

**GAO**

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

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September 2003

# WELFARE REFORM

## Information on TANF Balances



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United States General Accounting Office  
Washington, DC 20548

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September 8, 2003

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

Dear Mr. Chairman:

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 made sweeping changes to the nation's key welfare program for needy families. It established the \$16.5 billion Temporary Assistance for Needy Families (TANF) block grant, which provides to the states federal funds to support low-income families and help these families reduce their dependence on welfare. TANF provides states significant flexibility—within federal guidelines—to determine who is to be served and what services to provide. States also have the flexibility to transfer up to 30 percent of their TANF block grant each year to their child care or social services block grants.<sup>1</sup> Along with this flexibility, states must meet federal requirements designed to ensure that TANF assistance is transitional in nature and that parents receiving aid take steps to become employed.

The welfare legislation also fundamentally changed how the federal government funds assistance for low-income families, shifting much of the fiscal risk for welfare programs to the states. Before welfare reform, any increased costs for states' welfare programs were shared by the federal government and the states. Under TANF, however, states receive a fixed amount of TANF funds each year and, if costs rise, states must find a way of financing the additional costs. To manage these fiscal risks, states may, in any given year, set aside or reserve some of their annual TANF block grant funds for times when the annual grants are insufficient to cover current spending needs.<sup>2</sup>

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<sup>1</sup>Maximum transfers to the Social Services Block Grant (SSBG) have been set at 10 percent of federal TANF funds since 1997.

<sup>2</sup>Reserved funds must be used to provide ongoing, basic aid (such as cash assistance) to needy families, and therefore lose some of their flexibility.

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To better understand states' spending patterns for TANF funds as the Congress debates the program's reauthorization,<sup>3</sup> you asked us to provide information on (1) TANF balances, including the amount of funds transferred to states' child care and social services block grants, that remain unspent and (2) the extent to which these balances reflect reserves available for future use. To address these questions, we interviewed program and finance officials at the Department of Health and Human Services (HHS), which oversees the TANF, child care,<sup>4</sup> and the social services block grants. We reviewed U.S. Treasury balance reports as of July 31, 2003, the most recent available, and used this information to estimate TANF balances through September 30, 2003 (the end of fiscal year 2003). While states can save some of their federal funds each year, they are not allowed to draw those funds from the U.S. Treasury until they actually spend those funds.<sup>5</sup> While balances recorded by Treasury provide some information on the level of unspent TANF funds, they do not distinguish TANF funds transferred to the other block grants from those that remained within the TANF program.

To determine the amount of unspent TANF transfers, we reviewed the data states reported to HHS on their annual financial reports for each of the three block grants for the fiscal year ending September 30, 2002, the most recent state reports available. Although state reports on the child care and social service block grant balances do not identify the TANF transfers, per se, we were able to estimate them, based on the assumption that states were likely to use the more restricted child care and social

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<sup>3</sup>Since October 1, 2002, the TANF program has been operating under extensions. On June 30, 2003, the President signed a bill that extended TANF and other related programs, on fiscal year 2002 terms, through September 30, 2003. (P.L. 108-40).

<sup>4</sup>This block grant represents only one of the funding streams considered part of the Child Care and Development Fund that provides states federal funds to subsidize child care for low- and moderate-income families and to promote child care quality.

<sup>5</sup>This provision is in accordance with the Cash Management Improvement Act of 1990. This act settled a long-standing dispute between the federal government and the states over disbursement of funds for federal programs administered by the states. The act helps to ensure that neither party incurs unnecessary interest costs in the course of federal government disbursements. See U.S. General Accounting Office, *Financial Management: Implementation of the Cash Management Improvement Act*, [GAO/AIMD-96-4](#) (Washington, D.C.: Jan. 8, 1996).

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service dollars before spending the more flexible TANF funds.<sup>6</sup> The fiscal year 2002 reports also provided information on the range of balances among the states, which was not readily available from the more recent Treasury balance reports. We conducted this review in accordance with generally accepted government auditing standards from July 2003 through August 2003.

On September 2, 2003, we briefed you on the results of our analysis. This report formally conveys the information provided during that briefing. In summary, we found the following:

Based on spending through July 31, 2003—the most recent data available—we estimate that the TANF balance will be about \$5.6 billion on September 30, 2003. While data were not readily available to project how much of the balance might be comprised of TANF transfers to the child care and social services block grants, we did estimate that unspent transfers represented about 30 percent of the TANF balance for fiscal year 2002.

The information available on TANF balances is not sufficient to assess the availability of reserves to help states meet future needs. We found that the current reporting requirements do not provide reliable, consistent information regarding states' plans for their balances.<sup>7</sup> As a result, it is difficult to determine what portion of any reported balance is already committed or how much is reserved for future use on TANF-related expenditures. The importance of distinguishing between a committed balance and a real reserve becomes more apparent when comparing states. Although we cannot tell from state reports how much of their balance is committed, when we analyzed state TANF balances as of September 30, 2002, including our estimates of unspent TANF transfers, we found they varied considerably. While many states had large balances, others did not. The variations suggest that, at the end of fiscal year 2002, some states may have been better positioned than others to meet current and future needs.

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<sup>6</sup>Once TANF funds are transferred to the Child Care and Development Block Grant (CCDBG) and SSBG they cannot be saved indefinitely; each grant has specific and different rules governing the time frame within which states must obligate and spend any transferred funds. However, as established in program guidance, states can transfer funds back to TANF, within specific time frames, to avoid losing access to those funds.

<sup>7</sup>See U.S. General Accounting Office, *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, [GAO-01-828](#) (Washington, D.C.: Aug. 10, 2001).

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While the fixed block grant structure creates opportunities for states to establish reserves for the future and/or expand programs or develop new services when welfare caseloads fall, states can face fiscal challenges when their caseloads or program costs rise.<sup>8</sup> We recently reported that states are in one of the most challenging fiscal crises to confront them in years.<sup>9</sup> In a limited review of five states—Arizona, Iowa, Montana, Pennsylvania, and Wisconsin—we reported that each of the five planned to dip into some of their unspent TANF balances to fund their programs during the next fiscal year.

Welfare reform ushered in a new fiscal partnership between the states and the federal government in supporting the nation’s low-income families and helping them avoid welfare dependence. In this new fiscal partnership, sound fiscal management practices suggest that it would be prudent for states to develop some contingency plans—including establishing reserves from federal funds to meet the needs of their low-income families over time. However, the data currently required of states do not provide sufficient information to help the Congress and federal oversight officials assess the adequacy of states’ reserves. Moreover, we have previously reported on state officials’ concerns that leaving large TANF balances—without any way to identify the amount of funds set aside as reserves—might signal that these funds were not needed and, as a result, state officials felt pressures to spend down their balances quickly.

In our earlier work, we provided your committee with options, including improving reporting requirements, that might provide states with more incentives to save.<sup>10</sup> We are reiterating our recommendation that the Secretary of HHS work with the states to provide for more transparent reporting of their plans for their unspent balances. Reporting requirements should enable collection of data that will assist policymakers in their oversight responsibilities and, while care should be taken to avoid unnecessary reporting burdens on the grant recipients, comparable data

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<sup>8</sup>In contrast to the federal government that can run budget deficits, states face limitations—including legislative restrictions, constitutional balanced budget mandates, or conditions imposed by the bond market—on their ability to increase spending, especially in times of fiscal stress.

<sup>9</sup>U.S. General Accounting Office, *Welfare Reform: Information on Changing Labor Market and State Fiscal Conditions*, [GAO-03-977](#) (Washington, D.C.: July 15, 2003).

<sup>10</sup>U.S. General Accounting Office, *Welfare Reform: Challenges in Saving for a “Rainy Day”* [GAO-01-674T](#) (Washington, D.C.: Apr. 26, 2001).

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on state obligations, expenditures, and reserves of federal funds are critical for effective oversight of federal programs.

We provided a draft of this briefing to officials at HHS for their technical comments and incorporated their comments where appropriate.

We are sending copies of this report to relevant congressional committees and other interested parties and will make copies available to others upon request. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff have any questions please contact Cynthia M. Fagnoni at (202) 512-7215 or Paul L. Posner at (202) 512-9573. Gale C. Harris and Bill J. Keller also made key contributions.



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



Paul L. Posner, Managing Director  
Federal Budget Issues and Intergovernmental Relations

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# Appendix I: Briefing Slides

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## **Welfare Reform: Information on TANF Balances**

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**Briefing to the Staff of the House  
Subcommittee on Human Resources,  
Committee on Ways and Means**

**September 2, 2003**

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## Introduction

# States Have More Responsibilities under Welfare Reform

## Personal Responsibility and Work Opportunities Reconciliation Act, of 1996

Gave states more responsibility for managing programs of assistance and moving low-income families from welfare to employment. The act

- shifted fiscal risks to the states through the TANF\* block grant;
- created latitude for reserves, funding transfers, and carryovers; and
- underscored need for fiscal management and contingency planning.

\*Temporary Assistance for Needy Families



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## Key Questions

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To better understand states' spending patterns as the Congress debates reauthorization of the TANF program, you asked us to provide information on

- TANF balances, including the amount of transferred funds that remain unspent, and
- the extent to which these balances reflect reserves available for future use.



## Scope and Methodology

To provide information on the TANF balances, including unexpended TANF transfers, we

- used U.S. Treasury data through July 31, 2003—the most recent data available—to estimate the TANF balance for the end of this fiscal year;
- reviewed (1) states' 2002 annual financial reports to Health and Human Services (HHS), and (2) fund balances for these grants on account with the U.S. Treasury as of September 30, 2002, to calculate the share of the end of year 2002 TANF balance that had been transferred to states' Child Care and Development Block Grant (CCDBG)<sup>1</sup> and Social Services Block Grant (SSBG) programs; and
- reviewed program rules and other program documents and interviewed program and finance officials at HHS to better understand how states spend their block grant funds.

<sup>1</sup>This block grant represents only one of the funding streams considered part of the Child Care and Development Fund (CCDF) that provides states federal funds to subsidize child care for low- and moderate-income families and to promote child care quality.



## Summary

- Based on the most recent data available, we estimate that the TANF balance will be about \$5.6 billion at the end of this fiscal year. Our estimate consists of
  - funds states will have left unspent in their TANF accounts and
  - funds states will have left unspent after the funds are transferred to the other block grants.
- Although TANF transfers represent a significant supplement to child care and social services block grants, data were not available to track recent state spending of transferred TANF funds separately from the other block grant funds.
- However, we estimated that about 30 percent of the fiscal year 2002 balance represented funds that had been transferred.



## Summary (cont.)

- Current reporting does not provide consistent, reliable information on how much of the balances are truly committed or available for future needs.
  - States are not required to report on their plans for their unspent balances.
  - Information on reserves by state is important. Even though we cannot tell how much of their balances are committed, our estimates of state balances as of September 30, 2002, showed great variation, suggesting that some states may have been better positioned than others to provide TANF-related services to low-income families in the midst of the current state fiscal crises.
- We have reported that improved reporting requirements could provide states with more incentives to engage in contingency planning, including establishing reserves, for their TANF programs.



## Background

# States Have Greater Flexibility under TANF Than under Previous Welfare Programs

- States can
  - use federal funds to design and finance programs for low-income families, determine who is served, and what services to provide;
  - use federal TANF funds without fiscal year limitation and save a portion of those funds for contingencies and future rising costs; and
  - transfer up to 30 percent of the TANF grant each year to the CCDBG and SSBG.<sup>1</sup>
- States must report quarterly on how they have spent federal TANF funds to HHS, which oversees all three block grants.

<sup>1</sup>Maximum transfers to the SSBG have been set at 10 percent of federal TANF funds since 1997.



## Background (cont.)

# Federal TANF Grants Have Certain Program and Financial Requirements

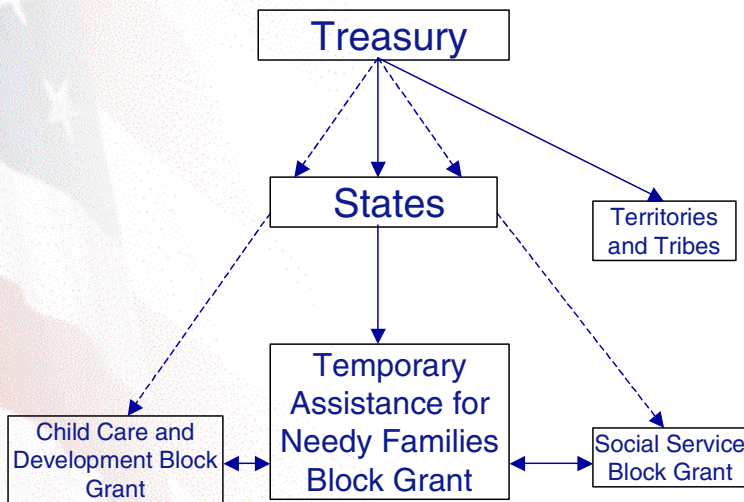
### States must

- design programs that emphasize the transitional nature of assistance for welfare recipients and importance of employment;  
(For example, states faced financial penalties if they did not place increasing percentages of adult TANF recipients into work-related activities.)
- maintain a significant portion of their own historic spending for low-income families, known as “maintenance of effort” (MOE);
- not draw down funds held in reserve at the U.S. Treasury until needed for a specific expenditure; and
- spend funds they have transferred to CCDBG and SSBG according to the rules and time limits of those grants or, within the time limits established and program guidance, transfer the funds back to TANF.



Background (cont.)

# TANF Balances Consist of



- Total federal TANF awards that states report they have not spent, *plus*
- Total TANF awards that states have transferred to the CCDBG and the SSBG but have not spent, *and*
- Total TANF funds allocated to territories and tribes that have not been spent, *and*
- Funds states have spent, but that may not have cleared the account.

Source: GAO analysis.

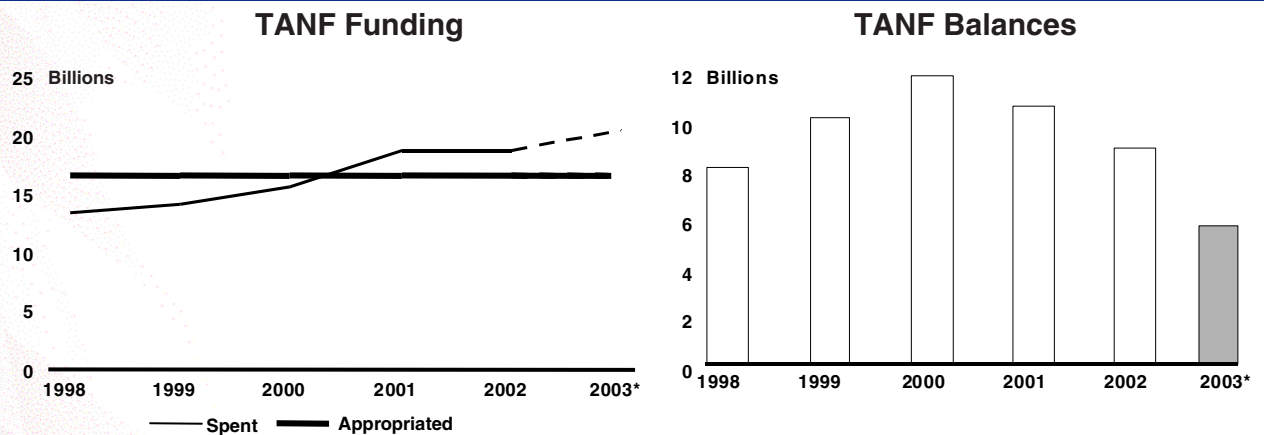
Note: Solid arrows represent TANF funds





Question 1

# We Estimate the TANF Balance Will Fall to \$5.6 Billion by the End of Fiscal 2003



- Since 2001, states have spent more TANF funds, including those funds transferred to other block grants each year, than they receive in their annual awards.
- While TANF balances are large, states are drawing more heavily upon them.

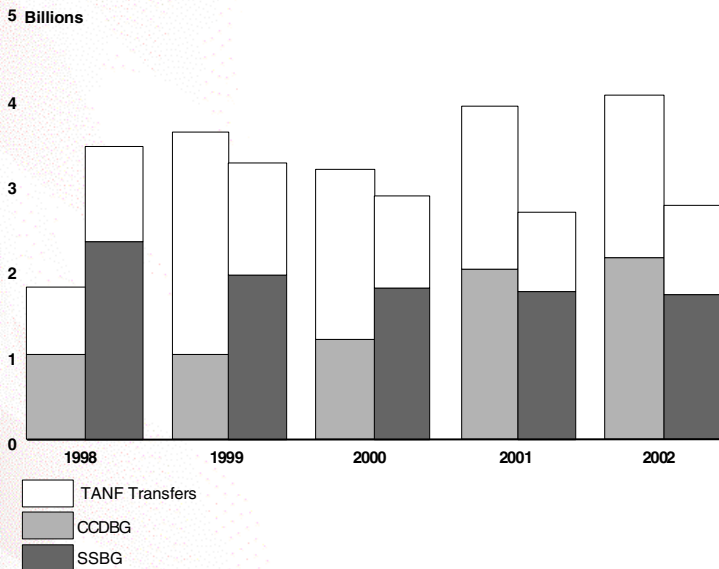
Source: GAO analysis of HHS and U.S. Treasury data.

\*Estimated balance for 2003.



Question 1

# States Are Using TANF Transfers to Supplement Other Block Grants



Source: GAO analysis of data from HHS.

- States' transfers to their child care block grant<sup>1</sup> now equal the amount directly appropriated to that grant.
- Transfers to the SSBG have served to replace some of the funds cut from that grant.

<sup>1</sup> Child care block grant amounts include only funds appropriated to the CCDBG and not other funding streams that comprise the CCDF.



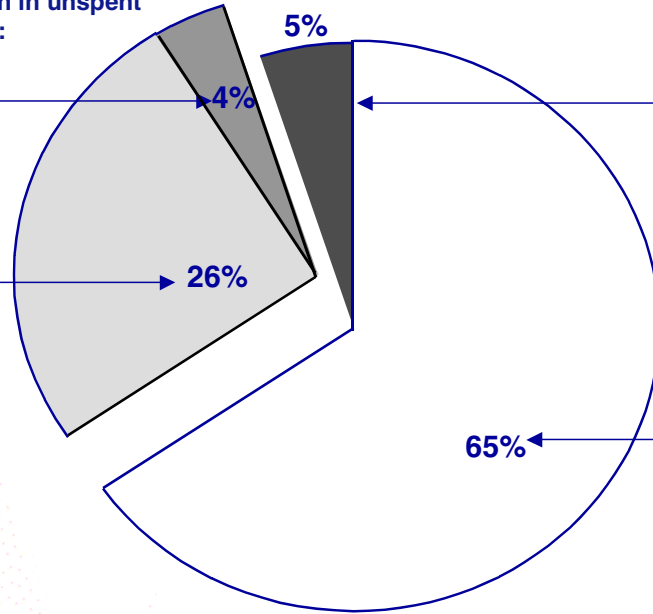
Question 1

# Unspent TANF Transfers Estimated at About 30 Percent of FY 2002 Balance

At the end of fiscal year (FY) 2002 Treasury recorded \$8.9 billion in unspent TANF funds. Of that amount:

We estimate that about \$352 million (4 percent) had been transferred to SSBG.

We estimate that about \$2.3 billion (26 percent) had been transferred to CCDBG.



We estimate that about 5 percent—\$436 million—was reported spent but had not cleared the Treasury account by the end of the fiscal year or were TANF funds that had been awarded to territories and tribes, not to states.

States reported that they left \$5.8 billion (65 percent) unspent for their TANF programs.

Source: GAO analysis of data from HHS and the U.S. Treasury.

## Question 2



## Current Reporting Yields Limited Data for Assessing Adequacy of Reserves

- States' year-end reports provide detailed information on expenditures; but they do not provide consistent, reliable information on states' balances.
  - States report balances as either *unliquidated obligations* or *unobligated balances*. As we reported in 2001<sup>1</sup> the information states provide on these reports is not compiled consistently across all states.
  - The lack of consistency is largely due to differences in the way states administer their welfare programs. For example,
    - states with county administration can record an obligation when they pass authority to spend funds to the counties regardless of whether the county has made any commitment to spend those funds, whereas
    - states that administer their welfare programs directly can only record an obligation when they have a specific commitment to spend those funds.
- While an *unliquidated obligation* implies that there is some underlying commitment on these funds, it is not possible to know if these funds are available for future contingencies.

<sup>1</sup>U.S. General Accounting Office *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, GAO-01-828 (Washington, D.C.: Aug. 10, 2001).

Question 2



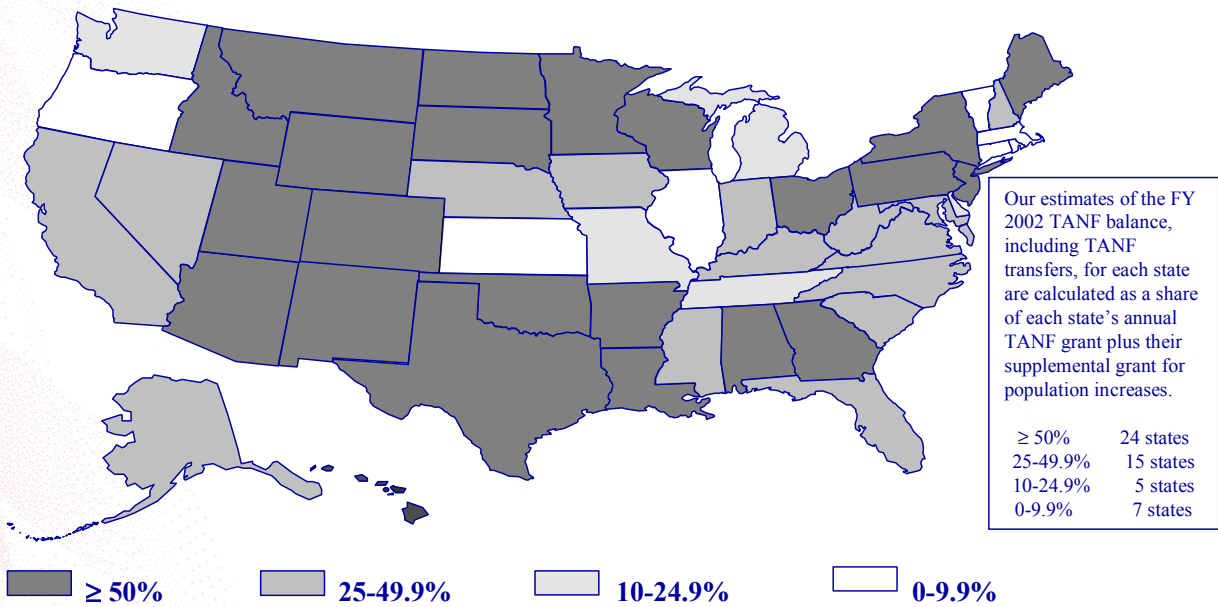
## Current Reporting Yields Limited Data for Assessing Adequacy of Reserves (cont.)

- Under current reporting requirements, states that have established reserves must report such funds as unobligated—thereby providing no information on states’ plans for these funds nor the ability to assess the adequacy of any reserves.
  - Little progress has been made to create better reporting since August 1998 when we first recommended that HHS work with the states to provide for more transparent reporting by the states of their unspent balances.
  - HHS officials said they expect to undertake a comprehensive review of the current reporting requirements once TANF is reauthorized.
- Information on balances by state is important for oversight purposes.

Question 2



# States' Fiscal Year 2002 TANF Balances Varied Considerably



Source: GAO analysis of HHS data.

Question 2



## States Cite Few Incentives to Create Reserves for TANF Programs

- Access to federal funds for more than 1 fiscal year provided states with flexibility to better manage their programs by
  - reserving some funds to manage the downside fiscal risks of the TANF program and
  - reducing some of the pressures--which can lead to wasteful spending--to spend all available funds before the end of any given fiscal year.
- In spite of this flexibility, state officials feared that leaving large TANF balances might signal that these funds were not needed and they felt pressures to spend down their balances quickly.<sup>1</sup>
- We have previously provided this committee<sup>1</sup> with options, including improving reporting requirements, that might provide states with more incentives to save.

<sup>1</sup>See for example, U.S. General Accounting Office, *Welfare Reform: Challenges in Saving for a "Rainy Day"*, GAO-01-674T (Washington, D.C.: Apr. 26, 2001).



## Concluding Observations

- The Congress and other federal oversight officials need consistent, reliable information in order to assess the adequacy of state TANF reserves.
  - In a block grant environment decisions regarding how much to save and how much to invest in programs that help families make the transition from public assistance to independence have become largely a state responsibility made under conditions of considerable uncertainty.
  - Reporting requirements should enable collection of data that will assist policymakers in their oversight responsibilities.
- We reiterate our recommendation that HHS should work with the states to provide for more transparent reporting by the states of their unspent balances.





## Appendix 1: Estimation Methodology

- To estimate the TANF balance as of September 30, 2003, we compared actual spending through July 31, 2003, with the corresponding period in 2002 reported by the U.S. Treasury. We then projected August and September 2003 spending based on actual rates of spending in August and September 2002.
- To estimate the level of TANF funds that were transferred to other grants and were left unspent as of September 30, 2002, we
  - reviewed state annual financial reports for all three grant programs and
  - assumed that states would spend funds directly appropriated to the CCDBG and SSBG first, preserving the flexibility of the TANF funds.
- We consulted with officials from the Congressional Budget Office, the Congressional Research Service, and HHS's Administration for Children and Families on our methodology.

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