Audit of the Department of Human Services' Temporary Assistance for Needy Families Program

A Report to the Governor
and the Legislature of
the State of
Hawai`i

Report No. 06-02
January 2006

THE AUDITOR
STATE OF HAWAI`I

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai`i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.

9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai`i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

THE AUDITOR
STATE OF HAWAI`I
Kekuanao`a Building
465 S. King Street, Room 500
Honolulu, Hawai`i 96813

OVERVIEW

Audit of the Department of Human Services' Temporary Assistance for Needy Families Program

Report No. 06-02, January 2006

Summary

This audit was conducted in response to House Concurrent Resolution No. 58 (HCR No. 58) of the 2005 legislative session, which resulted from concerns expressed by legislators and community members alike about the department's management of its TANF program. Stakeholders have been frustrated in attempts to obtain useful and timely information about the department's plans and achievements related to TANF, leading some to suspect the department has sought to actively circumvent legislative intent.

HCR No. 58 cited two specific uses of TANF funds that raised questions about the department's strategies and decisionmaking process. The first involves an agreement with the Office of the Lieutenant Governor for $1 million to conduct a drug and alcohol prevention media campaign. The second involves a $625,000 contract with the State Foundation on Culture and the Arts intended to cover the governor's cut of $500,000 from the foundation's $1.1 million appropriation.

We found that while the department's spending comports with federal guidelines for TANF that allow states flexibility to design programs to meet unique needs, it has not developed long-term plans, adequate performance measures, or a process for public involvement in setting policies and priorities. These deficiencies impair its accountability and the public's ability to scrutinize its actions. Consequently, the department's decisionmaking is guided by the availability of federal funding rather than a comprehensive plan and coherent strategies.

Documents identified by the department director as TANF plans included testimony to the Legislature, press releases, slide presentations announcing and explaining newly created programs, the agency's annual report to the Legislature, and its six-year program and financial plan. We found that this collection of documents does not constitute a plan and is incapable of providing a cohesive, forward-looking picture of the department's goals, reasons for its selected priorities, or intended results of its actions. Consequently, the Legislature and the public are left guessing about the department's priorities and their impact on poverty.

We also found that the department's contract files do not reflect consistent adherence to its established program development process and procurement best practices. Vaguely worded contractual agreements provide little indication of the nature of the services to be rendered. Further, the contracts lacked documentation demonstrating that the department followed a deliberate process seeking to ensure taxpayer resources were applied where they would have the greatest impact possible. An example of these poor contracting practices is the $1.4 million contract for after school pregnancy prevention programs at nine charter schools, which among them enrolled 388 students in grades 7-12. The contract lacked

substantial rationale and accountability provisions and appears to have been engineered to continue an existing education program whose funding was expiring. Even the attorney general objected to the original proposed contract scope.

Overall, we found that the department's management practices for TANF lack the transparency and accountability that exists in other states and that the Legislature was justified in placing limits on the department's expansion of TANF fund expenditures. In researching other states, we found that although departments in some states adopted performance management principles on their own, in others, the state's legislature, like Hawai‘i's, imposed accountability and oversight measures. In our report, we describe some of the accountability and oversight options that could be employed by Hawai‘i's Legislature if the department continues to fall short in planning and accountability for its administration of TANF.

Recommendations and Response

We recommended that the department establish a strategic planning process to define and communicate the department's priorities, goals, and objectives, including relevant, quantified benchmarks, performance measures, and timeframes.

We also recommended that the department improve its contracts for services to ensure that they are extensions of strategic objectives, properly justified with clear links to documented objectives, quantified deliverables or outcomes, and incentives for contractor performance.

Finally, we recommended that the Legislature consider using its appropriation authority under federal law to guide the department's TANF spending unless adequate changes are made to its planning and accountability practices. Measures adopted by legislatures in other states may provide models for strengthening oversight over TANF spending.

The department responded to a draft of the report, citing specific sections it agreed with, some it disagreed with, some it felt contained errors. We carefully reviewed the department's objections and related passages in our report and found no need for corrections or clarifications.

Marion M. Higa
State Auditor
State of Hawai`i

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawai`i 96813
(808) 587-0800
FAX (808) 587-0830

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Submitted by

THE AUDITOR
STATE OF HAWAI`I

Report No. 06-02
January 2006

Foreword

This is a report on our audit of the Department of Human Services' Temporary Assistance to Needy Families (TANF) program. We conducted the audit pursuant to House Concurrent Resolution No. 58 of the 2005 Regular Session, which directed the Auditor to conduct a fiscal and management audit of the Department of Human Services and its use of federal TANF funds.

We wish to express our appreciation for the cooperation and assistance extended to us by the director and staff of the Department of Human Services and others whom we contacted during the course of the audit.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

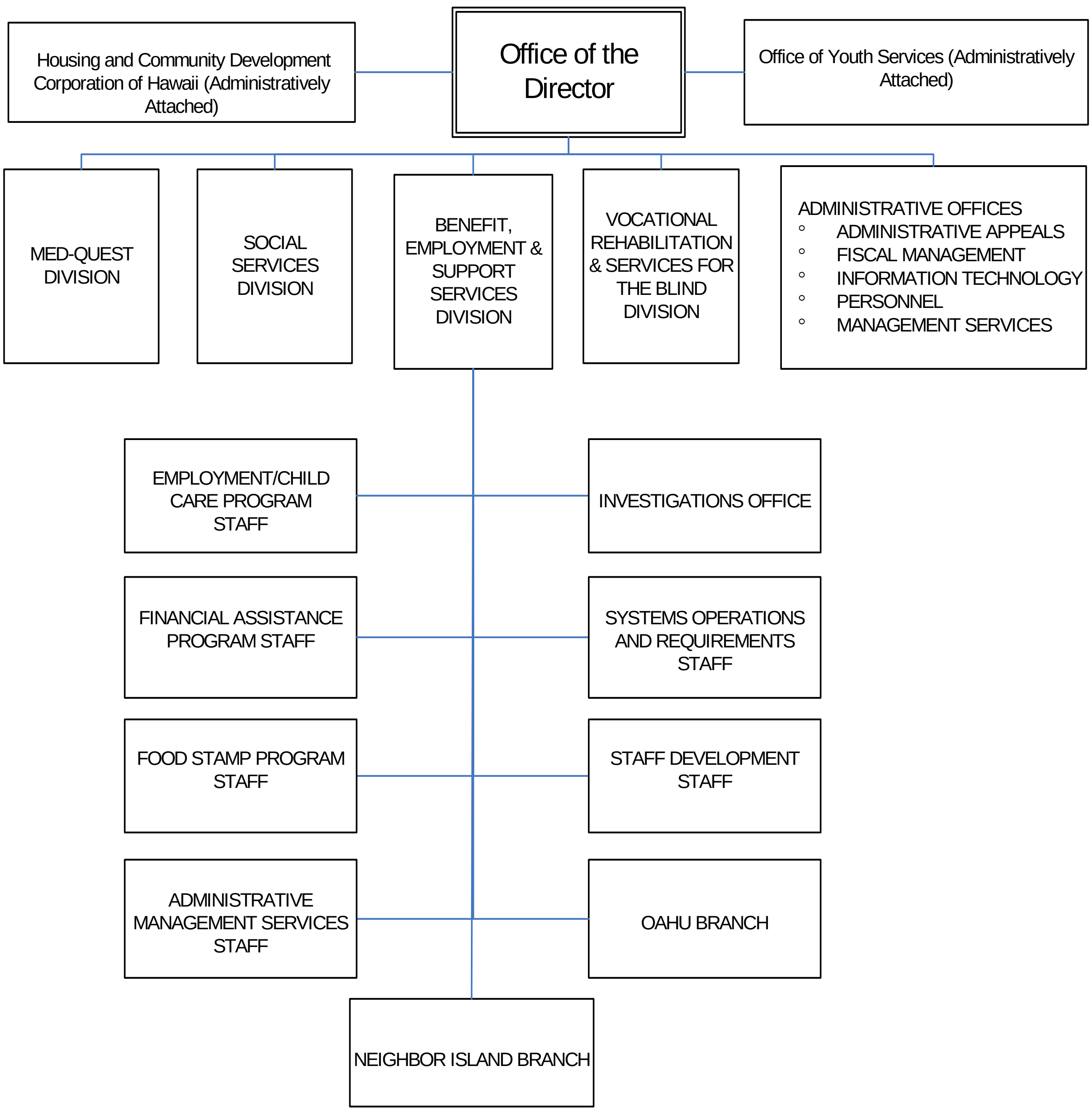
Legislators and community members alike have expressed concerns about the Department of Human Services' management of its Temporary Assistance for Needy Families (TANF) program. Questions surround the department's use of a large reserve fund, which has accrued from falling welfare enrollments and contracts, for purposes that depart from welfare's traditional scope. Legislators have also been frustrated in attempts to obtain useful and timely information about the department's plans and achievements related to TANF, leading some to suspect the department has sought to actively circumvent legislative intent. As a result, by House Concurrent Resolution No. 58 (HCR No. 58) of the 2005 regular session, the Legislature asked the State Auditor to conduct this audit of the department's TANF program.

HCR No. 58 cited two specific uses of TANF funds that raised questions about the department's strategies and decisionmaking process. The first involves an agreement with the Office of the Lieutenant Governor for $1 million to conduct a drug and alcohol prevention media campaign; the Legislature questioned the propriety of using anti-poverty funds for such purposes. The second involves a contract with the State Foundation on Culture and the Arts in the amount of $625,000. This TANF-funded contract was intended to cover the governor's cut of $500,000 from the foundation's $1.1 million appropriation; the governor had diverted that money to fund youth service centers.

Background

The Department of Human Services consists of four divisions and five offices performing administrative functions. An organizational chart is shown in Exhibit 1.1. The TANF programs are administered by the Benefit, Employment and Support Services Division. TANF is one of a number of state- and federally-funded programs administered by separate agencies involved in assisting low-income or unemployed Hawai'i residents and children. For example, the Department of Human Services manages the food stamp program in addition to TANF. Other important programs are the workforce development and employment services provided through the Department of Labor and Industrial Relations and child support enforcement administered by the Department of the Attorney General.

Exhibit 1.1
Organizational Chart of the Department of Human Services



Source: Department of Human Services

Temporary Assistance for Needy Families (TANF)

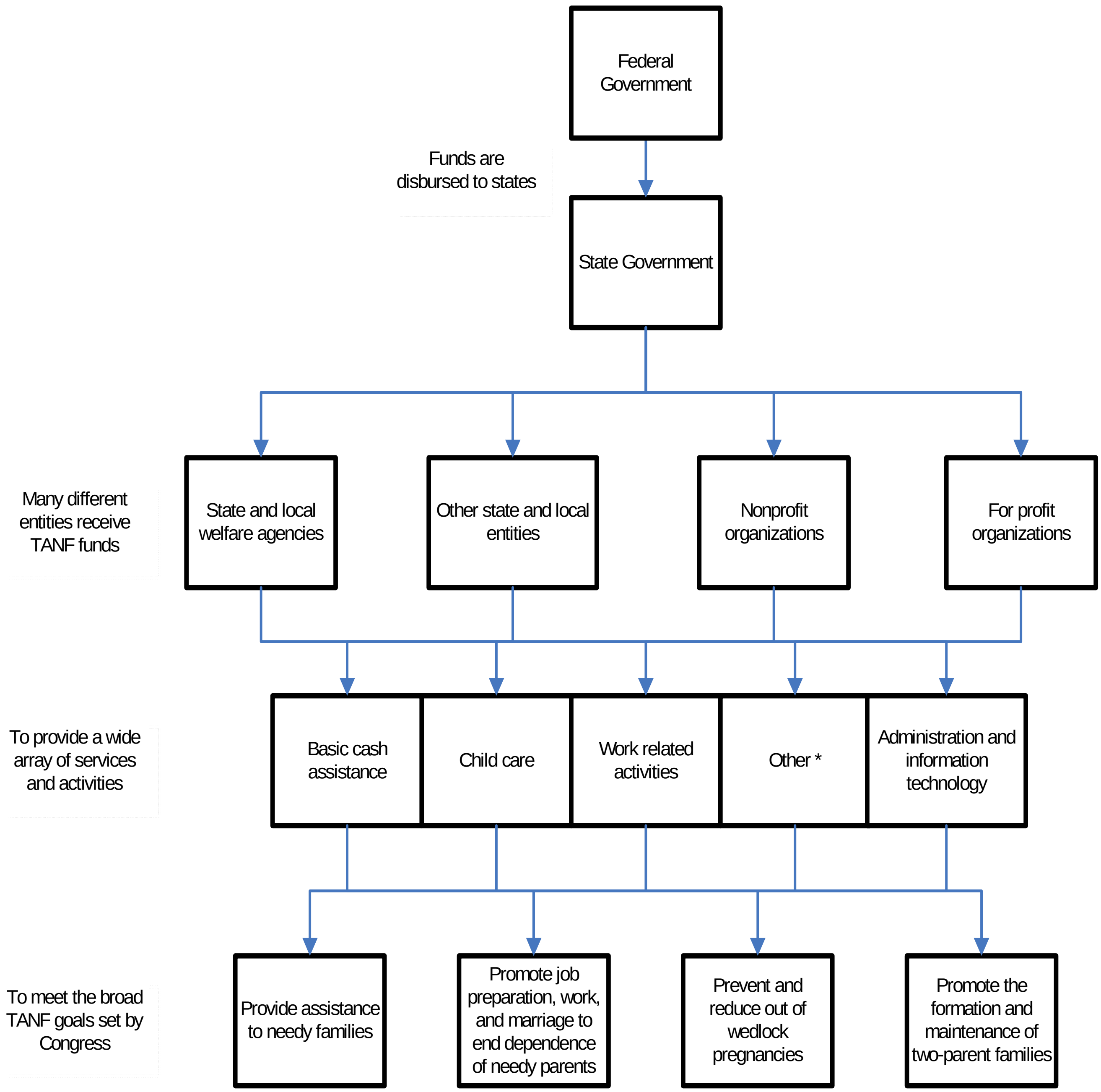
In 1996, Congress enacted the *Personal Responsibility and Work Opportunity Reconciliation Act*, replacing the decades-old Aid to Families with Dependent Children (AFDC) program with the Temporary Assistance for Needy Families (TANF) program. This revolutionary legislation, also called the welfare reform law, changed the perspective of federal and state welfare programs.

The AFDC program had embodied an entitlement to indefinite support payments. TANF, on the other hand, was designed to provide time-limited assistance (60 months' lifetime limit) with an emphasis on eventual self-sustainability. The program involves a broad array of agencies and services to reduce dependence on welfare, as shown in Exhibit 1.2. States are required to meet matching funding requirements designed to keep states' TANF contributions at historic levels. The TANF program is intended to be closely coordinated with other federal and state programs, such as food stamps, housing assistance, and child care. As part of this coordination, states are now allowed to transfer up to 30 percent of their annual TANF block grants to child welfare and childcare programs. Transferred funds may be expended under the rules of those programs.

Furthermore, Congress has taken a results-focused approach by providing states with the flexibility to make spending decisions best suited to their circumstances. In contrast to the AFDC program, under which funds were essentially earmarked for specific purposes, states are free to expend TANF funds on programs and services reasonably calculated to achieve any of the following four purposes: 1) provide assistance to needy families; 2) end dependence on welfare by promoting job preparation and work for needy families; 3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish numeric goals for preventing and reducing the incidence of such pregnancies; and 4) encourage the formation and maintenance of two-parent families.

According to federal guidelines, the TANF program is much less restrictive than its predecessor and state decisionmakers are encouraged to "start with the assumption that they may use these [TANF] funds in innovative ways to achieve the critical goals laid out in the TANF statute." Further, unused TANF funds do not revert to the federal government. States are permitted to keep surpluses, a feature of TANF unlike typical block grants. These moneys, however, can be used only for assistance-type services, such as cash support, and are no longer available under the more flexible spending rules for current fiscal year funds.

Exhibit 1.2
Services and Providers Involved in Meeting the TANF Goals



* This category includes spending for a variety of services, such as transportation, pregnancy prevention, and promoting family stability and child welfare

Source: Government Accountability Office

The Department of Human Services and its administration of TANF

The department's Multi-Year Program Financial Plan and Executive Budget sets forth the agency's mission: "To empower those who are the most vulnerable in our State to expand their capacity for self-sufficiency, self-determination, independence, healthy choices, quality of life, and personal dignity." Its goals include placing customers first; promoting personal responsibility for actions and accountability for outcomes; and "partnering to create opportunities." TANF's objectives are to provide support for maintenance and employment through direct monetary payments for food, clothing, shelter, and other essentials to eligible families; and to support and maximize employment and employment resources.

The Benefit, Employment and Support Services Division administers the department's major welfare functions, including TANF, general assistance, food stamps, and employment and child care assistance. According to the December 2004 Program Financial Plan and Executive Budget, TANF-related programs involve a significant portion of the entire department's resources. Exhibit 1.3 shows actual and budgeted TANF-related expenditures compared with the department's overall budget for the past three years.

Exhibit 1.3
Budget Data Comparing TANF to the Department's Overall Budget, FY2003-04 to FY2005-06

Operating Funds	FY2003-04	FY2004-05	FY2005-06
Department of Human Services	$1,481,554,605	$1,574,877,346	$1,669,490,332
TANF related programs	$237,184,840	$231,846,934	$233,587,230
Percent of Total	16%	15%	14%
Authorized Positions			
Department of Human Services	2,328	2,325	2,348
TANF related programs	739	739	739
Percent of Total	32%	32%	32%

Source: Multi-Year Program Financial Plan and Executive Budget, December 2004

Since 1998, the federal TANF block grant to Hawai'i has been about $99 million per year. The State adds over $70 million of general funds per year to this amount. According to the department's director, TANF spending in the past was focused exclusively on assistance and work programs, and previous administrations made little use of the flexibility provided under federal law to extend services in non-traditional welfare areas such as strengthening families and preventing out-of-wedlock pregnancies. In contrast, these non-traditional areas have been heavily emphasized under the department's current leadership, as evidenced by increased spending over the past two years. From zero in FY2002-03, funds committed for these non-traditional purposes exceeded $14 million in FY2004-05. The department also sought authority to commit an additional $29 million, primarily for services contracts aimed at preventing poverty. However, the Department of Budget and Finance did not approve this expansion.

Declining enrollment in welfare assistance since 1996 has resulted in significant amounts of unused federal TANF funds. As of June 30, 2005, the State had accumulated over $118 million in its TANF reserve fund. Exhibit 1.4 shows the growing reserve balances over the last four fiscal years. This reserve fund provides the State with an opportunity to plan and fund programs to help needy people become independent from welfare. There are, however, differing opinions about the best use of this large reserve amount. The department itself has provided conflicting information on its position about the appropriate size and best use of the fund. At one time, the director cited a need to keep the equivalent of up to two years' assistance benefits (about $100 million) in reserve in case of future economic fluctuations. More recently, in an aim to substantially deplete the reserve, the department announced a new program costing $120 million over two years.

Exhibit 1.4
Reserve Fund Balances as of June 30 Fiscal Year-Ends

	FY2001-02	FY2002-03	FY2003-04	FY2004-05
Net fund balance	$67,354,533	$99,179,406	$114,629,218	$118,798,715
Amounts committed at year-end	4,007,178	2,385,992	7,975,827	20,858,656
Total reserve available	$71,361,711	$101,565,398	$122,605,045	$139,657,371

Source: Department of Human Services

Legislative involvement in the administration of TANF

To control what appeared to be sudden, unexplained spending increases of TANF funds and to ensure TANF funds were spent wisely and in accordance with the wishes of the community, the 2005 Legislature imposed spending caps on the program for FY2005-06 through FY2006-07. Through a provision in the biennial budget, the Legislature limited the department's TANF spending to about $108 million per year. Nonetheless, the cap for FY2005-06 reflects about $26 million more than the department spent in federal fiscal year 2003-04.

The limitations provide that the department may not expend in excess of about $63 million a year of the more flexible current fiscal year TANF block grant and about $45 million a year of reserve funds, which are limited to assistance or cash type benefits. These caps, according to the

Legislature, will ensure a measured use of the reserve and an opportunity for legislative and community input, as needed, before the reserve is fully committed.

Previous Audits

There have been no management audits of TANF since the program's inception in 1997. Our December 1997 *Management Audit of the Department of Human Services*, Report No. 97-18, focused on the First to Work, Food Stamp, QUEST, and Foster Board Payment projects and programs; it did not examine the TANF program.

During the latter part of FY2004-05, the Office of Inspector General of the U.S. Department of Health and Human Services sent a team of auditors to Hawai'i in response to concerns about possible violations of federal spending laws. The team performed a preliminary assessment of the Department of Human Services' compliance with federal requirements governing spending of TANF funds. According to the team's lead auditor, no significant compliance problems were found and a full federal audit was not warranted.

Objectives

1. Assess the Department of Human Services' plans and strategies for the TANF program as a part of an overall strategic plan for the State's reduction of citizens' dependence on welfare.

2. Assess the department's administration of federally- and state-funded service contracts under the TANF program.

3. Make recommendations as appropriate, including any proposed necessary legislation.

Scope and Methodology

Our audit procedures included reviews of relevant federal and state statutes, rules and related guidelines, testimony to the Legislature, budget and financial documentation, reports, and studies received from the department and other sources. In addition, we examined practices in other states, best practice guidelines, and materials provided by experts in the field of welfare reform and results-oriented governance. We interviewed department personnel, legislators, community stakeholders, and personnel from other departments, including the departments of Labor and Industrial Relations, Accounting and General Services, and Health. Our focus was primarily on transactions between FY2002-03 and FY2004-05.

Our work was performed from June 2005 through October 2005 and was conducted according to generally accepted government auditing standards.

Chapter 2

The Department's TANF Spending Lacks a Clear Strategy and Focus on Results

The Department of Human Services' TANF program decisionmaking is guided by the availability of federal funding rather than a comprehensive plan and coherent strategies. While the department is quick to publicize its creative and innovative use of federal funds, it lacks a strategic plan, benchmarks, or performance measures that outline prioritized needs and desired results. The department has responded to repeated requests for such plans and measures from stakeholders, including the 2005 Legislature, with rhetoric on its creative uses of federal funding. In the absence of meaningful information from the department, the Legislature placed limits on the department's expansion of TANF fund expenditures during the 2005 session.

Our audit found that the Legislature's concerns and subsequent actions to control the department's spending were justified. The department's spending comports with federal guidelines that allow states flexibility to design programs to meet unique needs, but it has not developed long-term plans, adequate performance measures, or a process for public involvement in setting policies and priorities. The department could neither articulate nor produce plans for programs to combat poverty in the state. Our review of the department's initiatives revealed programs that appear to have been cobbled together and which favor high-profile spending over performance management and accountability.

The department has made decisions with little if any public comment or scrutiny. New programs have been announced and even launched, in some cases, to the surprise of stakeholders. Service contracts, primarily for much touted innovative spending, have fallen short of the department's own TANF contract procedures and practices, resulting in deficient justifications and performance measures and a focus on outputs rather than outcomes. Without performance measures, stakeholders and the department cannot assess program merits. Yet the department has both extended and significantly increased funding for programs that lack such measures.

Overall, unilateral decisionmaking and a lack of transparency mark the department's TANF program development efforts. Regrettably, Hawai'i's stakeholders—the department's partners in the fight against poverty—have been left in the dark on these decisions.

Summary of Findings

1. The Department of Human Services' TANF spending lacks a clear strategy and predictability, and may not represent the best use of taxpayer money.

2. Substandard contracting practices for TANF contracts inhibit assured provider performance.

The Department's Spending Lacks a Clear Strategy

In 1996, the federal government dramatically changed the nation's welfare system from one that fosters dependence to one that requires work in exchange for time-limited assistance. Federal lawmakers placed significant importance on giving states the opportunity to develop and implement creative and innovative approaches to move families from welfare to economic independence.

Seeing an opportunity to enhance and expand the State's TANF spending, the department's current leadership made aggressive changes in its TANF spending decisions to exploit the flexibility intended by the welfare reform law. It set its sights on increasing spending of the $98 million per year in federal TANF grant moneys and the State's $118 million TANF reserve fund. In deciding how to best use TANF funds, however, it did not develop strong collaborative relationships with stakeholders—identified in guidelines as legislators, businesses, local agencies, and community organizations—in developing strategies and delivering services. It also failed to identify needs within the state and prioritize them, weigh alternative options and strategies that address those needs, select the most appropriate services and benefits, and design programs or activities that reflect those decisions.

In effect, the department proceeded without a strategic plan or meaningful performance measures. It utilized its spending opportunities, for example, in high-publicity media campaigns to support the department's desire to use federal funds in innovative and creative ways.

Compliance with federal guidelines does not relieve the State of oversight responsibilities

TANF funds, available to Hawai‘i since 1997, may be used for four purposes:

1. To provide assistance to needy families;

2. To end the dependence of needy parents by promoting job preparation, work and marriage;

3. To prevent and reduce out-of-wedlock pregnancies; and

4. To encourage the formation and maintenance of two-parent families.

In prior years, the full amount of these funds has not been expended for purposes three and four to develop or expand social service programs in the state. When the department sought to spend the funds on what were considered non-traditional uses, such as an anti-drug and alcohol abuse publicity campaign and a contract with the State Foundation on Culture and the Arts, concerns about misspending were raised by the regional office of the Administration for Children and Family (ACF), a division of the federal Department of Health and Human Services. At its request, a survey was conducted by the federal department's Office of Inspector General (OIG) to determine whether a full audit was warranted.

Federal auditors determined that the state department's spending, although at times stretching limits, falls within the federal department's TANF guidelines in *Helping Families Achieve Self-Sufficiency*.[1] They also found the state department's internal controls for TANF above average in terms of records and spending, with only minor questionable expenditures.

Federal auditors explained that TANF guidelines are very vague and the federal government's ability to question or interfere with state spending is limited. In fact, the federal government may not regulate state conduct unless expressly provided by law. Limitation on federal authority is consistent with TANF's principle of state flexibility and congressional interest in shifting more responsibility for program policy and procedures to the states.

Compliance with federal guidelines does not mean, however, that the Legislature has met its oversight responsibilities for TANF funds. According to a provision in the welfare reform law known as the Brown amendment, a state's oversight responsibilities rest with its legislature because state legislatures decide how to appropriate TANF money. This specific authority to appropriate funds invests state legislators fully in the TANF program and increases state oversight of TANF funds. While a state may use its funds in innovative ways, it is the state's legislature's responsibility to ensure that needs within the state are identified and prioritized, appropriate services and benefits selected, and programs and activities designed to reflect those decisions.

Stakeholders lack information to hold the department accountable

Historically, stakeholders—including the Legislature—have had difficulty obtaining meaningful information on planned and actual deployment of TANF resources from the department. We reported similar problems in our 1997 management audit report of the department, also noting that the deficiency hampered the Legislature's ability to fulfill its appropriating responsibility.

Excluding stakeholders from involvement in program development has been a long-standing source of complaints. For example, according to the department, the Reward Work program, which was intended to draw $120 million from the reserve fund over two years, was implemented without community involvement because the department lacked the time to do so. For programs with as widespread an impact and importance as TANF, stakeholders expect to be informed and consulted before money is committed. Some see the director's recent interest in reviving the Financial Assistance Advisory Council, a statutory body whose role is to advise the department on financial assistance matters including TANF, as a hopeful sign of future improvement.

In recent years, the problem has become more significant in light of the department's increased TANF spending for services—a nearly five-fold increase, from $5.8 million in FY2003-04 to $29.9 million in FY2004-05. In fact, according to the department, prevention program spending alone rose from nothing in FY2002-03 to $2.6 million in FY2003-04, then to $14.8 million in FY2004-05.

Exhibit 2.1 shows a four-year trend of TANF block grant expenditures from FY2001-02 to FY2004-05. Actual spending provides only part of the picture. For example, as of June 30, 2005, the department had committed over $17 million in FY2004-05 funds for contracts to be fulfilled in future years. While an amount encumbered at the end of one fiscal year must normally be spent within the following fiscal year, funds committed under a contract may be spent over the life of the contract, which can span several years.

Exhibit 2.1
Four Year Comparison of TANF Funds Expended by State Fiscal Year

Expenditure	FY2001-02	FY2002-03	FY2003-04	FY2004-05
Cash assistance	$51,770,036	$41,553,723	$44,578,247	$26,897,765
Work and teen pregnancy prevention programs	2,691,633	7,895,841	8,133,072	15,465,109
Administration (including information technology)	3,322,660	9,310,467	7,453,785	7,812,276
Transfers to other programs	12,200,000	13,650,000	16,870,000	29,980,479
Total	$69,984,329	$72,410,031	$77,035,104	$80,155,629

Source: Department of Human Services

The department's increased TANF spending heightened concerns about its questionable priorities, hasty implementation, and lack of transparency. If the department followed a plan, it did not succeed in communicating it to stakeholders. For example, during the 2005 legislative session, the department delivered widely varying reports on TANF funding needed to complete the fiscal year. In February 2005, the department informed the Legislature that it needed $122 million. One month later, in March, the number dropped to $95 million. By June, only three months later, the number climbed to $151 million. Thus, over four months, the department's projections varied by $56 million.

Uncertainty over the department's plans and fiscal needs prompted the Legislature to use its authority under federal law to cap the department's spending expansion for fiscal years 2005-06 and 2006-07. This provision of law, which subjects TANF spending to appropriations by state legislatures, was designed to allow legislatures to set priorities for TANF spending by giving them control of the purse strings. In exercising its authority under federal law, the Hawai‘i Legislature enacted spending caps to provide the department with sufficient funding to maintain FY2003-04 service levels while protecting the TANF reserve fund from depletion until the department provides adequate information on its strategies and outcomes. Under the newly enacted spending caps, the Legislature will exercise some oversight of the department while the department remains primarily responsible for the efficient and effective use of TANF resources.

We researched legislative oversight practices in other states and found measures adopted or under consideration by state legislatures that could work in Hawai‘i. Several states, including Arkansas, Louisiana, Michigan, New Mexico, Texas, and Washington, have instituted or are considering performance budget measures that hold TANF agencies accountable and set measurable targets for expected achievements in future years. Often, such measures are linked to a statewide strategic planning and performance budgeting process. In addition, some state legislatures have created boards or committees to consult with TANF agencies or oversee TANF activities. The most comprehensive of these is the Arkansas Transitional Employment Assistance Board, which has broad authority over policies, budgets, and contracts of welfare programs. This board develops outcome measures with the TANF agency, hires an independent evaluator, and reports on the department's performance to the Arkansas legislature and governor.

Departmental efforts to shift blame for its own failings to the Legislature underscore the need for added vigilance by lawmakers. In a letter dated September 13, 2005 sent to a number of agencies, the department blames the Legislature for its inability to honor commitments, claiming the legislatively imposed restrictions caused it to have insufficient appropriations. A copy of the department's letter is shown at page 1 of Appendix A.

In fact, upon review of related documentation, we found that the decision not to approve the department's request to exceed its appropriated funding ceiling was made within the executive branch and not by the Legislature. The department's request to the director of finance was made on June 9, 2005 and returned without action (in effect denying the request) on June 30, 2005, the last day of FY2004-05. The department's request is shown at pages 2 and 3 and the Department of Budget and Finance's return of the request is shown at page 4 of Appendix A.

"Last minute" contracts illustrate poor planning

In June 2005, the final weeks of the fiscal year, the department attempted to increase its appropriated funding by $29 million for service contracts already executed. This spending was not planned or incorporated in the department's budget. The request for this spending increase reflected $25 million for new contracts and $4 million in increases to existing FY2004-05 contracts. Fourteen existing contracts would have seen the originally agreed upon amount raised by 25 percent, generally considered the maximum increase allowed without re-bidding a contract. These increases are unusual when compared with only three mid-contract increases in the two prior fiscal years, none of which exceeded 6 percent. Also, according to department staff, increases were initiated by the department, not sought by contractors.

The most startling contract increase example we encountered was a memorandum of agreement with the Housing and Community Development Corporation of Hawai'i that would have provided a 600 percent increase, from $500,000 to $3.5 million. Files for this agreement do not explain the reasons for this proposed increase or specify the additional services to be provided or outcomes to be achieved.

Also included in executed but unfunded agreements were memorandums of agreement with four of the State's counties for a total of $14 million. These agreements were for unspecified services and programs "that meet any one of the four TANF purposes." Lacking its own strategic guidelines, the department appeared willing to delegate its responsibility for deploying TANF resources without requiring accountability.

Moreover, under time pressure to commit funds before the fiscal year-end, the department offered to raise the amount available to the City and County of Honolulu if other counties could not commit. The Honolulu City Council convened a special meeting to meet the acceptance deadline. Originally offered $5 million, the City and County of Honolulu was later in a position to accept as much as $14 million. We were told by a council member's staff that the city administration had no specific information on what the money would be used for at the time the resolution was passed.

In the end, this last-minute funding effort failed to receive the needed approvals from the Department of Budget and Finance and the governor. Even so, the human services department's fiscal year-end scramble is cause for alarm in light of an approval by the governor only one month before of an additional $12 million above what had been appropriated by the Legislature for FY2004-05.

Questions about priorities remain unanswered

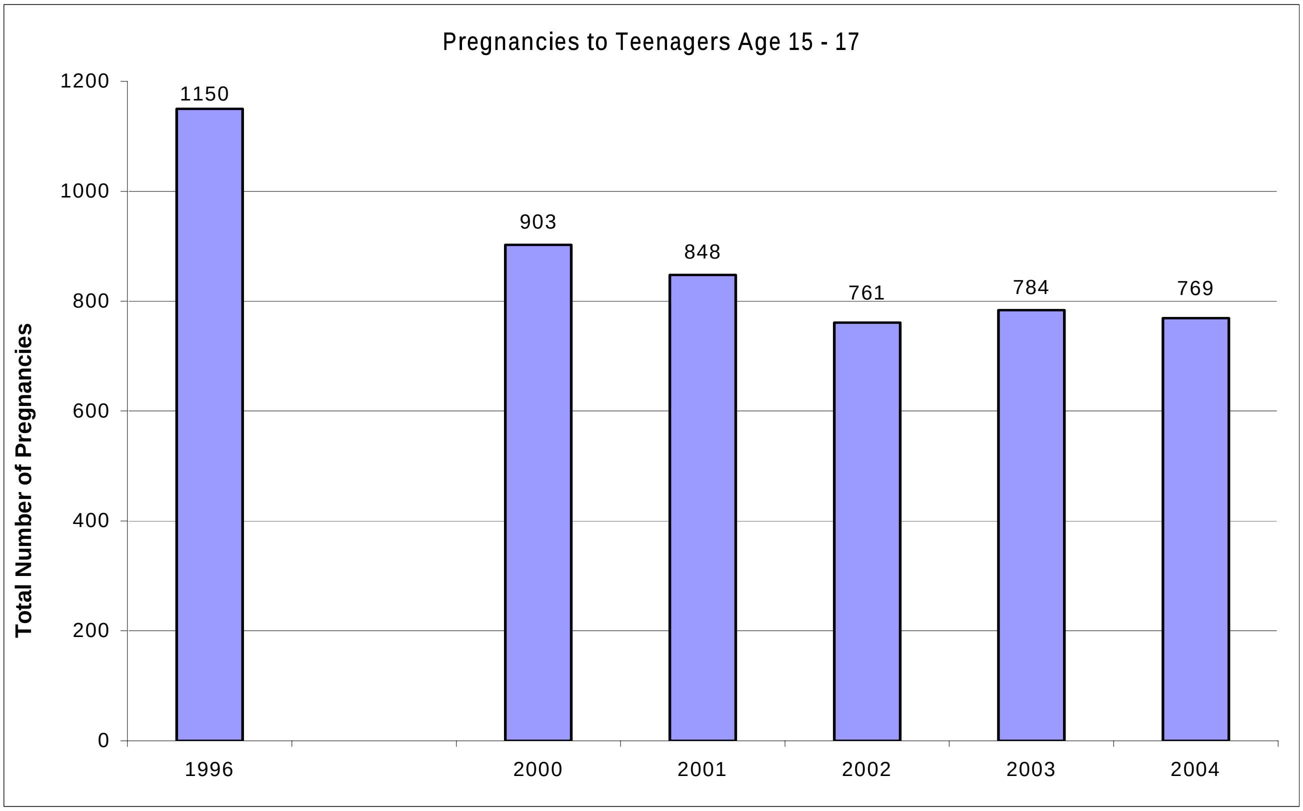
The department has not explained the basis for its decisions on state priorities. Left unanswered, for example, is the reason for the department's heavy focus on teen pregnancy prevention while other strategies to reduce welfare dependence are not pursued.

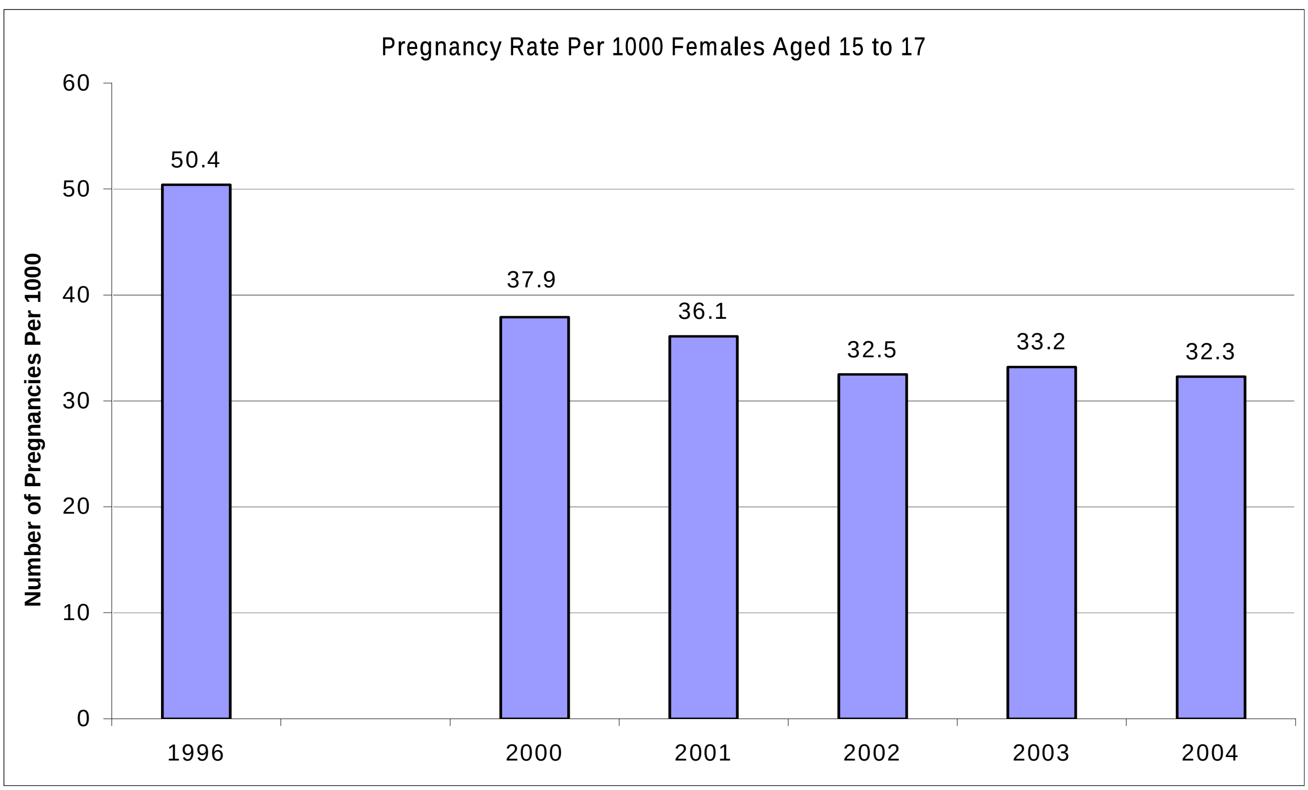
In the welfare reform law, Congress placed significant importance on poverty prevention, principally through TANF purpose numbers three (preventing and reducing out-of-wedlock pregnancies) and four (encouraging the formation and maintenance of two-parent families). The department has adopted prevention as an area for the State to focus significant investment, particularly the prevention of teen pregnancies. Spending in this area increased from nothing in FY2002-03 to $2.7 million in FY2003-04, then to $15 million in FY2004-05—more than 400 percent increase in funding over the past year. The department director cites a 1997 Department of Health plan (*Laulima in Action*) as the basis and justification for all the department's purpose three and four programs. Interestingly, in an interview one month before identifying this plan as the department's guideline for such programs, the director had stated that she was not familiar with this same plan.

Laulima in Action is an adolescent wellness plan linked to the State's *Healthy 2000* program. The plan includes the goal of reducing the incidence of pregnancies among adolescents aged 15 to 17 from a 1985 baseline of 71.1 teen pregnancies per 1,000 to 50 or less by 2000. This goal was significantly exceeded in 2000, at 37.9 per 1000, and even further in 2004, at 32.2. Exhibit 2.2 provides data on these rates.

The current federal goal of 43 teen pregnancies per 1,000 by the year 2010 indicates that Hawai'i's programs have been effective at existing funding levels and are achieving results substantially ahead of national goals. Hawai'i's favorable statistics raise questions about whether the department has made the best use of taxpayer money in preventing poverty. Notwithstanding Hawai'i's decreases in teen pregnancies, the

Exhibit 2.2
Number and Rate Per 1,000 of Pregnancies Among Teens Aged 15-17 in Hawai'i 1996 and 2000 through 2004





Source: Department of Health

department still increased funding by over 400 percent, leaving stakeholders to wonder about its underlying rationale. At the same time, the department has been silent on its strategies for other TANF purposes, such as programs supporting two-parent families and improving the prospects of children born to single mothers who are not adolescents, for example.

Despite its declared priority of making aggressive use of flexible federal spending rules, the department has been passive in promoting a significant tax benefit for low-income working families. The federal earned income tax credit can add more than $4,300 per year to a family's income. Although the department acknowledges that a statewide 3 to 5 percent utilization increase is feasible, so far its efforts have been limited primarily to (as it describes) promoting awareness by such means as brochures and mailings. It has relied on community organizations to provide needed services, such as free or low-cost tax preparation assistance, but these groups lack the resources for a broad-based, statewide effort.

Tax return statistics for 2002 summarized by the Brookings Institute show that increased utilization of this credit could provide as much as $35 million to eligible Hawai'i residents and the State's economy. Participation statistics for a number of states with poverty rates comparable to Hawai'i's suggest relatively few Hawai'i taxpayers avail themselves of this benefit and that the average claim in Hawai'i is significantly lower than in other states. Fourteen percent of Hawai'i tax returns included a claim for the credit. Nationally, participation rates range from 9 to 28 percent, with a tendency for more participation in states with higher poverty rates. We compared Hawai'i's taxpayers' participation with those of states whose poverty rates were comparable; our analysis suggests that Hawai'i's participation is capable of improvement.

In addition, participation statistics indicate that Hawai'i residents may not be maximizing their claims. The average claim in Hawai'i ranks among the lowest in the nation, at $1,545, compared with averages exceeding $1,900 in other states. Based on 2002 data, we estimate that a 3 percent increase in utilization would both provide an additional $27 million to working families and keep those dollars in Hawai'i. Increasing the average claim by even $100 would provide an additional $8 million to Hawai'i's residents.

The department lacks effective strategic planning and outcomes management

The department's primary strategies for discretionary TANF expenditures are to spend TANF funds innovatively, replace state funds with federal funds, and implement prevention programs that have a proven track record elsewhere. However, as already discussed, the department has not involved stakeholders nor given them the tools to scrutinize its strategies, challenge questionable policies, or assess the effectiveness of TANF programs. Furthermore, the department's TANF administration is not consistent with the intent of the State's budget law or best practices in government performance management.

We found that the department can improve its TANF administration by adopting a performance management process, including a strategic plan and meaningful accountability measures. This process should incorporate stakeholder involvement in developing priorities, policies, and major new programs.

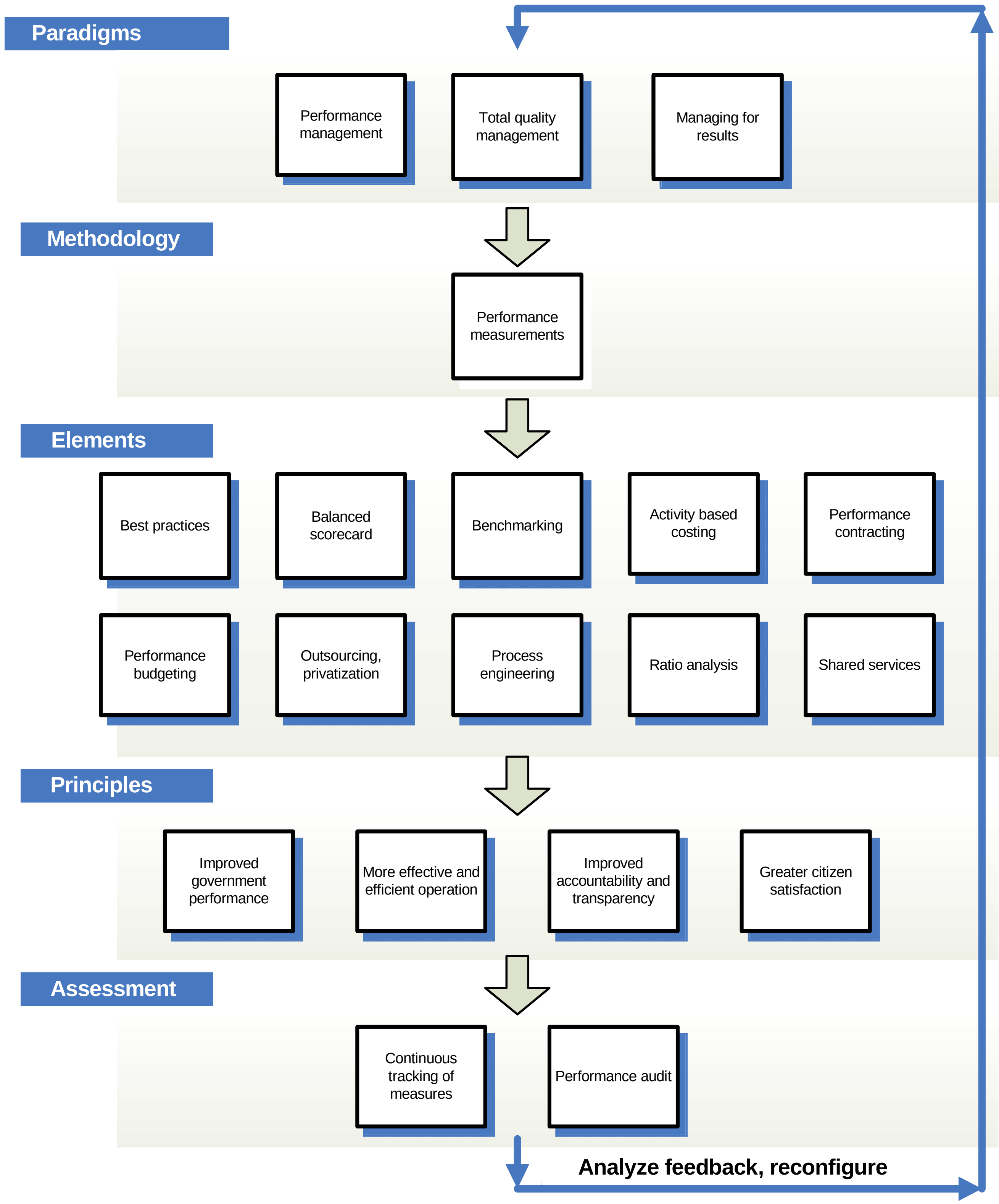
Ensuring that TANF programs are effective and efficient in meeting the state's needs is a responsibility delegated to the state. A performance management process ensures that government is responsive and accountable by providing stakeholders and decisionmakers alike with an outline of intended actions, results, and the tools to assess their achievements. When used effectively, it should permeate most levels of an organization, beginning at the highest level with strategic planning. Exhibit 2.3 illustrates a matrix of concepts and applications used in performance management.

In her 2002 election campaign, the governor demonstrated support for performance management in a campaign brochure entitled *A New Beginning*. She observed in Hawai‘i state government a lack of clear priorities, confusing financial reporting, and an inability to measure results; and she promised a performance-based budget that informed the public where tax dollars were spent, what results were, and whether results met intended accomplishments.

The department's administration of TANF funds clearly falls short of this promise. The director has launched initiatives without a comprehensive strategic plan and with only limited involvement of community stakeholders. Initiatives have proceeded without detailed activity plans to achieve specific predetermined goals within a defined timeframe. Moreover, the department's TANF budget similarly falls short of the governor's campaign promises and lacks the basic foundation that a strategic plan would provide.

We researched various sources for a concise summary of the key components of performance management. In *Making Results-Based State Government Work*,[2] the Urban Institute provides a detailed description of the process of governing for results, or performance management. We include key components of this process in Appendix B.

Exhibit 2.3 Matrix of Concepts and Applications Used in Performance Management



Source: Adapted from Journal of Government Financial Management

The department's strategies lack detail and commitment to results

To assess the department's recent spending decisions, we requested its planning documents and examined the relevant section of the 2005 *Multi-Year Financial Plan and Executive Budget*.[3] Documents identified by the director as TANF plans included testimony to the Legislature, press releases, slide presentations announcing and explaining newly created programs, the agency's annual report to the Legislature for fiscal years 2003-04 and 2004-05,[4] and its six-year program and financial plan and the related variance report. We found that this collection of documents does not constitute a plan and is incapable of providing a cohesive, forward-looking picture of the department's goals, reasons for its selected priorities, or intended results of their actions. Consequently, the documents fail to provide a basis for tracking the department's success in meeting its goals and objectives.

While some of the department's documents contain elements typically found in a strategic plan, they are disparate and do not represent a systematic and comprehensive plan for reducing poverty in Hawai'i. Even when read together, they do not inform how various federal priority goals will be addressed, what intended outcomes are, or how success is to be measured and communicated. Consequently, the documents fail to provide a means to account for the agency's spending decisions and resource allocations.

"The State TANF Plan," dated November 2002, provides an example of a plan designed to meet federal requirements. It does not include a comprehensive discussion of goals and objectives or a set of meaningful accountability measures typically included in a strategic plan. It includes a goal to reduce adolescent pregnancies by 3.2 percent and 12 percent by the years 1999 and 2010 respectively, with 1995 as the baseline year, but it does not describe actions to be taken. Moreover, this goal is obsolete. According to the Department of Health, adolescent pregnancies for those aged 17 years and under have already fallen from 1,247 in 1995 to 807 in 2004, a decline of almost 35 percent—far exceeding the department's goal for 2010.

Token compliance with budget law subverts planning and results-oriented intent

The department's information on TANF-related activities in the *Multi-Year Program and Financial Plan* reflects token compliance with the intent of the State's budget law. First, the department's objectives for the TANF program have remained unchanged for at least four years, despite high-profile and significant changes in the last two years towards providing non-traditional services. This begs the question but fails to explain how new TANF programs are linked to any goals defining departmental and statewide strategies and plans.

Second, the department's budget structure does not provide complete information on actual TANF activities, preventing readers from assessing the department's intent and the success of its TANF programs. For example, measures of effectiveness for the Benefit, Employment and Support Services Division include the percent of employees working without formal grievances, number of contracts processed in a timely manner, and number of fair hearings decided in favor of the department, among others. These measures are meaningless for service contracts, which represent about $13 million in TANF funding within the division's $27 million appropriation of federal funds. The director acknowledges that the department does not use these measures to track its progress although they are intended to play a major part in the State's goal of superior resource allocation and decisionmaking.

Finally, projected achievements for FY2005-06 and the following five years indicate that the department has no plans to better its FY2003-04 performance. Essentially, according to its projections as shown in Exhibit 2.4, the department predicts it will not impact poverty until after 2011. These predictions are made against the backdrop of the State's economically favorable climate and the department's intentions to work diligently to reduce welfare dependence. Moreover, discussions at the federal level indicate that work participation levels will be increased to 70 percent by 2008. Yet, the department's projections do not recognize this anticipated increase and instead predict that the 50 percent work participation rate will remain unchanged until 2011.

We found that at least one measure's reported level may not be accurate and its related information is at best confusing. As reported in the 2004 budget document, the measure, *percent of TANF recipients meeting work requirements*, claims to have been at the 50 percent level in FY2003-04. According to the department, however, it was actually well below—at an estimated 40 percent for FY2003-04 and 36 percent for FY2004-05. In addition, FY2003-04 workload information for the Eligibility Determination and Employment Related Services Program shows 75,794 TANF recipients were mandated to participate in work programs but only 8,180 (11 percent) participated—representing a third possible participation rate. Lacking explanatory information, this measure in particular fails to perform its intended purpose, which is to facilitate assessment of the department's goals and performance.

Exhibit 2.4
The Department's Projections for TANF Related Measures of Effectiveness

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
TANF recipients meeting work requirements	50%	50%	50%	50%	50%	50%	50%	50%
Potentially eligible households receiving TANF	93%	93%	93%	93%	93%	93%	93%	93%
TANF recipients employed	50%	50%	50%	50%	50%	50%	50%	50%
TANF recipients exiting work program due to earnings	33%	33%	33%	33%	33%	33%	33%	33%

Source: Multi-Year Program and Financial Plan and Executive Budget, December 2004

Substandard Contracting Practices Inhibit Assured Provider Performance

The department's contract files do not reflect consistent adherence to its established program development process and procurement best practices. Vaguely worded contract agreements provide little indication of the nature of services to be rendered.

We reviewed 13 department contracts (including memorandums of agreement), including ten randomly selected from fiscal years 2003-04 and 2004-05, two that created public controversies during the 2005 legislative session, and one that was executed but not funded. We also reviewed related documentation maintained by the department. Our review focused on determining how the department justifies its contracts and ensures value is received for money spent.

We also compared the contracts with performance procurement guidelines and recommendations set forth by the National State Auditors Association.[5] These guidelines for best practices in procurement recommend that contract file documentation reflect the procuring agency's analysis of its needs, goals, objectives, and services to determine if the service is necessary and a cost/benefit analysis and evaluation of options, such as implementing the program within its own organization.

The department's established process for developing new programs and contracts is capable of satisfying state procurement laws as well as the best practices outlined above. We found that not all contracts measure up to the intended standard. The department's process includes the development of a concept paper providing the basis and justification for subsequent activities, including service contracts. This document typically defines the need to be addressed, expected results, cost, and compliance issues. The concept paper also guides any resulting contracting efforts. Contrary to the established process, department personnel could not demonstrate a link to a concept paper for ten of the 13 contracts we reviewed. These contracts lacked documentation demonstrating that the department followed a deliberate process seeking to ensure taxpayer resources were applied where they would have the greatest impact possible.

The department's contracts do not consistently include agreed-upon performance targets. Most of the contracts we reviewed lack adequate measures to hold providers accountable for results. Eight of the 13 selected contracts include only output measures (meaning the quantity but not quality of a service) and some lack measures altogether. One contract even provides for the contractor to develop performance targets after the agreement is signed.

The department has given only lip service to holding contractors responsible for results through performance contracting. We found that critical elements of performance contracts were not consistently used, were inadequate in providing accountability, or completely missing in most of the contracts we reviewed. We also found that some contractors were not held to agreed-upon results because of the department's lack of follow-through. In fact, we question the department's ability to adequately monitor a growing number of contracts, given the current staffing level. Currently, a mere six personnel are responsible for validating reimbursement requests, ensuring compliance with contract terms, and conducting field audits. The total value of the department's active contracts as of June 30, 2005 is more than $29 million.

Performance contracting differs from traditional government procurement. It requires contractors to demonstrate that pre-determined outcomes have been achieved before payment is made, rather than being paid for performing defined tasks (outputs). Performance contracts focus on what will be accomplished rather than on how the work is to be done. In addition, payments to the contractor may include bonuses or penalties, depending on whether performance goals have been met, missed, or exceeded. The critical elements in performance contracts are agreed-upon service outcome measures used to judge performance and a process for monitoring and validating performance to assure that claimed performance has actually been achieved.

The need for KALO's $1.4 million contract is uncertain

The department's $1.4 million contract with Kanu o ka ʻĀina Learning ʻOhana (KALO), a nonprofit educational organization, raises questions on several levels. This contract provides funding for after school pregnancy prevention programs, including two full-time teachers at each of nine native Hawaiian charter schools.

First, the need for the $1.4 million program and for two full-time teachers is not adequately justified. In school year 2004-05, the nine native Hawaiian charter schools enrolled a total of 388 students in grades 7-12, covering the age range normally addressed by similar programs. Spending $1.4 million on 388 students translates to about $3,600 per student for a program to be provided between the hours of 3:00 p.m. and 5:00 p.m. on school days. Of the nine schools, two enroll students only from kindergarten through grade six; five of the schools have fewer than 100 students; and two have fewer than 50.

Second, the priority given to a pregnancy prevention program in native Hawaiian charter schools is questionable. The contract is justified by a study showing that Hawaiian students do poorly in public schools. However, native Hawaiian charter school students, the target group for this contract, are already doing significantly better than their public school counterparts according to a study sponsored by Kamehameha Schools/Bishop Estate. Measures used to track the success of this contract show that statistics for the KALO schools compare favorably with Hawaiʻi public schools. For example, for school years 2001-02 through 2004-05, the Hawaiʻi public school dropout rates averaged 14 to 15 percent, compared with a 2 percent dropout rate for one KALO school; the other KALO schools had no dropouts. Graduation rates for Hawaiʻi public schools averaged below 80 percent, compared to 80 percent or above reported by the KALO schools.

Only three of the eight participating KALO schools reported any pregnancies over the contract reporting years. Attendance rates at most of these schools are comparable to or even exceed statewide rates. While the project may have other benefits, they are not reflected in the contract's scope and accountability provisions, leaving no substantial rationale for this $1.4 million investment. Overall, we found that the target group of native Hawaiian charter schools appeared to have excelled in areas to be addressed by the contract's programs.

Third, the KALO contract allowed for continuation of pre-existing educational services supported by other federal funding. Upon losing its federal funding, efforts were made to secure replacement funding. Since educational programs are not eligible for TANF funding, amendments were made to the contract that shifted the emphasis away from education and toward pregnancy prevention. Given these circumstances, stakeholders are likely to question whether the department was motivated more by providing TANF funding to continue a program with expiring funding or by a systematic evaluation of alternatives to ensure the most effective use of TANF funds. The attorney general's documented objections to the original proposed contract scope support the notion that the contract was engineered to meet federal TANF requirements to ensure an existing program's survival. The program may be a worthy anti-poverty effort, but the poorly documented justification and lack of effective accountability measures leave its value uncertain and its preference over other needs unresolved.

Finally, the contract lacks quantified, predetermined goals. In place of the department's goals, the contractor is required to submit its statement of such goals after the first full year of the contract term. This arrangement displaces the department's responsibility to justify the contract.

TANF funding replaces the State Foundation on Culture and the Arts' lost appropriations

The contract with the State Foundation on Culture and the Arts provides another example of an agreement with inadequate measures. This contract is satisfied by any service that may contribute to reducing teen pregnancy through art-related activities. It requires reporting on activity participation and successful completion rates (outputs), but provides no measures for assessing success or failure (outcomes). For example, upon review of some art-related activities, we found that most of the funding provided to the Mōʻiliʻili Community Center was applied to the production of a book and unspecified senior programs. While these may have been worthwhile projects, they were of questionable relevance and effectiveness to an overall goal of combating teen pregnancy. The contract specifically states that the parties agreed it was not feasible to design performance measures for this contract. This agreement arguably admits to a lack of clearly identified goals, and consequently a valid purpose for the project. Given the vagueness and flexibility inherent in the federal TANF spending rules, this example illustrates the need for a plan and goals that reflect the State's priorities. Unless plans and goals are in place and contracted activities align with state priorities, the State cannot ensure that TANF funds are spent where they have the greatest impact on poverty.

Like the KALO contract, the arts foundation contract sought to replace lost funding with TANF moneys. In July 2004, the governor cut $500,000 from the Legislature's appropriation to the foundation for FY2004-05. The governor's actions resulted in public outcry over the lost funding. The department responded by offering TANF funding to fill the gap, ostensibly for a teen pregnancy prevention contract. Thereafter, the foundation's funding was restored with $625,000 using TANF funds.

However, there were unintended consequences. While state funds appropriated by the Legislature can be spent freely in support of the arts, TANF funding must be spent within federal limits. Under this contract, spending was limited to purposes primarily related to teen pregnancy prevention. Because of these restrictions, some of the foundation's subcontracts with arts groups, worth about $73,600, were deemed ineligible. Over half—$38,700—had already been spent and the subcontractors could not refund the amounts. As a result, the department had to restore the TANF funds from its own general fund budget.

Kokua Kalihi Valley Community Center contract lacks outcome measures

A contract with the Kokua Kalihi Valley Youth Service Center, announced by the director as an example of performance-based contracting, does not measure up under close scrutiny. The contract lacks outcome measures, listing instead four output measures, such as the number of clients served. Outcomes, the preferred type of measures, inform on what is to be achieved. Outputs merely measure the amount of work done. Lacking this essential element of a performance contract, the department cannot hold the contractor accountable for results.

Issues for Further Study

In the course of this audit, we encountered important issues that fell outside our scope. We point out two of these for possible further study.

The governor's authority to modify appropriation ceilings for TANF is unclear

A provision in the federal welfare reform law, the so-called Brown amendment, limits TANF expenditures to amounts appropriated. The Legislature has authorized the governor to raise appropriation levels for federal funds without legislative approval. However, we did not pursue whether the governor's exercise of this authority for TANF funds by $16 million in FY2004-05 amounted to a violation of federal law. A legal opinion from the Department of the Attorney General may be needed to clarify this issue.

Questions about adequate leadership in the fight against poverty remain open

The fight against poverty, in which TANF plays a role, may require leadership beyond departmental boundaries when activities span several state agencies. The State lacks a strategic plan to guide the overall fight against poverty and a means to oversee such efforts. As mentioned earlier, some states have established separate authorities (boards, committees, and councils, among others) to oversee, for example, statewide welfare programs. Additional work would be necessary to assess the planning and coordination needed to reduce dependence on welfare at the state level and develop recommendations for effective oversight.

During our audit, questions about effective coordination and planning for programs affecting the unemployed, low income earners, and children arose but could not be addressed. Various agencies, including the departments of Human Services and Labor and Industrial Relations and the State's counties, manage important assistance programs. Chapter 371K, Hawai'i Revised Statutes, the law governing community services, assigns responsibility for establishing statewide goals and objectives for the disadvantaged to the Office of Community Services within the Department of Labor and Industrial Relations. However, according to its director, the Department of Labor and Industrial Relations does not play a lead role, for example, in planning and coordinating statewide welfare-to-work programs. Authority and responsibility structures seem unclear and may be ineffective. Assessing the effectiveness and cooperation of overlapping and sometimes competing programs and the impact on those who depend on the government's assistance would require additional study.

Finally, increasing amounts of TANF funding have been transferred to child care and social services programs, a practice allowed under federal law. Once transferred, the funds—almost $30 million in FY2004-05—are subject to the spending rules applicable to those programs. Again, absent a strategic plan, it is not clear how effectively these programs are linked to an overall effort to fight poverty. Lacking adequate information, the public is not part of the decisionmaking process that earmarks close to a third of the annual TANF grant to these programs.

Conclusion

Federal welfare reform law has dramatically affected not only needy families but also intergovernmental relationships. It challenges states by bringing a new emphasis on program information, measurement, and performance, and reflects the federal administration's commitment to regulatory reform. Knowing this, states, including Hawai'i, must rise to the challenge and design an array of benefits, services, and supports that will accomplish the goals of the TANF program and meet their states' needs. Hawai'i cannot yet demonstrate that it has met this federal challenge. Welfare reform provides opportunities for states to work in partnership with legislators, communities, community-based organizations, and other stakeholders to serve families in new, creative and more effective ways, but the department continues to make unilateral decisions. Lack of stakeholder involvement has eroded public trust in the department. Unless improvements are made and trust restored, welfare reform efforts in Hawai'i may not be able to make optimum use of taxpayer moneys towards achieving the overall goal of moving families from welfare to work.

As the steward of TANF moneys for the state, the department plays a critical role in molding Hawai‘i’s future. With the right vision and responsible TANF decisionmaking, it can have a widespread impact on improving the lives of families in need. The people of Hawai‘i have a right to be involved in these decisions.

Recommendations

1. The Department of Human Services should commence a strategic planning process immediately to:

    a. define and document the department’s priorities, goals, and objectives, and provide relevant, quantified benchmarks, performance measures, and timeframes;

    b. incorporate stakeholder input;

    c. ensure that the development of new programs and their budgets conform to the strategic plan;

    d. provide the public with a clear picture of the department’s intent and goals, with a detailed and timely accounting of progress made;

    e. improve its contracts for services to ensure that each contract:

        (1) is properly justified and clearly linked to a documented objective;

        (2) provides quantified deliverables or outcomes, which are reported at fixed intervals to the department; and

        (3) provides for consequences if the services delivered do not meet the agreed upon criteria; and

    f. enter into contracts or contract extensions that advance established TANF goals and objectives, rather than address funding circumstances.

2. The Legislature should consider using its appropriation authority under federal law to guide the department’s TANF spending until the department makes adequate changes to its planning and accountability practices. The Legislature also should evaluate measures adopted by legislatures in other states that may provide models for strengthening oversight of TANF spending.

Notes

Chapter 2

1. *Helping Families Achieve Self-Sufficiency, A Guide on Funding Services for Children and Families through the TANF Program*, Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance

2. *Making Result-based Government Work*, Urban Institute, 2001, page 90
http://www.urban.org/UploadedPDF/results-based-stategovt.pdf

3. *The Multi-Year Program and Financial Plan and Executive Budget for the Period 2005 - 2011 (Budget Period 2005-07),* State of Hawai‘i Department of Budget and Finance
http://www.hawaii.gov/budget/memos/pfp/dhs.pdf

4. http://www.hawaii.gov/dhs/DHS%20Annual%20Report%20FY%202003-2004.pdf

5. *Contracting for Services, a National State Auditors Association Best Practices Document*, 2003
http://www.nasact.org/onlineresources/downloads/BP/06_03-Contracting_Best_Practices.pdf

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OCT - 4 2005

LINDA LINGLE
GOVERNOR

LILLIAN B. KOLLER, ESQ.
DIRECTOR

HENRY OLIVA
DEPUTY DIRECTOR

COPY

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P.O Box 339
Honolulu, Hawaii 96809-0339

September 13, 2005

Mr. David Nakada
Boys and Girls Club of Hawaii
1523 Kalakaua Avenue, Suite 202
Honolulu, HI 96826

Dear Mr. Nakada:

SUBJECT: SUPPLEMENTAL AGREEMENT #2 FOR FY 2005 FOR FAMILY STRENGTHENING AND TEEN PREGNANCY PREVENTION PROGRAMS FOR YOUTH SERVICE CENTER – NANAKULI (DHS-05-BESSD-2023 SA#2)

This is to provide you with a status update as promised in our Memorandum of July 5, 2005 in which we asked you to hold the Supplemental Agreement in abeyance until further notice.

Due to unexpected restrictions placed by the Legislature on our ability to use federal funds to expand programs and services for needy children and families, we have insufficient appropriations to fund the planned 25% increase of programs and services covered by this Supplemental Agreement. The State must therefore terminate Supplemental Agreement Number 2 to Agreement DHS-04-BESSD-2023 pursuant to Section 1.1 of the General Conditions of the Agreement because of the unavailability of funds which were to be used to fund the increased payment in Supplemental Agreement #2.

Please note that the agreement, as amended by Supplemental Agreement Number 1, remains in effect until its expiration, or unless it is otherwise amended in writing by further agreement. Please continue to provide programs and services based on the previously executed Agreement and/or Supplemental Agreement Number 1.

Your patience and understanding in this matter is appreciated. Should you have any questions, please feel free to contact Mr. Pankaj Bhanot, Employment and Child Care Program Administrator, at (808) 586-7062.

Sincerely,

Lillian B. Koller, Esq.
Director

AN EQUAL OPPORTUNITY AGENCY

STATE OF HAWAII

DEPT. NO. 9

B.F. NO.

COMPTROLLER'S NO.

REQUEST FOR TRANSFER OF FUNDS

BUDGET AND FINANCE
JUN 13 2005
RECEIVED

DATE: Jun 09, 2005

TO: DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE

Request is hereby made for the approval of the following transfer of funds:

DEPARTMENT HUMAN SERVICES

[signature]
Head of Department

TC	F	YR	APP	D	OTHER INFORMATION	AMOUNT FROM		AMOUNT TO	
xxx	x	xx	xxx	xx		xxxxxxxxxxx	xx	xxxxxxxxxxx	xx
473	S	05	220	K	HMS 220 - Rental Housing Services	2,000,000	00		
473	S	05	219	K	HMS 222 - Rental Assistance Services	8,000,000	00		
473	S	05	214	K	HMS 227 - Housing Finance	2,800,000	00		
473	S	05	212	K	HMS 501 - Youth Services Administration	1,556,401	00		
473	S	05	224	K	HMS 501 - Youth Services Administration	686,100	00		
473	S	05	222	K	HMS 502 - Youth Services Program	147,150	00		
473	S	05	223	K	HMS 503 - Youth Residential Programs	350,474	00		
473	S	05	233	K	HMS 902 - General Support for Health Care Payments	4,070,000	00		
473	S	05	201	K	HMS 201 - Temporary Assistance to Needy Families	10,000,000	00		
473	S	05	236	K	HMS 236 - Eligibility Determination and Employment Related Services	110,728	00		
473	S	05	206	K	HMS 237 - Employment and Training	477,714	00		
473	S	05	215	K	HMS 302 - Child Care Services	86,000	00		
473	S	05	225	K	HMS 305 - Child Care Payments	8,000,000	00		
473	S	05	238	K	HMS 238 - Disability Determination	100,000	00		
473	S	05	282	K	HMS 802 - Vocational Rehabilitation	900,000	00		
474	S	05	227	K	HMS 903 - General Support for Benefit, Employment and Support Services			39,284,567	00

STATUS OF APPROPRIATION

EXPENDITURES TO END OF PREVIOUS MONTH	REQUIREMENTS TO END OF FISCAL YEAR	TOTAL REQUIREMENTS FISCAL YEAR	ALLOCATION BEFORE TRANSFER	TRANSFER - FROM + TO	ALLOCATION AFTER TRANSFER

RECOMMENDED FOR APPROVAL: APPROVED: DATE:

DATE

CHIEF, BUDGET PLANNING AND MANAGEMENT

DIRECTOR OF FINANCE

INSTRUCTIONS: Prepare in triplicate and submit all copies to Department of Budget and Finance. State fully the necessary details for making this transfer on reverse side.

STATE ACCOUNTING FORM A-21
JULY 1, 1999 (REVISED)

REASON FOR TRANSFER

The Department of Human Services is seeking the immediate transfer of excess appropriated federal fund ceiling amounts from various departmental Program I.D.s to HMS 903, General Support for Benefit, Employment and Support Services. The excess appropriated federal fund ceiling amounts will be utilized in HMS 903 for the expenditure of Temporary Assistance to Needy Families (TANF) federal funds.

Under the TANF program, funds must be expended for assistance to needy families; promotion of job preparation, work and marriage; reduction of out-of-wedlock pregnancies; and formation and maintenance of two-parent families. However, the federal *Brown Amendment* prohibits the State from expending the TANF funds unless the funds are appropriated in the State budget. By transferring excess appropriated federal fund ceiling amounts from various departmental Program I.D.s into HMS 903, the Department will be able to appropriately expend available TANF funds for purposes that meet TANF program requirements, providing needed services to clients in the community.

Pursuant to Section 133 of Act 200/SLH 2003, which permits transfers of funds between State programs, the Department of Human Services respectfully requests approval to transfer $39,284,567 in excess appropriated federal fund ceilings from various departmental Program I.D.s to HMS 903.

Director

DEPARTMENT OF BUDGET AND FINANCE
ROUTE SLIP

DATE: 6/30/05

TO: DHS-MSO Attn: Dick Carlson

FROM: B&F-BPPM Dean Mizusawa DM

_____ As Requested
_____ Appropriate Action
_____ Approval/Signature
_____ Comments & Recommendation
_____ Information/Your File
_____ Please Return
_____ Please See Me
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REMARKS:

The attached A-21 is being returned without action.

Appendix B Key Components of the Governing-for-results Process

- A multiyear strategic plan is reviewed annually.
- Agency and program goals are translated into measurable outcome indicators.
- Community and stakeholder input is sought to identify relevant outcomes for each program.
- Data are collected on each indicator on a regular basis (usually at least quarterly), by operating managers and submitted to higher-level officials and program staff.
- Performance reports with explanatory information are provided, especially for outcomes that fall substantially short of expectations.
- Officials review the performance reports and hold “How Are We Doing?” sessions with program staff.
- Past and projected budget outcomes are considered in preparing and reviewing the current-year budget.
- Efforts are coordinated for programs within the same agency or between agencies contributing to the same outcomes.
- Incentives are offered to personnel for sustained high levels of outcomes. Performance measures, agreed on by all parties, are part of the award determination.
- Contracts and grants include outcome targets with incentives linked to exceeding or meeting those targets.
- There is an emphasis on quality and regular internal and external reviews of data, such as the state auditor, or by internal auditors.
- Reports are readily available and accessible, on a regular basis, on achievement of key outcomes to stakeholders and stakeholder groups.

Source: Urban Institute, *Making Results-based Government Work* (2002)

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Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Human Services on January 10, 2006. A copy of the transmittal letter is included as Attachment 1. The department responded to the draft, which is included as Attachment 2.

The department objected to our finding that it lacks a clear strategy and deplored the spending limits imposed by the Legislature. It responds to our finding that the department failed to develop appropriate strategies with its compliance with federal guidelines. The department misses the point of our report. We acknowledge in our report that the federal law intends for states to develop TANF programs that meet each states' unique needs. Our findings are therefore related to the department's lack of predictability and poor accountability record for meeting Hawai'i's unique needs, not its compliance with federal rules.

Moreover, we explain that the federal law intends and empowers state legislatures to exercise necessary oversight to ensure that TANF funds are spent optimally to meet a state's unique needs. In seeking to fulfill its oversight responsibilities for TANF funds, the Hawai'i Legislature requested from the department sufficient, timely, and accurate information about its TANF plans and programs. Unable to obtain such information, the Legislature lacked confidence that the department's spending practices are meeting Hawai'i's unique needs. In this context, the Legislature weighed the risk of losing flexibility but preserving the funds against the risk of wasting the funds and having them lost for good. Ultimately, the Legislature felt compelled to use its authority under federal law to cap the department's spending.

The department also disagreed with our finding that last minute contracts illustrate poor planning. It asserts that these contracts were for much needed services and preserved the department's flexible spending on purposes two, three, and four. Our report, however, depicts an agency focused more on spending deadlines than on receiving quality services for its money. The department's response reinforces this impression. Lacking clear plans and strategies, the public—including stakeholders and the Legislature—does not know the nature of these "much needed services" and the department's related priorities before the funds are irretrievably spent.

Further, the department states that a key performance measure for all prevention programs is "whether the youth were engaged in supervised and meaningful activities during the most vulnerable time of the day." The department's response is symptomatic of an apparent lack of understanding of *output* versus *outcome* measures. The department's measure relates to *output*—the number of youth participating in supervised and meaningful activities—which does not measure the program's achievement of TANF purpose three (prevention and reduction of out-of-wedlock pregnancies). *Outcome* measures that focus on what will be accomplished are essential for stakeholders to assess the department's achievement of this purpose.

In addition, as we point out in the report, contracts for these services do not ensure "supervised and meaningful activities" for youths. For example, contract funding for art-related activities at the Mōʻiliʻili Community Center was applied to the production of a book and unspecified senior programs, causing us to question the relevance and effectiveness of these activities to an overall goal of combating teen pregnancy.

Finally, we are gratified to learn that the department has initiated a process to develop strategies and the means to account for its efforts.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

January 12, 2006

COPY

The Honorable Lillian B. Koller
Director
Department of Human Services
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawai`i 96813

Dear Ms. Koller:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Audit of the Department of Human Services' Temporary Assistance for Needy Families*. We ask that you telephone us by Friday, January 13, 2006, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Thursday, January 19, 2006.

The Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa

Marion M. Higa
State Auditor

Enclosures

LINDA LINGLE
GOVERNOR

LILLIAN B. KOLLER, ESQ.
DIRECTOR

HENRY OLIVA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P.O. Box 339
Honolulu, Hawaii 96809

January 19, 2006

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

We are writing in response to the "Audit of the Department of Human Services' Temporary Assistance for Needy Families (TANF) Program" (Report) prepared by your office. This audit, as indicated in your letter of January 12, 2006, had three objectives. They were: (1) assess the Department's plans and strategies for the TANF program as a part of overall strategic plan for the State's reduction of citizen's dependence on welfare; (2) assess the Department's administration of federally- and state-funded service contracts under the TANF program; and (3) make recommendations as appropriate, including any proposed necessary legislation.

DEPARTMENT OF HUMAN SERVICES (DHS) RESPONSE TO LEGISLATIVE AUDIT REPORT

With regard to the specific findings of the audit, we present comments of three types. First, all incorrect statements contained within the report will be identified. Second, findings that the Department disagrees with will be identified. Finally, all findings with which the Department concurs will be noted.

Incorrect Statements

- Page 7, under the *Previous Audits* it states: "There have been no management audits of TANF since the program's inception in 1997."

  This statement is incorrect. The "Management Audit of the Department of Human Services," Report No. 97-18, focused on the First to Work (FTW) Program, which is a work program for the TANF families mandated to work under the Personal Responsibility and Work Opportunity and Reconciliation Act of 1996 (PRWORA).

- Page 21, under the section on *Token compliance with budget law subverts planning and result-oriented intent*, the report states that the Department's compliance with the measure, *percent of TANF recipients meeting work requirement* was "well below" the 50 percent level required under the Federal law.

  This statement is also incorrect. During FFY 2004 the Department still had a waiver in place to allow certain additional activities to count as work under TANF. The participation rate for FFY 2004 was 70.5% with the waiver for TANF.

  The without waiver percentage was 40.3% for FFY 2004. However, even if the Department did not have a waiver, the participation rate would have been met. This is due to the provision in Federal Law referred to as the *caseload reduction credit*. Under this provision, the participation requirement is lowered one percentage point for each 1% reduction in caseload. The Department's caseload reduction credit for FFY 2004 was 37.38%. Thus, the Department needed to perform only at a rate of 12.62%, and we far exceeded the required Federal performance even without the waiver.

<u>Findings with Which the Department Agrees</u>

- Page 9, paragraph 2, it states that the "Department's spending comports with Federal guidelines that allow states flexibility to design programs to meet unique needs." On page 11, full paragraph 2, the Report further states that the "Federal auditors determined that the state Department's spending ... falls within the Federal Department's TANF guidelines ...."

- Page 22, last paragraph, states that the "Department's established process for developing new programs and contracts is capable of satisfying state procurement laws as well as the best practices outlined [in the Report]."

- Page 15, paragraph 4, states that "*Laulima in Action* is an adolescent wellness plan."

- Page 18, full paragraph 1, states that the Department can "improve its TANF administration by adopting a performance management process, including a [comprehensive] strategic plan and meaningful accountability measures."

The Department began the process of developing its TANF strategic plan by organizing a TANF 2006 Strategic Plan Workshop on Oahu, on January 11, 2006. It was attended by various community stakeholders, including legislators, state and local government agencies, community action agencies, and advocates.

The Department has also revived the Financial Assistance Advisory Council (FAAC), a statutory body whose role is to advise the Department on financial matters including TANF. Further, the Department has recently published a request for proposals (RFP), HMS-903-06-05-S seeking the services of an expert entity to evaluate the existing prevention programs and develop meaningful performance/accountability measures.

- Pages 10-13, the Report finds that the Department's *Compliance with federal guidelines does not relieve the State of oversight responsibility.* "[A] state's oversight responsibilities rest with its legislature because state legislatures decide how to appropriate money."

  We agree with this finding and welcome the legislature and other stakeholder participation in identifying and prioritizing need for benefits, service, programs and activities pertaining to TANF.

- Page 23, full paragraph 2, it states that "we question the Department's ability to adequately monitor the growing number of contracts, given the current staffing level."

  The Department is considering various strategies and alternatives to address the staffing needs. The Department has submitted a supplemental budget request to convert four exempt positions to budgeted temporary civil service status. We will also be considering whether to request additional positions during the fiscal biennium 2007-2008.

Findings That the Department Disagrees With

- Chapter 2, *The Department's Spending Lacks a Clear Strategy*, concludes that the Department "lacks a strategic plan, benchmarks, or performance measures that outlined prioritized needs and desired results" and that justified the Legislature placing limits or controls on the Department's spending of TANF funds.

  The Department disagrees with this finding. The Office of the Auditor and the Office of the Inspector General have concluded that the Department's spending complied with the Federal guidelines that allow states flexibility to design programs to meet unique needs of its constituents.

The legislative restrictions, Section 156 of Act 178, SLH 2005, had a negative impact on the Department and the community. The Department was unable to use $35 million on much needed services in the community and this amount was lapsed into the TANF "reserve", which further restricted the use of TANF funds. The "reserve" funds can only be used for "assistance" to the eligible families, whereas current year funds can be used to further any of the four purposes of TANF.

Dr. Wade Horn, Assistant Secretary for Children and Families, U.S. Department of Health and Human Services (DHHS), during his recent visit to Hawaii (January 11-17, 2006), expressed his surprise and dismay that the State Legislature has placed restrictions on the Department's ability to flexibly spend TANF funds to address TANF purposes 2, 3 and 4 for self-sufficiency work support and prevention programs.

The Legislature made the decision to place a restriction on TANF spending despite the fact that the Department furnished all the relevant financial reports and documents to the finance committees of the Legislature. The Department's five year fiscal plan showed that the "reserve" would still be $40 million in TANF reserves in FY 2011, notwithstanding our new and expanded program. Perhaps it was an unintended consequence of the Legislature's cap on TANF flexible spending in FY 2006, but the effect of this cap was to also prevent the Department from contracting millions of dollars in unencumbered TANF funds from Federal Fiscal Year 2005. Due to the cap in State FY 2006, we lost access to the last quarter of TANF Federal funds from the last quarter of Federal FY 2005, July 1, 2005 – September 30, 2005.

- Pages 12-17, under *Department's Spending Lacks a Clear Strategy*, the Report finds that the: Department's spending on prevention program rose significantly (page 12, full paragraph 2); Department's heavy focus on teen pregnancy prevention has led to non-pursuit of other strategies to reduce welfare dependence (page 15, full paragraph 2); and Department's increased spending on teen pregnancy prevention is questionable, in the light of decreased teen pregnancy rate (page 15, last paragraph).

  PRWORA, the Federal welfare reform law, allowed states to spend TANF on any of the four stated purposes of TANF.[1] The declining welfare rolls and the extraordinary flexibility of TANF for funding a wide variety of employment and training activities, supportive services, and benefits that enable clients to get a job, keep a job, and improve their economic circumstances; have led states to shift their focus from expending TANF on "assistance" to spending it on

[1] The four purposes of TANF are to:

1. Provide assistance to **needy families**;
2. End the dependence of **needy parents** 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.

"employment and training" and a plethora of prevention programs, including teen pregnancy prevention and family strengthening.

The TANF guidelines encourage "activities that would be reasonably calculated to accomplish this purpose include: abstinence programs, visiting nurse services, and services for youth (such as counseling, teen pregnancy prevention campaigns, and after-school programs that provide supervision when school is not is session)."[2] The Department has anchored its positive youth development services and activities under purpose 3 of TANF as recommended in the TANF guidelines.

The spending of TANF funds on positive youth development services and activities, in addition to reducing teen pregnancies, provide multiple other benefits, for example, abatement of ice or drug usage, better grades, improved attendance, life skills and work preparedness.

The research has consistently shown that risky and/or delinquent behaviors among teens, particularly TANF adolescents, including crime, violence and teen pregnancy are associated with a lack of guidance, family support, adequate adult supervision, academic enrichment, appropriate developmental services, and academic and vocational training.[3].

The research has also shown that "Children who regularly attend high-quality programs have better peer relations, emotional adjustment, better grades, better conduct in school, more academic enrichment opportunities, spend less time watching TV, and have lower incidence of drug-use, violence and pregnancy."[4]

Research has further established that the teens who participate in shared activities with parents and have supportive family relationships are less likely to engage in risky behaviors in general and have a reduced risk of teen pregnancy.[5] Recent annual progress reports and other evaluations of after-

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[2] *Helping Families Achieve Self-Sufficiency: A Guide on Funding Services for Children and Families through the TANF Program,* Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance.

[3] Jan Kaplan, *Addressing the Challenges Faced by Teens in TANF Households*, Issue Notes, welfare Information Network, Vol. 8, no. 4 (July 2004). *Also see*, National Campaign to Prevent Teen Pregnancy (2003).

[4] *Working for Children and Families: Safe and Smart Afterschool Programs (2000)*. Washington, DC: U.S. Departments of Education and Justice.

[5] Jennifer Manlove, Ph.D., *et. al.*, *A Good Time: After-School Programs to reduce Teen Pregnancy*, National Campaign to Prevent Teen Pregnancy (January 2004).

school programs around the country have found "improved school attendance, and documented improved reading and/or math scores"[6] as well.

Dr. Wade Horn, Assistant Secretary for Children and Families, DHHS, while addressing the attendees at the TANF 2006 Strategic Planning Workshop organized by the Department, echoed the findings and recommendation of various research studies on positive youth development and the TANF guidelines regarding purpose 3. Dr. Horn commended the Department for implementing innovative programs and services focused on positive youth development anchored in purpose 3 of TANF.

The Department, notwithstanding decreasing teen pregnancy rates in the state, continued its proactive approach to prevent risky behaviors among youth through implementation of positive youth development programs and services anchored in purpose 3 of TANF. The programs and services ensure that our children, particularly the low-income and most vulnerable, are provided supervised quality after school activities so that they do not indulge in risky behaviors mentioned in the studies above.

The recent evaluation of the Uniting Peer Learning, Integrating New Knowledge (UPLINK) program on Molokai, a positive youth development program anchored in purpose 3 of TANF, suggests improvement in grades, increase in attendance, and engagement in positive activities. The youth who participated in the UPLINK program were able to "stay out of trouble, able to make and build relationships, and learn leadership skills." Another positive outcome of the UPLINK program was that the students learned and began exemplifying the 5 Cs (competence, confidence, character, connection and contribution)."[7]

Even though Hawaii has met minimum Federal guidelines in reducing teen pregnancy, this is not the time to sit back and rest on our laurels. We should continue our TANF investment in positive youth development programs because research data shows that a very high percentage of teen mothers become dependent on welfare and live their lives in poverty and because these programs produce multiple benefits for children and their families.

Contrary to what is suggested in the Report, the Department also implemented significant new employment and training programs for TANF/TAONF recipients on a statewide basis and is planning other welfare reduction programs.

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[6] *21st Century Community Learning Centers: Providing Quality Afterschool Learning Opportunities for America's Families* (September 2000). U.S. Department of Education. Available at http://www.ed.gov/pubs/Providing_Quality_Afterschool_Learning/report.html.

[7] UPLINK (Uniting Peer Learning, Integrating New Knowledge) Program, Molokai Intermediate School: 2005 Evaluation, Center of the Family, College of Tropical Agriculture and Human Resources, University of Hawaii.

The *Up-Front Universal Engagement* (UFUE) program was initiated in April 2004 as a pilot project for the current *Grant Diversion* (GD) program, which became effective on April 1, 2005. The purpose of this program is to screen applicants for TANF/TAONF assistance immediately at application and to quickly engage the applicants most likely to be able-bodied through assignment to a contractor. This assignment is intended to divert as many adults as possible away from the TANF program by engaging them in self-sufficient employment immediately upon entry in the UFUE/GD Program.

In October 2004, the Department implemented the *Supporting Employment Empowerment* (SEE) (also know as SEE Hawaii Work) program which is an incentive program designed to assist TANF recipients with obtaining employment, while at the same time encouraging businesses and organizations to employ these TANF recipients.

The UFUE and SEE Work Hawaii programs, during the first seven months of statewide operation, have enabled 400 participants to gain employment.

In FY 2004-2005, the Department also implemented the *About Face!* program to provide functional life skills training, skills for educational success training, work readiness or job skills training, pregnancy prevention training, and drug awareness training to the eligible at-risk TANF youth on a statewide basis to ensure that the participating youth are prepared with essential life skills, leadership skills, and for future employment.

In addition, the Department has recently expanded its *Vocational Rehabilitation Services* contracts to provide employment and training services to the mentally and physically challenged TANF/TAONF recipients.

Furthermore, we are finalizing the implementation of the *Reward Work* program designed to encourage welfare recipients to go to work. This initiative offers financial incentives that allow recipients to receive more of their welfare grant while they work in the first two years of assistance. It also rewards recipients that exit welfare for full time employment through a progressive work cash bonus system. Finally, families that exhaust their welfare eligibility can continue to receive a work subsidy as long as they work at least 20 hours each week.

The Department's new spending since 2003 on enhanced self-sufficiency and work support programs under TANF purpose 2 as well as new prevention programs anchored in TANF purpose 3, have been demonstrably successful in reducing poverty in Hawaii. For example see Exhibit 2.1 on page 12 of the Report.

This Exhibit 2.1 shows a huge reduction in cash assistance the Department achieved from 2003-04 to 2004-05. During this period, the Department greatly enhanced the welfare to work services we provide to applicants and recipients of cash assistance, to eliminate waiting lists for service that had existed in the prior administration and to ensure that as many individuals as possible would begin receiving welfare to work services as soon as they apply for welfare. **The Department achieved a reduction in cash assistance from $44,578,247 in 2003-04 to $26, 897,765 in 2004-05 (a 40 percent reduction). Also, the Department achieved for State of Hawaii a 7.4% reduction in caseload, while caseload in the U.S. declined only 3.2%.**[8] In addition to families leaving welfare for work, the percentage of adult recipients who worked and therefore only received partial benefits increased, adding to the dollar savings. The enhanced welfare to work services we provided contributed significantly to the caseload decrease and the work effort increase.

Further, the Report on pages 13 -15, criticizes the Department for last minute contracts and questionable priorities to hastily implement services. The Department's efforts were intended fund much needed services to address various issues concerning low-income families and children on a statewide basis and to preserve the Department's ability to expend TANF funds on purpose 2, 3 and 4.

The Department did not want to allow the funds to lapse to the TANF reserve on June 30, 2005, which would limit the use of TANF funds to the sole purpose of providing cash assistance instead of flexible work support and prevention programs. At that time, in June 2005, there was already more than a $100 million of TANF reserves that would last well past FY 2011.

- On page 10, the Report states that the department "utilized its spending opportunities, for example, in high-publicity media activities."

  This criticism is a reference to $513,000 of TANF funds we used for an anti-drug and alcohol abuse media campaign. It is ironic that the Report is critical of such social marketing when the Legislature in 2004 through Act 40 appropriated $2.4 million in state funds for drug prevention, including drug education and awareness. The Department's use of TANF funds to do the same thing is consistent with the Legislature's intent to use state funding for anti-drug social marketing.

- On page 17 and 18, under the section on *The Department lacks effective strategic planning and outcome management*, and Page 20, under the section on *The Department's strategies lack detail and commitment to results*, the Report states that the "director has launched initiatives without a comprehensive strategic plan and with only limited involvement of community stakeholder."

[8] ACF reported there were 1,992,143 families receiving TANF as of 3/04 and 1,928,544 families in 3/05. Recipient families in Hawaii are shown as 8,821 in 3/04 and 8,169 in 3/05 (http://www.acf.hhs.gov/programs/ofa/caseload/monthly).

We disagree with this finding. The Department relied on *Laulima in Action*, an adolescent wellness statewide strategic plan developed by a collaboration of DHS, the Department of Education (DOE), the Department of Health (DOH), and the University of Hawaii (UH) with statewide community input in 1997. This strategic plan was incorporated by DHS in our State TANF Plan with the Federal government. The Department relied on this strategic plan for all of our new spending on the positive youth development services and activities anchored in TANF purpose 3.

It has been the Department's intent to update the *Laulima in Action* strategic plan pertaining to TANF but the TANF Federal law expired on September 30, 2002. It has been extremely difficult to engage in the development of a comprehensive strategic plan for TANF in the absence of Federal guidelines and with pending reauthorization legislation looming. The Federal law has not been re-authorized by the Congress since it expired on September 30, 2002. For more than 3 years the Congress has extended PRWORA for three months at a time, while deliberating on the new welfare reform.

In December 2005 the Congress finally included some TANF changes as part of the Deficit Reduction Act (DRA) of 2005, and, if enacted, this legislation will reauthorize TANF through September 30, 2010. A final vote by the House of Representatives and Presidential signature, scheduled for early February, are necessary before this legislation can become law.

The Department took notice of imminent reauthorization of the Federal law affecting TANF and initiated the process of developing a comprehensive strategic plan for TANF by organizing a TANF 2006 Strategic Plan Workshop on Oahu, on January 11, 2006. It was attended by various community stakeholders, including legislators, state and local government agencies, community action agencies, and advocates, numbering more than 180 attendees representing all islands.

The Department has also revived the FAAC, a statutory body whose role is to advise the Department on financial matters including TANF.

Additionally, the Department has recently published a request for proposals (RFP), HMS-903-06-05-S, seeking the services of an expert entity to evaluate the existing TANF prevention programs and develop meaningful performance/accountability measures. Such measures are more difficult to develop and different from performance/accountability measures for other types of programs because prevention outcomes typically require longitudinal and correlation studies to demonstrate efficacy.

In determining priorities the DHS Director personally sought extensive community and legislative input as well as both intra- and inter-Departmental input prior to implementing programs. The Director participated in over 390 community meetings, over 650 Departmental meetings, over 115 legislative hearings and meetings and many more individual meetings with stakeholders, advocates and others affected by or working with the DHS.

- Page 21, under the section on *Token compliance with budget law subverts planning and result-oriented intent*, the Report states that the "Department has no plans to better its FY 2003-2004 performance ... [and] according to its projections as shown in Exhibit 2.4, the Department predicts it will not impact poverty until after 2011."

  We disagree with this finding. The Department did not revise its performance goals because the Federal law has not been re-authorized by the Congress since it expired on September 30, 2002, the Congress kept the TANF performance requirement at the 50 percent level during the series of three month extensions. The soon to be enacted Deficit Reduction Act (DRA) does not change participation rate requirements, recognizing that Hawaii and other states with significant caseload reductions are left with more difficult to serve populations. However, other changes made by the DRA will require major new efforts by the Department, and these will be considered as part of the strategic planning endeavor we have already begun.

  The Department plans to amend its projected performance goals based on the provisions of the DRA.

- Pages 22-26, under *Substandard Contracting Practices Inhibit Assured provider Performance*, the Report finds that the Department's contracts pertaining to the prevention programs lack performance measures to hold providers accountable for results.

  We disagree with this finding. The prevention program contracts are different in nature when compared with the work and support services contracts. The key performance measure for all prevention programs focused on positive youth development is whether the youth were engaged in supervised and meaningful activities during the most vulnerable time of the day (i.e. between 2:30 p.m. to 5:30 p.m. on school days).

  We are confident that all our prevention programs have attained or will attain this performance outcome. The national research and studies have shown that the participation of youth in quality after school programs lead to lower incidence of drug-use, violence, pregnancy, better grades, better conduct in school, more academic enrichment opportunities, improved school attendance, and documented improved reading and/or math scores.[9]

  The Legislature has funded and is continuing to fund, with State general funds, numerous similar efforts through grants-in-aid. This is so, notwithstanding the absence of quantifiable performance measures/outcomes.

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[9] See footnotes 2-7 above.

The Department assumes that the Legislature is supportive of positive youth development programs, that these programs are valuable, and that they provide the youth of our State with an opportunity to succeed in life.

The Department's $1.4 million contract with Kanu o ka 'Aina Learning 'Ohana (KALO) is justified based on the discussion above regarding the implementation of the positive youth development services/programs and activities anchored in purpose 3 of TANF. Further, KALO is afforded the same program and fiscal support as the UPLINK program on DOE campuses.

It is imperative that the Department continues to focus on the prevention programs, such as KALO and UPLINK, to provide our youth with valuable life skills and prevent them from falling into the vicious cycle of welfare dependence in the future.

Further, the Report on pages 25-26 criticizes the Department for replacing State appropriations to the State Foundation on Culture and the Arts (SFCA) with TANF Federal funds. The Department's leveraging of TANF Federal funds in fact enabled the SFCA to spend $119,208 more than was appropriated in FY 2005 State general funds according to the Executive Director of SFCA.

Audit Report Recommendations

- The Department agrees with the recommendation that it should commence the strategic planning process immediately which we have already begun in a timely manner as the TANF Federal law is being reauthorized this January.

- The Department also agrees with the recommendation that the legislature should consider using its appropriation authority under the Federal law to guide the Department's spending. However, the Department disagrees with the second part of the recommendation that the Legislature should provide "oversight" of TANF spending. The use of the word "oversight" is pejorative and unnecessary as we have demonstrated our willingness to work collaboratively with the Legislature in the expenditure of TANF. We encourage the Legislature to continue to exercise its responsibilities to determine its priorities in these areas. There is no need for the Legislature to characterize their role in setting their priorities as an "oversight" of the Department.

Conclusion

The Department would like to thank the Office of the Auditor for its findings and recommendations. We are confident that we will be able to address all valid concerns raised in the Report and implement the recommendation of commencing a strategic planning process immediately. The Department has taken every step to ensure that the TANF spending is within the DHHS TANF guidelines and established processes for developing and implementing new programs and contracted services that are capable of satisfying state procurement laws as well as the best practices in the field of procurement. We are also looking forward to engaging the Legislature and other interested stakeholders in identifying and prioritizing appropriate TANF services and benefits.

Sincerely,

Lillian B. Koller, Esq.
Director