



February 2016

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Update on States Counting Third-Party Expenditures toward Maintenance of Effort Requirements

Accessible Version

GAO Highlights

Highlights of [GAO-16-315](#), a report to congressional requesters

Why GAO Did This Study

Each year, TANF block grants, which are overseen by the U.S. Department of Health and Human Services (HHS), provide \$16.5 billion in federal funds to states to assist low-income families. States are also required to spend a significant amount of their own funds under TANF, but they can include certain expenditures made by nongovernmental third parties toward their MOE requirement. Some stakeholders support this option because it helps states meet MOE requirements, but others question whether this approach is consistent with program goals. GAO was asked to update the information presented in its 2012 report on this topic ([GAO-12-929R](#)).

This report updates information on, among other things, (1) the extent to which states count nongovernmental third-party expenditures for services as TANF MOE spending, and (2) the types of nongovernmental third-party services provided that states counted as TANF MOE spending.

To obtain this information, GAO surveyed state TANF directors in all 50 states and the District of Columbia and reached a 100-percent response rate. GAO also reviewed relevant federal laws and regulations, reviewed HHS expenditure data, and interviewed HHS officials. Lastly, GAO interviewed TANF officials in three states selected to reflect geographic diversity and variety among other factors.

What GAO Recommends

GAO is not making recommendations in this report. HHS agreed with the findings, and provided written comments on the report.

View [GAO-16-315](#). For more information, contact Kay E. Brown at (202) 512-7215 or brownke@gao.gov

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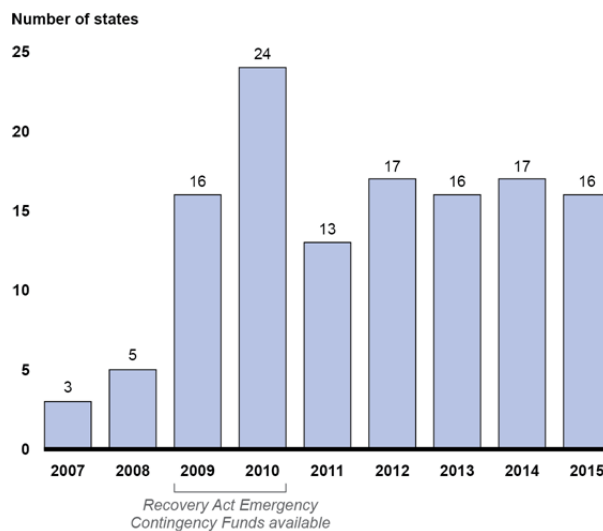
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Update on States Counting Third-Party Expenditures toward Maintenance of Effort Requirements

What GAO Found

Nearly one-third of states (16 of 51) reported counting nongovernmental third-party expenditures toward their states' required spending level under the Temporary Assistance for Needy Family (TANF) block grant in fiscal year 2015, according to GAO's survey of all state TANF directors. TANF requires states to maintain a significant portion of their own historic financial commitment, called maintenance of effort (MOE), to welfare-related programs. In addition to its own spending, a state may count toward its MOE requirement certain in-kind or cash expenditures by nongovernmental third parties—such as food banks—as long as these services are allowable under TANF, are provided to needy families, and the state meets other requirements. The number of states counting such expenditures as MOE spending increased substantially between fiscal years 2009 and 2010, perhaps in part due to requirements necessary to obtain additional funding under the American Recovery and Reinvestment Act of 2009 (Recovery Act). After fiscal year 2010, the number of states counting nongovernmental third-party expenditures toward their TANF MOE requirements fell, but remained higher than pre-Recovery Act levels for other reasons. States that reported such expenditures as TANF MOE spending cited reasons such as developing public-private partnerships and meeting state MOE requirements.

Number of States That Reported Counting Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending, Fiscal Years 2007-2015



Source: GAO survey data, 2012 and 2015. | GAO-16-315

Of the 16 states that reported counting nongovernmental third-party expenditures as TANF MOE spending in fiscal year 2015, most said the types of services they counted involved food assistance and programs serving youth, according to GAO's survey. For example, one state reported working with a food bank to count the value of the food the bank provided to families deemed needy under state TANF rules.

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Abbreviations

AFDC	Aid to Families with Dependent Children
HHS	U.S. Department of Health and Human Services
MOE	maintenance-of-effort
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
Recovery Act	American Recovery and Reinvestment Act of 2009
TANF	Temporary Assistance for Needy Families

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February 10, 2016

The Honorable Vern Buchanan
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

The Honorable Charles Boustany
House of Representatives

Each year, the Temporary Assistance for Needy Families (TANF) block grant provides \$16.5 billion in federal funds to states to assist low-income families. While the block grant provides states with a fixed amount of federal dollars annually, it also includes a requirement that states maintain a significant portion of their own historic financial commitment, called maintenance-of- effort (MOE), to welfare-related programs. In federal fiscal year 2014, states spent a total of \$31.9 billion for TANF-related benefits and services—\$16.6 billion in federal TANF funds and \$15.3 billion in state TANF MOE.¹ This total includes any expenditures made by nongovernmental third parties, such as nonprofit organizations, that states counted toward their TANF MOE requirement, which is permitted under TANF regulations. Some stakeholders note that the option to count nongovernmental third-party expenditures² as TANF MOE spending provides states flexibility and helps them meet TANF requirements. Others have questioned whether counting nongovernmental third-party expenditures toward a state’s TANF MOE requirement meets the original intent of the requirements. In addition, some policymakers have noted that this option may reduce the overall level of services available to low-income families in a state if, for example, that state counts services already provided by third parties while reducing its own spending.

¹ Unless otherwise noted, in this report fiscal year refers to federal fiscal year. The \$16.6 billion includes transfers states made to the Social Services Block Grant and the Child Care and Development Fund.

² In this report, nongovernmental third-party expenditures refer to (1) the value of in-kind contributions for allowable costs from nongovernmental third parties (including nonprofit organizations, corporations, or other private parties) and (2) cash donations by nongovernmental third parties used by the state for a TANF allowable purpose.

Given that program changes currently being considered as part of TANF reauthorization would affect state counting of nongovernmental third-party spending toward TANF MOE requirements,³ GAO was asked to update the information presented in its 2012 report on this topic.⁴ This report discusses the (1) extent to which states count nongovernmental third-party expenditures toward their states' TANF MOE requirements, (2) types of nongovernmental third-party services provided, and (3) reasons states cited for counting nongovernmental third-party expenses as TANF MOE spending.

To obtain this information, we updated the questionnaire we fielded in 2012 and pretested the updated questionnaire with two state TANF directors.⁵ We then administered the questionnaire by e-mail to the TANF directors of all 50 states and the District of Columbia from November through December 2015.⁶ Where necessary, we followed up with states to clarify their responses and obtained a 100 percent response rate. While we did not validate specific information administrators reported through our survey, we reviewed their responses and conducted follow-up, as necessary, to determine that their responses were complete, reasonable, and sufficiently reliable for the purposes of this report. To characterize survey responses about nongovernmental third-party provided services and potential effects of discontinuing the use of the option to count nongovernmental third-party expenditures as TANF MOE spending, we conducted content analysis on the responses for two open-ended survey questions. For these analyses, two individuals independently categorized the survey responses and then reconciled any coding discrepancies. We also reviewed relevant federal laws and regulations; interviewed federal officials from the U.S. Department of Health and Human Services' (HHS) Administration for

³ In July 2015, a bill was introduced that would gradually eliminate the counting of nongovernmental third-party expenditures toward state TANF MOE requirements. H.R. 2959, 114th Cong. Further, the fiscal year 2016 budget request of the U.S. Department of Health and Human Services' Administration for Children and Families proposes "to prohibit the use of nongovernmental third-party expenditures in meeting state maintenance-of-effort requirements and ensure that TANF and maintenance-of-effort funds are used for benefits and services for needy families."

⁴ GAO, *Temporary Assistance for Needy Families: More States Counting Third-party Maintenance of Effort Spending*, [GAO-12-929R](#) (Washington, D.C.: Jul. 23, 2012).

⁵ The updated questionnaire gathered information on states' use of counting nongovernmental third-party spending toward TANF MOE requirements for fiscal years 2012 through 2015.

⁶ For the purposes of this report, we refer to the District of Columbia as a state.

Children and Families, which oversees states' use of TANF block grant funds; and reviewed HHS expenditure data. We assessed the reliability of these data by reviewing existing information about the data and the system that produced them and by interviewing agency officials knowledgeable about the data. Based on the results of these steps, we determined that the data were sufficiently reliable for the purposes of this report. Lastly, to gather specific examples and a deeper understanding of how states have counted nongovernmental third-party expenditures as TANF MOE spending, we interviewed state officials in three states. These states were chosen to reflect variety in survey responses regarding the number of years nongovernmental third-party services were counted as TANF MOE spending, the nature of services provided, geographic diversity, and the percentage of MOE spending that consisted of nongovernmental third-party expenditures.

We conducted this performance audit from October 2015 through February 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The TANF block grant was created through the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)⁷ and was designed to give states the flexibility to provide both traditional welfare cash assistance benefits as well as a variety of other benefits and services to meet the needs of low-income families and children. TANF has four broad goals: (1) provide assistance to needy families so that children may be cared for in their own homes or homes of relatives; (2) end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce out-of-wedlock pregnancies; and (4) encourage the formation and maintenance of two-parent families. Within these goals, states are responsible for designing, implementing, and administering their welfare programs to comply with federal requirements, as defined by federal law and HHS.

⁷ Pub. L. No. 104-193, § 103(a)(1), 110 Stat. 2105, 2112.

The creation of TANF significantly changed the federal government's role in financing welfare programs in states. PRWORA ended low-income families' entitlement to cash assistance by replacing the Aid to Families with Dependent Children (AFDC) program with the TANF block grant. Each state's TANF block grant amount is generally based on the amount of the state's spending under AFDC. With the fixed federal funding stream, states assume greater fiscal risks in the event of an economic recession or increased program costs. In acknowledgment of these risks, PRWORA also created a TANF Contingency Fund that states could access in times of economic distress.⁸ In addition, during the most recent recession, the federal government created a \$5 billion Emergency Contingency Fund for state TANF programs through the American Recovery and Reinvestment Act of 2009 (Recovery Act), available in federal fiscal years 2009 and 2010.⁹

PRWORA coupled the block grant with an MOE provision, which requires states to maintain a portion of their own historic financial commitment to their welfare programs as a condition of receiving their full federal TANF allotments.¹⁰ For example, these provisions generally require that each state spend at least 80 percent (75 percent if the state meets certain performance standards) of the amount it spent on welfare and related programs in fiscal year 1994, before TANF was created.¹¹ In addition to its own spending, under HHS regulations, a state is permitted to count toward its TANF MOE requirement certain in-kind or cash expenditures by third parties—such as nongovernmental organizations (including nonprofit organizations or other private parties)—as long as the expenditures meet other TANF MOE requirements, including those related to eligible families and allowable activities.¹² In addition, an agreement must exist between the state and the nongovernmental third-party organization allowing the state to count the expenditures toward its TANF MOE requirement.¹³

⁸ Id. at 110 Stat. 2105, 2122.

⁹ Pub. L. No. 111-5, § 2101(a)(1), 123 Stat. 115, 446.

¹⁰ See 42 U.S.C. § 609(a)(7).

¹¹ Id. The TANF block grant is not adjusted for inflation, and the MOE requirements are expressed in nominal dollars.

¹² 45 C.F.R. § 263.2(e).

¹³ Id.

HHS noted in its preamble to the final rule for TANF issued in 1999 that the MOE cost-sharing requirement reflected Congress' recognition that state financial participation is essential for the success of welfare reform.¹⁴ It also noted that Congress wanted states to be active partners in the welfare reform process.¹⁵ Allowing states to count nongovernmental third-party expenditures toward their MOE requirement was a policy choice HHS first articulated in December 2004.¹⁶ HHS later set forth the policy in a rule as part of the regulations implementing the Deficit Reduction Act of 2005.¹⁷ If a state fails to meet its TANF MOE requirement for any fiscal year, HHS is required by law to reduce dollar-for-dollar the state's basic TANF grant amount for the following fiscal year.¹⁸

States' levels of MOE spending can affect other TANF requirements, such as their required work participation rates. States are generally held accountable for ensuring that at least 50 percent of all families with a work-eligible individual receiving TANF assistance participate in work activities for a specified number of average hours per week over the month¹⁹ subject to a provision known as the caseload reduction credit, which allows states to reduce the work participation rate they are required to meet based on reductions in the size of their TANF caseload.²⁰ In addition, under federal

¹⁴ Temporary Assistance for Needy Families Program (TANF). 64 Fed. Reg. 17,720, 17,821.

¹⁵ *Id.* at 17,816.

¹⁶ *Clarification that third party cash or in-kind may count toward a State's or Territory's TANF maintenance-of-effort (MOE) requirement*, TANF-ACF-PA-2004-01, (Dec. 1, 2004).

¹⁷ See Reauthorization of the Temporary Assistance for Needy Families Program, 71 Fed. Reg. 37,454 (June 29, 2006); 45 C.F.R. § 263.2 (e).

¹⁸ See 42 U.S.C. § 609(a)(7).

¹⁹ To be counted as engaging in work for a month, most TANF families are required to participate in federally-defined work activities for an average of 30 hours per week in that month. 42 U.S.C. § 607. However, federal law sets different weekly work hour requirements for teen parents attending school, single parents of children under age 6, and two-parent families. Further, certain families are not included in the calculation of state work participation rates, such as those without a "work-eligible individual" and families subject to a sanction (but for no longer than 3 months in the preceding 12-month period), and states can disregard certain groups, such as single parents of children under age 1 (for up to 12 months per lifetime). See 42 U.S.C. § 607(b) and 45 C.F.R. § 261.2(n).

²⁰ 42 U.S.C. § 607(b)(3). However, under federal TANF law, states are not allowed to count caseload reductions resulting from changes in states' eligibility criteria toward caseload reduction credits.

regulations, if states spend in excess of their required MOE spending level (excess MOE), they may be allowed to increase their caseload reduction credits and thereby lower the work participation rates they must meet.²¹ For example, our previous work found that in fiscal year 2009, 32 of the 45 states that met their required work participation rates for all TANF families claimed excess state MOE spending toward their caseload reduction credits.²² We have not updated this analysis, and information on how many states use excess MOE to reduce their required work participation rate is not readily available, according to HHS officials. However, HHS's most recent TANF expenditure data reported by states show that for fiscal year 2014, about half of states reported total MOE expenditures at the 100-percent level or above.

According to HHS data, until fiscal year 2006, state TANF expenditures counted toward TANF MOE requirements remained relatively stable. Specifically, according to HHS data, spending hovered around required minimum MOE levels (either 75 percent or 80 percent of the amount the state spent in 1994).²³ Further, from fiscal years 2006 through 2009, the level of TANF spending states counted toward MOE requirements increased each year, according to HHS data. In aggregate, state MOE expenditures have remained above the 100-percent MOE level since 2009. Several reasons account for higher levels of reported MOE spending since 2006. First, many states (20) had to meet a higher MOE spending requirement because they accessed TANF Contingency Funds from fiscal years 2007 through 2010. According to HHS officials, many states have continued accessing these funds through the present day. Second, some states may have increased their level of MOE spending to access the

²¹ 45 C.F.R. § 261.43. When calculating the caseload reduction credit, federal regulations allow a state that spent in excess of its required amount in the year preceding the current one to include only the pro rata share—in its overall caseload number—of the total number of families receiving state-funded cash assistance required to meet the state's basic requirement. This means that in the calculation of a state's caseload reduction credit, its comparison year caseload number is reduced by a number equal to an estimate of the number of assistance cases the excess TANF MOE spending would have supported.

²² GAO, *Temporary Assistance for Needy Families: State Maintenance of Effort Requirements and Trends*, [GAO-12-713T](#) (Washington, D.C.: May 17, 2012).

²³ To receive all of its federal TANF funds, a state must generally spend state funds in an amount equal to at least 80 percent (75 percent if it meets work participation rate requirements) of the amount it spent on certain welfare and related programs in fiscal year 1994. 42 U.S.C. § 609(a)(7). The TANF block grant is not adjusted for inflation, and these requirements are expressed in nominal dollars.

Emergency Contingency Fund, which almost all states did in fiscal years 2009 and 2010. To access these funds, states were required to increase their basic assistance caseload and spending or spend more state funds for short-term, non-recurrent benefits or subsidized employment than they had in a corresponding quarter in an earlier base year. Third, many states claimed additional MOE spending to help them meet work participation rate requirements.

Some stakeholders have raised questions about counting nongovernmental third-party expenditures toward a state's TANF MOE requirement; these questions fall into two main categories. First, some stakeholders question whether allowing states to count spending by nongovernmental third-party organizations as TANF MOE spending is in keeping with the goal of maintaining or increasing the level of state provided services, considering these nongovernmental third-party services may have been provided whether or not the state counted them as MOE spending. If reported MOE spending does not actually reflect maintaining or increasing service levels, the overall level of services available to low-income families and children in the state may decrease. HHS officials note that nongovernmental third-party expenditures do not necessarily represent added state spending and that counting nongovernmental third-party expenditures as TANF MOE spending can reduce a state's financial commitment in meeting its basic MOE requirement. HHS officials said that prohibiting this practice would help to ensure that states maintain their commitment to needy families as the law intended. Second, some stakeholders have noted that allowing states to count such spending toward MOE requirements makes it easier for states to lower the work participation rates they are required to meet, decreasing the share of adults on welfare expected to work or prepare for work.²⁴ On the other hand, some stakeholders have noted that allowing states to count nongovernmental third-party expenditures as MOE spending helps states meet TANF requirements and facilitates public and private partnerships.

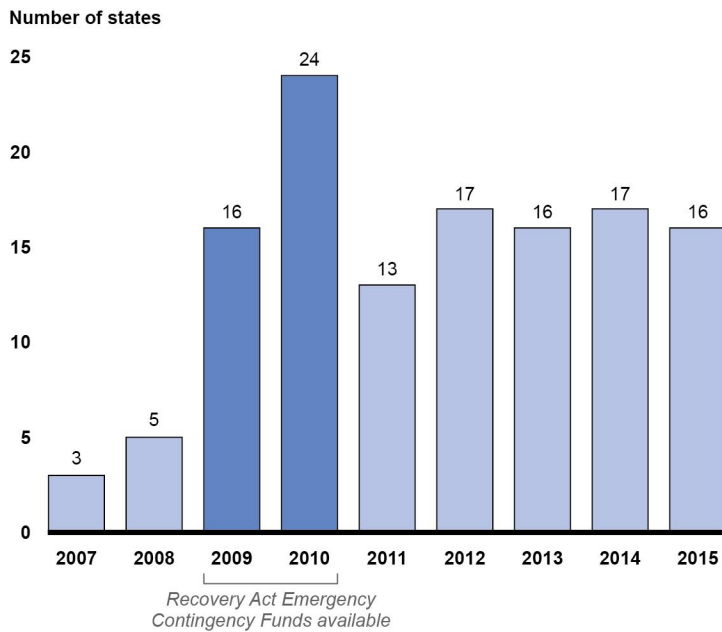
²⁴ See <http://waysandmeans.house.gov/ways-and-means-members-introduce-bills-to-help-people-move-from-welfare-to-work> for introduction to several TANF related bills introduced in July 2015, including a bill that would gradually eliminate the counting of nongovernmental third-party expenditures toward state TANF MOE requirements. (H.R. 2959, 114th Cong.).

While Most States Do Not Regularly Count Nongovernmental Third-Party Expenditures as TANF MOE Spending, Some States Make Greater Use of It than Other States

One-Third of States Counted Nongovernmental Third-Party Expenditures as TANF MOE Spending in Fiscal Year 2015

In fiscal year 2015, around one-third of states (16 of 51) reported counting nongovernmental third-party expenditures as TANF MOE spending. After peaking at 24 states in 2010—the last year Recovery Act Emergency Contingency Funds were available—the number of states counting such expenditures as TANF MOE spending fell. However, since that time the number of states that have counted nongovernmental third-party expenditures toward TANF MOE requirements has remained higher than pre-Recovery Act levels (see fig. 1).

Figure 1: Number of States That Reported Counting Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending in Federal Fiscal Years 2007-2015



Source: GAO survey data, 2012 and 2015. | GAO-16-315

Note: The total number of states reporting on whether they counted nongovernmental third-party expenditures as TANF MOE spending was 51.

Overall, 29 states reported counting nongovernmental third-party expenditures as state MOE spending at least once from fiscal years 2007 through 2015. Six states did so only during fiscal years 2009 or 2010 when Recovery Act Emergency Contingency Funds were available, leaving 23 states that counted nongovernmental third-party expenditures as TANF MOE spending at least once during a non-Recovery Act year.²⁵ Appendix I provides more detailed information on the number of years states counted nongovernmental third-party expenditures as TANF MOE spending.

²⁵ In this report we use the term “Recovery Act” year to refer to years TANF Emergency Contingency Funds were available (fiscal years 2009-2010). Similarly, we use the term “non-Recovery Act” year to refer to those years other than fiscal years 2009-2010—the years these Recovery Act funded Emergency Contingency funds were not available.

Some States Have Made Much Greater Use than Other States of the Option to Count Nongovernmental Third-Party Expenditures toward TANF MOE Requirements

Some states have made greater use of the option to count nongovernmental third-party expenditures toward TANF MOE requirements than others. In terms of number of years, 10 states we surveyed reported counting nongovernmental third-party expenditures as MOE spending for 5 or more of the 7 non-Recovery Act years from fiscal years 2007 through 2015. In contrast, 28 states reported they had never counted such expenditures as TANF MOE spending (see fig. 2).

Figure 2: Number of States That Counted Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending by Years of Use in Non-Recovery Act Years (Federal Fiscal Years 2007-2015, Excluding Fiscal Years 2009-2010)

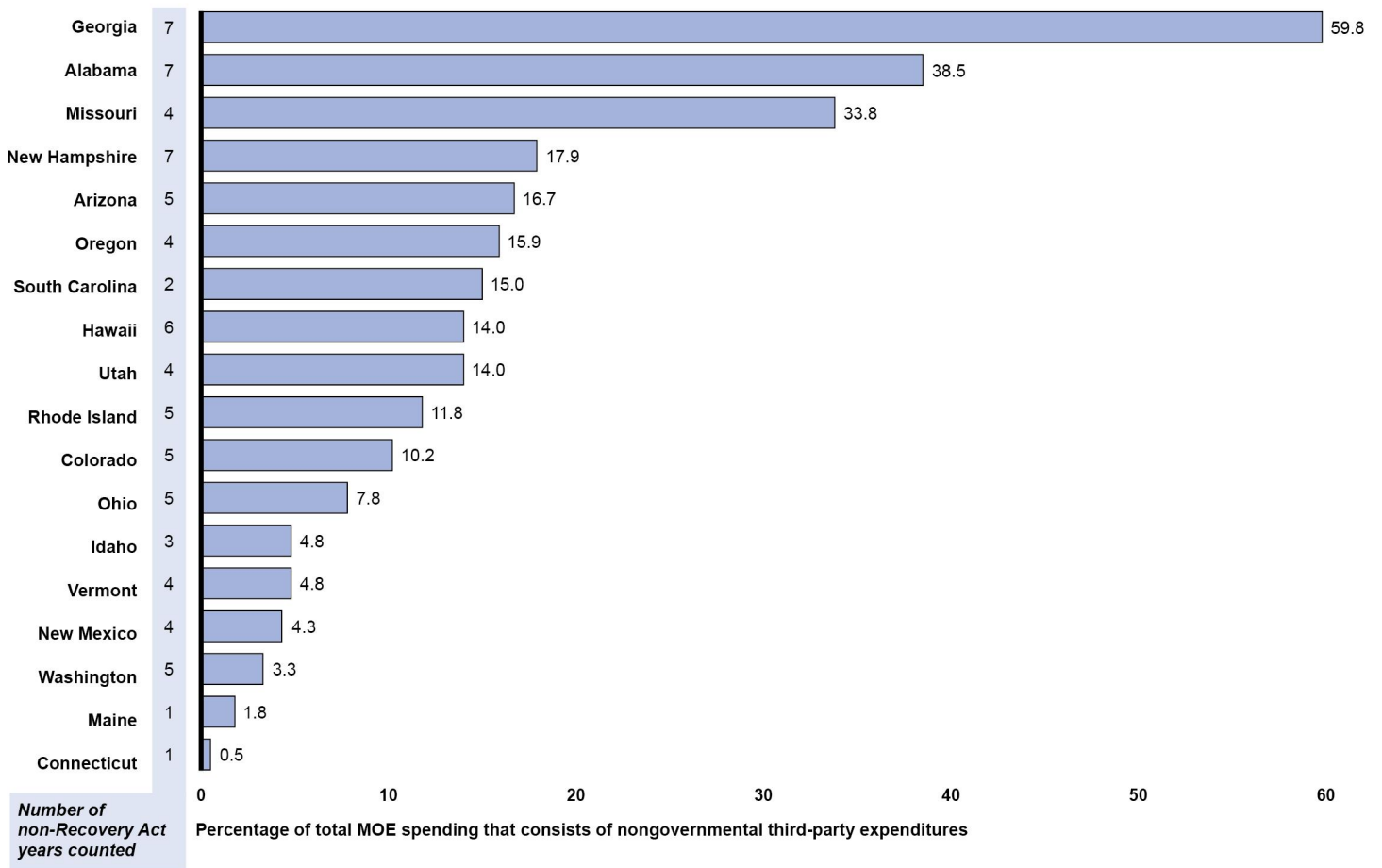


Source: GAO survey data, 2012 and 2015. | GAO-16-315

Eleven states reported that nongovernmental third-party expenditures accounted for over 10 percent of their TANF MOE spending (see fig. 3) for the most recent year in which the state counted such expenses toward TANF MOE requirements (fiscal years 2012 through 2015).²⁶ As also shown in figure 3, 7 of these 11 states counted nongovernmental third-party expenditures toward TANF MOE requirements for 5 or more non-Recovery Act years from fiscal years 2007 through 2015 (Alabama, Arizona, Colorado, Georgia, Hawaii, New Hampshire, and Rhode Island). Overall, the percentage of TANF MOE spending comprised of nongovernmental third-party expenditures (for the most recent year from fiscal years 2012 through 2015 in which the state counted such expenses toward TANF MOE requirements) for which we had data ranged from a high of nearly 60 percent in Georgia to a low of .5 percent in Connecticut.

²⁶ Two states (Alaska and Michigan) that counted nongovernmental third-party expenditures as TANF MOE spending at least once from fiscal years 2012 through 2015 did not report to GAO the amount of funds counted as TANF MOE spending. Consequently, we were not able to determine whether the proportion of TANF MOE spending in these states comprised of nongovernmental third-party expenditures was over 10 percent.

Figure 3: Percentage of Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending That Consisted of Nongovernmental Third-Party Expenditures by State, in Most Recent Federal Fiscal Year Used, Federal Fiscal Years 2012-2015 and Number of Years Counted, Federal Fiscal Years 2007-2015 (Excluding Federal Fiscal Years 2009 and 2010)



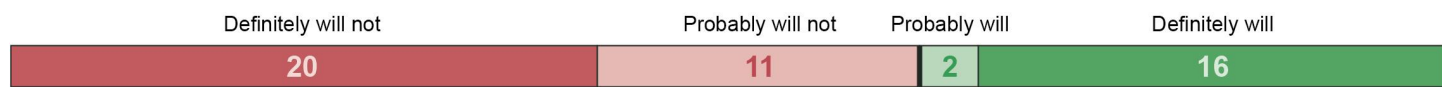
Source: GAO survey data, 2012 and 2015. | GAO-16-315

Note: This graphic shows the percentage of TANF MOE comprised of nongovernmental third-party expenditures for states that counted such expenses as TANF MOE spending at least once during fiscal years 2012-2015. Two states—Alaska and Michigan—reported counting such expenses as TANF MOE spending at least once during fiscal years 2012-2015 but did not provide specific figures regarding the amount of such expenditures counted. They are, in turn, not included in this figure. For the states included in the figure, the total number of years they counted nongovernmental third-party expenditures toward MOE are provided from fiscal years 2007 through 2015, excluding Recovery Act years.

Regarding states' plans to count nongovernmental third-party expenditures toward TANF MOE requirements in the future, around one-

third of states (18 of 51) reported they would definitely or probably count such expenditures toward TANF MOE requirements in fiscal year 2016. Of those 18 states, most (16 of 18) said they will definitely count such expenditures as TANF MOE spending in fiscal year 2016 (see fig. 4).

Figure 4: Number of States That Reported Likelihood of Plans to Count Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending in Federal Fiscal Year 2016, by Likelihood



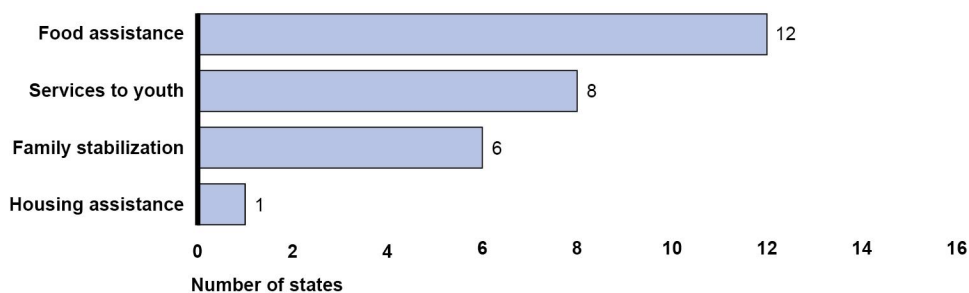
Source: GAO 2015 survey data. | GAO-16-315

Note: Two states reported "don't know."

States Most Often Reported Food Assistance as the Nongovernmental Third-Party Provided Service Counted as TANF MOE Spending

According to our survey, most states that reported having counted nongovernmental third-party expenditures toward their state's TANF MOE requirement in federal fiscal year 2015 also reported counting expenses related to food assistance service as TANF MOE spending. Specifically, of the 16 states that provided detailed information about how nongovernmental third-party services counted toward their TANF MOE requirement, three-quarters (12 of 16) reported having counted food assistance service expenses toward their MOE requirement. Fewer states reported having counted nongovernmental third-party expenditures on youth services (8 of 16), family stabilization services (6 of 16), and housing assistance services (1 of 16) toward their TANF MOE requirement (see fig. 5).

Figure 5: Number of States Counting Nongovernmental Third-Party Expenditures toward Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Requirements in Federal Fiscal Year 2015, by Type of Service



Source: GAO 2015 survey data. | GAO-16-315

Note: In fiscal year 2015, 16 states reported counting nongovernmental third-party expenditures as TANF MOE spending. Food assistance services represent services that relate to food distribution and assistance as well as food services to needy families from food banks and other organizations. Family stabilization services represent services provided to TANF eligible parents and families that promote job preparation, work, marriage, and the preservation of the family. Services to youth represent various services provided to youth for their education, employment, job preparation, support, and development. Housing assistance services include housing accommodation services provided to survivors of domestic violence and intimate partners as well as rapid rehousing for the homeless.

Officials we interviewed from three states provided several examples of how they have counted nongovernmental third-party services toward their TANF MOE requirement. For example, Ohio officials told us that their state counts the estimated value of food provided by the Second Harvest Food Bank to TANF eligible families as TANF MOE spending. Similarly, New Hampshire officials told us that their state counts the value of after-school and outreach activities provided by the Granite YMCA and the Boys and Girls Club of Greater Nashua as TANF MOE spending.

In each of these cases, state officials reported having entered into a formal, written agreement with the nongovernmental third-party organization. In addition, state officials also reported taking steps to ensure the value of services counted as TANF MOE spending reflects those expenditures associated with TANF eligible participants. For example, Ohio officials told us that they calculate the value of food assistance services provided by the Second Harvest Food Bank to TANF recipients using data this organization collects on the percentage of families it serves that are TANF eligible and the monetary value of food distributed and purchased over a specified time period. Similarly, officials in Arizona reported that through an agreement with the Association of Arizona Food Banks, the state counts toward its TANF MOE requirement the value of the food assistance services the food bank provides to families considered eligible for TANF services as defined by the state and the administrative expenses associated with providing this service. Lastly, New Hampshire state officials told us they estimated the monetary value of the services provided by the Granite YMCA and Boys and Girls Club of Greater Nashua using data provided by these organizations. Specifically, these organizations provide spending figures directly to the state via a reporting form, and the state only counts as TANF MOE spending those figures associated with youth who qualify for free or reduced lunch.

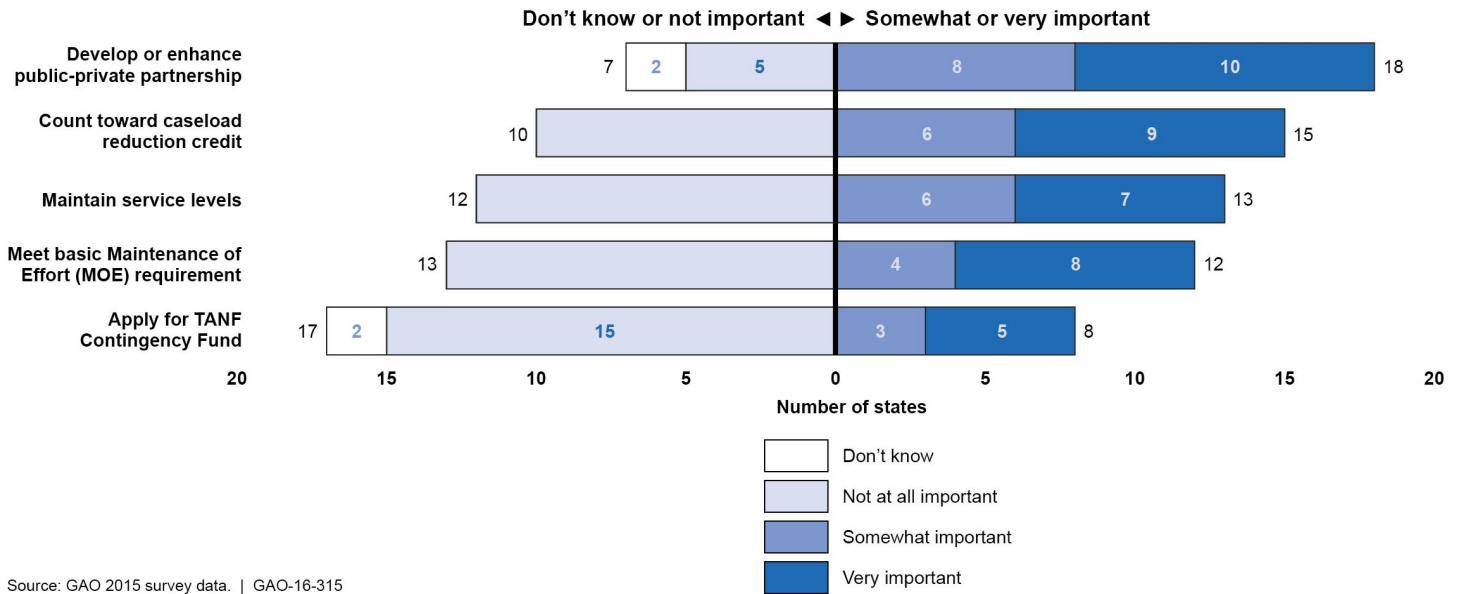
States Cited Multiple Reasons for Counting Nongovernmental Third-Party Expenditures as TANF MOE Spending and Reported Concerns about the Potential of Not Being Able to Do So in the Future

Most States That Reported Counting Nongovernmental Third-Party Expenditures as TANF MOE Spending Cited Multiple Reasons

About three-quarters (19 of 25) of the states that reported on our most recent survey that they had ever counted nongovernmental third-party expenditures toward their TANF MOE requirement reported multiple reasons for having done so.²⁷ The reasons most frequently cited by states as being very or somewhat important were developing public-private partnerships (18 of 25) and counting excess MOE toward the caseload reduction credit (15 of 25). Officials in all three states with whom we spoke said that the public-private partnerships were valuable, longstanding, and predated the state's decision to count TANF MOE expenditures toward its TANF MOE requirement. Other frequently cited reasons for counting these organizations' expenditures as TANF MOE spending were to maintain service levels (13 of 25) and to meet the basic TANF MOE requirement (12 of 25) (see fig. 6).

²⁷ When we compiled the results of our 2012 and 2015 surveys, the combined results showed that 29 states counted nongovernmental third-party expenditures as TANF MOE spending at least once from fiscal years 2007-2015.

Figure 6: Reasons Cited by States for Counting Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending in the Most Recent Federal Fiscal Year Used, 2012-2015, by Level of Importance



Source: GAO 2015 survey data. | GAO-16-315

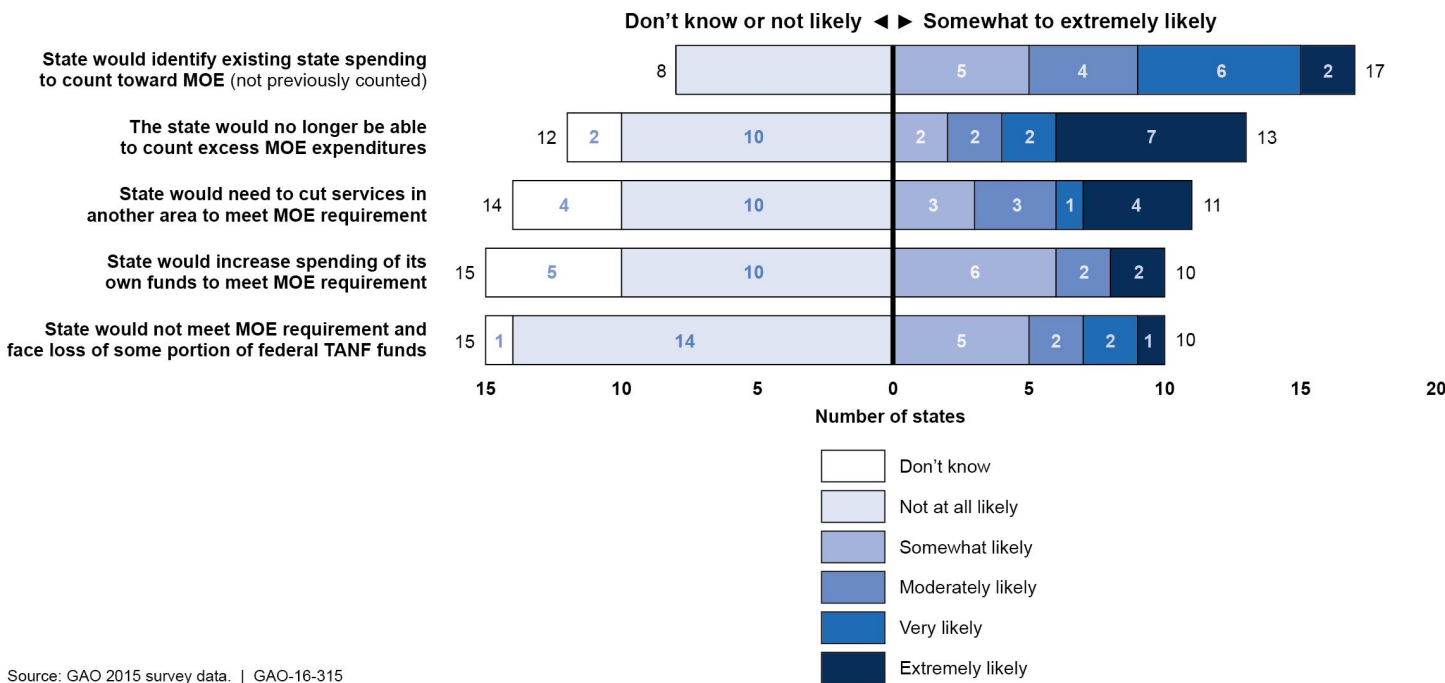
Note: 25 states answered this survey question.

Some States Identified Concerns about the Potential for Discontinuing the Option to Count Nongovernmental Third-Party Expenditures as TANF MOE Spending

About half of the states (25 of 51) reported that they may need to take various actions if they could no longer count nongovernmental third-party expenditures as TANF MOE spending in the future. For example, approximately one-third (8 of 25) of the states that reported they may need to take action responded that they would be very or extremely likely to identify existing state spending that had not been previously counted to count toward their states' TANF MOE requirement. A fifth of these states (5 of 25) responded that they would be extremely or very likely to cut services in another area to meet the TANF MOE requirement (see fig. 7). According to an official from Georgia, where nongovernmental third-party expenditures comprised 60 percent of the states' MOE spending in fiscal year 2015, there is a moderate probability that the state would cut funding to other services and direct the funding to services that contribute to their TANF MOE requirement. Similarly, officials from Ohio, where nongovernmental third-party expenditures comprised 8 percent of TANF MOE spending in fiscal year 2015, reported that the state would either secure additional funding from its general revenue fund or another program's general revenue funding would be reduced to meet the TANF MOE requirement, but the decision would be made through the state's

biennial budget process. While states that have counted nongovernmental third-party expenditures as TANF MOE spending in multiple years reported the most concerns about the possibility of not being able to do so in the future, one official from Maine, for which nongovernmental third-party expenditures were counted toward the TANF MOE requirement once from fiscal years 2007 to 2015, also reported that the state would not meet its TANF MOE requirement if it was unable to use this option in the future.

Figure 7: Potential Actions States Reported They Might Take if Unable to Count Nongovernmental Third-Party Expenditures toward Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Requirements in the Future, by Level of Likelihood



Source: GAO 2015 survey data. | GAO-16-315

Note: 25 states provided survey information on this topic.

In our survey, officials from some states identified in open-ended survey responses additional concerns should counting nongovernmental third-party expenditures as TANF MOE spending no longer be allowed. Specifically, several (8 of 18) reported they would not meet the work

participation rate requirement if they were no longer allowed to count nongovernmental third-party expenditures toward their states' TANF MOE requirement.²⁸ For example, officials in one state reported that without the option to count nongovernmental third-party expenditures as TANF MOE spending the state would not be able to meet required work participation rates during economic downturns, when fewer employment opportunities are generally available.²⁹ Furthermore, of the states that noted additional concerns on our survey, several (6 of 18) reported they would be unable to meet TANF MOE requirements should counting nongovernmental third-party expenditures as TANF MOE spending no longer be allowed. One state official noted that in recent years, the state has used nongovernmental third-party spending as a budgetary strategy to save state dollars. Specifically, the state has reduced its general fund spending on TANF-related services while continuing to meet TANF MOE requirements by counting expenditures made by existing programs in the community toward the state's TANF MOE requirement. Further, four states reported that if they were no longer able to count nongovernmental third-party expenditures toward their states' TANF MOE requirement, they would lose partnerships with nongovernmental third-party organizations. Lastly, two states reported that without the ability to count nongovernmental third-party expenditures as TANF MOE spending, they would not be able to access additional federal funds from the TANF Contingency Fund. Consequently, they would not be able to maintain their current level of services, according to state officials.

Agency Comments and Our Evaluation

We provided a draft of this report to HHS. HHS provided written comments, reproduced in appendix II, in which the agency agreed with our findings. HHS said the information and analysis provided in the report will be helpful to stakeholders considering issues related to TANF MOE spending.

HHS noted that, as our report describes, there is a growing tendency for states to count the expenditures of nongovernmental third-party sources as state MOE spending and that these expenditures do not necessarily

²⁸ We did not independently assess the validity of the states' responses to the survey questions because it was outside the scope of our review.

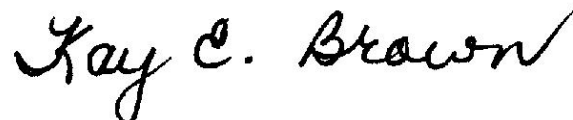
²⁹ Counting nongovernmental third-party expenditures as the state's TANF MOE spending to exceed its required TANF MOE levels can serve as a way to help the state meet required work participation rates and avoid financial penalties for failing to meet the rates.

represent added state spending, but simply an increase in the claiming of existing state or non-profit spending. HHS also noted that while the report shows some states reported these arrangements fostered public-private partnerships, the report does not provide evidence that such partnerships occurred as a result of the third-party MOE provisions. It also noted that such relationships could occur without states having the ability to count nongovernmental third-party spending as TANF MOE spending. We provided additional information in the report that indicates officials in all three states with whom we spoke said that the public-private partnerships were valuable, longstanding, and predated its decision to count TANF MOE expenditures toward the state's TANF MOE requirement. We agree with HHS that states can develop and maintain such partnerships without counting nongovernmental third-party expenditures as TANF MOE spending.

HHS further stated that it is interested in working with Congress to enact a provision to prohibit the practice of states counting nongovernmental third-party expenditures as TANF MOE spending. HHS stated that prohibiting this practice would help to ensure that states maintain their commitment to needy families as the law intended.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Secretary of Health and Human Services, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

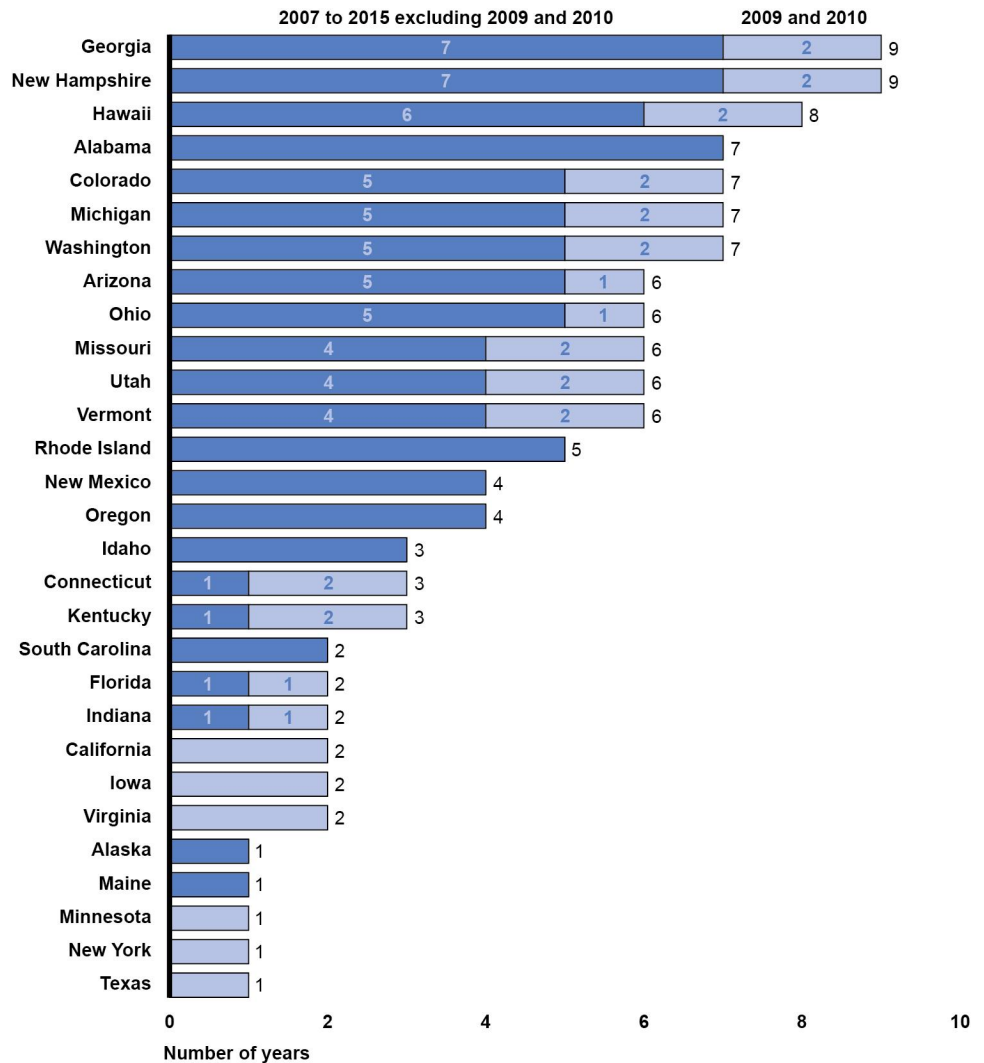
If you or your staff have any questions concerning this report, please contact me at (202) 512-7215 or brownke@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed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



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

Appendix I: Detailed Data on States' Use of Counting Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending

Figure 8: Number of Years in which States Reported Counting Nongovernmental Third-party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending by State, Fiscal Years 2007-2015



Source: GAO survey data, 2012 and 2015. | GAO-16-315

Note: States not shown in the graphic above did not report having counted nongovernmental third-party expenditures as TANF MOE spending.

Appendix II: Comments from the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF THE SECRETARY

Assistant Secretary for Legislation
Washington, DC 20201

JAN 27 2016

Kay Brown
Director, Education, Workforce, and Income Issues
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Ms. Brown:

Attached are comments on the U.S. Government Accountability Office's (GAO) report entitled, "*Temporary Assistance for Needy Families: Update on States Counting Third-Party Expenditures toward Maintenance of Effort Requirements*" (GAO-16-315).

The Department appreciates the opportunity to review this report prior to publication.

Sincerely,

A handwritten signature in cursive script that reads "Jim R. Esquea".

Jim R. Esquea
Assistant Secretary for Legislation

Attachment

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED: TEMPORARY ASSISTANCE FOR NEEDY FAMILIES: UPDATE ON STATES COUNTING THIRD-PARTY EXPENDITURES TOWARD MAINTENANCE OF EFFORT REQUIREMENTS (GAO-16-315)

The Department of Health and Human Services (HHS) appreciates the opportunity from the Government Accountability Office (GAO) to review and comment on this draft report. The information and analysis contained in the report will be helpful to Congress and stakeholders in considering issues related to Temporary Assistance for Needy Family (TANF) maintenance of effort (MOE) spending.

As the report describes, in recent years there has been a growing tendency for states to count the spending of non-governmental third-party sources as state MOE. Examples of non-governmental third-party expenditures that states have claimed as MOE on behalf of needy families include expenditures by food banks, non-profit youth development organizations, and employer-provided supervision and training for people in subsidized employment. These expenditures do not necessarily represent added state spending, but simply an increase in the claiming of existing state or private/non-profit spending. The motivation for this practice is typically either to maximize MOE for purposes of gaining a larger caseload reduction credit or to reduce a state's own financial commitment in meeting its basic MOE requirement to the detriment of needy families. The GAO report indicates that some states responded that having these arrangements fostered public-private partnerships. However, the report does not provide evidence that any public-private partnerships occurred as a result of the third-party MOE provisions. Furthermore, eliminating the ability to count nongovernmental third-party MOE would not preclude states from developing such public-private partnerships.

The Administration proposed eliminating third party non-governmental MOE contributions in the Administration's fiscal year (FY) 2015 and FY 2016 budget proposals. A provision to eliminate the practice was also included in the 2015 House Ways and Means Committee TANF reauthorization discussion draft. The Administration is interested in working with Congress to enact this provision and other improvements to the TANF program. Prohibiting the practice of counting non-governmental third-party expenditures towards MOE will help to ensure that states maintain their commitment to needy families as the law intended.

Appendix III: GAO Contact and Staff Acknowledgment

GAO Contact

Kay Brown, (202) 512-7215, brownke@gao.gov

Staff Acknowledgment

In addition to the contact named above, individuals making key contributions to this report were Gale Harris, Assistant Director; Amy Buck; Theresa Lo; and Stacy Spence. In addition, key support was provided by James Bennett, Deborah Bland, David Chrisinger, Holly Dye, Alex Galuten, Monika Gomez, Sheila McCoy, Jean McSween, and Almeta Spencer.

Appendix IV: Accessible Data

Agency Comment Letter

Text of Appendix II:
Comments from the
Department of Health and
Human Services

Page 1

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JAN 27 2016

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Sincerely,

Jim R. Esquea

Assistant Secretary for Legislation

Attachment

Page 2

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Data Tables

Data Table for Highlights Figure and Figure 1: Number of States That Reported Counting Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending in Federal Fiscal Years 2007-2015

2007	2008	2009 ^a	2010 ^a	2011	2012	2013	2014	2015
3	5	16	24	13	17	16	17	16

Source: GAO survey data, 2012 and 2015. | GAO-16-315

Data Table for Figure 2: Number of States That Counted Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending by Years of Use in Non-Recovery Act Years (Federal Fiscal Years 2007-2015, Excluding Fiscal Years 2009-2010)

Never	28
1-2 years	7
3-4 years	6
5 or more years	10

Source: GAO survey data, 2012 and 2015. | GAO-16-315

Data Table for Figure 3: Percentage of Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending That Consisted of Nongovernmental Third-Party Expenditures by State, in Most Recent Federal Fiscal Year Used, Federal Fiscal Years 2012-2015 and Number of Years Counted, Federal Fiscal Years 2007-2015 (Excluding Federal Fiscal Years 2009 and 2010)

State	Number of non-Recovery Act years counted	Percentage of total MOE spending that consists of nongovernmental third-party expenditures
Georgia	7	59.8
Alabama	7	38.5
Missouri	4	33.8
New Hampshire	7	17.9
Arizona	5	16.7
Oregon	4	15.9
South Carolina	2	15

State	Number of non-Recovery Act years counted	Percentage of total MOE spending that consists of nongovernmental third-party expenditures
Hawaii	6	14
Utah	4	14
Rhode Island	5	11.8
Colorado	5	10.2
Ohio	5	7.8
Idaho	3	4.8
Vermont	4	4.8
New Mexico	4	4.3
Washington	5	3.3
Maine	1	1.8
Connecticut	1	0.5

Source: GAO survey data, 2012 and 2015. | GAO-16-315

Data Table for Figure 4: Number of States That Reported Likelihood of Plans to Count Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending in Federal Fiscal Year 2016, by Likelihood

Definitely will not	20
Probably will not	11
Probably will	2
Definitely will	16

Source: GAO survey data, 2012 and 2015. | GAO-16-315

Data Table for Figure 5: Number of States Counting Nongovernmental Third-Party Expenditures toward Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Requirements in Federal Fiscal Year 2015, by Type of Service

Food assistance	12
Services to youth	8
Family stabilization	6
Housing assistance	1

Source: GAO 2015 survey data. | GAO-16-315

Data Table for Figure 6: Reasons Cited by States for Counting Nongovernmental Third-Party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending in the Most Recent Federal Fiscal Year Used, 2012-2015, by Level of Importance

	Don't know	Not at all important	Somewhat important	Very important
Develop or enhance public-private partnership	2	5	8	10
Count toward caseload reduction credit	0	10	6	9
Maintain service levels	0	12	6	7
Meet basic Maintenance of Effort (MOE) requirement	0	13	4	8
Apply for TANF Contingency Fund	2	15	3	5

Source: GAO 2015 survey data. | GAO-16-315

Data Table for Figure 7: Potential Actions States Reported They Might Take if Unable to Count Nongovernmental Third-Party Expenditures toward Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Requirements in the Future, by Level of Likelihood

	Don't know	Not at all likely	Somewhat likely	Moderately likely	Very likely	Extremely likely
State would identify existing state spending to count toward MOE (not previously counted)	0	8	5	4	6	2
The state would no longer be able to count excess MOE expenditures	2	10	2	2	2	7
State would need to cut services in another area to meet MOE requirement	4	10	3	3	1	4
State would increase spending of its own funds to meet MOE requirement	5	10	6	2	0	2
State would not meet MOE requirement and face loss of some portion of federal TANF funds	1	14	5	2	2	1

Source: GAO 2015 survey data. | GAO-16-315

Data Table for Figure 8: Number of Years in which States Reported Counting Nongovernmental Third-party Expenditures as Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE) Spending by State, Fiscal Years 2007-2015

States	2007 to 2015 excluding 2009 and 2010	2009 and 2010	Total 2007 to 2015
Georgia	7	2	9
New Hampshire	7	2	9
Hawaii	6	2	8
Alabama	7	0	7
Colorado	5	2	7
Michigan	5	2	7
Washington	5	2	7
Arizona	5	1	6
Ohio	5	1	6
Missouri	4	2	6
Utah	4	2	6
Vermont	4	2	6
Rhode Island	5	0	5
New Mexico	4	0	4
Oregon	4	0	4
Idaho	3	0	3
Connecticut	1	2	3
Kentucky	1	2	3
South Carolina	2	0	2
Florida	1	1	2
Indiana	1	1	2
California	0	2	2
Iowa	0	2	2
Virginia	0	2	2
Alaska	1	0	1
Maine	1	0	1
Minnesota	0	1	1
New York	0	1	1
Texas	0	1	1

Source: GAO survey data, 2012 and 2015. | GAO-16-315

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