Office of Inspector General

U.S. Department of Labor
Office of Audit

Welfare-to-Work Formula Grant Program Implementation Progress

Report Number: 03-99-018-03-386
Date Issued:

TABLE OF CONTENTS

APPENDICES

ACRONYMS

AFDC	Aid to Families with Dependent Children
BBA	Balanced Budget Act of 1997
CCDF	Child Care and Development Fund
CAOs	County Assistance Offices
DHHS	U.S. Department of Health and Human Services
DOL	U.S. Department of Labor
DPW	Department of Public Welfare
ETA	Employment and Training Administration
FY	Fiscal Year
GED	General Education Diploma
JTPA	Job Training Partnership Act
NYDOL	New York Department of Labor
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
PICs	Private Industry Councils
SDAs	Service Delivery Areas
SSBG	Social Services Block Grant
TANF	Temporary Assistance for Needy Families
WIA	Workforce Investment Act of 1998
WIBs	Workforce Investment Boards
WtW	Welfare-to-Work

EXECUTIVE SUMMARY

Background

The Welfare-to-Work (WtW) formula grant program was authorized by the Balanced Budget Act of 1997 (BBA) to move hard-to-employ welfare recipients into unsubsidized jobs and economic self-sufficiency. The Act authorized $3 billion for WtW grants in Fiscal Years (FYs) 1998 and 1999. After certain set-asides, approximately 25 percent is awarded through a competitive grant process, and the remaining 75 percent is distributed by formula to the states. The formula grants are designed to assist states in meeting their welfare reform objectives to move hard-to-employ welfare recipients into employment. WtW formula grant funds must be spent within 3 years of the award.

The Office of Inspector General (OIG) performed an audit to determine the status of program implementation for seven state WtW formula grantees. The 7 states represented 48 percent of the $1 billion in formula grant funds awarded for FY 1998.

Results

We found that all but one of the seven states we visited were slow in implementing their WtW program because of factors that were either unforeseen or not considered when the states developed their WtW service and outcome levels and spending estimates. Specifically:

- WtW program and administrative requirements mandated by the authorizing legislation were viewed as restrictive by WtW grantees, causing difficulties in identifying eligible clients, arranging necessary matching funds, and developing financial reporting systems capable of tracking expenditures by client populations, cost categories, and program activities.

- At the same time, as grantees were struggling with the perceived challenges of the WtW requirements, sufficient funding under the less restrictive Temporary Assistance for Needy Families (TANF) program was available to serve the client population targeted by WtW. As a result, local service providers with access to the less restrictive TANF funds opted to spend those funds first.

- Launching WtW, a major new Federal program, required that state and local plans be developed and approved, service provider procurement actions completed, and coordination arrangements with other agencies finalized. Moreover, the entities responsible for WtW are, in most cases, also responsible for implementing the Workforce Investment Act of 1998 (WIA), which will make sweeping reforms to the Nation's workforce development system, in their respective jurisdictions.

Some of these factors have been addressed by program modifications that are included in the President's and Congress' proposed reauthorization of the WtW program. However, if these states continue at the current pace, the WtW formula grant funds will not be spent within the mandated 3-year period, in turn limiting the number of individuals who will obtain the assistance needed in moving from welfare into employment.

Recommendations

To accelerate the progress in implementing the WtW formula grant program, the OIG recommends that the Employment and Training Administration (ETA):

- Require state WtW formula grantees to submit expenditure plans that reflect a more realistic estimate of program operations and the time needed to spend the allotted WtW formula funds.
- Seek legislative changes to permit the Secretary of Labor to amend the length of time the states have to spend the WtW formula grant funds.
- Work with the U.S. Department of Health and Human Services' (DHHS') Administration for Children and Families to develop a strategy that effectively integrates TANF and WtW so that all funding sources are used to provide workforce investment services to TANF and WtW eligible recipients.
- Continue to pursue the legislative changes currently being proposed to simplify and expand the definition of eligible recipients more accurately to reflect characteristics of hard-to-employ, long-term TANF recipients.
- Continue to pursue the legislative changes currently being proposed to streamline and simplify financial reporting requirements.
- Explore, with states not reviewed as part of this audit, whether the matching requirement is an issue that affects their implementation of the WtW formula grant program, and seek appropriate legislative changes if needed.
- Continue to take an active role in assisting states and local agencies that are having problems implementing their WtW programs, and provide the necessary technical assistance to help them address barriers that may be impeding progress in getting the program fully operational.

Agency's Response

Prior to the issuance of our draft report, we provided the Office of Welfare-to-Work an advance copy for comment. The comments received were incorporated in the details of the draft report. In his response to the draft report, the Assistant Secretary for Employment and Training acknowledged that the Agency's previous comments had been incorporated and no additional comments were provided.

OBJECTIVES, SCOPE, METHODOLOGY AND CRITERIA

Objectives

The overall audit objective was to determine the progress made by selected states and local agencies[1] toward implementing the Welfare-to-Work (WtW) formula grant program. Our specific audit objectives were to:

- determine if expenditure and enrollment rates were consistent with the rates included in the approved WtW state plans;
- gain an understanding of the issues or problems that affected the implementation of the WtW formula grant program at the state and local level; and
- determine what role the state and local Temporary Assistance for Needy Families (TANF) agencies have played in the implementation of the WtW formula grant program.

Scope

Our audit covered seven states. We judgmentally selected six states that received the largest WtW formula grant awards for Fiscal Year (FY) 1998. Texas, which had the third highest award amount, was not selected because it was included in a previous limited Office of Inspector General (OIG) review. New Jersey was added to our sample because of its proximity to the OIG office responsible for performing the fieldwork.

For each of the 7 states, we judgmentally selected 4 local agencies for a total of 28. The selection was based on the four local agencies that received the highest amount of WtW formula grant funds from the state. However, we did not visit the local agencies selected for Michigan because it had not implemented the WtW formula grant program at the local level. (See Appendix A for a list of the states, local agencies, and grant awards for the sites visited.)

The total amount of FY 1998 formula grant funds awarded to the 7 states selected for review was $496,501,825. This represented 48 percent of the total formula grant funds awarded to all of the states that chose to participate in the WtW formula grant program. The total of FY 1998 formula grant funds awarded to the 24 local agencies visited was $229,309,162. This represented 46 percent of the total formula grant funds awarded to the 7 selected states and 22 percent of the formula grant funds awarded to all of the states.

[1] States must allocate 85 percent of the grant funds to service delivery areas (SDAs) designated under the Job Training Partnership Act (JTPA). At the SDA level, funds are administered by a private industry council (PIC) or by an alternative agency designated by the governor. States that started implementing WIA have designated their PICs as workforce development or investment boards. Thus, for reporting purposes, we refer to any entity within the SDA that received a sub-state allocation of WtW formula grant funds as a "local agency."

We reviewed the states' and local agencies' performance and the status of their WtW formula grant program implementation at the time of our fieldwork (May 24 through July 26, 1999).

Methodology

We interviewed the WtW formula grant program directors of the 7 states and 24 local agencies to obtain answers to questions developed to meet our objectives.

To determine the extent of the implementation of the WtW formula grant program, we performed an analysis of the states' and local agencies' financial and performance data that was reported to the Employment and Training Administration (ETA) on the most current Quarterly Financial Status Report available (March 31, 1999), and subsequent unreported data that was available at the time of our visits. We did not audit the financial and performance data for accuracy.

To gain an understanding of TANF, we interviewed program officials from the U.S. Department of Health and Human Service's (DHHS) Administration for Children and Families. DHHS officials also provided us financial reports of TANF awards and expenditures for states through December 31, 1998, the most current data available at the time of our field work.

The audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Criteria

The following criteria were used in performing our audit:

- Personal Responsibility and Work Opportunity Reconciliation Act of 1996
- Balanced Budget Act of 1997
- Title 20 of the Code of Federal Regulations (CFR) Part 645, WtW Grants; interim Rule dated November 18,1997
- Workforce Investment Act of 1998
- Title 20 CFR Part 652, WIA; Interim Final Rule issued April 25, 1999
- DOL ETA Training and Employment Guidance Letters on WTW

BACKGROUND

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) was enacted August 22, 1996. The PRWORA, a comprehensive welfare reform bill, established the TANF program to supersede the Aid to Families with Dependent Children (AFDC), the Job Opportunities and Basic Skills Training, and the Emergency Assistance programs. The TANF provisions substantially changed the Nation's welfare system from one in which cash assistance was provided on an entitlement basis to a system in which the primary focus is moving welfare recipients to work and promoting family responsibility. TANF recipients are required to work after 2 years on cash assistance. They will be ineligible for TANF after having received cash assistance for 5 cumulative years.

On August 5, 1997, the President signed the BBA. This legislation amended certain provisions of the Social Security Act and authorized the Secretary of Labor to provide WtW grants to states and local communities for transitional employment assistance to move hard-to-employ TANF recipients into unsubsidized jobs and economic self-sufficiency. The BBA authorized $3 billion for WtW grants in FYs 1998 and 1999. After certain set-asides, approximately 25 percent will be distributed through a competitive grant process and 75 percent will be distributed by formula grants to the states. Eighty-five percent of the state formula grant must be passed through to service delivery areas (SDAs) established under the Job Training Partnership Act (JTPA) program.[2] The states must pledge one dollar of non-Federal funding to match every two dollars of Federal funding provided under the formula. At least half of the match must be in cash. The state WtW matching funds are in addition to the maintenance-of-effort funds that are required under TANF block grants.

The WtW grant funds must be used for hard-to-employ TANF recipients, specifically, TANF recipients on long-term welfare assistance, TANF recipients with characteristics of long-term welfare dependence, and/or noncustodial parents of TANF recipients. At least 70 percent of the funds must be spent on the hardest-to-serve, long-term TANF recipients. These are TANF recipients who have received benefits for at least 30 months, or will become ineligible for assistance with the next 12 months, and have two of three specified barriers to employment. Up to 30 percent of the grant funds may be spent on TANF recipients with characteristics of long-term welfare dependence such as dropping out of high school, teenage pregnancy, or poor work history. Additionally, individuals are eligible under the 30 percent provision if they have the characteristics of long-term welfare dependence and are a noncustodial parent of a minor child whose custodial parent is a TANF recipient or they have the characteristics of long-term welfare dependence but cannot receive TANF because they have reached the lifetime limitation.

To receive WtW formula funds, a state is required to submit a plan for the use and administration of the grant funds to the U.S. Department of Labor (DOL). DOL determines whether the plan meets the statutory requirements.

[2]The Workforce Investment Act of 1998 replaced JTPA, and effective July 1, 2000, PICs will be replaced by local Workforce Investment Boards (WIBs). The WIBs will establish a means for coordinating workforce investment, adult education and literacy, and vocational rehabilitation services through One-Stop Centers.

Welfare to Work Formula Grant Program Implementation Progress

For FY 1998, ETA awarded $1,025,787,658 in WtW formula grant funds to 44 states and Washington, D.C., Puerto Rico, the Virgin Islands, and Guam. ETA was required to obligate these funds by September 30, 1998. WtW grant funds must be spent within 3 years of the grant award. Six states declined to participate in the WtW formula program for FY 1998.

ETA published an Interim Final Rule in the *Federal Register* on November 18, 1997, implementing the WtW grant provisions of Title IV, Part A of the Social Security Act, as amended by the enactment of the BBA.

FINDINGS AND RECOMMENDATIONS

Section I. Slow Implementation of the WtW Formula Grant Program

Nationwide reported expenditures and the number of participants enrolled show slow implementation of the WtW formula grant program. As of March 31, 1999, the most recent reported data available during our fieldwork, state formula grantees reported expenditures of over $83 million, which represented approximately 8 percent of the FY 1998 grant awards. The reported number of participants enrolled was 38,598[3].

Our audit of 7 state formula grantees, which received 48 percent of the FY 1998 nationwide formula grant awards, revealed similar results. As of March 31, 1999, the 7 state formula grantees taken as a whole reported only 5 percent of their FY 1998 formula grant awards were spent. Additionally, only one of the seven grantees had expenditure rates that were consistent with its approved WtW state plan.

If these low expenditure rates continue, it is our opinion that the FY 1998 and FY 1999 WtW formula grant fund allocations will not be spent within the 3-year period permitted by the authorizing legislation. This in turn limits the number of individuals who will obtain assistance needed in moving from welfare into employment.

The following presents the results of our audit of the progress made by states and local agencies toward implementing the WtW program.

Expenditure and Enrollment Rates for the States and Local Agencies Visited

According to the most current Quarterly Financial Status Report available during our fieldwork, all the states in our audit, except Illinois, had spent only 6 percent or less of their Federal WtW formula grant awards. Including state matching funds in both the total award amount and the total expenditures increases the percent of award expended for Illinois and Pennsylvania only (to 51 and 18 percent, respectively) and reduces the percent of award spent for California, as shown in the following table:

[3] The source for the expenditure and enrollment data was ETA's National Quarterly Financial Status Report. We did not audit the accuracy of the reported data.

FY 1998 WtW FORMULA GRANT FUND EXPENDITURES AS A PERCENT OF AWARD

State Formula Grantee	FY 1998 WtW Formula Grant Funds			Expenditures as of March 31, 1999			Percent of Expenditures to Grant Funds	
	Federal	State Match	Total	Federal	State	Total	Federal	Total
California	$190,417,247	$95,208,624	$285,625,870	$11,311,430	$1,298,178	$12,609,608	6%	4%
New York	$96,886,094	$48,443,047	$145,329,141	$1,237,392	$461,916	$1,699,308	1%	1%
Florida	$50,756,512	$25,378,256	$76,134,768	$407,835	$0	$407,835	1%	1%
Illinois	$48,662,838	$24,331,419	$72,994,257	$12,895,165	$24,331,419	$37,226,584	26%	51%
Pennsylvania	$44,295,711	$22,147,856	$66,443,567	$3,854	$12,147,628	$12,151,482	0%	18%
Michigan	$42,226,331	$21,113,166	$63,339,497	$0	$0	$0	0%	0%
New Jersey	$23,257,092	$11,628,546	$34,885,638	$160,990	$0	$160,990	0%	0%
Total	**$496,501,82**	**$248,250,913**	**$744,752,738**	**$26,016,666**	**$38,239,141**	**$64,255,807**	**5%**	**9%**

Source: ETA

We also compared planned to actual Federal[4] expenditures as of March 31, 1999, and found only Illinois met its planned expenditure rate. Also, at the time of our fieldwork, Michigan had suspended implementing its WtW formula grant program; thus, no planned expenditures were available. The following shows the comparison of planned to actual Federal expenditures for the remaining states:

COMPARISON OF PLANNED AND ACTUAL FEDERAL EXPENDITURES AS OF MARCH 31, 1999

State Formula Grantee	Expenditures of Federal Grant Funds as of 3/31/1999		Difference	Percent of Actual to Planned
	Planned	Actual		
California	$28,562,587	$11,311,430	($17,251,157)	40%
New York	$17,400,000	$1,237,392	($16,162,608)	7%
Florida	$19,414,404	$407,835	($19,006,569)	2%
Illinois	$11,641,296	$12,895,165	$1,253,869	111%
Pennsylvania	$44,295,711	$3,854	($44,291,857)	0%
New Jersey	$11,628,546	$160,990	($11,467,556)	1%
Total	**$132,942,544**	**$26,016,666**	**($106,925,878)**	**20%**

In addition to examining Federal expenditures reported as of March 31, 1999, we also obtained the most current expenditure amounts available at the time of our visits to the seven states. This updated data did not reflect any significant change in each state's progress in implementing its WtW formula grant program. See Appendix B for the most current expenditure data for each state visited.

[4] This analysis was limited to Federal funding only because planned state-level expenditures were not available for all seven states in our sample.

While ETA's planning guide and instructions for submitting annual state plans required state formula grantees to provide performance goals and outcomes for the grant, it did not require any estimates for quarterly enrollment data. Therefore, no data was available to compare the planned to actual number of participants for the seven states visited.

Of the 24 local agencies, we found 15 had few (less than 100) or no participants enrolled in the WtW formula grant program and spent less than 10 percent of their awarded WtW formula grant funds. The total amount of WtW formula grant funds awarded to these 15 local agencies was over $136 million. For detailed data on expenditures and enrollments for all 24 local agencies visited, see Appendix C. See Appendix D for data on the 15 local agencies with fewer than 100 participants enrolled and less than 10 percent of their grant funds spent.

States May Not be Able to Spend Their WtW Formula Grant Funds Within the Required Time Frame

Section 5001.(a)(1)(5)(C)(vii) of the BBA states: *"An entity to which funds are provided under this paragraph shall remit to the Secretary of Labor any part of the funds that are not expended within 3 years after the date the funds are so provided."* This was promulgated in Title 20 of the Code of Federal Regulations (CFR) Part 645.233 of the WtW regulations.

At the current low expenditure and enrollment rates reflected in the foregoing analysis, it is our opinion that states and local agencies will not spend the FY 1998 funds within the 3-year time frame. As shown in Appendix B, most states have spent less than 10 percent of the Federal funds in the first 9 months of the program.

This situation will be further compounded when the states are awarded the FY 1999 allocation of WtW formula grant funds, which is expected by September 30, 1999. Preliminary planning estimates indicate that, on average, states will receive approximately 93 percent of their FY 1998 awards. Thus, most of the states and local agencies we visited will have to significantly increase expenditure and enrollment rates in order to spend the WtW formula grant funds within the permitted time period. It is our opinion that these increases will not be achieved unless the factors discussed in the Section II of our report are addressed.

In summary, most states are slow in implementing the WtW formula grant program and this will continue unless issues impeding implementation are addressed. However, even if the implementation problems are resolved, state and local agencies will need revised plans that reflect a more realistic estimate of expenditure and enrollment rates for the WtW formula grant program. Once these revised plans have been completed, ETA needs to determine how much more time will be needed for each state to spend grant funds effectively and efficiently. ETA can use this determination to seek changes in the time limitation provisions of the authorizing law.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Require states to submit expenditure plans that reflect a more realistic estimate of program operations and the time needed to spend the allotted WtW formula grant funds.

2. Seek legislative changes to permit the Secretary of Labor to amend the length of time the states have to spend the WtW formula grant funds.

Section II. Factors Affecting the Implementation of the WtW Formula Grant Program

Our audit identified a number of factors contributing to the slow implementation of the WtW formula grant program. These issues were either unforeseen or not considered when states were developing program implementation time and spending estimates. To address some of these issues, changes in the law authorizing WtW will have to be sought. Other issues will have to be addressed by ETA working with states and other agencies that provide welfare related funds. Specifically, we found the following issues in one or more of the states we visited.

- The restrictive nature of the WtW statute limits the population of TANF recipients eligible for WtW and places administrative burdens on local agencies.

- State and local agencies have used less restrictive TANF funds to provide employment and training services to TANF recipients, resulting in a low priority being given to the use of WtW funds.

- The complexities of implementing a new program such as WtW at the state and local level took more time than originally planned. Moreover, WtW is being implemented at the same time states and local agencies are preparing for the Workforce Investment Act of 1998 (WIA).

Welfare Reform Background

PRWORA ended an individual's entitlement to AFDC, required families to work after 2 years on cash assistance, imposed a 5-year limit on welfare benefits, and established strong work activity requirements. PRWORA allowed states significant flexibility in designing their programs, setting eligibility criteria, and defining the assistance and services available to recipients. States are subject to sanctions if they fail to meet work participation rates.

When the states agreed to welfare reform, they received a commitment from the Federal Government that their annual TANF funding level would remain constant until 2002 when authorization for the national welfare reform legislation expires. The amount of annual funding, in the form of block grants, is based on the amount of Federal funds that the state received from 1992 to 1995 for the programs replaced by TANF.[5] The national total of TANF block grants is over $16 billion annually. PRWORA also contained a maintenance-of-effort provision which requires states to provide 75 to 80 percent of their historic level of funding.

---

[5] States received the highest of the three following amounts: Federal expenditures for FY 1994, FY 1995, or the average Federal expenditures for FYs 1992 through 1995.

The following discusses details of the factors affecting implementation of the WtW formula grant program that were identified during our audit. See Appendix E for a summary of the factors at each of the sites visited.

Restrictive Nature of the WtW Statute

The eligibility criteria and state matching fund requirements in the WtW statute are considered restrictive by state WtW formula grantees and their local agencies. These restrictions have caused states and local service providers either to spend additional planning time to conform with the requirements, or simply to use alternative funding sources that are less restrictive to serve individuals who may be eligible to participate in WtW. (See page 17 for our discussion on the availability of less restrictive TANF funds.) Specific problems associated with WtW statutory requirements are:

- the eligibility criteria limits the number of individuals eligible for WtW,
- the financial reporting requirements necessitate local agencies and service providers to track and report costs on three different levels, and
- the matching provision requirement for states to contribute one dollar in state funds for every two dollars in Federal WtW grant funds awarded causes delays in implementation until state funding becomes available.

The following discusses the restrictions that state and local agencies have told us are problems in implementing the WtW formula grant program.

<u>Eligibility Requirements</u>

In every state and most of the local agencies that we visited, we were told that the WtW eligibility criteria was too restrictive.

The WtW statute, as promulgated in 20 CFR Part 645.212, requires that at least 70 percent of the WtW funds be expended on individuals who are long-term, hard-to- employ, TANF recipients who meet at least two of three barriers to employment. The three barriers are:

1. has not completed secondary education or obtained a GED **and** has low reading and math skills;

2. requires substance abuse treatment for employment; and

3. has a poor work history.

The WtW statute, as promulgated in 20 CFR Part 645.213, also permits up to 30 percent of the WtW funds to be spent on:

1. TANF recipients with characteristics associated with long-term welfare dependence, such as dropping out of high school, teenage pregnancy, or poor work history;

2. individuals who have characteristics associated with long-term welfare dependence, are a noncustodial parent of a minor child, and the custodial parent of the minor child is receiving TANF assistance; and

3. individuals who have characteristics associated with long-term welfare dependence and who would be eligible to receive TANF assistance but cannot because they have reached either the Federal or state imposed lifetime limit.

State and local officials view the 70 percent barrier requirement as too restrictive since it limits the eligible population. Specifically, they believe that a high school diploma and/or GED may represent an artificial barrier when compared to an individual's actual reading and math levels.

For example, in attempting to implement the WtW formula grant program, Michigan officials determined that only 7 to 8 percent of the average, monthly, work-ready, welfare caseload was eligible under the current 70 percent eligibility criteria. Michigan officials told us that they believe the eligible population of TANF recipients would expand if the eligibility requirements were changed to increase the number of barriers and have the recipients meet only one of them. This would then allow local workforce development boards to serve more WtW eligible individuals with WtW funds.

New Jersey officials likewise believe that the universe of recipients under the 70 percent provision could increase if the number of barriers were expanded. They also believe that a high school diploma or GED may represent an artificial barrier when compared to an individual's actual reading and math levels.

Officials from the remaining state and local agencies we visited had similar views of the eligibility requirements.
In addition to limiting the eligible population of recipients, officials in one state attributed the planning problems they have experienced to WtW's strict eligibility requirements. New York officials told us that such requirements caused them to spend more planning time in developing the relationship between the workforce investment and TANF local agencies. Time was needed to develop the process for receiving referrals from TANF agencies, which is more complicated than previously required under JTPA. Additionally, the process was more difficult

to accomplish due to the limited staff at the TANF agencies and the fact that the TANF management information system was not designed to capture the needed data.

Financial Reporting Requirements

WtW's financial reporting requirements are viewed as too restrictive because they require WtW service providers to track costs on three levels. As provided in ETA's instructions for reporting financial data on WtW formula grants, these levels are:

1. Total expenditures must be tracked and reported against the 70 percent minimum/30 percent maximum cost limitations. This requirement includes all costs incurred by any service provider or subcontractor.

2. The 15 percent administrative cost limitation and the Federal technology computerization expenditures must be tracked and reported separately.

3. All program activity expenditures must be tracked and reported separately.

To comply with the above requirements, WtW grantees must issue financial reporting instructions to all service providers and subcontractors about how costs should be recorded, tracked, and reported. Since these reporting requirements apply to total Federal expenditures, the inability of subgrantees to record, track, document, and report costs may adversely affect the grantee's ability to report accurate and complete Federal expenditures. Each of these reporting requirements may require a major modification to the grantee's or service provider's accounting system.

Michigan indicated that a secondary reason for not operating the WtW program was the restrictive and burdensome administrative requirements, i.e., 70 percent minimum/ 30 percent maximum expenditure limitation and the financial reporting requirements.

WtW local agencies in California, Illinois, and New Jersey, also believed that the financial reporting requirements were too restrictive. In New Jersey, neither the State nor the WtW local agencies fully understood WtW's financial reporting requirements.

State Matching Requirement

One of the seven states we visited had problems in identifying acceptable matching funds at the state level. The State's attempts to encourage local WtW administrative entities' participation in meeting the matching requirement contributed to the delay in program implementation at the local level. Officials at a second state we visited believe that the WtW state matching requirement was too restrictive and should be reduced or eliminated.

The WtW statute, as promulgated in 20 CFR Part 645.300, requires state WtW formula grantees to contribute a dollar in state matching expenditures for every two dollars awarded in WtW formula grant funds. At least half of the state's matching expenditures must be made in the form of cash. The following discusses details of state matching problems we found during our audit:

Florida

Florida submitted its initial State plan to DOL on April 6, 1998. However, it was not approved until September 25, 1998, because Florida's legislature did not appropriate matching funds. Therefore, Florida negotiated with DOL to add an addendum to the State plan which provided that the matching fund requirement would be met through a variety of State funded initiatives. Florida officials told us that because they cannot require local agencies to provide the matching funds, the State encouraged local agencies to include in their WtW plan a description of how they would assist the State in meeting the matching requirement. This matching provision was cited by Florida as one of several major issues in implementing WtW at the local level and was confirmed by the four local agencies we visited.

Michigan

Michigan's State legislature appropriated matching funds for its FY 1998 WtW formula grant which was approved on January 29, 1998. After attempting to implement the WtW formula grant program, Michigan decided to suspend operations and matching funds previously appropriated by the Michigan legislature were withdrawn. State officials told us that these actions were taken based on the prospect that the WtW statute would be amended to ease the 70 percent two-barrier requirement and soften the State matching requirements, at which time the State would consider operating the program. Michigan officials said they believe the program would be more manageable if the matching requirement were reduced, eliminated, or replaced with a non-cash requirement.

The state and local officials we visited believe that WtW's current eligibility criteria are too restrictive and preclude the enrollment of many long-term TANF recipients who would benefit from the WtW program. Additionally, some state officials also believe that reducing or eliminating the state matching requirement would ease the burden of implementing the WtW formula grant program.

Availability of Less Restrictive TANF Funds

TANF grant funds have provided state and local agencies with less restrictive resources to deliver workforce investment services (job training and placement services) to WtW eligible recipients. The availability of these funds occurred because the states experienced significant welfare caseload reductions while being assured constant levels of annual TANF funding based on years when the welfare caseload was higher. This gave states a larger-than-expected balance of TANF funds and enabled them to provide workforce investment services to welfare recipients, including those targeted by the WtW program. Additionally, in some states, welfare reform has consolidated the resources and delivery of workforce investment services to welfare recipients. All of this has resulted in an environment where local service providers have access to TANF and other funding sources (such as the JTPA) that are considered less restrictive compared to WtW. Thus, local service providers prefer to spend the less restrictive TANF funds first.

The following table depicts the change in welfare caseloads for each state we visited and the Nation as a whole, at the time of enactment of the PRWORA (August 1996) compared to the latest month the data was available (March 1999).

WELFARE CASELOAD REDUCTIONS

State Formula Grantee	August 1996	March 1999	Net Reduction
California	2,581,948	1,818,197	30%
Florida	533,801	198,101	63%
Illinois	642,644	382,937	40%
Michigan	502,354	263,583	48%
New Jersey	275,637	175,223	36%
New York	1,143,962	828,302	28%
Pennsylvania	531,059	312,363	41%
Total	**6,211,405**	**3,978,707**	**36%**
National Total	**12,241,489**	**7,334,976**	**36%**

Source: DHHS

According to DHHS' guide entitled *"Helping Families Achieve Self Sufficiency,"* states have received tremendous financial benefits from the flexibility available under TANF. The DHHS acknowledges that many states have unobligated TANF funds available allowing them an opportunity to invest in families with significant barriers to employment or provide additional support to low-income working families.

According to an overall summary of state spending of Federal TANF funds for the period FY 1997 through the first quarter FY 1999, $4.2 billion remains unobligated and still available for expenditure. With the exception of Illinois (which we note also had the highest rate of WtW expenditures), each state we visited had a significant unobligated balance of TANF funds as of December 31,1998. Unobligated balances represent funds allocated that have been neither obligated nor committed by the state. These unobligated balances remain in the Federal treasury until states have an immediate need to draw down the dollars.

The following table lists the unobligated balances of Federal TANF funds for the period FY 1997 through the first quarter of FY 1999 for each of the seven states we visited and the nation as a whole:

UNOBLIGATED BALANCES OF FEDERAL TANF FUNDS FOR FY 1997 THROUGH THE FIRST QUARTER OF FY 1999

State Formula Grantee	Unobligated Balances as of 12/31/98
California	$586,287,274
Florida	$323,971,177
Illinois	0
Michigan	$166,944,820
New Jersey	$242,055,006
New York	$716,614,742
Pennsylvania	$144,427,548
Total	**$2,180,300,567**
National Total	**$4,211,853,663**

Source: DHHS

Effects of Available TANF and Other Funding Sources on Implementing WtW for the States Visited

Welfare reform, with its emphasis on moving recipients to work activities, has resulted in working relationships between local TANF and workforce investment agencies. Thus, local agencies responsible for administering and providing workforce investment services have access to multiple financial resources such as TANF funds, JTPA, Federal and state education funds, state program funds, and WtW funds. As a result, the local agencies can use the less restrictive funds, of which a majority is from TANF, to serve WtW-eligible TANF recipients without having to adhere to the restrictive statutory requirements under the WtW program as discussed in the previous section.

The following table shows state expenditures of Federal TANF funds on work activities for the period July 1 through December 31, 1998. Work activities include, but are not limited to, job search, work experience for recipients with employment barriers, assistance for unemployed, needy, noncustodial parents, and job retention and postemployment services.

TANF FUNDS SPENT ON WORK ACTIVITIES
FOR THE PERIOD JULY 1 THROUGH DECEMBER 31, 1998

State Formula Grantee	Reported TANF Expenditures on Work Activities for 7/1/98 - 12/31/98
California	$141,885,446
Florida	$41,075,913
Illinois	$6,163,955
Michigan	$53,277,682
New Jersey	$4,933,460
New York	$39,403,333
Pennsylvania	$25,700,407
Total	**$312,440,196**
National Total	**$523,157,849**

Source: DHHS

The following discussion illustrates how the availability and use of other resources to provide workforce investment services to TANF recipients affected the implementation of the WtW formula grant program at the state and local agencies we visited:

Florida

In 1996, the Florida legislature enacted a welfare reform law entitled the Work and Gain Economic Self-Sufficiency Act (WAGES). WAGES has a work-first philosophy and authorizes the establishment of local WAGES boards in the State's 24 SDAs designated under JTPA. These SDAs have since been designated as workforce development regions and boards. Florida allowed local communities to either combine their WAGES board with the workforce development board or establish separate entities. All but two workforce development boards chose to either merge or blend WAGES and workforce development boards and have a single administrative entity provide welfare and workforce investment services. Thus, local workforce development boards have multiple funding sources to provide workforce investment services to TANF recipients. Local workforce development board officials indicated that, until they could determine how the WtW program – with its restrictive eligibility and administrative requirements – could fit into their local delivery systems, they would continue to use TANF funds to serve the WtW eligible population.

Michigan

Michigan's State plan for the WtW formula grant was approved in January 1998. Funds were obligated at the State level, and allocations were made to each of the State's 26 workforce development regions. Local plans were submitted and approved. The local workforce development boards attempted to implement the program by identifying and recruiting WtW eligible recipients. However, all but one of the State's workforce development boards notified the State that they were no longer interested in operating the WtW program because of its restrictive eligibility and administrative requirements. Michigan officials decided to suspend implementing the WtW formula grant program. The State provided TANF funds in place of WtW formula grant funds to the one workforce development board interested in operating the WtW formula grant program. We concluded that the availability of TANF funds allowed Michigan and its local agencies to serve WtW eligible recipients without spending WtW formula grant funds.

New Jersey

Discussions with officials in local agencies in New Jersey revealed a stronger interest in first spending either State or Federal funds available under the State's welfare reform program, Work First New Jersey, rather than spending WtW formula grant funds. In fact, none of the local agencies we visited implemented the WtW formula program prior to June 1, 1999, 8 months after New Jersey's WtW plan was approved.

New York

In December of 1996, New York reorganized its Department of Social Services and transferred responsibilities to other departments. The WtW formula grantee, the State Department of Labor (NYDOL), received administrative control over the TANF block grant and all workforce investment services that were provided through TANF funding. New York has been very active in welfare reform programs since the 1980's and had already allocated over $500 million in State funds towards providing workforce investment services to welfare recipients before the WtW formula grant. We were told that TANF agencies are already delivering similar or the same workforce investment services provided by WtW and many of the WtW-eligible TANF recipients are already being served. State and local agency officials told us they plan to use the WtW funds, but it took approximately a year from the time their plan was conceptualized and approved until they were able to develop and implement the systems needed to integrate WtW with other workforce development funds.

Pennsylvania

In Pennsylvania, the WtW formula grantee is the Department of Public Welfare (DPW), which also operates the TANF program. DPW has a memorandum of understanding with the Pennsylvania Department of Labor and Industry to operate the WtW program through its SDAs. TANF recipients are initially assessed at DPW's county assistance offices (CAOs). The CAOs have various funding sources, most of which comes from TANF, available to deliver workforce investment services to recipients. The recipients, in consultation with CAO staff, choose in which workforce investment program they want to participate. State and local agency officials told us that they attribute the low enrollment rates of TANF recipients in the WtW program, in part, to the variety of workforce development programs available. The officials said that these programs were more accommodating and less restrictive than the WtW program.

California

California's county welfare offices attempt to place all TANF recipients in unsubsidized employment of at least 32 hours per week prior to referral to the WtW program. California's WtW formula grant program generally provides post-employment services. However, the WtW program is voluntary for those TANF recipients working 32 hours a week. We were told that the WtW program is viewed as a temporary supplement to the State's welfare reform program, CalWORKs.

The above results illustrate that, because of declining welfare caseloads, state and local agencies have TANF and other funds available to provide workforce investment services to welfare recipients with greater flexibility than is allowed under WtW. We conclude that the availability of these resources explains, in part, why states and local agencies have not immediately implemented the WtW formula grant program but at the same time have been able to provide workforce investment services to TANF recipients.

Complexities of Implementing a New Federal Program at the State and Local Level

The natural progression of events required to implement a new federally-funded program at the state and local levels has contributed to the slow implementation of the WtW formula grant program. The following points outline the various milestones involved in implementing the WtW program:

- ETA published an Interim Final Rule in the *Federal Register* on November 18, 1997, implementing the WtW grant provisions of Title IV, Part A of the Social Security Act, as amended by the enactment of the Balanced Budget Act of 1997. ETA was required to obligate FY 1998 formula funds by September 30, 1998.

- ETA required states to submit a state plan for the use and administration of the formula grant funds. ETA reviewed the state plans to determine if they met the statutory requirements. Included in these requirements are assurances from the state that the plan was developed in coordination with appropriate entities in local areas and programs funded through the TANF block grant.

- ETA approved individual state plans as early as January 29, 1998 and as late as September 30, 1998. The approval of individual state plans involved resolving major issues such as state matching requirements, minimum wage requirements, and determining which local agencies will be responsible for administering the WtW program.

- Once ETA approved the state plans, individual states delivered planning instructions to local agencies (i.e., workforce development boards, workforce investment boards, TANF agencies, etc.). States had to obligate WtW funds by September 30, 1998. Local agencies submitted plans which were reviewed and approved by the state. Upon approval by the state, the local agencies initiated their local procurement process. In some instances, approved local agency plans also had to be approved also by local elected officials and a separate state agency responsible for state and Federal grants. At each stage in the process, any issues that arose had to be resolved.

Following are examples of implementation problems found at the states visited:

Florida

Florida submitted its initial WtW State plan on April 6, 1998, and it was approved on September 25, 1998. The delay was necessitated by issues involving the designation of the State level grant recipient, the requirement that State level WtW funds be obligated by the end of the fiscal year, and development of an acceptable approach to meet the State matching requirement. Upon approval of the State plan, individual local area plans were submitted. By April 23, 1999, a full year after the State plan was initially submitted, 21 of the 24 local plans were approved. The delay in the submission and approval of individual area plans reflected local officials' concerns regarding State matching requirements as well as the availability of alternative funding sources. In addition, local area delivery systems, which had been impacted by State welfare reform, were concurrently preparing for early implementation of WIA. WIA is a major reform of the Federal job training programs and creates a new comprehensive workforce investment system.

New Jersey

New Jersey's WtW State plan was approved by ETA on September 25, 1998. The plan included a waiver request to designate TANF agencies as the WtW administrative agencies in five SDAs. The State reviewed and approved local workforce investment board addendums to previously developed WtW plans. Local WtW plans required the approval of local elected officials and had to be reviewed and approved by the State's Department of Community Affairs before they could be implemented. The local procurement process could be initiated only after this approval was received.

State officials told us they believe that the State and local approval processes were the principal causes for a low enrollment and expenditure rate. None of the five WtW local agencies had implemented its WtW formula grant program prior to June 1, 1999, which was 8 months after the State's WtW plan was approved by ETA.

New York

The NYDOL WtW State plan was approved on September 11, 1998. Funding allocations were distributed to local agencies on September 30, 1998. New York City (NYC) received $58.5 million of the State's $96.9 million WtW formula grant allocation. NYC designated the local TANF agency, the Human Resources Administration (HRA), to administer the WtW program. NYC's plan is to serve disabled participants who will be terminated from TANF. In order to accomplish this, HRA must enter into formal agreements with various agencies. Specifically, HRA plans to combine TANF and WtW funds and enter into a cooperative agreement with the NY State Department of Education (NYDOE) to deliver the workforce investment services. NYDOE will operate the program through two agencies, which will contract with various providers under performance-based contracts. NYC plans full implementation of the program by August 1999.

California

California's WtW State plan was approved on July 20, 1998, and the WtW program was implemented on October 1,1998. The State's welfare reform program, CalWORKS, required that all participants had to be registered by December 31, 1998. This requirement delayed the development of cooperative relationships between county welfare offices and local agencies operating the WtW formula grant program.

ETA officials informed us that they have taken a number of proactive steps to assist grantees that are having problems implementing the WtW program. These include regional conferences jointly sponsored by DOL and DHHS, with representatives from Federal, state, and local TANF and WtW agencies and programs. The conferences identified which inhibiting factors were statutory, regulatory, or administrative and whether they were Federal, state, or local in origin. The conference participants recommended solutions.

* * * * * * * * * * * * *

Some of the factors discussed in this section of the report have been addressed in program modifications included in the President's and Congress' proposed reauthorization of the WtW program. Concerning eligibility, proposals have been made to expand the number of barriers or participant characteristics and reduce the number of barriers participants must meet from two to one. Concerning financial reporting, proposals have been made to streamline and simplify the requirements. We are not aware of proposals to address the matching provision.

To accelerate progress in implementing the WtW formula grant program, ETA needs to pursue these legislative changes and work to address the other cited factors not included in the proposed modifications to the law.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Work with the U.S. Department of Human Services' Administration for Children and Families to develop a strategy that effectively integrates TANF and WtW so that all funding sources are used to provide workforce investment services to TANF and WtW eligible recipients.

2. Continue to pursue the legislative changes currently being proposed to simplify and expand the definition of eligible recipients more accurately to reflect characteristics of hard-to-employ, long-term, TANF recipients.

3. Continue to pursue the legislative changes currently being proposed to streamline and simplify the financial reporting requirements.

4. Explore with states not reviewed as part of this audit whether the matching requirement is an issue that affects their implementation of the WtW formula grant program, and seek appropriate legislative changes if needed.

5. Continue its proactive role in assisting states and local agencies that are having problems implementing their WtW program and provide the necessary technical assistance to help them address barriers that may be impeding progress in getting the program fully operational.

Agency Response

Prior to the issuance of our draft report, we provided the Office of Welfare-to-Work an advance copy for comment. The comments received were incorporated in the details of the draft report. In his response to the draft report, the Assistant Secretary for Employment and Training acknowledged that the Agency's previous comments had been incorporated and no additional comments were provided.

APPENDIX A

LIST OF STATE AND LOCAL AGENCIES VISITED AND FEDERAL WtW FORMULA GRANT AWARDS

State and Local Agency	Total Federal Award for States and Local Agencies	Percent of Local Agencies' Federal Award to State
California	**$190,417,247**	
Los Angeles City	$32,080,062	
Los Angeles County	$22,153,146	
San Diego	$11,837,010	39%
Fresno	$7,454,107	
Total	$73,524,325	
New York	**$96,886,094**	
New York City	$58,483,523	
Buffalo/Erie/Cheektowaga	$3,676,328	
Rochester City	$1,926,488	68%
Suffolk County	$1,501,134	
Total	$65,587,473	
Florida	**$50,756,512**	
Miami	$11,403,261	
Broward WDB	$3,052,751	
First Coast WDB	$2,938,846	40%
Central Florida	$3,131,649	
Total	$20,526,507	
Illinois	**$48,662,838**	
Cook County	$2,074,209	
Chicago Mayor's Office	$27,443,586	
SDA #25 -Zeigler, Ill	$1,055,468	67%
SDA #24 St Clair County	$2,075,188	
Total	$32,648,451	
Pennsylvania	**$44,295,711**	
Philadelphia PIC	$17,112,693	
Fayette/Westmoreland	$1,517,509	
Allegheny County	$2,688,163	52%
City of Pittsburgh	$1,596,977	
Total	$22,915,342	
Michigan	**$42,226,331**	
Detroit	Not Visited	
SE Mich	Not Visited	
Jobs Central Flint Mich	Not Visited	
Saginaw/Midland/Bay	Not Visited	
Total		
New Jersey	**$23,257,092**	
Essex/Newark	$6,170,207	
Hudson	$4,476,023	
Passaic	$1,547,236	61%
Camden	$1,913,598	
Total	$14,107,064	
Total Formula Awards to Local Agencies Visited	$229,309,162	46%
Total Formula Awards to States Visited	$496,501,825	
Total Formula Awards to All States	$1,025,787,658	
Percent of Formula Awards to Local Agencies Visited to Total for All States		22%
Percent of Formula Awards to States Visited to Total for All States		48%

APPENDIX B

FEDERAL EXPENDITURES AT THE TIME OF OUR AUDIT FIELDWORK

State Formula Grantee	FY 1998 Federal Grant Award	Total Federal Expenditures	Percent of Federal Expenditures
California	$190,417,247	$25,003,066	13%
New York	$96,886,094	$2,353,497	2%
Florida	$50,756,512	$482,796	1%
Illinois	$48,662,838	$16,723,811	34%
Pennsylvania	$44,295,711	$2,558,211	6%
Michigan	$42,226,331	$0	0%
New Jersey	$23,257,092	$501,046	2%
Total	**$496,501,825**	**$47,728,699**	**10%**

APPENDIX C

FEDERAL EXPENDITURES AND RECIPIENTS ENROLLED AT THE TIME OF OUR AUDIT FOR LOCAL AGENCIES VISITED

State	Local Agency	Total Federal Award	Total Federal Expenditure as of Audit	Percent of Federal Expenditure to Award	Recipients Enrolled as of Audit
California	Los Angeles City	$32,080,062	$465,958	1%	79
	Los Angeles County	$22,153,146	$2,174,776	10%	112
	San Diego	$11,837,010	$2,614,341	22%	493
	Fresno	$7,454,107	$1,003,178	13%	131
	Total	**$73,524,325**	**$6,258,253**	**9%**	**815**
New York	New York City	$58,483,523	$22,409	0%	0
	Buffalo/Erie/Cheektowaga	$3,676,328	$166,816	5%	19
	Rochester City	$1,926,488	$0	0%	0
	Suffolk County	$1,501,134	$454,790	30%	231
	Total	**$65,587,473**	**$644,015**	**1%**	**250**
Florida	Miami	$11,403,261	$25,000	0%	0
	Broward WDB	$3,052,751	$0	0%	0
	First Coast WDB	$2,938,846	$0	0%	0
	Central Florida	$3,131,649	$0	0%	0
	Total	**$20,526,507**	**$25,000**	**0%**	**0**
Illinois	Cook County	$2,074,209	$466,702	23%	529
	Chicago Mayor's Office	$27,443,586	$7,270,535	26%	2,929
	SDA #25 -Zeigler, Ill	$1,055,468	$670,260	64%	154
	SDA #24 St Clair County	$2,075,188	$1,848,844	89%	351
	Total	**$32,648,451**	**$10,256,341**	**31%**	**3,963**
Pennsylvania	Philadelphia PIC	$17,112,693	$2,336,177	14%	6,815
	Fayette/Westmoreland	$1,517,509	$0	0%	64
	Allegheny County	$2,688,163	$0	0%	0
	City of Pittsburgh	$1,596,977	$0	0%	37
	Total	**$22,915,342**	**$2,336,177**	**10%**	**6,916**
New Jersey	Essex/Newark	$6,170,207	$98,970	2%	0
	Hudson	$4,476,023	$50,000	1%	0
	Passaic	$1,547,236	$0	0%	1
	Camden	$1,913,598	$50,000	0%	0
	Total	**$14,107,064**	**$198,970**	**1%**	**0**
Total for All Local Agencies		**$229,309,162**	**$19,718,756**	**9%**	**11,945**

APPENDIX D

LIST OF LOCAL AGENCIES WITH ENROLLMENTS OF LESS THAN 100 AND EXPENDITURES OF LESS THAN 10 PERCENT OF THE FEDERAL AWARD AMOUNT

Local Agency	Total Federal Award	Actual Expenditure as of Audit	Percent of Actual to Award	Actual Enrollment as of Audit
Rochester City	$1,926,488	$0	0%	0
Central Florida	$3,131,649	$0	0%	0
Broward WDB	$3,052,751	$0	0%	0
First Coast WDB	$2,938,846	$0	0%	0
City of Pittsburgh	$1,596,977	$0	0%	37
Passaic	$1,547,236	$0	0%	1
Camden	$1,913,598	$50,000	0%	0
Fayette/Westmoreland	$1,517,509	$0	0%	64
Allegheny County	$2,688,163	$0	0%	0
New York City	$58,483,523	$22,409	0%	0
Miami	$11,403,261	$25,000	0%	0
Hudson	$4,476,023	$50,000	1%	0
Los Angeles City	$32,080,062	$465,958	1%	79
Essex/Newark	$6,170,207	$98,970	2%	0
Buffalo/Erie/Cheektowaga	$3,676,328	$231,650	6%	19
Total - 15 Local Agencies	**$136,602,621**	**$879,153**	**1%**	**200**
Percent to Total Awarded to 24 LAs	**60%**			
Percent to Total Awarded to Seven States	**28%**			

APPENDIX E

MATRIX OF IMPLEMENTATION FACTORS FOUND AT STATE AND LOCAL AGENCIES VISITED

State/Local Agency	Availability of TANF Funds	Eligibility	Financial Reporting	State Matching	Implementation Complexities
California	X	X	X		X
Los Angeles City	X	X	X		X
Los Angeles County	X	X	X		X
San Diego	X	X	X		X
Fresno	X	X	X		X
New York	X	X			
New York City					X
Buffalo/Erie/Cheektowaga		X			
Rochester City	X	X			X
Suffolk County	X				
Florida	X	X	X	X	X
Miami	X		X	X	
Broward WDB	X	X	X	X	
First Coast WDB	X	X	X	X	
Central Florida	X	X	X	X	
Illinois		X			
Cook County			X		X
Chicago Mayor's Office		X	X		
SDA #25 -Zeigler, Ill		X	X		X
SDA #24 St Clair County			X		
Pennsylvania	X	X			
Philadelphia PIC	X				
Fayette/Westmoreland	X	X			
Allegheny County	X	X			X
City of Pittsburgh	X	X			X
Michigan	X	X	X	X	
New Jersey	X	X	X		X
Essex/Newark	X	X	X		X
Hudson	X	X	X		
Passaic		X	X		X
Camden		X	X		X
State Total	6 of 7 (86%)	7 of 7 (100%)	4 of 7 (57%)	2 of 7 (29%)	3 of 7 (43%)
Local Agency Total	16 of 24 (67%)	18 of 24(75%)	16 of 24 (67%)	4 of 24 (17%)	13 of 24 (54%)

APPENDIX F - AGENCY'S RESPONSE TO DRAFT REPORT