off, etc. Document, to the extent possible, how emergency assistance funds are allocated.

Line 1d: food assistance.
Include expenditures on programs designed to provide food or nutritional assistance to low-income people. Do not include any 100% federally funded program such as free or reduced-school breakfast or lunch programs. Include, however, the state and federal expenditures on administrative expenses for those programs and any state supplemental programs.

Line 1e: housing assistance.
Include expenditures on programs designed to provide housing assistance to low-income people, such as vouchers, state low-income housing tax credits, or any other state support for low-income housing efforts.

Line 1f: SSI supplements.
Include expenditures on state supplementation of the federal Supplemental Security Income program. Do not include federal expenditures.

Line 1g: other.
Include expenditures on any other programs related to poverty relief that are not included above. Describe such programs on an attached sheet.

***Line 2:* Work Preparation and Education**
Include expenditures in this category on lines 2a-2c below.

Line 2a: education and training.
In this instance, limit spending to TANF-eligible people.

Include expenditures on educational activities that prepare the recipients for work. For example, include secondary education (including alternative programs); adult education, GED, and ESL classes; education directly related to employment; education provided as vocational educational training; and post-secondary education. Do not include programs for children below high-school age. (Pre-K programs should be included in the childcare Tab, and after school programs for at-risk youth should be placed in row 5b or 5c, whichever is most appropriate.) (Note: This definition is adapted from the definition of education in line 6a2 of the ACF-196 Financial Report.)

Line 2b: work preparation.
Include expenditures on programs to prepare low-income people who are not yet working with skills to make them employable. Examples include skills development programs, community service placements, and Workforce Investment Act programs. Do not include expenditures on people who are in the paid workforce.

Line 2c: other.
Include expenditures on any other programs related to work preparation and support that are not included above. Describe such programs on an attached sheet.

***Line 3*: Employment Support**
Include expenditures in this category on lines 3a-3f below.

Line 3a: post-employment services.
Include expenditures on programs designed to keep people employed after they have found employment. Examples include coaching to ensure that individuals arrive at work on time, counseling to address problems that may arise in the workplace, and any other case management services for this working population. If known, include spending for on-the-job training.

Line 3b and 3c: state EITC.
Include expenditures on state earned income tax credits paid to families. Include state and local tax credits that are designed to defray the costs of employment for low-income families. On line 3c, do not include foregone state revenues as an expenditure.

Line 3d: transportation.
Include the value of transportation benefits (such as allowances, bus tokens, car payments, auto insurance reimbursement, and van services) provided to employed families (related either to their work or related job retention and advancement activities) and provided as a nonrecurring, short-term benefit to non-working families (e.g. during applicant job search). (Note: this definition is adapted from the definition of transportation in line 6c of the ACF-196 Financial Report.)

Line 3e: wage subsidies.
Include payments to employers or third parties to help cover the costs of employee wages, benefits, supervision, or training. Also include any wage-related tax credits that benefit employers.
(Note: This definition is adapted from the definition of work subsidies in line 6a1 of the ACF-196 Financial Report.)

Line 3f: other.
Include expenditures on any other programs related to employment support that are not included above. Describe such programs on an attached sheet.

***Line 4:* Poverty Prevention**
Include expenditures in this category on lines 4a-4c below.

Line 4a: diversion payments.
Include expenditures on nonrecurrent, short-term benefits to families in the form of cash payments, vouchers, or similar form of payment to deal with a specific crisis situation or episode of need. An example is an emergency rent payment to prevent eviction.
(Note: this definition is adapted from the definition of diversion payments in line 6g of the ACF-196 Financial Report.)

Line 4b: family formation and pregnancy prevention.
Include expenditures on programs aimed to keep families together, prevent teen pregnancy and prevent single parenthood. Examples of program expenditures are: responsible fatherhood initiatives that will improve the capacity of needy fathers to provide financial and emotional support for their children; premarital and marriage counseling, and mediation services; counseling services or classes that focus on teen pregnancy prevention; media campaigns to encourage young people to delay parenting or to encourage fathers to play a responsible role in their children's lives; and incentives for single parents to marry or for two-parent families to stay together.
(Note: this definition is adapted from the section in ACF's "Helping Families Achieve Self-Sufficiency" guide entitled, "Appropriate Uses of Funds/Family Formation and Pregnancy Prevention" at http://www.acf.dhhs.gov/programs/ofa/funds2.htm)

Line 4c: other.
Include expenditures on any other programs related to poverty prevention that are not included above. Describe such programs on an attached sheet.

***Line 5*: Child Protection/Juvenile Justice**
Include expenditures in this category on lines 5a-5c below.

Line 5a: child welfare.
Include expenditures on adoption assistance, foster care, and independent living programs; on any program intended to prevent out-of-home placements, promote reunification of families, or provide a safe environment for children; and on programs that focus on prevention of child abuse and neglect. Examples of expenditures include using funds for family counseling; parent support programs; appropriate supportive services (e.g., referral services, child care, transportation, and respite care) to caregiver relatives who can provide a safe place for a needy child to live to avoid placement in foster care; and screening families for risk of child abuse or neglect and providing case management. (Note: Any cash assistance program that was formerly funded by IV-A (AFDC), such as cash assistance to needy caretaker relatives, should be included in the "cash assistance" category.)

Line 5b: juvenile justice programs.

Include expenditures on social services programs for youth who have violated the state juvenile code. Do not include institutional spending.

Line 5c: other.
Include expenditures on any other programs related to child protection/juvenile justice that are not included above. Describe such programs on an attached sheet.

***Line 6*: Other**
Include expenditures in this category on lines 6a-6d below.

Line 6a: substance abuse prevention and treatment.
Include expenditures on programs aimed to prevent alcohol, drug and tobacco abuse and to provide intervention services to individuals with alcohol, drug and/or tobacco dependency in their families. Examples of prevention programs are media campaigns, educational programs and community-based planning programs. Examples of expenditures on treatment include counseling, short-term inpatient treatment facilities, and outpatient medical care.

Line 6b: developmental disabilities.
Include expenditures on programs that provide services to individuals with developmental disabilities and their families, including outpatient care and public education, but excluding institutional facilities.

Line 6c: mental health services.
Include expenditures on programs that provide prevention and/or intervention services to the mentally ill and their families, including community-based treatment facilities, outpatient care and public education. Exclude all expenditures provided at/through mental health institutions.

Line 6d: other
Include expenditures on any other programs that are not included above. Describe such programs on an attached sheet.

Note: Our 2000 survey included a category 6a, provider profits, which has been deleted from this version of the survey because there were no responses in that category.

State FY 1999-2000 Social Services Spending Survey

	Federal Expenditures			State Expenditures		Local Expenditures		TOTALS
	I TANF	II SSBG	III Other	IV TANF-MOE	VI Other	VII TANF-MOE	VIII Other	IX
1 Poverty Relief								
a) cash assistance								0
b) child support payments								0
c) emergency assistance								0
d) food assistance								0
e) housing assistance								0
f) SSI supplements								0
g) other (please specify)								0
h) total	0	0	0	0	0	0	0	0
2 Work Preparation and Education								
a) education and training								0
b) work preparation								0
c) other (please specify)								0
d) total	0	0	0	0	0	0	0	0
3 Employment Support								
a) post-employment services								0
b) state EITC- non-refundable								0
c) state EITC- refundable								0
d) transportation								0
e) wage subsidies								0
f) other (please specify)								0
g) total	0	0	0	0	0	0	0	0
4 Poverty Prevention								
a) diverson payments								0
b) family formation/preg. prev.								0
c) other (please specify)								0
d) total	0	0	0	0	0	0	0	0
5 Child Protection/Juvenile justice								
a) child welfare								0
b) juvenile justice programs								0
c) other (please specify)								0
d) total	0	0	0	0	0	0	0	0
6 Other								
a) substance abuse prev. & treat.								0
b) developmental disabilities								0
c) mental health services								0
d) other (please specify)								0
e) total	0	0	0	0	0	0	0	0
7 TOTALS	0	0	0	0	0	0	0	0

Glossary of column headings:
TANF: Temporary Assistance for Needy Families
SSBG: Social Services Block Grant, Title XX of the Social Security Act
TANF-MOE: TANF Maintenance of Effort. See your state TANF director or http://www.acf.dhhs.gov/programs/ofa/funds2.htm

State FY 2003-2004 Social Services Spending Survey

	Federal Expenditures			State Expenditures		Local Expenditures		TOTALS
	I TANF	II SSBG	III Other	IV TANF-MOE	VI Other	VII TANF-MOE	VIII Other	IX
1 Poverty Relief								
a) cash assistance								0
b) child support payments								0
c) emergency assistance								0
d) food assistance								0
e) housing assistance								0
f) SSI supplements								0
g) other (please specify)								0
h) total	0	0	0	0	0	0	0	0
2 Work Preparation and Education								
a) education and training								0
b) work preparation								0
c) other (please specify)								0
d) total	0	0	0	0	0	0	0	0
3 Employment Support								
a) post-employment services								0
b) state EITC- non-refundable								0
c) state EITC- refundable								0
d) transportation								0
e) wage subsidies								0
f) other (please specify)								0
g) total	0	0	0	0	0	0	0	0
4 Poverty Prevention								
a) diverson payments								0
b) family formation/preg. prev.								0
c) other (please specify)								0
d) total	0	0	0	0	0	0	0	0
5 Child Protection/Juvenile justice								
a) child welfare								0
b) juvenile justice programs								0
c) other (please specify)								0
d) total	0	0	0	0	0	0	0	0
6 Other								
a) substance abuse prev. & treat.								0
b) developmental disabilities								0
c) mental health services								0
d) other (please specify)								0
e) total	0	0	0	0	0	0	0	0
7 **TOTALS**	0	0	0	0	0	0	0	0

Glossary of column headings:
TANF: Temporary Assistance for Needy Families
SSBG: Social Services Block Grant, Title XX of the Social Security Act
TANF-MOE: TANF Maintenance of Effort. See your state TANF director or http://www.acf.dhhs.gov/programs/ofa/funds2.htm

Healthcare Coverage Spending Survey

Instructions for Healthcare Coverage Spending Survey:

Include expenditures on any healthcare program, in-home or out-of-home, aimed at low-income working or non-working people and their children, excluding long-term care. Include programs for both the TANF-eligible and non-TANF-eligible population, but exclude all programs for seniors. Identify each program in the spaces below and their funding streams. Identify eligibility criteria for these programs, as well as ***caseloads*** on an attached sheet. For Medicaid-funded programs, identify target populations (e.g. "transitional assistance," "expansion population") where possible. State expenditures should capture local spending if it flows through the state budget (e.g. a local match).

State Fiscal Year 1999-2000 Healthcare Coverage Spending

	Federal Expenditures			State Expenditures			TOTALS
Program Names	Title XIX	Title XXI	Other	Title XIX	Title XXI	Other	
							-
							-
							-
							-
TOTALS	-	-	-	-	-	-	-

State Fiscal Year 2003-2004 Healthcare Coverage Spending

	Federal Expenditures			State Expenditures			TOTALS
Program Names	Title XIX	Title XXI	Other	Title XIX	Title XXI	Other	
							-
							-
							-
							-
TOTALS	-	-	-	-	-	-	-

Glossary of Column Headings
Title XIX: Medicaid
Title XXI: State Children's Health Insurance Program

Child Care/Child Development Spending Survey

Instructions for Child Care/Child Development:

Include expenditures on any child care or child development program, either custodial or educational, in-home or out-of-home, aimed at low-income working or non-working people, including pre-K programs, after-school programs, vouchers for child care, state expenditures on Head Start, and subsidies to child care centers, and child care tax credits (if available). Include programs for both TANF-eligible and non-TANF-eligible people. Please identify each child care/child development program in the spaces below and identify their funding streams. Please identify eligibility criteria for these programs, as well as caseloads (numbers of children, not families, if possible), on an attached sheet.

State Fiscal Year 1999-2000 Child Care/Child Development Spending

	Federal Expenditures		State Expenditures			TOTALS
Program Names	CCDF	Other	CCDF-MOE	CCDF-Match	Other	
						0
						0
						0
						0
						0
						0
						0
TOTALS	0	0	0	0	0	0

State Fiscal Year 2003-2004 Child Care/Child Development Spending

	Federal Expenditures		State Expenditures			TOTALS
Program Names	CCDF	Other	CCDF-MOE	CCDF-Match	Other	
						0
						0
						0
						0
						0
						0
						0
TOTALS	0	0	0	0	0	0

Glossary of Column Headings
CCDF: Child Care Development Fund
CCDF-MOE: Child Care Development Fund Maintenance of Effort
CCDF-Match: Child Care Development Fund Matching Funds

Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

FEB 24 2006

Mr. David D. Bellis
Director, Education, Workforce,
and Income Security Issues
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Bellis:

Enclosed are the Department's comments on the U.S. Government Accountability Office's (GAO) draft report entitled, "WELFARE REFORM: Better Information Needed to Understand Trends in States' Uses of the TANF Block Grant" (GAO-06-414). These comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department provided several technical comments directly to your staff.

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

Sincerely,

Daniel R. Levinson
Inspector General

Enclosure

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

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE'S DRAFT REPORT ENTITLED, "WELFARE REFORM: BETTER INFORMATION NEEDED TO UNDERSTAND TRENDS IN STATES' USES OF THE TANF BLOCK GRANT" (GAO-06-414)

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

GAO Conclusion

To better inform its oversight and decision-making process, Congress should consider ways to address two key information gaps for the Temporary Assistance for Needy Families (TANF) block grant: (1) insufficient information on the numbers served by TANF funds, and (2) limited information on how funds are used — for example, on which target populations and as part of what strategies and approaches — to meet TANF goals.

Efforts to obtain more information must take into account how to do so in a cost-effective and least burdensome way. Some options include Congress directing the Secretary of HHS to: require States to include more information in State TANF plans filed with HHS on their strategies and approaches for using funds; require States to include more information on all aspects of TANF spending in the annual report they must file with HHS; and revise other reporting requirements regarding the uses and recipients of TANF-related funds. Congress may wish to require the Secretary to consult with key welfare reform stakeholders in assessing and revising reporting requirements or information gathering strategies.

HHS Comments

The GAO report contends that there are gaps in the information collected at the Federal level "to ensure State accountability." It explains that these gaps occur because existing data collection mechanisms focus on cash assistance, which no longer represents the major source of expenditures for the TANF program. The report also elaborates on the many reasons why such gaps exist. In particular, it notes that the legislation creating the TANF program "restricted HHS regulatory authority over the States" and the need for additional legislative authority to collect more detailed information about services other than cash assistance. It also cites various barriers to collecting such information, including problems with State information systems, increased administrative costs, data reporting burdens placed on States and service providers, and potential deterrence effects from new requirements to provide personal identifying information. We agree with GAO that additional information would be valuable, and if data requirements are to be expanded, that they be done in a cost-effective manner in consultation with stakeholders.

The title of the GAO report, "WELFARE REFORM: Better Information Needed to Understand Trends in States' Uses of the TANF Block Grant," reflects a relatively small part of GAO's report. It seems that the real story from the report is that, despite predictions of a "race to the bottom" when TANF was passed, States have increased substantially their spending on low-income families. Moreover, this increase in State expenditures came about during a time when the child poverty rate declined (from 20.8 percent in 1995 to 17.8 percent in 2004) and welfare cash assistance caseloads dropped by approximately 60 percent. These trends in low-income spending are not reflected in the report's title.

2

GAO Contacts and Staff Acknowledgments

GAO Contacts

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In addition to the contacts named above, Paul Posner, Gale Harris, Tom James, Sandra Beattie, Rebecca Hargreaves, Cheri Harrington, Dorian Herring, Brittni Milam, and Keith Slade made key contributions to this report. In addition, Gregory Dybalski and Jerry Fastrup provided key analytical and technical support; Wesley Dunn provided legal support; and Katherine Bittinger, Allen Chan, Reid Jones, Tahra Nichols, Rudy Payan, John Rose, and Suzanne Sterling-Olivieri assisted with fieldwork in states.

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