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

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# CHILD SUPPORT ENFORCEMENT

# Effects of Declining Welfare Caseloads Are Beginning to Emerge

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**United States**
**General Accounting Office**
**Washington, D.C. 20548**

**Health, Education, and**
**Human Services Division**

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June 30, 1999

The Honorable Nancy L. Johnson
Chairman, Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

Dear Madam Chair:

Nearly two-thirds of the 13.7 million American women and men raising children alone did not receive any child support in 1995. Many of these custodial parents head poor families that receive cash assistance under the Temporary Assistance for Needy Families (TANF) program, while others care for families not currently receiving cash assistance but who are at risk of becoming impoverished. The Child Support Enforcement (CSE) program, a federal-state partnership, was designed to

- promote parental responsibility for children in welfare and nonwelfare families,
- help the federal government and states recover their welfare payments to needy families by allowing these entities to retain the child support payments they collect from noncustodial parents who owe support, and
- keep families currently not on welfare from becoming welfare recipients by helping them collect child support payments owed to them.

As a condition of receiving federal TANF funds, states are required to operate CSE programs that are approved by the federal Office of Child Support Enforcement (OCSE) within the Department of Health and Human Services (HHS). TANF families are required to participate in the CSE program. Families that do not receive TANF may request CSE services, for which they are usually charged a nominal fee.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) changed welfare law to help families become less dependent on welfare and move them toward self-sufficiency, in part, by improving child support collections and limiting to 5 years the amount of time families can receive welfare payments. For example, the law required that the federal government and states create directories of new employee hires to more effectively locate parents who owe child support. It also required that families be given priority in receiving past due child support payments once they leave welfare. In addition, the law required HHS to revise its performance incentive system. As a result, states are now required to reinvest the incentive payments in their CSE programs. Once families leave the welfare rolls, they can continue to receive the CSE services they need. Such services include locating absent parents, establishing paternity and child support orders, and collecting payments owed. In fiscal year 1997, child support collections nationwide for welfare and nonwelfare families totaled $2.8 billion and $10.5 billion, respectively.

However, since 1994, an increasing number of states have begun to pay out more to operate their CSE programs than they receive back in recovered welfare payments and incentive payments.[1] Several states attribute this change to the decline in welfare caseloads, which began in 1994 and has accelerated since the passage of the welfare reform law. This welfare caseload decline has meant fewer CSE welfare cases where the federal government and the states keep the recovered collections (generally referred to as retained collections). At the same time, CSE nonwelfare caseloads and collections, which are paid directly to families, have increased. Given the overall decline in CSE welfare caseloads, the steady growth in CSE nonwelfare caseloads, and the welfare reform changes affecting the federal government's and states' financing of the program, you asked us to address the following questions:

- How have CSE welfare collections changed since 1994?
- What have been the net savings/cost experiences of state and federal CSE programs?
- For those states that have experienced declines in CSE welfare collections, how have these declines affected their state's CSE program funding?
- What are the future implications of caseload declines and welfare reform changes for the CSE program?

To answer these questions, we analyzed annual report data for fiscal years 1990 through 1996 and preliminary data for fiscal years 1997 and 1998 from OCSE.[2, 3] We also interviewed CSE officials in the seven states that have experienced declines in their retained collections—the portion of welfare

[1]This is referred to as net cost. Net savings result when a state pays out less to operate its CSE program than it receives in recovered welfare payments and incentive payments. The CSE program may produce other savings, such as cost avoidance in welfare, Food Stamps, and Medicaid. See Laura Wheaton and Elaine Sorensen, "Reducing Welfare Costs and Dependency: How Much Bang for the Child Support Buck?" Georgetown Public Policy Review (Fall 1998). These estimated savings are not included in OCSE calculations of CSE net savings or costs.

[2]The preliminary fiscal year 1998 data are not yet complete. Some fiscal year 1998 collections have not yet been distributed among the federal government, the states, and families.

[3]Our analysis covered the 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands, herein referred to as states.

collections not given to families or to the federal government—between fiscal years 1995 and 1997. We conducted our work between July 1998 and April 1999 in accordance with generally accepted government auditing standards.

## Results in Brief

Despite significant declines in TANF caseloads and CSE welfare caseloads, total state CSE welfare collections nationwide increased 11 percent between fiscal years 1994 and 1997. While declines in CSE welfare cases might have been expected to lower CSE welfare collections for the states and federal government, the CSE program's ability to intercept more money from delinquent noncustodial parents' income tax refunds more than offset the effects of the caseload declines. However, collections decreased for some individual states. Seven states (Indiana, Maryland, Missouri, South Carolina, Tennessee, Vermont, and Wisconsin) experienced a drop in the amount of CSE collections that they kept in fiscal year 1997 relative to the amount that they retained in fiscal year 1995.

During the period from fiscal year 1994 to fiscal year 1997, a declining majority of states realized net savings from the CSE program while the federal government experienced net costs. In fiscal year 1997, the states collectively spent about $1.1 billion to operate their CSE programs and retained about $1.6 billion in recovered welfare payments and incentive payments. The federal government, on the other hand, spent about $2.3 billion to fund the CSE program and retained about $1 billion in recovered welfare benefits. The differing results for the states and federal government are not surprising since the federal government pays two-thirds of the program's administrative costs and also awards the states incentive payments from its share of CSE welfare collections. Between fiscal years 1994 and 1997, the numbers of states experiencing net costs increased from 12 to 22 because of increased administrative costs, reduced CSE welfare collections, and declining incentive payments.

While declining caseloads have resulted in lower retained collections in seven states, CSE officials in those states said the decline did not negatively affect their CSE program funding. The way a state chooses to finance its CSE program determines its sensitivity to fluctuations in CSE welfare collections. For example, if a state pays for its program from its general fund, its program funding may not be affected by a reduction in retained collections. If, however, a program is at least partially funded from the amounts collected and retained, a reduction in such amounts could have a considerable effect on program funding. Only one of the seven states used retained collections as a funding source.

The effects of TANF caseload declines and welfare reform changes are just beginning to emerge. Future caseload declines—evidence of a significant reduction in families' dependence on government cash assistance—are likely to reduce retained state and federal CSE welfare collections. At the same time, nonwelfare caseloads and costs are likely to increase. The welfare reform provision that gives families a greater priority in receiving past due payments will also reduce the amount of CSE welfare collections retained by the states and federal government. The implementation of a new incentive payment program will result in less stable program revenues for the states. The welfare reform law, however, also required the federal government and the states to create powerful new tools to enforce the collection of child support, such as federal and state directories of CSE orders and new employee hire information, that may ameliorate the expected declines in CSE welfare collections, yet increase states' administrative costs. In addition, some states are considering expanding their service fees for CSE nonwelfare cases; such fees could serve to defray federal and state CSE costs. In this connection, we recommended in 1992 that the Congress require states to charge a minimum percentage service fee for each successful CSE nonwelfare collection. The Congress has considered this option, but to date no action has been taken to require such fees. We continue to believe that this recommendation has merit.

## Background

The Congress created the federal CSE program as title IV-D of the Social Security Act in 1975. OCSE in HHS is responsible for providing leadership, technical assistance, and standards for state CSE programs. States or local offices, under state supervision, deliver CSE services to families. The federal government and the states share administrative costs to operate the program at the rate of 66 and 34 percent, respectively, and also share any recovered costs and fees at the same rate. In fiscal year 1997, administrative costs for the program were $3.4 billion and welfare and nonwelfare collections totaled almost $13.4 billion.

The federal and state governments share CSE collections from welfare cases by the same percentage as they funded welfare benefits in fiscal year 1996. The federal government's share is inversely related to state per capita income and ranges from 50 percent in high per capita income states, such as California, to about 80 percent in low per capita income states, such as Mississippi. The collections that the federal and state CSE programs keep are referred to as retained collections.

Currently, the federal government awards incentive payments to states solely on the basis of each state's cost efficiency in collecting child support in both welfare and nonwelfare cases.[4] Incentive payments are paid out of the federal government's share of retained collections. States can earn incentive payments ranging from 6 to 10 percent of both welfare and nonwelfare collections, depending upon their cost efficiency.[5] The welfare reform law required HHS and the states to develop a new incentive program. The Child Support Performance and Incentive Act of 1998 (P.L. 105-200) amended the law to provide that states' incentive payments be based upon five performance-based outcome measures.[6] Starting in fiscal year 2000, this new incentive plan will be phased in and will include a fixed pool of incentive payments for which all states must compete.[7]

The CSE program unlike most other federal social programs generates revenue for its federal and state partners. Thus, the program is often discussed in terms of savings and costs realized. The states' and federal government's net financial savings or costs from the CSE program are determined by their respective share of (1) retained CSE welfare collections, (2) performance incentives paid or received for both welfare and nonwelfare cases, and (3) administrative costs incurred, as illustrated in figure 1.

[4]Cost efficiency is determined by dividing welfare and nonwelfare collections each by total administrative costs.

[5]A state's total nonwelfare incentive payment, however, is limited to 115 percent of its welfare incentive payment. All but two states reached the 115-percent cap on nonwelfare incentive payments in fiscal year 1994. Therefore, reductions in welfare collections affect both the welfare and nonwelfare incentive payments.

[6]GAO recommended that the incentive payment system be aligned with performance-based outcome goals for collection and noncollection results. See Child Support Enforcement: Families Could Benefit From Stronger Enforcement Program (GAO/HEHS-95-24, Dec. 27, 1994) and Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, Oct. 25, 1996).

[7]The five performance measures are the paternity establishment percentage, the percentage of cases with support orders, the collection rate for current support, the percentage of cases with collections on arrears, and the total dollars collected per dollar of expenditures.

**Figure 1: State and Federal CSE Savings/Cost Formula**

**Federal**

Net Child Support Savings or Costs = Share of Retained Collections − Incentive Payments to States − 66% of Administrative Costs

**State**

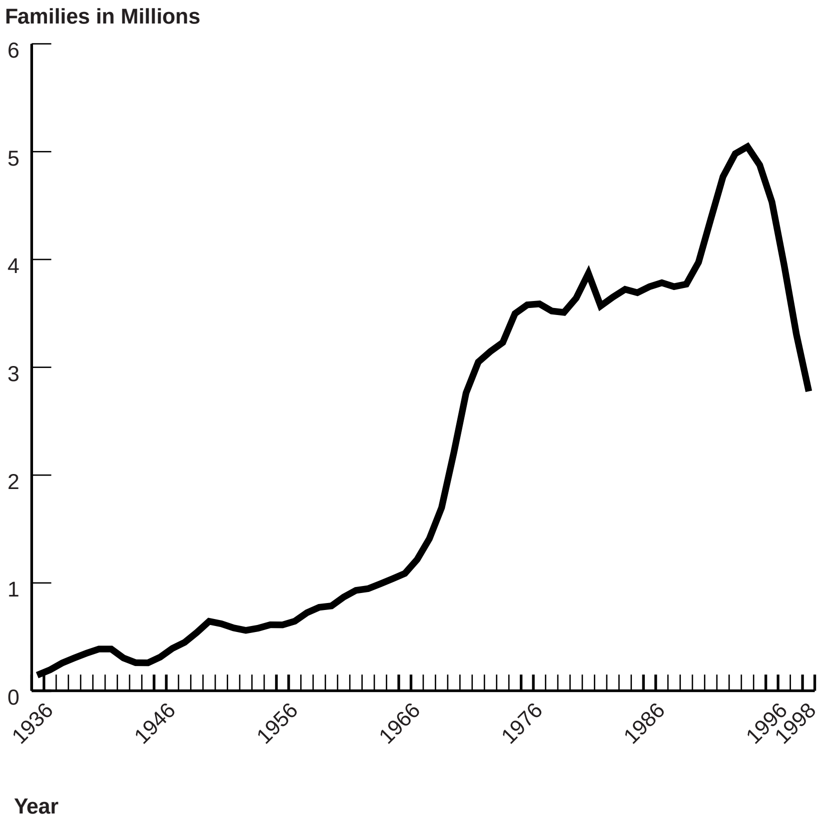
Net Child Support Savings or Costs = Share of Retained Collections + Incentive Payments Received From Federal Government − 34% of Administrative Costs

The welfare reform law made significant changes in the nation's welfare policy and the CSE program. TANF represents a significant departure from the Aid to Families With Dependent Children (AFDC) program, introducing a 5-year limit on federal cash assistance to ensure that such assistance is temporary for most recipients.[8, 9] AFDC and its successor program, TANF, have experienced a 45-percent decline in the numbers of families receiving cash assistance since the AFDC program reached its all-time high in 1994. As illustrated in figure 2, the total numbers of families began to decline in 1995, and the decline accelerated in 1996 when the welfare reform law was enacted. Caseload declines between 1994 and 1998 ranged from about 20 percent in Hawaii to a high of almost 90 percent in Wisconsin and Wyoming (see app. I).

[8]Before the welfare reform law passed in 1996, 14 states were granted waivers under section 1115 of the Social Security Act, allowing them to experiment with assistance time limits ranging from 18 months to 5 years. While state policies regarding exemptions and extensions varied, these state waivers were the first efforts to make assistance temporary for a specified period of time.

[9]Federal TANF assistance to a family including an adult is limited to 60 months (whether or not they are consecutive). However, some states, such as Georgia and Utah, adopted shorter time limits as part of their TANF programs. For families reaching time limits, states may continue to provide aid with state funds.

Figure 2: Families Receiving AFDC/TANF, 1936-98




Note: Data for 1998 are as of December 1998.

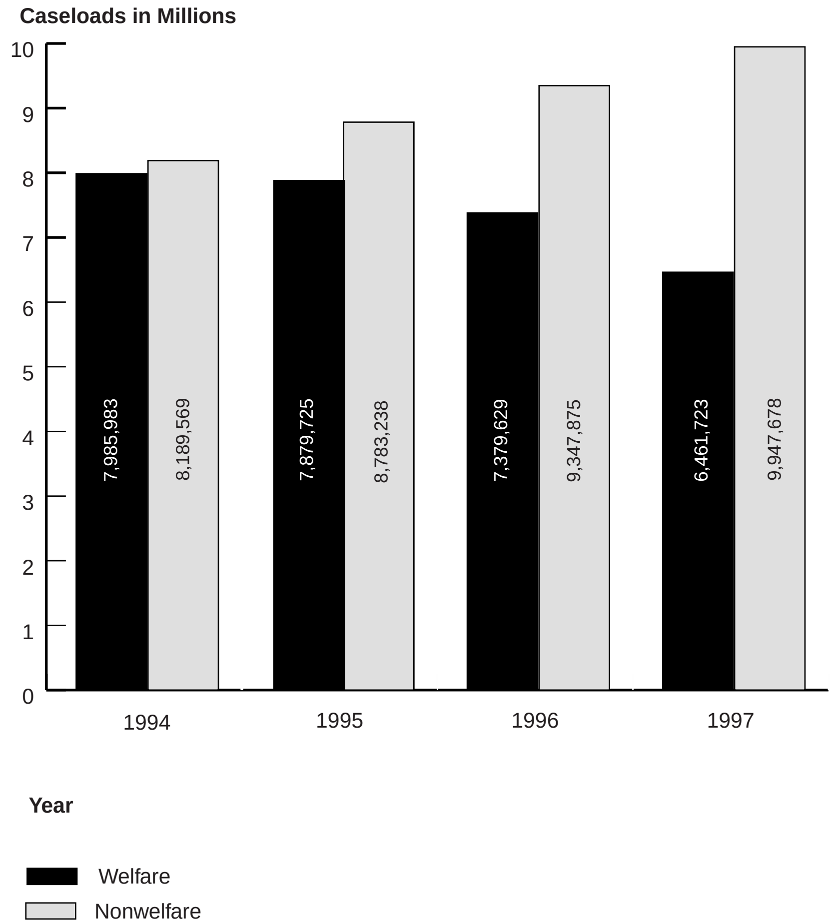
Source: HHS Administration for Children and Families.

Because almost every welfare case results in one or more CSE welfare cases, this decline in AFDC/TANF families resulted in a decline in CSE welfare cases and a corresponding increase in CSE nonwelfare cases in most states (see app. II).[10] As figure 3 shows, CSE welfare cases began to decline from

[10]Clients may request a good cause exemption from cooperating with the CSE program if their cooperation could result in physical or emotional harm to the child or the parent. Federal regulations require states to automatically open a CSE nonwelfare case for a former welfare recipient unless that person specifically declines continued services.

their all-time highs in fiscal year 1994 while CSE nonwelfare cases continued to rise.[11]

Figure 3: Welfare and Nonwelfare CSE Caseloads, FY 1994-97




Note: Preliminary data from OCSE indicate that this trend continued through fiscal year 1998, with welfare and nonwelfare caseloads of about 5.7 million and 11 million, respectively.

Source: OCSE data.

[11]State administrative actions may also affect caseload declines. For example, Arizona, Georgia, Illinois, New Mexico, and Puerto Rico reported an increase in the number of CSE case closures in fiscal year 1995 because of either data clean-up efforts that were necessary for data conversion into new computer systems or revised criteria for case closure.

## Welfare Child Support Collections Have Risen as TANF Caseloads Have Declined

States have experienced a sharp decline in the numbers of TANF families and CSE welfare cases, yet their total CSE welfare collections generally increased between fiscal years 1994 and 1997. While declining CSE welfare cases would be expected to result in lower CSE welfare collections, total CSE welfare collections rose 11 percent largely because CSE programs have been able to intercept more money from the income tax refunds of delinquent noncustodial parents. The federal and state shares of collections rose even higher because of a welfare law change that allows them to retain a greater share of CSE welfare collections.

In designing the 1996 welfare reform legislation, the Congress recognized that one or more of its changes could adversely affect the amount of retained state CSE collections. Therefore, the welfare reform law contained a provision to hold states harmless for declines in their CSE welfare collections. That is, it guaranteed that starting in fiscal year 1997, states would receive a supplemental payment, commonly referred to as a hold harmless payment, if their retained collections dropped below their fiscal year 1995 levels. In fiscal year 1997, seven states were not able to maintain their retained CSE welfare collections at 1995 levels and thus were eligible to receive hold harmless payments from the federal government.

### Total Welfare Child Support Collections Generally Increased Between Fiscal Years 1994 and 1997

Between fiscal years 1994 and 1997, total CSE welfare collections increased 11 percent. As shown in table 1, CSE welfare collections peaked in fiscal year 1996 and declined slightly in fiscal year 1997.[12] At the same time, the portion of collections retained by the states and federal government increased by 30 percent and 37 percent, respectively, as a result of a welfare reform provision that allows them to retain a greater share of CSE welfare collections that were formerly paid to welfare families.

[12]Between fiscal years 1990 and 1993, CSE welfare collections increased 38 percent. This suggests a slowing in the rate of CSE welfare collection growth.

**Table 1: State and Federal Shares of Total CSE Welfare Collections, FY 1994-97**

Dollars in thousands

| | Fiscal year | | | |
|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 |
| **Total welfare CSE collections** | **$2,549,723** | **$2,689,392** | **$2,855,066** | **$2,842,681**[a] |
| Federal share | 762,341 | 821,551 | 888,258 | 1,044,288 |
| State share | 890,717 | 938,865 | 1,013,666 | 1,158,831 |
| Incentive payments to states | 407,242 | 399,919 | 409,142 | 411,527 |
| Payments to families | 457,125 | 474,428 | 480,406 | 157,033[b] |
| Medical support payments | 32,299 | 54,629 | 63,570 | 70,683 |

[a]Preliminary data from OCSE for fiscal year 1998 indicate that welfare collections declined to about $2.6 billion.

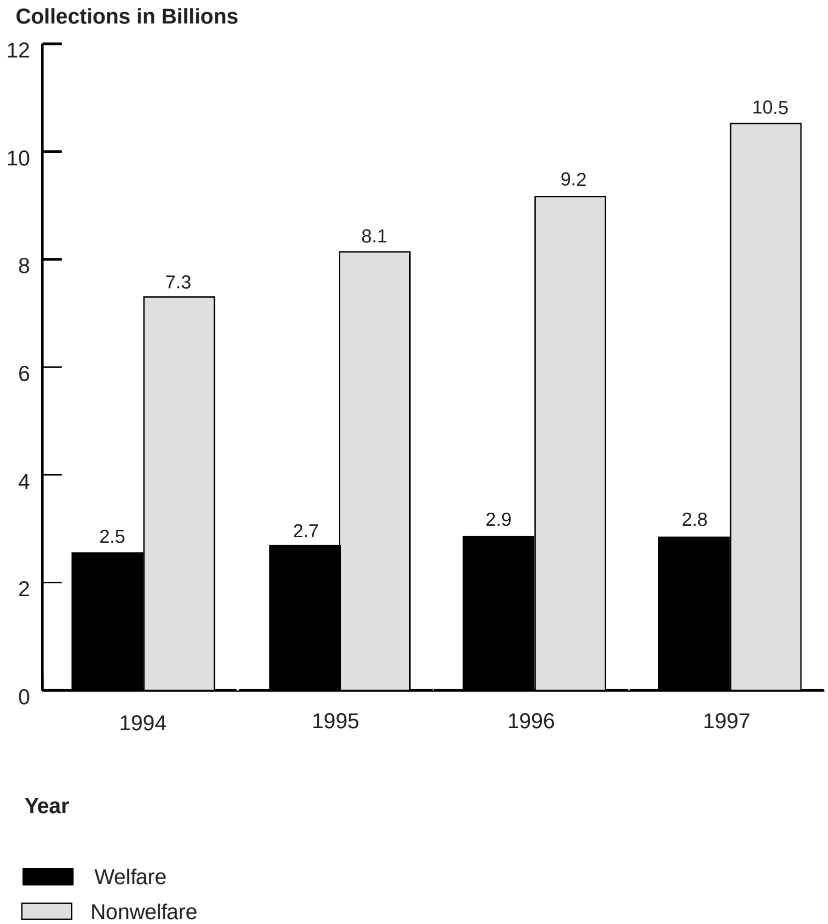
[b]Payments to families that are no longer required since the passage of the welfare reform law are not included.

Source: OCSE data.

As the numbers of TANF cases and CSE welfare caseloads have declined, there has been a corresponding increase in the number of CSE nonwelfare cases in which collections go directly to families. From fiscal year 1994 to 1997, CSE nonwelfare caseloads increased 21 percent (see fig. 3), and CSE nonwelfare collections increased 44 percent as families have transitioned from the welfare rolls (see fig. 4).[13]

[13]Preliminary data from OCSE indicate a higher nonwelfare caseload increase of 34 percent between fiscal years 1994 and 1998 and a 60 percent increase in nonwelfare collections during the same period.

Figure 4: CSE Welfare and Nonwelfare Collections, FY 1994-97




Note: Preliminary data from OCSE for fiscal year 1998 indicate that welfare collections declined to about $2.6 billion while nonwelfare collections increased to about $11.5 billion.

Source: OCSE data.

An increase in the amount of money intercepted from delinquent noncustodial parents' federal income tax refunds significantly increased the amount of total CSE welfare collections. Under the federal income tax refund offset program, state CSE agencies submit to the Internal Revenue Service (IRS) the names, Social Security numbers, and amount of past-due child support of people who are behind in their child support payments.[14] When IRS processes tax returns, it identifies the returns of those who owe past-due child support. If a tax refund is due, all or part of it is intercepted to offset past-due child support payments.

From 1994 to 1997, the amount of money intercepted for CSE welfare cases increased 59 percent from $442 million to $704 million.[15] Over this same period, the amount of money intercepted for nonwelfare cases increased 72 percent from $181 million to $311 million. Intercepting income tax refunds is the second largest source of CSE collections after wage withholding.

In addition to the total increase in CSE welfare collections, the proportion of these collections retained by the states and federal government also increased. The new welfare reform law eliminated the $50 disregard provision, which previously required that the first $50 of support collected each month be passed through to welfare families and not deducted from their welfare cash assistance payment. In fiscal year 1997, this change provided almost $300 million in additional funds to be split between the states and federal government. States were allowed to continue a family pass-through policy if they so chose; however, the federal government no longer helps to finance such a policy. The Center for Law and Social Policy reported that about 23 states have continued some type of disregard policy. As noted in table 1, reported payments to families declined from $480 million in fiscal year 1996 to $157 million in fiscal year 1997. However, fiscal year 1997 statistics do not include state-only payments to families that may be made out of the state share of collections.

## Some States Received Supplemental Federal Payments Because Their CSE Welfare Collections Declined

In fiscal year 1997, seven states—Indiana, Maryland, Missouri, South Carolina, Tennessee, Vermont, and Wisconsin—were eligible for hold harmless payments totaling about $14 million because their retained collections dropped below their fiscal year 1995 levels. The hold harmless

[14]Most states have state tax refund offset programs as well. In fiscal year 1997, states intercepted $66 million in state tax refunds for CSE welfare cases and $53 million for nonwelfare cases.

[15]The increase in tax refund collections suggests that more noncustodial parents were working and had reportable income. This increase is somewhat offset by a decline in the amount of unemployment payments intercepted. They declined from $85 million in fiscal year 1994 to $63 million in fiscal year 1997.

payments ranged from about $480,000 in Missouri to $5.4 million in Tennessee.[16]

In six of the seven states, CSE officials attributed the decline in CSE welfare collections to the decline in TANF caseloads. In Missouri, collections declined because the state temporarily moved its federal TANF cases into a state-only welfare program to delay the start of welfare recipients' time limits.

The welfare reform law does not require states to use their hold harmless payments to fund CSE programs. However, in four of the seven hold harmless states—Indiana, Missouri, South Carolina, and Tennessee—the hold harmless payment went to the CSE agency. A fifth state, Vermont, is currently seeking legislative authority to reinvest its hold harmless payment in its CSE program. Wisconsin returned the hold harmless payment to its Department of Workforce Development, the agency that houses its CSE program. Finally, in Maryland, the state is investing its hold harmless payment in its TANF program.

While fiscal year 1998 statistics are not yet complete, HHS staff estimate that as many as 20 states will be eligible for hold harmless payments as a result of declining retained CSE welfare collections. The Congressional Budget Office estimates that hold harmless payments to states will reach approximately $50 million in fiscal year 2000, gradually declining to $40 million in fiscal year 2004. However, the administration's proposed budget for fiscal year 2000 calls for the elimination of hold harmless payments.

## Despite Overall Savings, More States Are Joining the Federal Government in Experiencing Net Costs

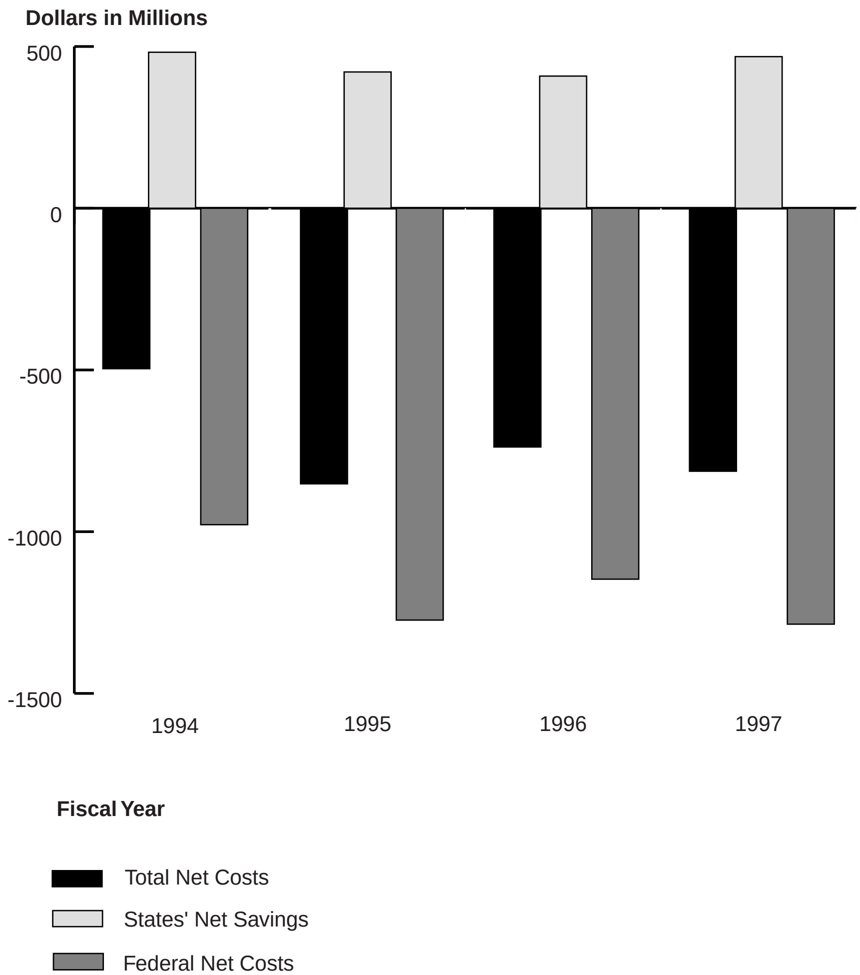
From fiscal year 1994 to fiscal year 1997, states continued to experience net savings from the CSE program, while the federal government's net costs continued to rise. Although the federal government has always paid the lion's share of program costs, a growing number of states are beginning to experience net costs from their CSE programs, and individual states' savings or costs varied widely. Four of the 32 states that continued to experience net savings also received hold harmless payments because their fiscal year 1997 retained collections fell below their 1995 levels. Although more states are experiencing net costs, they are not permitted to use unspent TANF funds to make up for reductions in their CSE revenues.

[16]Tennessee's fiscal year 1997 collections were $7.7 million lower than its fiscal year 1995 collections. However, the state's hold harmless payment was limited to the federal share of collections from that state.

## States Unevenly Share Program Savings and Costs

In 1997, states experienced estimated net savings of $467 million from their CSE programs while the federal government experienced an estimated net cost of $1.3 billion. A state's savings or costs are determined by combining its retained collections and incentive payments and subtracting its one-third share of administrative costs. Federal savings or costs are determined by taking the federal government's share of retained collections and subtracting the state incentive payments and the federal government's two-thirds share of administrative costs. Because of this basic financing structure, states have always realized net savings, while the federal government has always experienced net costs. As illustrated in figure 5, this basic pattern continued between fiscal years 1994 and 1997.

**Figure 5: State and Federal Net CSE Savings or Costs, FY 1994-97**

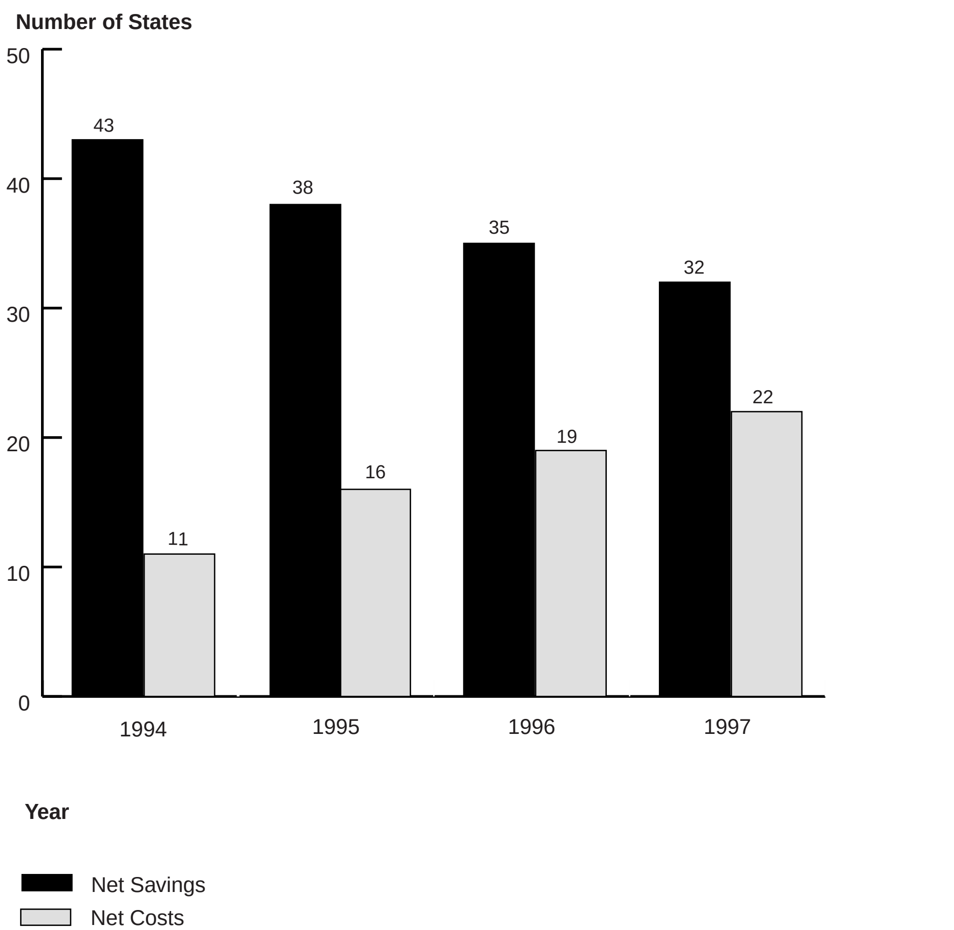



Note: HHS estimates that overall state savings will continue until fiscal year 2001, when states overall will begin to show net costs.

Source: OCSE data.

The states' program savings or costs varied widely in fiscal year 1997, as shown in appendix III. California led the 32 states experiencing net savings from their CSE programs, receiving back about $178 million more than its program cost; Arkansas experienced the largest net costs of about $6 million. The numbers of states experiencing net program savings declined from 42 in 1994 to 32 in 1997 as a result of increased administrative costs, reduced CSE welfare collections, and declining incentive payments (see fig. 6). [17,18]

**Figure 6: Number of States Experiencing Net Costs or Savings in CSE Programs**




Note: HHS estimates that 30 states experienced net costs in fiscal year 1998.

Source: OCSE data.

[17]Hold harmless payments are not considered in OCSE's calculation of net savings or costs. If hold harmless payments were considered, the number of states experiencing net savings would increase to 34.

[18]Alabama, Alaska, Delaware, Nevada, New Hampshire, and Puerto Rico attributed the increases in fiscal year 1995 administrative costs to increased expenditures for automated systems.

## Some States That Experienced Net Savings Also Received Hold Harmless Payments

Because the hold harmless payment is based on changes in retained collections only and not the entire net savings or costs equation, four states experienced net savings and were also eligible for hold harmless payments totaling almost $7 million for fiscal year 1997. These four states realized total net savings of almost $15 million in fiscal year 1997; however, this was a decline of $25 million from their fiscal year 1995 net savings (see table 2). Declines in net savings can occur if retained collections decline, earned incentive payments decline, or administrative costs increase (see fig. 1).

**Table 2: State Share of Program Savings or Costs, Fiscal Years 1995 and 1997, for States That Received Hold Harmless Payments in Fiscal Year 1997**

| State | FY 1995 program saving or (costs) | FY 1997 program saving or (costs)[a] | Change, FY 1995-97 |
|---|---|---|---|
| Indiana | $18,261,945 | $10,311,881 | ($7,950,064) |
| Maryland | 4,819,028 | (321,631) | (5,140,659) |
| Missouri | 7,694,840 | 1,850,554 | (5,844,286) |
| South Carolina | 190,946 | (817,850) | (1,008,796) |
| Tennessee | 7,519,056 | (947,506) | (8,466,562) |
| Vermont | 1,557,276 | 745,853 | (811,423) |
| Wisconsin | 12,694,857 | 1,982,694 | (10,712,163) |
| **Total** | **52,737,948** | **12,803,995** | **(39,933,953)** |

[a]The calculation of the states' net program savings or costs do not include the hold harmless payments the states received for fiscal year 1997.

Source: OCSE data.

## Unspent TANF Funds Cannot Be Used to Offset Reductions in CSE Revenue

Although some states have large unspent balances of state TANF funds, HHS has determined that these funds cannot be used to offset reductions in states' CSE revenue. The unspent balances of state TANF funds resulted from the welfare reform law's fundamental change in the way the federal government finances cash assistance to families. The law eliminated the open-ended entitlement of the AFDC program and replaced it with a flexible, capped block grant. The amount of each state's block grant is based on time periods when welfare caseloads and federal spending were at historically high levels. From January 1996 to December 1998, however, the number of families receiving TANF declined by almost 40 percent. While states must maintain a statutory "maintenance-of-effort" level relative to their previous spending limits, they are also allowed to carry forward unused TANF funds without fiscal year limitation.[19] Some states have begun to accrue large unspent TANF balances because of declining welfare caseloads and the fixed block grant funding mechanism. As of September 1998, 32 states had accumulated unspent TANF balances totaling $2.7 billion. These balances ranged from about $6 million in Vermont to $606 million in New York (see app. III).

With an increasing number of states beginning to experience net costs from their CSE programs, some states have asked whether they can use their unspent TANF funds to offset reductions in their CSE revenues. We asked HHS for its interpretation of section 404(a)(1) of the Social Security Act, which covers this issue, and it provided a written response (see app. V). HHS said that while CSE services are “reasonably calculated” to accomplish the purposes of the TANF program, unspent TANF balances may not be used to pay for required CSE services such as locating noncustodial parents, establishing paternity and support orders, and enforcing support orders.[20] However, states may spend TANF funds on supplemental CSE services or activities not required under the CSE program. One example of an allowable supplemental CSE service might be a job-training program for noncustodial parents that could increase their potential for paying child support.

## Declining Collections Did Not Affect CSE Funding in Seven States

State budgeting practices and policies determine how CSE programs are financed and whether CSE revenues are returned to the program. The way a state chooses to finance its program determines the extent to which a decline in collections might affect its CSE program. In the President’s budget for fiscal year 1999, the Office of Management and Budget directed HHS to consult with its state partners and stakeholders and propose a new overall financing structure for the CSE program. As part of this process, HHS contracted with The Lewin Group to develop information on how the states finance their CSE programs and use the retained collections and incentive payments that go to the states. Lewin reported that states have

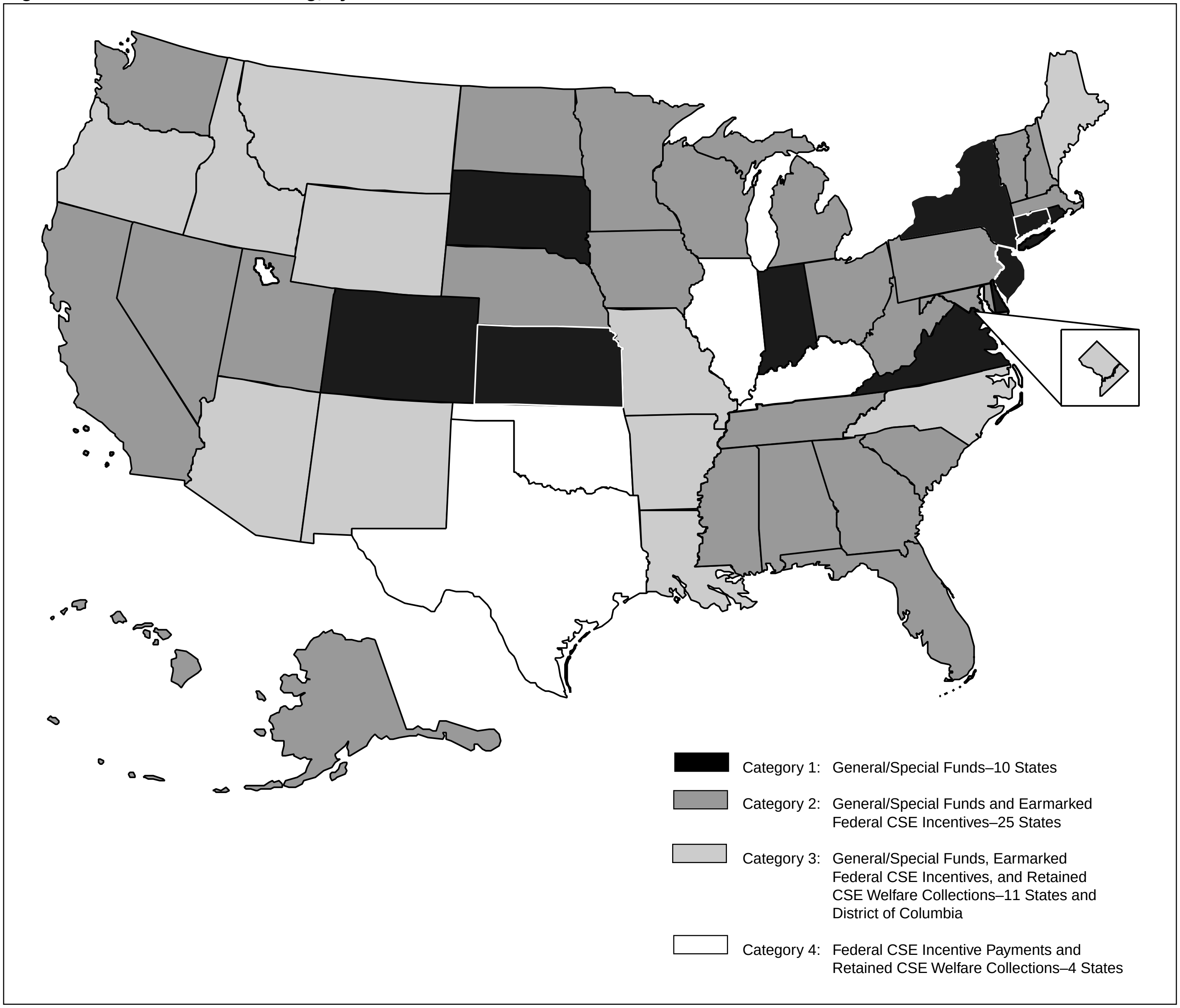
[19]States are required to maintain at least 75 percent of their historic welfare spending levels. Maintenance-of-effort requirements are based on states’ fiscal year 1994 spending on AFDC, Job Opportunities and Basic Skills (JOBS), and Emergency Assistance programs; related administrative costs; and AFDC-related child care programs such as the AFDC/JOBS child care, Transitional Child Care, and At-Risk Child Care programs. See Welfare Reform: Monitoring Required State Spending Levels (GAO/HEHS-99-20R, Nov. 30, 1998).

[20]HHS also determined that state expenditures for required CSE services could not be claimed toward states’ maintenance-of-effort requirements.

chosen to fund their CSE programs in one of four ways.[21] The method chosen determines how sensitive a state's CSE program funding is to changes in retained collections and incentive payments, from the more stable financing in category 1 to the least stable financing in category 4. Figure 7 shows the funding sources that states used to finance their programs in fiscal year 1997.

[21]The Lewin Group, Inc., ECONorthwest, "State Financing of Child Support Enforcement Programs: Briefing on Findings" (Briefing prepared for Assistant Secretary for Planning and Evaluation and the OCSE, HHS, Nov. 23, 1998).

**Figure 7: Sources of CSE Funding, by State**




Source: The Lewin Group.

The Lewin Group's work provides a good framework for examining how changes in retained collections and incentive payments might affect a state's CSE program. For example, a category 1 state CSE program relies on general/special funds and may not be directly affected by changes in retained collections and incentive payments. A category 4 state CSE program, however, would be directly affected if retained collections and incentive payments changed because these are the sole funding sources. State CSE officials in six of the seven hold harmless states said the fiscal year 1997 decline in their CSE welfare collections had little or no effect on their CSE agencies' funding because they do not use retained collections to fund their CSE programs. Maryland, Tennessee, Vermont, and Wisconsin returned their collections to their welfare agencies as reimbursement for welfare payments; South Carolina placed its collections in a social services discretionary fund; and Indiana deposited its collections in the state's general revenue fund. Missouri is the only hold harmless state that used retained collections to fund its CSE program. However, state officials said declining CSE collections had no effect on Missouri's program in fiscal year 1997 because the state had sufficient retained CSE collections to cover program costs.[22]

## Caseload Declines and Welfare Reform Changes Will Affect State and Federal Child Support Programs

As states implement welfare reform strategies that emphasize finding employment for welfare recipients and helping them to become less dependent on government cash assistance, further TANF caseload declines are possible along with reductions in retained state and federal CSE welfare collections. In addition, the new policy that gives families a greater priority in receiving past due support will result in fewer CSE retained collections, and the new incentive payment program will likely result in less stable CSE program financing. The expected declines in CSE program revenues, however, may be ameliorated as states gain experience with the new enforcement tools mandated under welfare reform. More states may also seek to increase CSE revenues by adopting expanded service fees for CSE nonwelfare cases.

### Caseload Declines and Families First Policy Will Exert a Negative Influence on Retained Collections

The large decrease in the size of welfare caseloads nationally indicates a significant reduction in families' dependence on cash assistance—an intended consequence of the 1996 welfare reform law. As more families leave the welfare rolls, however, more CSE payments collected will be

[22]Declines in collections and incentive payments may also have an impact on local CSE programs if a state shares these revenues with them. Our review and analysis did not include the effects of declining CSE welfare collections on local programs.

given directly to the families, resulting in fewer CSE retained welfare collections to be divided between the states and federal government.

In addition, the welfare reform law contained a provision that gives families greater priority in receiving arrearage payments once they leave welfare. The implementation of this "families first" policy will also affect the amount of collections retained by the states and federal government. As this policy is phased in between fiscal years 1998 and 2001, more CSE collections will go to families to help them stay off welfare. Conversely, fewer collections will be retained by the states and federal government.

## New Incentive Payment Program Will Bring Changes to Child Support Financing

The Child Support Performance and Incentive Act of 1998 amended some welfare reform provisions and required OCSE to base the states' incentive payments on five performance-based outcome measures that will be phased in starting in fiscal year 2000. The new measures are likely to change both positively and negatively the incentive payment amounts states receive, depending upon the outcomes under each performance measure. In addition, incentive payments to the states will no longer be open-ended. Rather, a fixed pool of incentive payments, shared by all the states, will be established. Each state's performance, therefore, will be judged and rewarded in relation to every other state's performance at the end of the fiscal year, making it harder for states to plan in advance for expected incentive payments.

The 1998 act also requires states to reinvest their federal incentive payments in their CSE programs starting in fiscal year 2000. This requirement is not likely to provide substantial amounts of new revenues to the states' CSE programs. According to the Lewin study, about 70 percent of federal incentive payments are already distributed to state and/or local CSE programs. However, states that currently fund their CSE programs solely with general/special funds could experience some funding instability. These states are considered to have the most stable funding because they do not rely upon CSE program revenues, which vary from year to year, to run their programs. If these states use incentive payments to supplant rather than supplement their program funds, as the law requires, they will introduce some uncertainty into their financing streams. Whether more or less money will be available to these programs remains to be seen. However, if these states use the incentive payments to supplement their current funding, the payments will provide increased funding for CSE programs.

## New Enforcement Tools and Adopting Fees Could Offset Effects of Declining TANF and CSE Welfare Caseloads and Revenues

The welfare reform law included new tools that could help CSE programs increase their efficiency and maintain their collections from a declining CSE welfare caseload. The law required OCSE and the states to create federal and state registries of CSE orders, directories of new employee hires,[23] and quarterly wage reports to aid in the location of noncustodial parents and the enforcement of child support orders. In addition, the law established new custodial parent cooperation requirements and penalties to strengthen existing requirements and to simplify the paternity establishment process.[24] Finally, the law required states to perform data matches with financial institutions and revoke noncustodial parents' driver's, professional and occupational, and recreational licenses if they fail to comply with CSE orders.

The national new-hire and support order registries offer significant potential for increasing CSE collections, especially those from interstate cases, which constitute about one-third of the total caseload. For example, in fiscal year 1998, its first year of operation, the National Directory of New Hires enabled OCSE to match over 1 million state requests to locate noncustodial parents against its central registry and provide states with information about them. In addition, the new custodial parent cooperation requirements could result in more accurate and more complete noncustodial parent information at the time a welfare case is opened, thus helping states locate noncustodial parents.

To help defray rising administrative costs that decrease state child support revenues, CSE programs can collect fees from nonwelfare parents who receive services resulting in successful collections. Parents receiving TANF benefits receive free child support services, but nonwelfare families must pay an application fee of up to $25. For nonwelfare families, states can charge fees on a sliding scale, pay the fees out of state funds, or recover fees from noncustodial parents. As we noted in a previous report and testimony, many nonwelfare parents receiving child support services could afford to pay some of the costs of these services, yet most states had

[23]Employers are required to report identifying information on all new hires to state directories of new hires, where the information is matched against databases of CSE orders so that enforcement activities, such as the implementation of wage withholding orders, can begin. This information, in turn, is forwarded to a national directory of new hires for use by all states.

[24]The welfare reform law moved the determination of custodial parent cooperation from the welfare agency to the CSE agency, and mandated that welfare assistance be reduced by at least 25 percent if a custodial parent does not cooperate with the CSE agency. It also gave the CSE agency the authority to order genetic testing in contested cases, and stipulated that a signed acknowledgement of paternity be considered a legal finding of paternity unless rescinded within 60 days.

not collected any significant portion of these costs.[25] For example, in 1992 we reported that of the 617,962 women requesting child support services in 1989, 42 percent reported incomes exceeding 200 percent of the poverty level and 21 percent exceeded 300 percent. However, 31 states charged an application fee of $1 or less, and most of these states paid the fee for the nonwelfare family. Also, Lewin noted in its 1998 study that fees constitute a small share of state CSE revenues, although Louisiana, North Carolina, and Ohio are now considering expanding their service fees.

We continue to believe that states could significantly offset declining child support revenues by charging a percentage service fee. On the basis of our past work we found that a 15-percent service fee would have recovered all 1994 administrative costs incurred by states for nonwelfare parents. A percentage fee, ultimately set by the Congress, would not require up-front costs to nonwelfare parents as the current application fees do and should not discourage them from seeking the child support services they need even if collections are not realized. Also, percentage fees would not impose a financial burden on parents with limited income because fees would be collected only when child support payments are received. States could continue to retain the option to pay the fee themselves or pay the fee and recover it from the noncustodial parent. Moreover, such fees would be easy to administer by state child support offices.

Citing GAO's work, the House Budget Committee's report on the fiscal year 1996 budget resolution suggested that a percentage service fee on nonwelfare collections be considered as a budget savings option.[26] To date, the Congress has not enacted such fees.

## Observations

The expected outcomes of welfare reform are changing the fiscal and political environment in which the CSE program operates. Declining caseloads—both TANF and CSE welfare—have reduced the revenue some states have historically realized from the CSE program. At the same time, newly mandated methods for collecting more child support from noncustodial parents have increased states' program responsibilities and costs. The federal government, on the other hand, has continued to incur program costs primarily because it reimburses states for a two-thirds share of their CSE expenditures. Moreover, the federal government's net

[25] Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992) and Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

[26] H.R. Rep. No. 104-120, at 108 (1995).

costs are likely to grow as caseloads shrink and states spend more in administrative costs to implement enforcement tools required by the welfare reform law. Growing net costs for the states and federal government will likely encourage both program partners to (1) reexamine how the CSE program is financed and (2) weigh these new fiscal realities against the program's social and fiscal benefits of promoting parental responsibility and recovering welfare costs.

## Matter for Congressional Consideration

In our previous work we have concluded that individuals who use nonwelfare CSE services should pay some portion of the costs incurred by the states and federal government. We previously recommended that the Congress amend title IV-D of the Social Security Act to require states to charge a minimum percentage service fee for each successful CSE nonwelfare collection in order to defray the cost of providing CSE nonwelfare services. The Congress has considered this option but to date has not enacted such fees. CSE nonwelfare costs continue to rise as CSE welfare caseloads decline, signaling future declines in CSE revenues. The Congress and states may wish to reconsider the option of charging a minimum percentage service fee on CSE nonwelfare collections that would be shared at the same rate the federal government and states share administrative costs—two-thirds and one-third, respectively. This would, to some extent, alleviate the growing financial burden to the federal government and states.

## Agency Comments

We requested comments from HHS on a draft of this report, but none were provided.

We are sending copies of this report to the Honorable William V. Roth, Jr., Chairman, and the Honorable Daniel Patrick Moynihan, Ranking Minority Member, Senate Committee on Finance; the Honorable John H. Chafee, Chairman, and the Honorable John B. Breaux, Ranking Minority Member, of the Finance Committee's Subcommittee on Social Security and Family Policy; the Honorable Donna E. Shalala, Secretary of Health and Human Services; and the Honorable Olivia Golden, Assistant Secretary for Children and Families, HHS. We will also make copies available to others on request.

If you or your staff have any questions about this report, please contact Cynthia M. Fagnoni or Karen A. Whiten at (202) 512-7215. Key contributors to this assignment were Kevin M. Kumanga, Christopher Morehouse, and Regina Santucci.

Sincerely yours,

Richard L. Hembra
Assistant Comptroller General

# Contents

## Tables



## Figures



### Abbreviations

| | |
|---|---|
| AFDC | Aid to Families With Dependent Children |
| CSE | Child Support Enforcement |
| HHS | Department of Health and Human Services |
| IRS | Internal Revenue Service |
| JOBS | Job Opportunities and Basic Skills |
| OCSE | Office of Child Support Enforcement |
| TANF | Temporary Assistance for Needy Families |

# Total AFDC/TANF Families, January 1994 Through December 1998

| | | | | | | | Percentage change | |
|---|---|---|---|---|---|---|---|---|
| **State** | **Jan. 1994** | **Jan. 1995** | **Jan. 1996** | **Jan. 1997** | **Jan. 1998** | **Dec. 1998** | **1994-97** | **1994-98[a]** |
| Alabama | 51,181 | 47,376 | 43,396 | 37,972 | 25,123 | 20,850 | (26) | (59) |
| Alaska | 12,578 | 12,518 | 11,979 | 12,224 | 10,392 | 8,388 | (3) | (33) |
| Arizona | 72,160 | 71,110 | 64,442 | 56,250 | 41,233 | 36,125 | (22) | (50) |
| Arkansas | 26,398 | 24,930 | 23,140 | 21,549 | 14,419 | 12,486 | (18) | (53) |
| California | 902,900 | 925,585 | 904,940 | 839,860 | 727,695 | 641,359 | (7) | (29) |
| Colorado | 41,616 | 39,115 | 35,661 | 31,288 | 21,912 | 15,367 | (25) | (63) |
| Connecticut | 58,453 | 60,927 | 58,124 | 56,095 | 51,132 | 37,944 | (4) | (35) |
| Delaware | 11,739 | 11,306 | 10,266 | 10,104 | 7,053 | 5,087 | (14) | (57) |
| District of Columbia | 26,624 | 26,624 | 25,717 | 24,752 | 22,451 | 19,751 | (7) | (26) |
| Florida | 254,032 | 241,193 | 215,512 | 182,075 | 121,006 | 91,791 | (28) | (64) |
| Georgia | 142,459 | 141,284 | 135,274 | 115,490 | 84,318 | 61,475 | (19) | (57) |
| Guam | 1,840 | 2,124 | 2,097 | 2,349 | 2,213 | 2,361 | 28 | 28 |
| Hawaii | 20,104 | 21,523 | 22,075 | 21,469 | 23,578 | 16,562 | 7 | (18) |
| Idaho | 8,677 | 9,097 | 9,211 | 7,922 | 1,920 | 1,502 | (9) | (83) |
| Illinois | 238,967 | 240,013 | 225,796 | 206,316 | 175,445 | 139,806 | (14) | (41) |
| Indiana | 74,169 | 68,195 | 52,254 | 46,215 | 37,298 | 36,866 | (38) | (50) |
| Iowa | 39,623 | 37,298 | 33,559 | 28,931 | 25,744 | 22,193 | (27) | (44) |
| Kansas | 30,247 | 28,770 | 25,811 | 21,732 | 14,595 | 12,784 | (28) | (58) |
| Kentucky | 79,437 | 76,471 | 72,131 | 67,679 | 54,491 | 44,494 | (15) | (44) |
| Louisiana | 88,168 | 81,587 | 72,104 | 60,226 | 46,593 | 45,401 | (32) | (49) |
| Maine | 23,074 | 22,010 | 20,472 | 19,037 | 15,526 | 14,012 | (17) | (39) |
| Maryland | 79,772 | 81,115 | 75,573 | 61,730 | 49,075 | 39,014 | (23) | (51) |
| Massachusetts | 112,955 | 104,956 | 90,107 | 80,675 | 68,651 | 59,154 | (29) | (48) |
| Michigan | 225,671 | 207,089 | 180,790 | 156,077 | 128,892 | 100,676 | (31) | (55) |
| Minnesota | 63,552 | 61,373 | 58,510 | 54,608 | 48,893 | 46,322 | (14) | (27) |
| Mississippi | 57,689 | 53,104 | 49,185 | 40,919 | 25,510 | 18,292 | (29) | (68) |
| Missouri | 91,598 | 91,378 | 84,534 | 75,459 | 62,872 | 53,788 | (18) | (41) |
| Montana | 12,080 | 11,732 | 11,276 | 9,644 | 6,789 | 5,517 | (20) | (54) |
| Nebraska | 16,145 | 14,968 | 14,136 | 13,492 | 13,809 | 11,844 | (16) | (27) |
| Nevada | 14,077 | 16,039 | 15,824 | 11,742 | 11,263 | 9,064 | (17) | (36) |
| New Hampshire | 11,427 | 11,018 | 9,648 | 8,293 | 6,489 | 6,455 | (27) | (44) |
| New Jersey | 121,361 | 120,099 | 113,399 | 102,378 | 89,030 | 68,522 | (16) | (44) |
| New Mexico | 33,376 | 34,789 | 34,368 | 29,984 | 20,219 | 25,692 | (10) | (23) |
| New York | 449,978 | 461,006 | 437,694 | 393,424 | 347,536 | 301,918 | (13) | (33) |
| North Carolina | 131,288 | 127,069 | 114,449 | 103,300 | 78,473 | 64,470 | (21) | (51) |
| North Dakota | 6,002 | 5,374 | 4,976 | 4,416 | 3,351 | 3,123 | (26) | (48) |
| Ohio | 251,037 | 232,574 | 209,830 | 192,747 | 147,093 | 123,902 | (23) | (51) |

(continued)

| | | | | | | | Percentage change | |
|---|---|---|---|---|---|---|---|---|
| **State** | **Jan. 1994** | **Jan. 1995** | **Jan. 1996** | **Jan. 1997** | **Jan. 1998** | **Dec. 1998** | **1994-97** | **1994-98[a]** |
| Oklahoma | 47,475 | 45,936 | 40,692 | 32,942 | 25,860 | 20,895 | (31) | (56) |
| Oregon | 42,695 | 40,323 | 35,421 | 25,874 | 19,249 | 16,829 | (39) | (61) |
| Pennsylvania | 208,260 | 208,899 | 192,952 | 170,831 | 140,446 | 117,828 | (18) | (43) |
| Puerto Rico | 59,425 | 55,902 | 51,370 | 48,359 | 43,474 | 38,159 | (19) | (36) |
| Rhode Island | 22,592 | 22,559 | 21,775 | 20,112 | 19,242 | 19,135 | (11) | (15) |
| South Carolina | 53,178 | 50,389 | 46,772 | 37,342 | 27,514 | 20,205 | (30) | (62) |
| South Dakota | 7,027 | 6,482 | 6,189 | 5,324 | 3,956 | 3,476 | (24) | (51) |
| Tennessee | 111,946 | 105,948 | 100,884 | 74,820 | 53,837 | 57,691 | (33) | (48) |
| Texas | 285,680 | 279,911 | 265,233 | 228,882 | 158,252 | 121,606 | (20) | (57) |
| Utah | 18,063 | 17,195 | 15,072 | 12,864 | 10,931 | 10,191 | (29) | (44) |
| Vermont | 9,917 | 9,789 | 9,210 | 8,451 | 7,591 | 6,696 | (15) | (32) |
| Virgin Islands | 1,090 | 1,264 | 1,437 | 1,335 | 1,167 | 1,139 | 22 | 4 |
| Virginia | 74,717 | 73,920 | 66,244 | 56,018 | 44,247 | 39,295 | (25) | (47) |
| Washington | 103,068 | 103,179 | 99,395 | 95,982 | 82,852 | 64,933 | (7) | (37) |
| West Virginia | 40,869 | 39,231 | 36,674 | 36,805 | 18,914 | 9,943 | (10) | (76) |
| Wisconsin | 78,507 | 73,962 | 65,386 | 45,586 | 13,860 | 10,185 | (42) | (87) |
| Wyoming | 5,891 | 5,443 | 4,975 | 3,825 | 1,340 | 893 | (35) | (85) |
| **Total** | **5,052,854** | **4,963,071** | **4,627,941** | **4,113,775** | **3,304,814** | **2,783,456** | **(19)** | **(45)** |

[a]Through December 1998.

# Changes in Average CSE Welfare and Nonwelfare Caseloads, FY 1994-97

| State | Percentage change in CSE welfare caseload | Percentage change in CSE nonwelfare caseload |
|---|---|---|
| Alabama | (27) | 20 |
| Alaska | 1 | 21 |
| Arizona | (44) | 17 |
| Arkansas | (22) | 20 |
| California | 4 | 6 |
| Colorado | (18) | 23 |
| Connecticut | (3) | 21 |
| Delaware | (14) | 6 |
| District of Columbia | (8) | 50 |
| Florida | (48) | 31 |
| Georgia | (40) | 10 |
| Guam | 46 | 26 |
| Hawaii | 24 | (10) |
| Idaho | 4 | 87 |
| Illinois | (14) | 27 |
| Indiana | (48) | (1) |
| Iowa | (21) | 39 |
| Kansas | (23) | 38 |
| Kentucky | (24) | 23 |
| Louisiana | (36) | 44 |
| Maine | (10) | 17 |
| Maryland | 4 | 34 |
| Massachusetts | (20) | 37 |
| Michigan | 5 | 26 |
| Minnesota | (13) | 43 |
| Mississippi | (59) | 82 |
| Missouri | (35) | 4 |
| Montana | (26) | 15 |
| Nebraska | (19) | (5) |
| Nevada | (2) | 14 |
| New Hampshire | (29) | 39 |
| New Jersey | (27) | 1 |
| New Mexico | (33) | 17 |
| New York | (18) | 13 |
| North Carolina | (22) | 41 |
| North Dakota | (16) | 46 |

(continued)

| State | Percentage change in CSE welfare caseload | Percentage change in CSE nonwelfare caseload |
|---|---|---|
| Ohio | (11) | 11 |
| Oklahoma | (22) | 34 |
| Oregon | (30) | 42 |
| Pennsylvania | (20) | 1 |
| Puerto Rico | (27) | 26 |
| Rhode Island | (15) | (24) |
| South Carolina | (39) | 31 |
| South Dakota | (26) | 33 |
| Tennessee | (47) | (7) |
| Texas | (17) | 44 |
| Utah | (21) | 65 |
| Vermont | (16) | 34 |
| Virgin Islands | 15 | 3 |
| Virginia | (30) | 44 |
| Washington | (15) | 19 |
| West Virginia | (16) | 72 |
| Wisconsin | (66) | 80 |
| Wyoming | (68) | 758 |
| **Total** | **(19)** | **21** |

Appendix III

# Selected State Program Statistics

| State | FY 1995-97 change in: State share of AFDC/TANF/ foster care collections | FY 1995-97 change in: Paid incentives, actual | FY 1995-97 change in: State share of administrative costs[a] | Net change, FY 1995-97 | Hold harmless payment (if any), FY 1997 | Unspent TANF balance, 9/30/98 | State program savings or (costs),[b] FY 1997 | Change in program savings, FY 1995-97 |
|---|---|---|---|---|---|---|---|---|
| Alabama | $1,406,248 | $254,839 | $3,778,116 | $5,439,203 | | $37,377,861 | ($3,290,905) | $5,381,539 |
| Alaska | 1,549,948 | 572,377 | (774,700) | 1,347,625 | | | 5,628,650 | 1,427,751 |
| Arizona | 1,990,041 | 401,145 | 1,061,566 | 3,452,752 | | 34,189,609 | (3,344,885) | 3,459,585 |
| Arkansas | 1,099,101 | 505,222 | (6,924,713) | (5,320,390) | | | (5,641,213) | (5,505,745) |
| California | 86,241,904 | 19,102,159 | (35,753,112) | 69,590,951 | | | 177,731,427 | 66,957,702 |
| Colorado | 3,906,439 | 910,602 | (2,329,346) | 2,487,695 | | 81,206,230 | 8,999,890 | 1,509,940 |
| Connecticut | 12,340,603 | 1,317,352 | (1,728,091) | 11,929,864 | | | 17,120,569 | 13,444,311 |
| Delaware | 285,200 | (30,135) | (1,172,726) | (917,661) | | | (1,281,765) | (1,097,458) |
| District of Columbia | 376,200 | (97,178) | (66,971) | 212,051 | | 24,406,030 | (375,821) | 208,989 |
| Florida | 11,128,606 | 2,219,282 | (11,872,261) | 1,475,627 | | 252,922,151 | 11,547,158 | (249,731) |
| Georgia | 4,567,643 | (1,048,940) | (4,194,014) | (675,311) | | 51,695,673 | 4,950,930 | (5,849,793) |
| Guam | 6,098 | (29,219) | (65,834) | (88,955) | | | (727,038) | 42,713 |
| Hawaii | 721,994 | 54,440 | 256,465 | 1,032,899 | | 6,100,900 | 1,645,645 | 1,106,254 |
| Idaho | 82,314 | (86,888) | (1,175,466) | (1,180,040) | | 29,502,444 | (358,589) | (1,023,744) |
| Illinois | 11,386,935 | 1,841,402 | (10,583,405) | 2,644,932 | | | 6,609,567 | 2,644,931 |
| Indiana | (1,311,594) | (2,857,785) | (1,056,205) | (5,225,584) | $1,311,594 | | 10,311,881 | (7,950,064) |
| Iowa | 1,357,125 | (333,772) | (2,805,556) | (1,782,203) | | 28,873,740 | 10,173,323 | (2,386,677) |
| Kansas | 1,100,482 | (56,195) | 5,749,025 | 6,793,312 | | 21,616,607 | 3,651,692 | 6,874,005 |
| Kentucky | 1,567,800 | 134,603 | (2,518,813) | (816,410) | | 43,885,017 | 1,691,156 | (2,004,980) |
| Louisiana | 1,311,207 | (81,541) | 14,793 | 1,244,459 | | 123,516,902 | (1,027,718) | 1,070,050 |
| Maine | 2,707,889 | 842,635 | (1,179,723) | 2,370,801 | | | 10,146,483 | 3,787,571 |
| Maryland | (1,155,414) | (1,652,711) | (3,195,918) | (6,004,043) | 1,155,414 | 79,856,787 | (321,631) | (5,140,659) |
| Massachusetts | 912,441 | (1,318,675) | (1,763,088) | (2,169,322) | | | 22,964,102 | (2,503,738) |
| Michigan | 6,743,610 | (2,754,507) | (17,463,017) | (13,473,914) | | 89,260,877 | 32,652,828 | (16,903,867) |
| Minnesota | 3,567,047 | (8,088) | (5,189,046) | (1,630,087) | | 136,927,526 | 10,559,586 | (1,390,253) |
| Mississippi | 920,768 | 61,855 | (211,899) | 770,724 | | | (2,523,105) | 812,430 |
| Missouri | (479,278) | (527,042) | (4,583,311) | (5,589,631) | 479,278 | | 1,850,554 | (5,844,286) |
| Montana | 522,931 | 185,435 | (1,275,913) | (567,547) | | | (260,039) | (297,470) |
| Nebraska | 1,063,986 | 188,222 | (3,291,813) | (2,039,605) | | 24,624,396 | (3,409,424) | (2,139,339) |
| Nevada | 725,413 | 638,492 | (4,831,982) | (3,468,077) | | | (4,158,831) | (3,257,149) |
| New Hampshire | 286,055 | 72,767 | (57,355) | 301,467 | | 5,953,212 | 1,577,606 | 420,304 |
| New Jersey | 5,301,698 | 104,896 | (4,637,177) | 769,417 | | 170,258,386 | 17,605,878 | 635,954 |
| New Mexico | 492,281 | (39,650) | (3,346,118) | (2,893,487) | | 30,899,415 | (4,074,136) | (2,990,814) |

(continued)

| State | FY 1995-97 change in: State share of AFDC/TANF/ foster care collections | Paid incentives, actual | State share of administrative costs[a] | Net change, FY 1995-97 | Hold harmless payment (if any), FY 1997 | Unspent TANF balance, 9/30/98 | State program savings or (costs),[b] FY 1997 | Change in program savings, FY 1995-97 |
|---|---|---|---|---|---|---|---|---|
| New York | 22,843,288 | 5,751,867 | (6,878,650) | 21,716,505 | | 605,881,273 | 63,961,714 | 20,081,540 |
| North Carolina | 5,955,684 | 58,173 | (7,194,608) | (1,180,751) | | 93,148,981 | 1,587,632 | (1,265,801) |
| North Dakota | 123,028 | (21,444) | (68,021) | 33,563 | | | 821,150 | 33,563 |
| Ohio | 9,778,686 | 573,337 | (19,095,949) | (8,743,926) | | | (3,674,606) | (9,435,284) |
| Oklahoma | 1,255,304 | 322,315 | (926,404) | 651,215 | | 110,238,480 | 3,150,124 | 908,697 |
| Oregon | 403,728 | 70,212 | (3,704,582) | (3,230,642) | | | 1,767,372 | (3,780,388) |
| Pennsylvania | 4,074,539 | (1,106,633) | (4,254,637) | (1,286,731) | | 245,036,264 | 30,183,573 | (787,286) |
| Puerto Rico | 271,527 | (190,599) | 2,309,534 | 2,390,462 | | | (7,390,997) | (2,228,606) |
| Rhode Island | 2,126,115 | 985,234 | (211,284) | 2,900,065 | | 6,526,593 | 9,183,961 | 3,041,709 |
| South Carolina | (717,524) | (354,597) | 125,158 | (946,963) | 717,524 | 23,810,926 | (817,850) | (1,008,796) |
| South Dakota | 353,172 | (56,571) | (699,623) | (403,022) | | 7,981,636 | 1,098,701 | (239,690) |
| Tennessee | (7,662,533) | (1,347,549) | (213,219) | (9,223,301) | 5,392,257 | 48,265,922 | (947,506) | (8,466,562) |
| Texas | 10,781,476 | 3,059,596 | (8,138,850) | 5,702,222 | | | 410,190 | (5,801,427) |
| Utah | 926,859 | 134,222 | (1,179,215) | (118,134) | | 13,550,431 | (1,395,212) | 130,334 |
| Vermont | (573,318) | 27,030 | 58,451 | (487,837) | 573,318 | 5,571,572 | 745,853 | (811,423) |
| Virgin Islands | 75,241 | 55,263 | (536,151) | (405,647) | | | (227,358) | 666,655 |
| Virginia | 2,030,935 | (91,323) | 568,582 | 2,508,194 | | | 9,215,419 | 2,116,483 |
| Washington | 8,135,630 | 346,001 | (1,086,477) | 7,395,154 | | 141,452,770 | 33,264,513 | 7,395,154 |
| West Virginia | 1,385,471 | 357,425 | (946,544 | 796,352 | | 80,717,433 | (1,777,699) | 706,014 |
| Wisconsin | (4,452,505) | (3,962,831) | (5,094,779) | (13,510,115) | 4,452,505 | 49,019,541 | 1,982,694 | (10,712,163) |
| Wyoming | 127,749 | (252,810) | (618,290) | (743,351) | | | (681,634) | (767,894) |
| **Total** | **$219,966,273** | **$22,841,717** | **$197,124,556** | **$439,932,546** | **$14,081,890** | **$2,704,275,585[c]** | **$467,084,559** | **$45,584,879** |

[a]A negative number represents an increase in costs from FY 1995 to FY 1997.

[b]Hold harmless payments are not included in the calculation of program savings or costs.

[c]Total does not include unspent TANF balances for Guam, Puerto Rico, and the Virgin Islands.

# Estimates of State CSE Program Savings, FY 1997

| State | State share of AFDC/TANF/foster care collections | State incentive payments | State share of administrative expenditures[a] | State program savings or (costs)[b,c] |
|---|---|---|---|---|
| Alabama | 6,275,920 | 3,598,175 | 13,165,000 | (3,290,905) |
| Alaska | 8,661,147 | 3,232,503 | 6,265,000 | 5,628,650 |
| Arizona | 8,380,583 | 4,203,232 | 15,928,000 | (3,344,185) |
| Arkansas | 4,489,920 | 3,247,867 | 13,379,000 | (5,641,213) |
| California | 263,233,517 | 74,627,910 | 160,130,000 | 177,731,427 |
| Colorado | 16,669,043 | 5,863,847 | 13,533,000 | 8,999,890 |
| Connecticut | 24,770,770 | 7,862,799 | 15,513,000 | 17,120,569 |
| Delaware | 3,529,167 | 1,058,068 | 5,869,000 | (1,281,765) |
| District of Columbia | 2,815,419 | 1,008,760 | 4,200,000 | (375,821) |
| Florida | 42,741,234 | 16,074,924 | 47,269,000 | 11,547,158 |
| Georgia | 18,068,352 | 11,008,578 | 24,126,000 | 4,950,930 |
| Guam | 259,905 | 208,057 | 1,195,000 | (727,038) |
| Hawaii | 5,704,850 | 1,687,795 | 5,747,000 | 1,645,645 |
| Idaho | 2,895,003 | 1,849,408 | 5,103,000 | (358,589) |
| Illinois | 36,523,099 | 11,412,468 | 41,326,000 | 6,609,567 |
| Indiana | 14,305,146 | 5,941,735 | 9,935,000 | 10,311,881 |
| Iowa | 14,956,569 | 5,979,754 | 10,763,000 | 10,173,323 |
| Kansas | 11,128,194 | 3,999,498 | 11,476,000 | 3,651,692 |
| Kentucky | 11,148,123 | 5,576,033 | 15,033,000 | 1,691,156 |
| Louisiana | 6,570,232 | 3,781,050 | 11,379,000 | (1,027,718) |
| Maine | 9,886,078 | 5,733,405 | 5,473,000 | 10,146,483 |
| Maryland | 17,849,696 | 5,047,673 | 23,219,000 | (321,631) |
| Massachusetts | 33,422,193 | 9,467,909 | 19,926,000 | 22,964,102 |
| Michigan | 66,344,288 | 21,135,540 | 54,827,000 | 32,652,828 |
| Minnesota | 28,818,840 | 8,970,746 | 27,230,000 | 10,559,586 |
| Mississippi | 4,342,334 | 3,248,561 | 10,114,000 | (2,523,105) |
| Missouri | 18,583,251 | 7,826,303 | 24,559,000 | 1,850,554 |
| Montana | 2,373,720 | 1,389,241 | 4,023,000 | (260,039) |
| Nebraska | 4,567,088 | 1,805,488 | 9,782,000 | (3,409,424) |
| Nevada | 4,053,331 | 2,708,838 | 10,921,000 | (4,158,831) |
| New Hampshire | 4,694,002 | 1,478,604 | 4,595,000 | 1,577,606 |
| New Jersey | 43,625,445 | 12,481,433 | 38,501,000 | 17,605,878 |
| New Mexico | 2,596,841 | 1,385,023 | 8,056,000 | (4,074,136) |
| New York | 100,437,812 | 31,373,902 | 67,850,000 | 63,961,714 |
| North Carolina | 25,947,433 | 10,718,199 | 35,078,000 | 1,587,632 |
| North Dakota | 1,858,914 | 973,236 | 2,011,000 | 821,150 |

(continued)

| State | State share of AFDC/TANF/foster care collections | State incentive payments | State share of administrative expenditures[a] | State program savings or (costs)[b,c] |
|---|---|---|---|---|
| Ohio | 48,013,415 | 16,939,979 | 68,628,000 | (3,674,606) |
| Oklahoma | 7,181,327 | 3,657,797 | 7,689,000 | 3,150,124 |
| Oregon | 10,242,906 | 5,383,466 | 13,859,000 | 1,767,372 |
| Pennsylvania | 52,433,761 | 16,933,812 | 39,184,000 | 30,183,573 |
| Puerto Rico | 580,627 | 388,376 | 8,360,000 | (7,390,997) |
| Rhode Island | 8,515,395 | 3,645,566 | 2,977,000 | 9,183,961 |
| South Carolina | 5,604,580 | 3,566,570 | 9,989,000 | (817,850) |
| South Dakota | 2,059,940 | 1,150,761 | 2,112,000 | 1,098,701 |
| Tennessee | 5,936,304 | 5,431,190 | 12,315,000 | (947,506) |
| Texas | 38,248,009 | 16,756,181 | 54,594,000 | 410,190 |
| Utah | 5,366,098 | 3,181,690 | 9,943,000 | (1,395,212) |
| Vermont | 1,916,409 | 1,182,444 | 2,353,000 | 745,853 |
| Virgin Islands | 145,576 | 112,066 | 485,000 | (227,358) |
| Virginia | 21,701,453 | 6,060,966 | 18,547,000 | 9,215,419 |
| Washington | 54,484,696 | 16,363,817 | 37,584,000 | 33,264,513 |
| West Virginia | 4,154,214 | 2,180,087 | 8,112,000 | (1,777,699) |
| Wisconsin | 18,057,573 | 8,458,121 | 24,533,000 | 1,982,694 |
| Wyoming | 1,661,719 | 566,647 | 2,910,000 | (681,634) |
| **Total** | **$1,158,831,461** | **$409,926,098** | **$1,101,673,000** | **$467,084,559** |

[a]OCSE estimate.

[b]Hold harmless payments are not included in the calculation of program savings or costs.

[c]GAO calculation based on preliminary OCSE data.

# HHS Clarification of Whether TANF Funds May Be Used to Support CSE Programs

DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

NOV 16 1998

Cynthia M. Fagnoni
Director, Income Security Issues
Health, Education, and Human Services Division
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. Fagnoni:

This is in response to your letter to Secretary Shalala. Your letter was forwarded to the Administration for Children and Families, Office of Family Assistance for a response. The Office of Family Assistance is the agency responsible for administering the Temporary Assistance for Needy Families (TANF) program at the Federal level. In your letter, you asked whether States may use Federal TANF funds or State maintenance of effort (MOE) funds to support their child support programs.

You correctly pointed out that section 404(a)(1) of the Social Security Act provides that States may use TANF funds "in any manner that is reasonably calculated to accomplish the purpose of this part." (part IV-A of the Act; specifically, the TANF program). Section 401 of the Act delineates the four purposes of the program. The first purpose is the most relevant to this inquiry. It states that TANF funds may be used to "provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives."

Congress and ACF have long recognized, even during the AFDC program, that child support is a key component of moving families to self-sufficiency so that children may be cared for in their own homes. Therefore, it is undeniable that child support services are reasonably calculated to accomplish the first purpose of the TANF program. However, the inquiry as to whether expenditures for such costs would be allowable under TANF does not end here.

Even if an activity would otherwise reasonably accomplish a goal of TANF, it is not an allowable cost if there is a specific prohibition against using funds in this manner. In such instances the specific prohibition would govern and prevent such expenditures from being an allowable cost. Furthermore, it is a general principal of appropriations law that an appropriation available for a specific object is available for that object to the exclusion of a more general appropriation.

Section 402(a)(2) requires a State implementing a TANF program to certify that it will "operate a child support enforcement program under the state plan approved under part D." Under part D of the Act, the child support program requires States to implement page 2 -- Cynthia M. Fagnoni

certain specified child support activities and services such as absent parent location, identification, establishment of a child support order, and collection of support. Thus, the specific appropriation for the required title IV-D activities and services must be used for these activities and services to the exclusion of the more general TANF appropriation. Congress recognized that required child support services and activities are provided through a State's title IV-D program, by requiring, in section 402(a)(2) of the Act, that States provide a certification they are operating such a program.

As a result, a State could not use TANF funds to operate its entire IV-D program or a part of the program; e.g., by using TANF funds for expenditures in a particular geographic area, or for a particular class of clients, or for a particular type of required activities such as paternity establishment. In this regard, it is also important to note that OMB Circular A-87 prohibits overcoming fund deficiencies by charging costs to other Federal awards that are allocable to a particular Federal award. States may find they are experiencing funding deficiencies because they receive less incentive payments from child support collections on IV-A cases as a result of reduced TANF caseloads.

However, to the extent that the child support service is <u>not</u> required as part of the IV-D program, States could fund such activities from its TANF grant. OMB Circular A-87 also recognizes that two grants may sometimes be used for the same cost objective and allows governmental units to shift costs that are allowable under two or more awards in accordance with existing program agreements. Therefore, a limited class of supplemental child support services or activities, i.e., those not required under title IV-D, could be allowable costs under TANF and supported by TANF funds.

This response also pertains in determining if State expenditures are qualified State expenditures and countable under the MOE provision at section 409(a)(7) of the Act. Expenditures the State makes for required IV-D activities and services need to be claimed as IV-D costs under that program, and could not be claimed as MOE. But, expenditures with respect to eligible families for supplemental, non-required child support services could be claimed as MOE. In addition, section 409(a)(7)(B)(i)(I)(aa) of the Act expressly allows States to claim for MOE purposes, the State's share of the child support collected pursuant to a plan approved under part D, if it is distributed to the eligible family and disregarded in determining the family's eligibility for and amount of TANF assistance.

I hope this information is helpful to you. If you have additional comments or concerns, please do not hesitate to contact me.

Sincerely,

Diann Dawson

Diann Dawson
Acting Director
Office of Family Assistance

# Related GAO Products


Supplemental Security Income: Increased Receipt and Reporting of Child Support Could Reduce Payments (GAO/HEHS-99-11, Jan. 12, 1999).

Welfare Reform: Early Fiscal Effects of the TANF Block Grant (GAO/AIMD-98-137, Aug. 18, 1998).

Welfare Reform: Child Support an Uncertain Income Supplement for Families Leaving Welfare (GAO/HEHS-98-168, Aug. 3, 1998).

Welfare Reform: States Are Restructuring Programs to Reduce Welfare Dependence (GAO/HEHS-98-109, June 18, 1998).

Child Support Enforcement: Certification Process for State Information Systems (GAO/AIMD-98-134, June 15, 1998).

Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems (GAO/AIMD-97-72, June 30, 1997).

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices (GAO/HEHS-97-4, Dec. 16, 1996).

Child Support Enforcement: States' Experience With Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, Oct. 23, 1996).

Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, Nov. 20, 1995).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

Medicaid: Ensuring That Noncustodial Parents Provide Health Insurance Can Save Costs (GAO/HRD-92-80, June 17, 1992).

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