

GAO

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

August 2005

# WELFARE REFORM

## HHS Should Exercise Oversight to Help Ensure TANF Work Participation Is Measured Consistently across States





Highlights of [GAO-05-821](#), a report to the Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

# WELFARE REFORM

## HHS Should Exercise Oversight to Help Ensure TANF Work Participation Is Measured Consistently across States

### Why GAO Did This Study

The debate over reauthorization of the Temporary Assistance for Needy Families (TANF) block grant has focused on work requirements and brought attention to the measure of TANF work participation. The measure is used to assess states' performance and determine whether a state is subject to penalty for not meeting TANF work requirements. The 2003 work participation rates ranged from 9 to 88 percent for the 50 states based on data they submit to the U.S. Department of Health and Human Services (HHS). To help Congress understand these rates, GAO looked at (1) how selected states are defining the categories of work activities, (2) whether selected states have implemented internal controls over the work participation data, and (3) what guidance and oversight HHS has provided states.

### What GAO Recommends

GAO recommends that HHS enact regulations to provide oversight of states' definitions and more guidance on counting hours of work activities and that HHS identify cost-effective internal control practices and disseminate information on these practices to states. In commenting on our draft report, HHS said it would consider making the recommended revisions in its regulations after TANF reauthorization and is exploring options for implementing the recommendation on internal controls.

[www.gao.gov/cgi-bin/getrpt?GAO-05-821](http://www.gao.gov/cgi-bin/getrpt?GAO-05-821).

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Bellis at (415) 904-2272 or [bellisd@gao.gov](mailto:bellisd@gao.gov).

### What GAO Found

Differences in how states define the 12 categories of work that count toward meeting TANF work participation requirements have resulted in some states counting activities that other states do not count and, therefore, in an inconsistent measurement of work participation across states. For example, 5 of the 10 states we reviewed considered caring for a disabled household or family member to count toward the federal work participation requirement, while 5 did not consider hours spent in this activity to be countable (see table below). We also found that some states made significant changes in their definitions of the categories of work. As a result, the work participation rates for these states cannot be compared from year to year.

Some of the states in our review have implemented internal controls to help report work participation hours in accordance with HHS guidance, while other states lack such internal controls. Some states have not issued guidance on how to verify that reported hours were actually worked, nor do they monitor data reported by their staff to help ensure that hours are reported correctly. In contrast, a few states have systematic approaches for verifying that hours reported were worked.

HHS has provided limited oversight and guidance to states on appropriately defining work activities and reporting hours of work participation. According to HHS officials, HHS has the authority to regulate states' definitions of work activities. However, to promote state flexibility, HHS chose not to issue regulations for this purpose. Further, HHS's guidance lacks specific criteria for determining the appropriate hours to report. Given that HHS has not exercised oversight of states' definitions and internal controls, states are making different decisions about what to measure. Therefore, there is no standard basis for interpreting states' rates, and the rates cannot effectively be used to assess and compare states' performance.

**Number of Reviewed States that Count Certain Activities toward Meeting the Federal Work Participation Rate and the Categories of Work in Which the States Counted the Activities**

Activity	Number of 10 reviewed states	
	that count the activity as federal work participation	Federal categories of work in which the reviewed states counted the activity
Caring for a disabled household or family member	5	Community Service
Substance abuse treatment	6	Job Search/Readiness, Work Experience, Community Service
Domestic violence counseling	3	Job Search/Readiness, Work Experience, Community Service
Other mental health counseling	5	Job Search/Readiness, Work Experience, Community Service
English as a second language	7	Job Skills Training, Secondary School or Education Directly Related to Employment, Community Service, Vocational Education

Source: GAO review of 10 states' TANF documents and interviews with the states' TANF officials.

Note: An additional state counts substance abuse treatment, domestic violence counseling, and other mental health counseling toward meeting the federal work participation rate in limited circumstances.

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### **Abbreviations**

ACF	Administration for Children and Families
HHS	U.S. Department of Health and Human Services
MOE	maintenance-of-effort
NDNH	National Directory of New Hires
OMB	Office of Management and Budget
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
SSP	separate state program
TANF	Temporary Assistance for Needy Families

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United States Government Accountability Office  
Washington, DC 20548

August 19, 2005

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

Dear Mr. Chairman:

In fiscal year 2004, states spent \$26 billion from the federal Temporary Assistance for Needy Families (TANF) block grant and related state funds to assist low-income parents and their children. The federal welfare reform law—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)—that created the TANF block grant included the expectation that welfare recipients would participate in work activities. The law outlined 12 categories of work activities, such as “unsubsidized employment” and “community service programs,” in which recipients could participate to meet federal TANF requirements. Under the law, states have significant flexibility in designing their TANF programs, such as flexibility in defining specific activities to fall under the 12 categories of work activities outlined in the law. Along with providing this flexibility, PRWORA required states to collect and report a specified set of data to the Department of Health and Human Services (HHS), including data on hours recipients spent in work activities. PRWORA also created a performance measure called the TANF work participation rate for determining the extent to which a state’s TANF families were engaged in work activities during the year. The 2003 work participation rates calculated for the 50 states based on the data they submitted to HHS ranged from 9 to 88 percent. HHS is responsible for reporting these rates to Congress and for using them to identify states that are not meeting the required level of work participation for their TANF recipients and, thus, may be subject to penalties. Given the importance of the work participation rates, they need to provide a consistent measure of work participation across states. Without a consistent measure, there will be no standard basis for interpreting each state’s rate or for comparing the performance of states.

A key issue in the debate over TANF reauthorization has been whether to change work requirements, such as by requiring additional hours of work and allowing more types of work activities to be counted. For example, a

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Senate bill proposed adding substance abuse treatment and caring for a disabled family member to the list of activities that can be counted as work participation. Another issue in reauthorization has been how to revise the caseload reduction credit, which uses levels of TANF caseload declines to reduce the work participation rates states must have in order to avoid penalty. Because of significant declines in TANF caseloads following TANF implementation, the caseload reduction credit enabled many states to have very low work participation rates and still meet their required levels of work participation. Revisions in the caseload reduction credit could raise the required level of work participation for many states and may result in more states being penalized for not having high enough work participation rates. In considering welfare reauthorization, Congress has focused much attention on states' current work participation rates. To help you understand these rates, we looked at (1) how selected states are defining the work activities that count toward meeting federal work participation requirements, (2) whether selected states have implemented internal controls to help ensure that the work participation data they report are in accordance with HHS guidance, and (3) what guidance and oversight HHS has provided states regarding appropriately defining work activities and reporting hours of work participation.

Our review focused on HHS's Administration for Children and Families (ACF), which administers the TANF block grant, and 10 selected states—California, Georgia, Kansas, Maryland, Nevada, New York, Ohio, Pennsylvania, Washington, and Wisconsin. In 2003, the 10 states made up 46 percent of the national TANF caseload. We selected these states to represent a mix of TANF 2003 work participation rates, according to data reported by states to ACF.<sup>1</sup> (These rates are shown in app. IV.) Specifically, we selected the 3 states with the lowest rates (9 percent to 11 percent), 3 states with some of the highest rates (62 percent to 88 percent), and 4 states with rates in the middle range (22 percent to 46 percent). We also selected states to represent a variety of other characteristics, such as geographic location, benefit policies, and use of waivers that exempt the state from certain TANF requirements. We used a semistructured interview protocol in conducting telephone interviews with the 10 selected states' TANF officials.

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<sup>1</sup>The fiscal year 2003 work participation rates were the most recent available rates at the time of our review.

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To learn how selected states are defining the work activities that count toward meeting federal work participation requirements, we interviewed the 10 selected states' TANF officials about activities they count in work participation data. We also reviewed state documents, such as annual TANF reports and TANF manuals that show how states define the 12 federal categories of work activities and how they classify recipients. Although our work allowed us to identify inconsistencies in definitions and classifications across states, we did not have data to evaluate the impact of different definitions and classifications on the rates.

To learn whether selected states have implemented internal controls to help ensure the work participation data they report are in accordance with HHS guidance, we interviewed the 10 selected states' TANF officials about their internal controls over collection and reporting of the data. We also reviewed the states' guidance on collection and reporting of the data.<sup>2</sup> Through these telephone interviews and document reviews, we learned about policies and processes established by the states to help ensure data reported are in accordance with HHS guidance, but we could not learn whether these policies and processes are effectively carried out by staff at the local level. Also for the 10 states, we interviewed state auditors and reviewed single audit reports for fiscal years 2000–2003 and any other state audit reports that addressed work participation data.

To learn what guidance and oversight HHS has provided states regarding appropriately defining work activities and reporting hours of work participation, we interviewed ACF officials about their oversight of states' definitions of work activities that count toward the work participation rates and states' data on hours of work participation. We also interviewed officials from the HHS Office of Inspector General. In addition, we reviewed ACF's regulations and other guidance for reporting work participation data. We conducted our work from November 2004 to June 2005 in accordance with generally accepted government auditing standards.

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## Results in Brief

Differences in how states define the 12 categories of work that count toward meeting federal work participation requirements have resulted in some states counting activities that other states do not count and,

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<sup>2</sup>To help determine the elements of internal control to address in our review, we used GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).



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therefore, in an inconsistent measurement of work participation across states. For example, out of the 10 states we reviewed, 5 considered caring for a disabled family or household member to be part of the Community Service category of work activities, but 5 other states considered this activity as not countable. Also, 6 of the 10 selected states considered substance abuse treatment to be part of countable categories such as Job Search/Job Readiness, Work Experience, and Community Service, but 4 states did not consider it a countable activity. We also found that some states made significant changes year to year in which activities they count in the work participation rate. As a result, the rates for these states cannot be compared from year to year to assess how the states' performance changed. For example, after expiration of a waiver that had exempted it from restrictions on time spent in Job Search/Job Readiness, one state redefined many activities from Job Search/Job Readiness to other categories without time restrictions. After this change, the state's work participation rate calculated based on nonwaiver requirements increased more than 50 percentage points. Another inconsistency among states—which adult recipients are counted in work rates—occurs because states have flexibility in how they classify recipients. Four of the 10 states have used their funding flexibility to serve two-parent families through separate state-funded programs not covered by TANF work requirements, and 1 state also served adults with significant barriers, such as medical problems, through a separate state program. Thus, in these states, all of these cases were removed from the work participation rate calculation, while these types of cases are included in other states' rate calculations.

In reviewing the 10 states' internal controls for collecting and reporting hours TANF recipients spent in work activities (regardless of how the states defined the activities), we found that some states have implemented internal controls to help report work hours in accordance with HHS guidance, while other states are lacking such internal controls. For example, some states have not issued guidance for their staff on the support needed to verify that reported hours were worked. As a consequence, some states report hours that recipients are scheduled to work instead of hours actually worked, especially in the case of unsubsidized employment, for which, according to state officials, it is difficult to get documentation from employers and recipients to verify hours worked. Two states have guidance allowing hours that were missed to be reported as worked when case workers determine that the recipient had good cause for the absence. One state's guidance instructs that 30 hours of participation per week be reported for certain activities such as a parent's involvement in her child's Head Start program but does not require evidence that the parent was actually involved in 30 hours of the

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activity. In contrast, a few of the 10 states had systematic approaches for verifying that hours reported were worked. For example, according to officials in some states, their states review the documentation in each sampled file to ensure that hours reported are supported before submitting their data to HHS.

HHS has provided limited oversight and guidance to states on appropriately defining work activities and reporting hours of work participation. According to HHS officials, HHS has authority under PRWORA to regulate states' definitions of work activities. However, HHS has chosen not to issue regulations for this purpose in order to promote the flexibility PRWORA provided states and in response to calls from states for as much flexibility as possible in designing their TANF programs, according to HHS officials. The current TANF regulations repeat the 12 categories of work activities that are included in PRWORA and do not further specify activities that can and cannot be included under the 12 categories. Given the current regulatory structure, HHS officials said they cannot direct states to change their definitions if HHS believes the definitions are inappropriate. HHS's guidance on the appropriate hours to report is also limited. HHS has specified in TANF regulations that the quarterly reports that contain work participation data be "complete and accurate." In other guidance, HHS has further specified that states must report "actual" hours that recipients engage in work activities rather than hours for which the recipient is scheduled or expected to work. However, the guidance does not specify what support is needed to verify actual hours of work participation. HHS performs checks on the data that can identify inconsistencies but cannot determine whether hours reported were actually worked. According to HHS officials, HHS's primary mechanism for identifying states that are not reporting data in accordance with HHS guidance is the state single audits that review internal controls and compliance with laws and regulations governing federal awards. Although HHS has identified data problems using state single audit reports, some of the internal control problems we identified in this review had not been found by single audits. To emphasize the importance of work participation data, HHS is adding to the single audit guidance for fiscal year 2005 more instructions on reviewing work participation data.

To help improve the quality and comparability of the work participation data, we are recommending that HHS issue regulations to provide oversight of states' definitions and more guidance on counting hours of work activities and that HHS work with states to identify cost-effective internal control practices and disseminate information on these practices to states.

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In commenting on our draft report, HHS said it would consider making the recommended revisions in its regulations after TANF reauthorization and is exploring options for implementing the recommendation on internal controls.

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## Background

Enactment of the TANF block grant significantly changed federal welfare policy and gave states more flexibility in designing their welfare programs. For example, states have flexibility in setting benefit levels, eligibility requirements,<sup>3</sup> work requirements, and policies for sanctioning noncompliant recipients (that is, reducing or discontinuing their benefits). Due to this flexibility, TANF programs differ substantially from state to state. These different state policies can affect the extent to which a state's TANF recipients participate in work activities and the type of work activities they engage in. States also have flexibility in using TANF block grant funds and in using state funds—referred to as maintenance-of-effort (MOE) funds—that states were required to use toward TANF purposes in order to qualify for the block grant. For example, if states want to exclusively use MOE funds for a particular group of welfare recipients, such as those in two-parent families, they can use these funds through separate state programs (SSPs) for those recipients and remove them from the TANF requirements.

Due to the importance of state flexibility under TANF, PRWORA limited HHS's authority to regulate state TANF programs. PRWORA also substantially reduced HHS staff available to implement TANF. However, PRWORA established penalties for states, such as for not meeting required levels of work participation, and HHS has authority to regulate in situations where penalties are involved. TANF has two work participation rates—one that applies to all adult-headed families and another that applies to two-parent families.<sup>4</sup> A certain percentage of each state's adult-headed TANF cases receiving cash assistance must participate in work-related activities for a minimum number of hours each week or the state may face financial penalty.<sup>5</sup> The categories of work activities that can be

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<sup>3</sup>Eligibility requirements can include an amount of income that recipients can earn and still remain eligible for TANF benefits. Referred to as earned income disregards, these provisions affect whether recipients who get a paying job can remain eligible for TANF while they are working.

<sup>4</sup>The current House and Senate TANF reauthorization bills propose to eliminate the two-parent rate.

<sup>5</sup>For the purposes of this report, the term "adult" refers to TANF recipients age 20 or over or TANF recipients under age 20 who are head of a household receiving TANF.

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counted for the purpose of the performance measure are outlined in TANF law and regulations. If TANF recipients engage in other activities provided or permitted under the state's TANF program, then those activities do not count toward meeting the federal work participation requirements. Further, if TANF recipients engage in work activities for less than the minimum required number of hours, then those recipients do not count as being engaged in work for purposes of the performance measure.

When a state does not meet its required level of work participation, HHS will send the state a penalty notice. The state then has the opportunity to avoid a penalty by providing reasonable cause why it did not meet the work participation rate or by submitting a corrective compliance plan that will correct the violation and ensure continued compliance with work participation requirements. Since implementation of TANF, numerous states have received penalty notices from HHS for not meeting the required level of work participation. However, most of these states have avoided penalties by submitting corrective compliance plans. As of February 2005, 11 states<sup>6</sup> and the District of Columbia had paid penalties for not meeting the two-parent work participation rate.<sup>7</sup> Most of these penalties were for the first 4 years (fiscal years 1997-2000) of TANF implementation, and 5 states and the District of Columbia have paid penalties for more than 1 year.

Each quarter, states are required to report to ACF monthly data on their TANF cases, including the number of hours each adult recipient spent in activities that count toward meeting federal work requirements. States have the option of reporting to ACF on all their TANF cases (the universe) or on a scientifically drawn sample of TANF cases. Using the data reported by states, ACF calculates an annual work participation rate for each state. A state's annual work participation rate is based on the state's average monthly rate for the year. See appendix I for information on elements of the work participation requirement and how the work participation rate is calculated by ACF.

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<sup>6</sup>The states that have paid a penalty for not meeting the two-parent work participation rate are Arkansas, Delaware, Iowa, Mississippi, Nebraska, New Jersey, New Mexico, North Carolina, Oklahoma, Virginia, and West Virginia.

<sup>7</sup>As of February 2005, Guam and the Virgin Islands, but no states, had paid penalties for not meeting the all-family work participation rate.

## 12 Categories of Countable Work Activities

The TANF legislation and regulations outline 12 categories of work activities that can count toward the federal work requirement. The TANF regulations name the categories and require each state to include its definition of each work activity in the annual report it must file each year with HHS. Hours spent in some activities (referred to as supplemental activities) generally cannot count toward the federal work requirement unless hours are also spent in other countable activities (referred to as core activities). Some activities have restrictions on the amount of time that can be spent in them. The 12 categories and their time restrictions are shown in table 1.

**Table 1: 12 Categories of Federal Work Activities and Limitations on Counting Time in Those Activities**

Activity	Limitations on counting time (for all families)
<b>Core activities</b>	
1. Unsubsidized employment	None
2. Subsidized private sector employment	None
3. Subsidized public sector employment	None
4. Work experience	None
5. On-the-job training	None
6. Job search and job readiness assistance	6-week time limit per client per year, no more than 4 weeks consecutively
7. Community service programs	None
8. Caring for child of community service participant	None
9. Vocational education training	12-month total time limit per client
<b>Supplemental activities</b>	
10. Job skills training directly related to employment	Counts only after accumulating 20 hours in a core activity
11. Education directly related to work	Counts only after accumulating 20 hours in a core activity (except if under 20 years old)
12. Satisfactory attendance at high school or equivalent	Counts only after accumulating 20 hours in a core activity (except if under 20 years old)

Source: GAO analysis of section 407 of PRWORA and HHS regulations.

Note: This table does not show all the provisions that apply to the 12 categories.

## Single Audits

The Single Audit Act, as amended,<sup>8</sup> established the concept of having one audit of an entity as a whole instead of multiple audits of individual grants

<sup>8</sup>Chapter 75 of Title 31, United States Code.

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received by the entity.<sup>9</sup> The act requires state and local governments and nonprofit organizations that expend \$500,000 or more in federal funds during the year to undergo an organizationwide audit.<sup>10</sup> These audits focus on the entity's internal controls and compliance with laws and regulations governing federal awards and should be viewed as a tool that raises relevant or pertinent questions rather than a document that answers all questions.

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, provides the federal guidance for single audits. It contains a Compliance Supplement that summarizes key information about federal programs and identifies audit objectives and suggested procedures for auditors' use in determining compliance with the requirements. The Compliance Supplement contains information on TANF, along with over a hundred other federal programs. The information on TANF includes some key line items, including those for reporting hours of work activity, from the TANF data report that states must submit to ACF.

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## Internal Controls

Internal controls comprise the plans, methods, and procedures an organization uses to meet its missions, goals, and objectives. Internal controls are a series of actions and activities that occur throughout an organization's operations and on an ongoing basis. They provide reasonable assurance that an organization achieves its objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations. An organization's internal controls over collecting and reporting data could include numerous processes and procedures, such as guidance that defines the specific data to be collected and any documentation needed to support that data and monitoring to ensure that the reported data are complete and accurate.

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<sup>9</sup>For more information on the Single Audit Act, see GAO, *Single Audit: Update on the Implementation of the Single Audit Act Amendments of 1996*, [GAO/AIMD-00-293](#) (Washington, D.C.: Sept. 29, 2000).

<sup>10</sup>The dollar threshold, currently set at \$500,000, for determining which entities are subject to a single audit is adjusted periodically by the Director of the Office of Management and Budget.

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## Differences in How States Define Work Activities Result in Inconsistent Measurement of Work Participation across States and over Time

We found that differences in how states define the 12 categories of federal work activities result in some states counting hours recipients spend in activities that other states do not consider allowable activities for meeting federal work participation requirements. Also, some states have made changes in their definitions of some categories of federal work activities, making what is measured by those states' work participation rates inconsistent from year to year. Further, some differences across states in their classification of adult recipients can result in certain types of recipients being excluded from some states' work participation rates but included in other states' rates.

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## Activities Are Defined Inconsistently across States

Although PRWORA outlines 12 categories of work activities that can count toward meeting federal work participation requirements, states are able to define the specific activities that fall under each of the categories. We found that differences in how states define the 12 categories of work result in some states counting hours spent in certain activities toward meeting the work participation rate, while other states do not count hours spent in those activities.

Although PRWORA outlined 12 categories of work activities that count toward meeting work participation rates, PRWORA does not prevent states from allowing their recipients to participate in other noncountable activities, such as activities that help the recipients overcome problems that prevent them from working. In our review of state TANF documents, we identified several activities that were commonly mentioned but that were treated differently by different states, such as substance abuse treatment. One state may include the activity under 1 of the 12 categories of work, while other states may consider that activity a state activity that does not count toward meeting the federal work requirement.

Table 2 shows how many of the 10 reviewed states counted certain activities that were commonly mentioned in state TANF documents toward meeting federal work participation requirements. (See app. II for states included in the table). States were counting these activities toward meeting the work participation rate by defining one of the 12 categories of work as including the activities.

**Table 2: The Number of 10 Reviewed States That Count Certain Activities toward Meeting the Federal Work Participation Rate and the Categories of Work in Which the States Counted the Activities**

Activity	Number of 10 reviewed states that count the activity as federal work participation	Federal categories of work in which the reviewed states counted the activity
Caring for a disabled household or family member	5	Community Service
Substance abuse treatment	6	Job Search/Readiness, Work Experience, Community Service
Domestic violence counseling	3	Job Search/Readiness, Work Experience, Community Service
Other mental health counseling	5	Job Search/Readiness, Work Experience, Community Service
English as a second language	7	Job Skills Training, Secondary School or Education Directly Related to Employment, Community Service, Vocational Education

Source: GAO review of 10 states' TANF documents and interviews with the states' TANF officials.

Note: An additional state counts substance abuse treatment, domestic violence counseling, and other mental health counseling toward meeting the federal work participation rate in limited circumstances.

Some states have a very broad definition for at least one federal category of work that allows the states to include many diverse activities under the category. For example, one state that defines Community Service as “an activity approved by your case manager which benefits you, your family, your community or your tribe” considered all five of the activities shown in table 2 to fall under the Community Service category.

A few states had activities listed in the definition of a federal work activity that we did not see in other states' definitions, such as

- bed rest, short-term hospitalizations, and personal care activities a participant is engaged in as part of recovery from a medical problem (Job Search/Job Readiness);
- physical rehabilitation, which could include massage, regulated exercise, or supervised activity with the intent of promoting recovery or rehabilitation (Job Search/Job Readiness);
- activities to promote a healthier life style that will eventually assist the recipient in obtaining employment, such as personal journaling, motivational reading, exercise at home, smoking cessation, and weight loss promotion (Job Search/Job Readiness);



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- participating in your child’s Head Start or Early Head Start programs by participating in home visits, parent meeting presentations, and classroom volunteering (Community Service); and
  - helping a friend or relative with household tasks and errands (Community Service).

Increasing the number of activities that it counts toward the federal work participation rate should help a state increase its work participation rate and avoid incurring penalties. Out of our 10 reviewed states, 2 states counted all five of the activities shown in table 2 above, while 1 state did not count any. Such variation in the number of activities that states count toward the federal work participation rate suggests that the states are subject to different standards for work participation. Because of the differences in states’ internal controls over their work participation data (discussed in the next section of this report), the data cannot be relied upon for making comparisons across states. Therefore, we did not analyze states’ work participation rates in relation to the number of activities they counted toward work participation.

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### Changes in State Definitions Result in Inconsistent Measurement from Year to Year

Three of the 10 states we reviewed had made changes in their definitions of work activities within the past 2 years that may have affected their work participation rates and that could result in work participation rates that are not comparable over time. Kansas had a dramatic change in its work participation rate after changing some of its definitions. This state had a waiver exempting it from the 6-week limit for counting hours recipients spent in Job Search/Job Readiness activities. For states with waivers, the effective work participation rate is calculated based on the conditions of the waiver. However, ACF also calculates a without-waiver rate for states with waivers. After the state lost its waiver, it redefined some of its categories of work by placing activities previously in the Job Search/Job Readiness category (the category that had been covered by the waiver) into other categories that do not have time restrictions, such as Community Service. For this state, the 2003 with-waiver rate was significantly higher than the without-waiver rate. If the without-waiver rate had been the effective rate, the state would have been subject to penalty for not meeting the required work participation rate. One month after the waiver expired and the definitions were changed, the state’s rate without the waiver rose over 50 percentage points to reach the level of the 2003 with-waiver rate.

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Another state, Nevada, also moved some activities from Job Search/Job Readiness to Work Experience to avoid the 6-week time limit on counting hours spent in Job Search/Job Readiness. According to a state official, the change was made because, as a result of the 6-week time limit, field workers would sometimes make decisions that were not in the best interest of the recipients and move recipients out of activities too quickly. The state official believes that the change is likely to help raise the state's work participation rate.

Georgia added an additional activity (caring for a disabled relative who does not live with the recipient) to its Community Service category and broadened the definition of job skills training to allow for general training for a job, rather than just training for a specific job. According to a state official, these changes have helped the state increase its work participation rate.

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## Other Differences in Classifications of Adult Recipients Result in Inconsistencies across States

Some differences among states in their classification of recipients affect whether or not recipients are included in the work participation rate calculation. We found the following different approaches that remove recipients from the work participation rate calculation.

- **Creating separate state programs for two-parent families.**<sup>11</sup> By serving two-parent families through separate state programs, states remove those families from the calculation of work participation rates.<sup>12</sup> Four of the 10 states in our review (California, Georgia, Maryland, and Nevada) had created separate state programs for two-parent families. Officials from Georgia, Maryland, and Nevada said that they created the programs because they wanted to avoid having to meet the higher two-parent family work requirement.<sup>13</sup> Officials from the states we reviewed with separate state programs for two-parent

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<sup>11</sup>For more information on separate state programs for two-parent families, see GAO, *Welfare Reform: With TANF Flexibility, States Vary in How They Implement Work Requirements and Time Limits*, [GAO-02-770](#) (Washington, D.C.: July 5, 2002).

<sup>12</sup>States with separate state programs for two-parent families do not have two-parent families in their TANF program and, therefore, do not have a two-parent family work participation rate. Also, two-parent families in a separate state program are not included in the state's all-family work participation rate.

<sup>13</sup>Officials from California said that they created a separate state program for two-parent families in order "to study the unique characteristics and needs of this large and diverse population."

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families said that although the states do not have to meet a federal work participation requirement for their two-parent families, they still require the adult recipients in the two-parent families to comply with the states' work requirements.

- **Moving recipients with significant barriers into a separate state program.** Nevada placed recipients who are less likely to meet the federal work participation requirements in a separate state program, thus removing them from the work participation rate calculation. These include recipients (1) with pending applications for Supplemental Security Income, (2) with medical difficulties confirmed by a physician, (3) in the third trimester of pregnancy, and (4) caring for a disabled family member. According to a state official, these recipients are still required to participate in work activities to the extent that they are able.
- **Reclassifying cases as child-only.** California removes adults from TANF cases when they are sanctioned, thus changing the cases from adult-headed cases to child-only cases.<sup>14</sup> Because child-only cases are not included in state work participation calculations, the reclassification allows the state to avoid counting noncomplying adults in the calculation, which in turn is likely to result in a higher work participation rate. According to a state official, the state's practice of reclassifying cases this way preceded the implementation of TANF and therefore was not intended to influence the state's TANF work participation rate.

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<sup>14</sup>In California, when the adult is sanctioned, the family's monthly benefit is reduced by the amount of the adult's share. In other states, the case would be classified as partially sanctioned and would be removed from the work participation rate calculation for 3 months. However, after those 3 months, the case would again be counted in the work participation rate calculation.

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## Some States Do Not Have Internal Controls Needed for Reporting Data in Accordance with HHS Guidance, while Other States Do

Some of the states we reviewed did not have internal controls to help ensure that reported hours of participation in work activities are in accordance with HHS guidance. Other states have implemented systematic practices to help ensure that reported hours are in accordance with HHS guidance. Officials in some states cited challenges to obtaining support for hours of participation in unsubsidized employment.

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## Some States Lack Internal Controls to Help Ensure Actual Hours of Participation Are Reported

Some of the states we reviewed did not have internal controls to help ensure that reported hours of participation in work activities are in accordance with HHS guidance. The HHS guidance (as discussed more fully later in this report) requires that states report hours recipients actually participated in work activities rather than hours that the recipients were scheduled to participate. Internal control weaknesses among the states we reviewed include the following:

- **Guidance and/or standard processes allow reporting of scheduled hours.** In some states, we found that the hours recorded to show how recipients plan to comply with state work requirements (scheduled hours) were reported to ACF as hours actually worked. Reporting hours scheduled instead of hours worked does not take into account unexpected events or noncompliance on the part of the recipient that would result in scheduled hours being different than the hours actually worked. Allowing scheduled hours to be reported was most common for unsubsidized employment, but in a few states, we found guidance allowing scheduled hours for other work activities, such as vocational education. In one state, guidance instructs that a set number of hours be recorded for certain activities, such as 30 hours per week for parents involved in their children's Head Start program. However, the guidance does not indicate that the number of hours recorded should be verified to ensure that they were actual hours of participation.
- **Lack of guidance on the type of documentation needed to support reported hours of work activities.** Without guidance, there is no assurance that the local staff collecting the data know what type of documentation is adequate to support hours reported or whether any documentation is required. The type of support needed would depend on the activity but could include pay stubs and time and

attendance reports. Without guidance, staff at different locations are more likely to use different standards for what support is needed.

- Guidance allows for reporting hours missed for good cause.** Some states have guidance specifying that when recipients are absent from a scheduled activity and the case worker determines that there is a good cause for the absence, the missed hours can be reported as worked. This results in hours that were not worked being reported to ACF as worked.
- Insufficient monitoring to verify that hours were reported correctly.** Some states do not have a monitoring process in place to perform timely reviews to verify that hours were reported correctly.<sup>15</sup> Without sufficient monitoring, states cannot be assured that local staff are reporting hours that are supportable and complete.

Table 3 shows the number of states with the internal control weaknesses described above for the states in our review. (See app. III for states included in the table).

**Table 3: Number of Reviewed States Lacking Internal Controls to Help Ensure Hours of Participation Are Reported in Accordance with HHS Guidance**

Internal control weakness	Number of states (out of 9 reviewed) with the internal control weakness
Guidance and/or standard processes allow reporting of scheduled hours	3
Lack of guidance on the type of documentation needed to support reported hours of work activities	4
Guidance allows for reporting hours missed for good cause	2
Insufficient monitoring to verify that hours were reported correctly	3

Source: GAO review of 9 states' TANF documents and interviews with their TANF officials.

Notes: (1) The table only covers 9 states because we were unable to assess the internal controls of one of the 10 states we reviewed. (2) For states where the internal control activities were determined at the local level, we identified the state as having an internal control weakness if the state did not ensure that the local areas were implementing such internal controls.

<sup>15</sup>We considered the reviews to be timely if they were conducted at least once a year.

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Six of the states in our review have at least one of the internal control weaknesses shown in table 3, and 3 of these states have at least two internal control weaknesses. Two states that did not have any of the internal control weaknesses have issued appropriate guidance and begun monitoring as part of corrective action plans developed in response to state audit findings on data problems. The states we reviewed may have internal control weaknesses over the collection and reporting of work participation data that our review was not designed to assess. For example, a state may have issued appropriate guidance and established a monitoring process; however, the state's staff may not follow the guidance or conduct monitoring according to the required process.

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### Some States Have Systematic Approaches for Verifying Reported Data

While some of the states we reviewed lacked internal controls, other states have implemented systematic practices to help ensure that reported data are in accordance with HHS guidance.

- **Documentation requirements.** Some states we reviewed had guidance outlining the specific documentation needed to verify actual hours for each work activity and specified when the documentation must be obtained and the hours recorded in the state's database.
- **Monthly audits.** Officials in some states we reviewed told us they conduct monthly audits of all cases sampled for reporting to ACF to verify that hours reported were actually worked. If there is not adequate support showing that hours reported were actually worked, the data are not reported to ACF, according to state officials.

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### Unsubsidized Employment Has Been Especially Difficult to Track

State officials cited challenges to obtaining support for hours of participation in unsubsidized employment. For some states, the standard process for obtaining hours of unsubsidized employment occurs every 6 months when local staff reverify a recipient's income and benefit eligibility. Income is typically verified with a recent pay stub, which is then used to project the hours the recipient will be working for the next 6 months. Some officials told us that trying to obtain documentation for actual hours of unsubsidized employment from recipients or employers monthly would be onerous for case workers and recipients. Officials said they feared that contacting employers frequently to verify a recipient's employment could jeopardize the recipient's job. In states requiring monthly documentation, such as pay stubs, for hours of work reported to HHS, state officials told us they were likely underreporting hours because of the difficulty local staff face in obtaining the required documentation.

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A new effort on the part of ACF may provide states with additional options for obtaining information on hours recipients spend in unsubsidized employment. ACF recently began an initiative using the National Directory of New Hires (NDNH)<sup>16</sup> to help states identify whether or not recipients are eligible for TANF benefits. If a state chooses to participate, HHS will conduct data matches comparing NDNH employee data against the state's list of TANF recipients. If the data matches identify recipients who are working and are still eligible for TANF, the data may provide states with a starting point for obtaining more complete work participation data, according to an ACF official. Because the NDNH does not contain hours worked, states would need to contact employers or recipients to obtain information on the actual hours the recipient worked, according to an ACF official.

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## HHS's Oversight and Guidance on Appropriately Defining Work Activities and Reporting Hours of Work Participation Have Been Limited

HHS has provided minimal oversight of how states define work activities. Further, HHS has limited guidance for states on reporting the appropriate hours of work activities. HHS does not have a sufficient mechanism to identify data not in accordance with ACF guidance.

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## HHS Has Provided Minimal Oversight of States' Definitions of Work Activities

Under PRWORA, HHS has authority to regulate states' definitions of work activities. However, HHS has chosen not to issue regulations for this purpose in order to promote the flexibility PRWORA provided states and in response to calls from states for as much flexibility as possible in designing their TANF programs, according to HHS officials. The current TANF regulations only repeat the 12 categories of work activities that are

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<sup>16</sup>The purpose of the NDNH, maintained by HHS's Office of Child Support Enforcement, is to provide a national directory of employment and unemployment insurance information to enable state child support enforcement agencies to be more effective in locating noncustodial parents who are responsible for paying child support. State directories of new hires, state employment security agencies, and federal agencies provide information to the NDNH.

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included in PRWORA and do not further specify activities that can and cannot be included under the 12 categories. Further, the current TANF regulations do not state that HHS will review states' definitions of work activities to determine if the definitions are appropriate. Accordingly, HHS officials said they are unable to direct states to change their definitions of work activities when they believe the states' definitions are inappropriate, as has occurred in the past.

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## HHS Has Provided Limited Guidance to States on the Appropriate Hours to Report

Although HHS has provided states with general guidance on reporting actual hours of work participation, the guidance lacks specific criteria for determining the appropriate hours to report. The requirement for reporting actual hours of work participation is not specified in federal regulations but is instead described in other documents. The guidance on the type of hours are the following:

### **HHS regulations<sup>17</sup>**

- Quarterly reports containing work participation data must be “complete and accurate.”

### **HHS responses to comments to proposed regulations<sup>18</sup>**

- Hours for which the recipient was paid may be reported as hours worked, such as paid holidays.

### **HHS Web site<sup>19</sup>**

- States must report actual hours of participation for each work activity.
- Reporting required (or scheduled) hours of participation is inconsistent with the “complete and accurate” standard and is not acceptable.

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<sup>17</sup>45 C.F.R. 265.7(a).

<sup>18</sup>64 Fed. Reg. 17779 (April 12, 1999).

<sup>19</sup>U.S. Department of Health and Human Services, *TANF Program Policy Questions and Answers*, HHS Web site: <http://www.acf.hhs.gov/programs/ofa/polquest/index.htm>.



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**Detailed reporting instructions for TANF data report (reporting instructions)<sup>20</sup>**

- States are to report actual hours of participation.
- It is not acceptable to report scheduled hours of participation.
- States should validate actual participation in each work activity.

While HHS guidance calls for states to report actual hours, ACF officials acknowledged it may be difficult or impossible to obtain information on actual hours for some activities. For example, the ACF officials cited problems states have in obtaining hours of actual participation for recipients enrolled in vocational education courses, community colleges, and universities for which attendance is not taken.

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**HHS Does Not Have a Sufficient Mechanism to Identify Data Not in Accordance with ACF Guidance**

ACF uses two mechanisms to identify problems with work participation data submitted by states—computer edit checks and reviews of single audit findings. However, neither mechanism provides ACF with reasonable assurance that data reported are in accordance with ACF guidance.

**Computer edit checks.** ACF performs edit checks of the data submitted quarterly by states. The edit checks identify outliers, such as if a recipient is reported to have participated in 80 hours of work activities for 1 week. The edit checks also identify inconsistencies between data elements, such as if a recipient is reported as having earnings but is also reported as having zero hours of work. ACF notifies states of any problems identified by the edit checks so that states can correct and resubmit the data. The edit checks can help improve the data; however, they do not address the issue of verifying whether hours reported are actual hours of participation.

**State single audits.** According to ACF officials, HHS’s primary vehicle for identifying problems with the states’ data is states’ single audit reports. Findings from the state single audits go through a review process at HHS to determine whether penalties are warranted. HHS has used findings from the single audit to take action against a state for reporting poor quality

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<sup>20</sup>U.S. Department of Health and Human Services, *TANF Data Report-Section One, Disaggregated Data Collection for Families Receiving Assistance under the TANF Program*.

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work participation data.<sup>21</sup> However, ACF officials acknowledged that the work participation data reported by states may have problems that the single audits may not reveal. Our interviews with auditors in the 10 states we reviewed indicate that the level of attention given to work participation data varies greatly among the states.

- State auditors from 5 states (California, Georgia, Maryland, Nevada, and Ohio) told us that their most recent single audits covering the TANF program<sup>22</sup> did not review the data states report to HHS on hours of participation in work activities.<sup>23</sup>
- Out of the 5 states in which state auditors reported that the most recent single audits did test hours of work participation:
  - Three states (Kansas, Washington, and Wisconsin) reported that the audits did not look for support of actual hours but instead compared hours shown in the state's welfare database with the hours reported to HHS for a sample of cases. State auditors for the 3 states did not report any findings on work participation data from these reviews.
  - Two states (New York and Pennsylvania) looked for supporting documentation to verify that hours reported to ACF were hours of actual participation for a sample of cases. In New York, the audit had no finding regarding work participation hours.<sup>24</sup> The audit for Pennsylvania found that some reported hours had no supporting documentation to verify that they were actually worked. According to state officials, Pennsylvania has implemented corrective actions in response to the single audit findings.

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<sup>21</sup>HHS threatened to penalize Pennsylvania for reporting poor quality work participation data, and in response, Pennsylvania developed a corrective compliance plan to address its data problems.

<sup>22</sup>Because all states' single audits do not review TANF annually, we asked state auditors about the most recent single audit that did cover the TANF program. In some states, this audit was not the most recent single audit.

<sup>23</sup>In Maryland, the single audit did not test the work participation data, but other audits did. The auditors identified internal control weaknesses over the work participation data that, according to state officials, have since been corrected.

<sup>24</sup>While the most recent single audit for New York did not have findings related to work participation data, past single audits found that reported hours lacked documentation to verify that hours reported were actually worked. The state took corrective action as a result of these findings.

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Our review of the 10 states' internal controls identified weaknesses both in states where state auditors told us that the most recent single audit did not test the data reported to HHS on hours of participation in work activities and in states that did. ACF officials acknowledged that because of the broad nature of the single audits, the quality and focus of the audits vary from state to state. The single audit, covering hundreds of federal programs, is designed as a tool that raises relevant questions about states' internal controls and compliance with laws and regulations governing federal awards but is not intended to answer all questions. State auditors responsible for conducting the single audits are provided with federal guidance issued by OMB—known as the Compliance Supplement. Currently the Compliance Supplement contains reference to work participation data only as a key line item for auditors to look at in the TANF data report. According to ACF officials, the fiscal year 2005 Compliance Supplement for the single audit will contain more guidance to help auditors identify whether work participation data are reported in accordance with HHS guidance. The addition to the Compliance Supplement will suggest that state auditors test a sample of cases to determine the completeness and accuracy of the data, including the proper documentation, used in calculating the work participation rate.

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## Conclusions

By listing 12 categories of permissible work activities, Congress placed limits on the type of activities that states could count toward meeting federal work participation requirements. HHS regulations only restate the 12 categories of work activities and do not further specify the types of activities that can and cannot count toward meeting the federal work requirements, nor do they provide for HHS's oversight of states' definitions of the 12 categories. HHS has taken the position that with the current limited regulations, it will not place restrictions on the activities states can count toward meeting TANF work requirements. As a result, states have been able to include any activity in their definitions of the 12 categories of work. Several states have broadly defined 1 or more of the categories to include activities, such as substance abuse treatment, that other states provide but do not consider countable toward meeting the federal work participation requirement. Another discrepancy among states occurs with the internal controls over the data they report to HHS. For example, some states only report hours that have been verified as having been actually worked, while others report hours without verification. Because of the differences among states in the activities that they count in calculating the work participation rate and in the internal controls over the data used in the calculation, states are being measured by different standards, and the work participation rates cannot be used to compare the performance of

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states. Further, a high work participation rate does not necessarily indicate more engagement of TANF recipients in work activities than a lower rate.

The current caseload reduction credit has greatly reduced the required level of work participation for most states. However, if TANF reauthorization results in lowering the caseload reduction credit and raising the work participation requirements, more states could be penalized, and states with strict definitions and effective internal controls may be the most susceptible to penalties. If the TANF work participation rate is to be an effective and equitable measure for assessing states' performance and penalizing states, HHS needs to give more oversight to states' definitions of federal work activities and internal controls over the data to help make the measure more consistent across states. We acknowledge that efforts to obtain more valid, accurate, and consistent information for this performance measure may have unintended consequences. For example, it may motivate states to use separate state programs or make other choices about the design of their TANF programs. However, a measure that is used to assess penalties needs to be clear and consistent for all those potentially subject to penalty; otherwise, the measure can result in misleading information and inequitable penalty assessments.

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## Recommendations for Executive Action

HHS should issue regulations to

- specify the types of activities that can and cannot be included under the 12 categories of work activities,
- have HHS oversee states' definitions of activities under the 12 categories, and
- set forth criteria for counting actual hours of activity and whether there are circumstances under which scheduled hours may be counted.

We also recommend that HHS develop and implement a plan for working with states to improve internal controls over work participation data. This plan could make use of existing resources and include steps such as

- working through its regional offices to identify cost-effective internal controls being used by states,

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- using regional offices and existing sponsored conferences to share information with states on these internal controls and to emphasize the importance of internal controls, and
  - obtaining information from states about their experiences using the National Directory of New Hires to determine if it has potential for helping states collect more complete work participation data and if there are any useful practices to be shared with other states.

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## Agency Comments and Our Evaluation

HHS provided written comments on a draft of this report; these comments appear in appendix V. HHS said that the report provides it with new and useful information. HHS said it would consider making the recommended revisions in its regulations after TANF reauthorization and is exploring options for implementing the recommendation on internal controls. HHS also provided technical comments that we incorporated as appropriate.

Concerning our recommendation that HHS issue regulations to provide oversight of states' definition and more guidance on counting hours of work activities, HHS said that it will consider this recommendation when it develops the proposed rule after Congress enacts legislation to reauthorize the TANF program. We agree that addressing this recommendation during rule making after TANF reauthorization is appropriate, if TANF is reauthorized in the near future. However, TANF reauthorization has been delayed for 3 years and if it is delayed for much longer, HHS should take action to revise TANF regulations without waiting for reauthorization. Concerning our recommendation that HHS develop and implement a plan for working with states to improve internal controls over the work participation data, HHS said it recognized that more can be done to ensure increased consistency in the accuracy of the work participation data. HHS also stated that ACF is exploring options to increase oversight and provide technical assistance to states using its currently limited resources. Further, HHS noted that federal staff for TANF had been reduced by 75 percent several years ago. We added a statement about this staff reduction to the background section of the report.

HHS expressed concern that the draft report did not sufficiently recognize the flexibility that Congress intended for the TANF program, and it stated that Congress did not intend that there be a consistent measure of work participation across states or that HHS make state-by-state comparisons for penalty purposes. We believe that the report does recognize the flexibility Congress provided to states. Also, we believe that the fact that Congress gave states the flexibility to design their TANF programs does

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not indicate that Congress did not want a meaningful measure to determine if states are meeting TANF requirements. While states have flexibility in determining what policies they will use to achieve TANF goals and requirements, the measure used to assess their performance should be defined the same way from state to state; otherwise, the rates produced by the measure cannot provide meaningful and understandable information for national policy makers and for assessing financial penalties. Further, although the use of waivers and separate state programs contributes to differences in which families are included in the work participation rate, HHS has made efforts, through its annual reporting, to ensure transparency about the rules governing these mechanisms and which states are using them. The lack of oversight of states' definitions of categories of work activities results in inconsistencies in performance measurement, as discussed in this report, that are not transparent.

HHS noted some imprecision in the draft report's description of the work participation rate calculation. In response, we made revisions to the report. HHS also took issue with our discussion of how a state's work participation rate changed after its waiver expired. We continue to believe that this example of how a state's rate changed over 50 percentage points 1 month after the waiver expired is a useful illustration of how changes in definitions can affect work participation rates.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies of this report to the Secretary of the Department of Health and Human Services, relevant congressional committees, and others who are interested. Copies will be made available to others upon request, and this report will also be available on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me on (415) 904-2272. Contact points for our Offices of Congressional

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Relations and Public Affairs may be found on the last page of this report.  
Additional GAO contacts and acknowledgments are listed in appendix VI.

Sincerely,

A handwritten signature in black ink that reads "David A. Bellis". The signature is written in a cursive style with a large, looped initial "D".

David Bellis, Director  
Education, Workforce, and Income Security

# Appendix I: Elements of the Work Participation Requirement and How the Work Participation Rate Is Calculated

The Temporary Assistance for Needy Families (TANF) work participation requirement is composed of (1) a requirement for a minimum number of hours recipients must participate in order to be counted as engaged in work activities and (2) a requirement for the percentage of TANF families with an adult (or minor head of household) a state must have engaged in work activities. The Department of Health and Human Services' Administration for Children and Families (ACF) uses a formula specified in the Personal Responsibility and Work Opportunity Reconciliation Act for calculating whether states are meeting the work participation requirement.

## The Minimum Number of Hours TANF Recipients Must Participate

The minimum number of hours TANF recipients must participate, on average, per week to be counted as engaged in work is shown in table 4.

**Table 4: Number of Hours Different Types of Recipients Must Participate in Allowed Work Activities to Count as Working in the TANF All-Family Work Participation Rate**

Type of recipient	Required number of hours on average per week (or activity)
Single parent with a child under 6 years old	20
Other adult recipients	30
Single parent under 20 years old	Satisfactory school attendance or equivalent

Source: GAO analysis of TANF regulations.

Note: Adults in two-parent families have different requirements for the number of hours of activity.

## Base Percentage of a State's TANF Families Who Must Be Engaged in Work Activities

Different base percentages were established for all families and for two-parent families. The required percentages rose over time until they reached their current levels shown in table 5.

**Table 5: Base Percentage of TANF Families That Must Be Engaged in Work for the All-Family and the Two-Parent Family Rates**

Type of participation rate	Current required rate
All-family (single and two-parent combined)	50%
Two-parent families	90%

Source: GAO analysis of TANF regulations.

Note: This base percentage is adjusted for each state using the caseload reduction credit.



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**Caseload Reduction Credit That Reduces the Base Percentage**

For each percentage point that a state's welfare caseload declined from its 1995 level, the caseload reduction credit reduces the base percentage of TANF families who must be engaged in work in the state. For example, if a state's welfare caseload declined 40 percent since 1995, then the all-family work participation rate that it must meet is 10 percent and the two-parent family work participation rate that it must meet is 50 percent. Because of significant declines in welfare caseloads that have occurred in most states since 1995, 33 of the 50 states were required to meet an all-family rate of 10 percent or less in fiscal year 2003.

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**Calculation of Each State's Work Participation Rate**

Each quarter, states are required to report to ACF monthly data on their TANF cases, including the number of hours each adult recipient spent in countable work activities. States have the option of reporting to ACF on all their TANF cases (the universe) or on a scientifically drawn sample of TANF cases.<sup>1</sup> Using the data reported by states, ACF calculates an annual work participation rate for each state. A state's annual work participation rate is based on the state's average monthly rate for the year. The formula for the all-family rate is shown in figure 1.

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**Figure 1: Formula for Calculating the All-Family Work Participation Rate**

$$\left( \frac{A}{B - C} \right) \times 100$$

*A* = Adult-headed cases who worked the required minimum number of hours in countable work activities  
*B* = All adult-headed cases  
*C* = Cases sanctioned for 3 months or less during the year

Source: GAO analysis of TANF legislation and regulations.

Note: For the purposes of this formula, the term "adult" refers to TANF recipients age 20 or over or recipients under age 20 who are head of a household receiving TANF.

Child-only TANF cases are not included in the calculation. States have the option of disregarding from the calculation of the all-family work participation rate families with a single custodial parent and a child under

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<sup>1</sup>About one-half the states report using the universe, and about one-half report using a sample.

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**Appendix I: Elements of the Work  
Participation Requirement and How the Work  
Participation Rate Is Calculated**

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age one. Other families disregarded in the calculation of the all family rate include

- families that are part of an ongoing research evaluation approved under Section 1115 of the Social Security Act;
- families that are disregarded based on an inconsistency under an approved welfare reform waiver that exempts the family; and
- families participating in a tribal family assistance plan or a Tribal work program (unless the state chooses to include the families in the calculation).

The two-parent family rate is calculated the same way as the all-family rate, except that the calculation only includes two-parent families. Two-parent families with a disabled parent are not used in calculating the two-parent rate.

# Appendix II: States That Count Certain Activities toward Meeting the Federal Work Participation Rate

**Table 6: States Covered by the Review That Count Certain Activities toward Meeting the Federal Work Participation Rate**

<b>Activity</b>	<b>Reviewed states that count the activity as federal work participation</b>
Caring for a disabled household or family member	Georgia, Maryland, New York, Washington, Wisconsin
Substance abuse treatment	Kansas, Maryland, Nevada, New York, Washington, Wisconsin
Domestic violence counseling	Nevada, Washington, Wisconsin
Other mental health counseling	Kansas, Nevada, New York, Washington, Wisconsin
English as a second language	Kansas, Nevada, New York, Ohio, Pennsylvania, Washington, Wisconsin

Source: GAO review of 10 states' TANF documents and interviews with the states' TANF officials.

Note: In the limited circumstance that counseling is related to employment and is given to a recipient along with employment services by the same service provider, Ohio counts hours spent in substance abuse treatment, domestic violence counseling, and other mental health counseling toward meeting the federal work participation rate, according to an Ohio official.

# Appendix III: States Identified as Lacking Certain Internal Controls

**Table 7: States Covered by the Review That Lacked Internal Controls to Help Ensure Hours of Participation Are Reported in Accordance with HHS Guidance**

<b>Internal control weakness</b>	<b>States (out of 9 reviewed) with the internal control weakness</b>
Guidance and/or standard processes allow reporting of scheduled hours	Georgia, Kansas, Ohio
Lack of guidance on the type of documentation needed to support reported hours of work activities	California, Kansas, New York, Wisconsin
Guidance allows for reporting hours missed for good cause	Wisconsin, New York
Insufficient monitoring to verify that hours were reported correctly	Kansas, New York, Wisconsin

Source: GAO review of 9 states' TANF documents and interviews with their TANF officials.

Notes: (1) Washington is not included in this table because we were unable to assess its internal controls. (2) For states where the internal control activities were determined at the local level, we identified the state as having an internal control weakness if the state did not ensure that the local areas were implementing such internal controls. (3) We considered state monitoring of local offices to be insufficient if it occurred less than yearly and did not verify that hours in work activities were reported correctly.

# Appendix IV: Fiscal Year 2003 Work Participation Rates Calculated by HHS Based on Data Provided by States

As discussed in this report, our review covering 10 states found that there were differences among states in the activities counted in the rates and, in some cases, weaknesses in internal controls over the data used to calculate the rates. Therefore, these rates may not reliably reflect work participation rates and should not be used to make comparisons between states.

**Table 8: Fiscal Year 2003 Work Participation Rates Calculated by HHS Based on Data Provided by States**

State	All-families rate	Two-parent families rate <sup>a</sup>
Alabama	37	N/A
Alaska	41	45
Arizona	13	55
Arkansas	22	32
California	24	N/A
Colorado	33	40
Connecticut	31	N/A
Delaware	18	N/A
Florida	33	N/A
Georgia	11	N/A
Hawaii	66	N/A
Idaho	44	42
Illinois	58	N/A
Indiana	40	N/A
Iowa	45	39
Kansas	88	87
Kentucky	33	46
Louisiana	35	39
Maine	28	29
Maryland	9	N/A
Massachusetts	61	74
Michigan	25	36
Minnesota	25	N/A
Mississippi	17	N/A
Missouri	28	N/A
Montana	86	96
Nebraska	33	N/A
Nevada	22	N/A

**Appendix IV: Fiscal Year 2003 Work  
Participation Rates Calculated by HHS Based  
on Data Provided by States**

<b>State</b>	<b>All-families rate</b>	<b>Two-parent families rate<sup>a</sup></b>
New Hampshire	28	N/A
New Jersey	35	N/A
New Mexico	42	52
New York	37	52
North Carolina	25	49
North Dakota	27	N/A
Ohio	62	68
Oklahoma	29	51
Oregon	60	53
Pennsylvania	10	9
Rhode Island	24	95
South Carolina	54	51
South Dakota	46	N/A
Tennessee	43	N/A
Texas	28	N/A
Utah	28	N/A
Vermont	24	38
Virginia	45	N/A
Washington	46	44
West Virginia	14	25
Wisconsin	67	40
Wyoming	83	92

Source: Rates calculated by HHS based on data provided by states.

<sup>a</sup>Some states do not have two-parent families in their TANF programs. Thus, the two-parent families rate is not applicable for some states, as indicated by N/A.

# Appendix V: Comments from the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

AUG 2 2005

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

Dear Mr. Bellis:

Enclosed are the Department's comments on the U.S. Government Accountability Office's (GAO's) draft report entitled, "WELFARE REFORM: HHS Should Exercise Oversight to Help Ensure TANF Work Participation Is Measured Consistently across States" (GAO-05-821). These comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department provided several technical comments directly to your staff.

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

Sincerely,

A handwritten signature in cursive script that reads "Daniel R. Levinson".

Daniel R. Levinson  
Inspector General

Enclosure

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

**COMMENTS OF THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  
ON THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE'S DRAFT REPORT  
ENTITLED, "WELFARE REFORM: HHS SHOULD EXERCISE OVERSIGHT TO  
HELP ENSURE TANF WORK PARTICIPATION IS MEASURED CONSISTENTLY  
ACROSS STATES" (GAO-05-821)**

**General Comments**

The U.S. Department of Health and Human Services (HHS) appreciates the opportunity to comment on the U.S. Government Accountability Office's (GAO) draft report concerning how States define and report on work participation activities used in the calculation of the work participation rates and the scope of HHS's oversight role. Based on the survey of 10 States and discussions with HHS staff, the report provides information on the variation in States' definitions of work activities and the extent of internal controls over the quality and accuracy of the work participation data reported to HHS, Administration for Children and Families (ACF). The report provides ACF with new and useful information.

The report identifies inconsistencies in the way States surveyed define individual activities under the 12 statutory categories of work activities, as well as the variability in the scope of States' internal controls to ensure complete and accurate work participation data. GAO concludes that the work participation rates are neither comparable between States nor over time within a State. GAO is critical of HHS for failing to regulate the definition of work activities or to provide adequate direction and oversight in this area.

We do not believe that GAO sufficiently recognizes the statutory context of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). Congress, in enacting PRWORA, explicitly specified that the purpose of the statute was to increase the flexibility of States to implement a Temporary Assistance for Needy Families (TANF) program focused on work and self-sufficiency. While the statute provided ACF the authority to regulate the definition of work activities, we explored this approach during our proposed and final rule-making process, but concluded that such an approach would be inconsistent with both the flexibility the statute provided States in other areas of the work participation requirements and the overall design of the program to foster creativity and innovation in the delivery of services at the local level.

Congress clearly did not intend that there be a consistent measure of work participation across States or that we make State-by-State comparisons for penalty purposes. Congress permitted 19 States to continue their Section 1115 (of the Social Security Act) Welfare Reform waivers. With respect to the work participation rates, each of the 19 States had different waiver provisions which allowed them to count different activities toward meeting the work requirement. Some States were permitted to ignore limits on job search and vocational education and/or the 20-hour requirement for core activities. Other States were able to set a lower individual standard for required hours of



participation in work activities (e.g., PRWORA requires 30 hours per week for a single parent with a child six years of age or older, of which 20 hours per week must come from the core activities) to be counted as engaged in work and/or to exclude families from the work participation calculation that, absent the waiver, would not be excluded. In addition to the waivers, Congress gave States substantial latitude in designing programs and policies, which affect the population being served by the TANF and Separate State Program-Maintenance of Effort programs in each State. This included the flexibility not to offer or include all 12 of the work activities that can be counted in the work participation rate. In addition, other State policies can have differential effects on participation rates. For example, States with high benefits and generous earning disregards are more likely to have high rates of unsubsidized employment, thereby reducing the number of work activity slots that might have to be created to serve other TANF families. These built-in differences make it extremely difficult to make State-by-State comparisons. Congress intended that each State's work participation rate be compared to the standard Congress established given the State's flexibility to run its own program.

**GAO Recommendation**

*HHS should revise its regulations to:*

- *specify the types of activities that can and cannot be included under the 12 categories of work activities,*
- *have HHS oversee States' definitions of activities under the 12 categories, and*
- *set forth criteria on counting actual hours of activities and whether there are circumstances under which scheduled hours may be counted.*

**HHS Comments**

Because Congress is currently considering significant changes to the work participation requirements as part of TANF reauthorization, we do not think it is appropriate to begin a rule-making process at this time. In fact, adopting GAO's recommendations prior to reauthorization could create unnecessary disruptions in State programs. If ACF were to specify some activities narrowly, some States might drop certain program activities, only to have those activities allowed again under one of the various reauthorization proposals that give States considerable flexibility in defining work activities. At the very least, the report should mention that reauthorization is a consideration in the timing of revising regulations. However, we will consider GAO recommendations when we develop the proposed rule after Congress enacts legislation to reauthorize the TANF program.

**GAO Recommendation**

*We also recommend that HHS develop and implement a plan for working with States to improve internal controls over the work participation data. This plan could make use of existing resources and include steps such as:*

- *working through its regional offices to identify cost-effective internal controls being used by States;*
- *using regional offices and existing sponsored conferences to share information with States on these internal controls and to emphasize the importance of internal controls; and*
- *obtaining information from States about their experiences using the National Directory of New Hires to determine if it has potential for helping States collect more complete work participation data and if there are any useful practices to be shared with other States.*

**HHS Comments**

We appreciate the information GAO collected on the internal controls from the surveyed States. We also recognize that more can be done to ensure increased consistency in the accuracy of these data. ACF has relied primarily on results from the Single State Audit for providing oversight in this area. As GAO notes in the report, ACF has expanded the work participation rate review specifications for completeness and accuracy in the Fiscal Year (FY) 2005 Compliance Supplement. GAO suggests that recommended increased oversight and technical assistance to States by the Department can be done within existing resources. ACF is currently exploring options in this area. It should be noted by GAO that PRWORA limited HHS's authority and oversight of TANF; hence, Federal staffing for the program was reduced by 75 percent several years ago.

**Other Comments**

Page 1, first paragraph, sixth sentence (and Appendix I), GAO describes the work participation rate as "the percentage of a State's adult TANF recipients who were engaged in work activities during the year." This is not correct. The work participation rate is based on a ratio of families, not adults. The annual all families work participation rate is an average of the 12 monthly all families work participation rates. The monthly all families work participation rate is a ratio of the number of families with an adult (or minor child head-of-household) who are engaged in work divided by the number of families with an adult (or minor child head-of-household) who are required to participate. This ratio excludes child-only families and families that are disregarded. The families that are disregarded from the all families work participation rate include:

(1) families with a single custodial parent and a child under age one; (2) families that are required to participate, but are not participating and are subject to a sanction for the reporting month, but have not been sanctioned for more than three months within the preceding 12-month period; (3) families that are part of an ongoing research evaluation approved under Section 1115 of the Social Security Act; (4) families that are disregarded based on an inconsistency under an approved welfare reform waiver that exempts the family; and (5) families that are disregarded based on participation in a Tribal work program. Many of these disregarded groups are not mentioned in the discussion of the calculation and are left out of Figure 1, Appendix I. The annual and monthly definitions of the two-parent work participation rates are similar. These rates include only two-parent families; however, a two-parent family with a disabled parent is, by statute, not used in calculating the two-parent rate.

Page 4, first paragraph, sixth sentence, GAO makes a comparison of a State's work participation rate with a waiver and after the waiver expired. This is an unfair comparison. Had the waiver not been in place, some work activities coded under the waiver category would be permitted under other categories (without changing definitions). Also, States would have made different decisions about placing recipients in various work activities. We cannot accurately measure what the work participation rate would have been absent the waiver when the waiver is in place.

Appendix I, it may be useful to add that child-only cases are not included in the participation rates and that these cases make up about 40 percent of the caseload.

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

David Bellis (415) 904-2272

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## Staff Acknowledgments

The following staff members made major contributions to the report: Gale Harris (Assistant Director), Kathy Peyman (Analyst-in-Charge), Carolyn Blocker, Amanda Miller, Cady S. Panetta, Tovah Rom, Dan Schwimer, and Shana Wallace.

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# Related GAO Products

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*Welfare Reform: Rural TANF Programs Have Developed Many Strategies to Address Rural Challenges.* GAO-04-921. Washington, D.C.: Sept. 10, 2004.

*Supports For Low-Income Families: States Serve a Broad Range of Families through a Complex and Changing System.* GAO-04-256. Washington, D.C.: Jan. 26, 2004.

*Welfare Reform: With TANF Flexibility, States Vary in How They Implement Work Requirements and Time Limits.* GAO-02-770. Washington, D.C.: July 5, 2002.

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

*Welfare Reform: States Are Using TANF Flexibility to Adapt Work Requirements and Time Limits to Meet State and Local Needs.* GAO-02-501T. Washington, D.C.: Mar. 7, 2002.

*Welfare Reform: More Coordinated Federal Effort Could Help States and Localities Move TANF Recipients with Impairments toward Employment.* GAO-02-37. Washington, D.C.: Oct. 31, 2001.

*Welfare Reform: Progress in Meeting Work-Focused TANF Goals.* GAO-01-522T. Washington, D.C.: Mar. 15, 2001.

*Welfare Reform: Moving Hard-to-Employ Recipients Into the Workforce.* GAO-01-368. Washington, D.C.: Mar. 15, 2001.

*Welfare Reform: Data Available to Assess TANF's Progress.* GAO-01-298. Washington, D.C.: Feb. 28, 2001.

*Single Audit: Update of the Implementation of the Single Audit Act Amendments of 1996.* GAO/AIMD-00-293. Washington, D.C.: Sept. 29, 2000.

*Welfare Reform: Work-Site-Based Activities Can Play an Important Role in TANF Programs.* GAO/HEHS-00-122. Washington, D.C.: July 28, 2000.

*Standards for Internal Control in the Federal Government.* GAO/AIMD-00-21.3.1. Washington, D.C.: Nov. 1999.

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**Related GAO Products**

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*Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information.* GAO/GGD-99-139. Washington, D.C.: July 30, 1999.

*Block Grants: Issues in Designing Accountability Provisions.* GAO/AIMD-95-226. Washington, D.C.: Sept. 1, 1995.

*Welfare to Work: JOBS Participation Rate Data Unreliable for Assessing States' Performance.* GAO/HRD-93-73. Washington, D.C.: May 5, 1993.

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