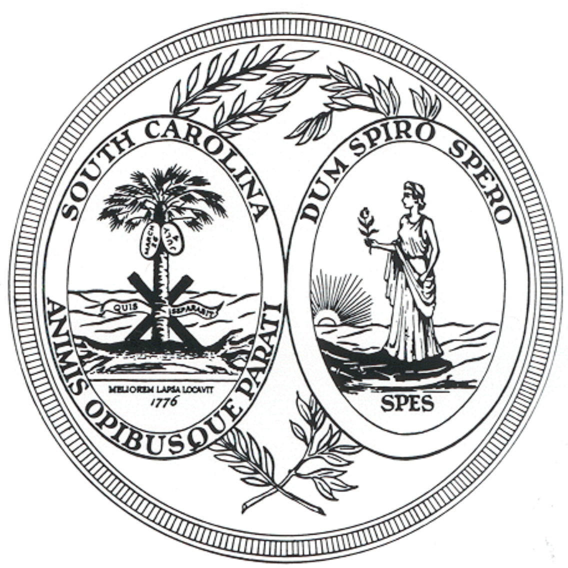
Report to the General Assembly

September 2004

A Review of the Family Independence Act 2002 – 2004



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A Review of the Family Independence Act 2002 – 2004
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LAC

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LAC/FIA-04

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Synopsis

The Family Independence Act (FIA) requires the Legislative Audit Council (LAC) to report every two years on the success and effectiveness of the policies and programs created under the act. Specifically, we are to review the three outcome measures required by S.C. Code §43-5-1285 — the number of families and individuals no longer receiving welfare, the number of individuals who have completed education and training, and the number of individuals finding employment. In addition, we followed up on the recommendations contained in our 2002 report. This is our fifth report about the family independence program and its management by the S.C. Department of Social Services (DSS). Our findings include the following.

- The number of welfare recipients has decreased over the past two calendar years. However, from August 2000 through January 2003, DSS experienced a 32% increase in welfare recipients. In the first quarter of 2003, the rolls peaked at their highest level since September 1998 before beginning to decrease. The family independence (FI) recipient rolls fell from 19,928 in January of 2002 to 18,757 in December 2003, a decrease of 5.9% over two calendar years.

- In order to receive federal funds, known as Temporary Assistance for Needy Families (TANF), DSS must ensure that FI recipients meet certain participation rates set forth by the federal government. As of April 2004, DSS was meeting the participation rate for all FI families and the rate for two-parent FI families.

- DSS's federal TANF waiver has expired. This waiver allowed DSS to exclude certain groups when calculating the state's participation rate and broaden the list of the activities that could be counted when determining the rate. The loss of the waiver could make it more difficult to meet federal participation rates and possibly result in a loss of federal funds.

- From January 2002 through December 2003, family independence recipients obtained 13,616 full-time and 6,802 part-time jobs. The majority of those jobs were in the service category (52%) followed by the clerical/sales (27%) category. The average hourly wage was $6.70, up 3% from our last review.

- The welfare leavers study found that, while there were some positive findings, there is little evidence of welfare leavers moving in large numbers from low-skilled jobs to more skilled jobs or working more regular work hours.

- After our 2002 review, DSS staff conducted a review of all agency contracts and terminated 17 of the 21 contracts cited in our report. These contracts were valued at approximately $15 million. Our 2002 review also recommended that DSS redirect $5 million in TANF funds that had been committed to the First Steps program. According to DSS staff, the First Steps agreement has been terminated and the funds were redirected to an after-school program.

- In May 2004, DSS developed a policy revising its contract procedures. The policy requires greater involvement from the procurement division and that monitoring plans be developed. However, as of August 2004, the policy had not yet been fully implemented.

Introduction

Audit Objectives

The Family Independence Act requires the Legislative Audit Council to report every two years on the success and effectiveness of the policies and programs created under the act. This is our fifth report about the family independence program and the manner in which it has been implemented by the S.C. Department of Social Services.

Our objectives for this report are:

- ❑ Identify the number of families and individuals no longer receiving welfare; the number of individuals who have completed educational, employment, and training programs under the act; and the number of individuals who have become employed and the duration of their employment.
- ❑ Review 2002 LAC audit report recommendations to determine the status of implementation.

Scope and Methodology

The period of this review was generally January 1, 2002, through December 31, 2003. We reviewed and evaluated the outcomes of the FIA, as specifically required by S.C. Code §43-5-1285, and the implementation of 2002 LAC audit report recommendations.

Information used in this report was obtained from the following sources.

- Federal and state laws and regulations.
- Interviews with DSS staff.
- Contracts and related file documentation.
- DSS studies (welfare leavers study) and external evaluations of the FI program.
- Quarterly cost allocation reports sent to the federal government, as well as other DSS financial records.

Most of the statistical information used for aggregate data on FI clients was obtained from reports generated by the client history and information profile (CHIP) system. In October 2003, DSS implemented a new data system, PATS (participation and tracking system), which is primarily used to calculate the work participation rate.

We did not perform tests on the validity and reliability of the data from these systems; however, we identified the controls over these systems. The CHIP system is used to determine eligibility and issue benefits for food stamps and the family independence program. DSS staff perform quality control reviews for the food stamp program and also review FI case files and data reports. In addition, the federal government conducts re-reviews from the cases reviewed by quality control. Data from PATS is collected monthly and reviewed for accuracy by DSS quality control staff and "alerts" are sent to county DSS directors when errors are noted. This data is forwarded to the federal government quarterly and is used to calculate the state's participation rate. While DSS's statistical data may not be totally reliable, we determined that the risk of material errors was not unreasonably high. Where this data is used, it is attributed to the audited agency.

This audit was conducted in accordance with generally accepted government auditing standards.

Background: Welfare Reform

In 1996, welfare reform dramatically changed the nation's welfare system into one that requires work in exchange for cash assistance. The new federal law created the Temporary Assistance for Needy Families (TANF) program, which replaced the former Aid to Families with Dependent Children (AFDC), ending the federal entitlement to assistance. By definition, TANF sets time limits on welfare benefits, requires able-bodied recipients to engage in work or training activities, and requires states to maintain a historical level of state spending known as maintenance of effort (MOE). With these changes to the law came new roles, responsibilities and expectations, and the end of cash assistance as an entitlement.

States have been given flexibility to design their TANF programs in ways that promote work, responsibility, and self-sufficiency, as well as strengthen two-parent families. States may use TANF funding in any manner "reasonably calculated to accomplish the purposes of TANF." These purposes are:

- To provide assistance to needy families so that children can be cared for in their own homes.
- To reduce dependency by promoting job preparation, work, and marriage.
- To prevent out-of-wedlock pregnancies.
- To encourage the formation and maintenance of two-parent families.

South Carolina FI Program

Welfare reform began in South Carolina with the passage of the Family Independence Act (FIA) in June 1995, which was implemented in January 1996. Under the FIA, the Department of Social Services is required to:

> …fundamentally change its economic services operation to emphasize employment and training with a minor welfare component. To that end, the department shall expand its employment and training program statewide….The agency shall assist welfare recipients to maximize their strengths and abilities to become gainfully employed. [S.C. Code §43-5-1115]

The FI program transformed South Carolina's welfare system into a transitional program that places a strong emphasis on participants engaging in socially responsible behavior and becoming self-sufficient through employment and employment-related activities. Except as exemptions apply, the FIA limits cash benefits to no more than 24 months out of 120 months, and no more than 60 months (5 years) within a lifetime. Those determined to be "hardship cases" may be allowed to remain on welfare beyond those time limits. Welfare recipients must also meet participation and other eligibility requirements in order to receive assistance.

In addition, South Carolina had previously been granted certain program exceptions under a waiver from the federal government in 1995. For example, the state was allowed to count hours that clients spent in work training programs or in drug rehabilitation programs in its participation rate. However, South Carolina's waiver expired on September 30, 2003. (See page 10 for a discussion of the loss of the federal waiver.)

Requirements Placed on FI Recipients

In order to receive a welfare stipend (an average of $205 monthly for a family of three with no income), FI recipients in South Carolina must meet certain requirements.

- Recipients must have a net income at or below 50% of federal poverty guidelines.
- Parents are required to participate in education, training, and/or employment when their youngest child reaches age one.
- Minor recipients must live with their parents or guardians (some exemptions apply).
- Adult recipients must enter into an agreement with DSS which requires them to take certain steps to become more self-sufficient.
- Recipients must cooperate with DSS in trying to establish paternity and collect child support from absent parents.

A participant's failure to meet any of these requirements can result in disciplinary actions or "sanctions" by DSS, which eventually can lead to the loss of FI benefits.

DSS is required to coordinate with other state agencies, including the departments of Health and Human Services, Education, Vocational Rehabilitation, Alcohol and Other Drug Abuse Services, and the Employment Security Commission.

Welfare Funding

Federal TANF funds are allocated to the states as block grants. In order to receive the full amount of federal funds allocated to the state, South Carolina is required to spend a certain amount of its own money on recipients. This is known as the state's "maintenance of effort" (MOE). The federal TANF grant to South Carolina is approximately $100 million and the required state MOE is $35.9 million.

The following table shows TANF expenditures for federal fiscal year 2002. Less than one-third of expenditures were for basic (cash) assistance. The majority of funds were spent for education, training, pregnancy prevention, and other services. DSS has reduced spending in some areas, such as pregnancy prevention, since our 2002 audit. DSS has also used federal TANF funds, which could have been expended on FI recipients, to offset state budget cuts in the agency's human services programs, where allowable under TANF law.

Table 1.1: FFY 01-02 TANF Expenditures

	Federal	State	Total
Total TANF Award	$99,967,824		
Transfer to DHHS for Block Grants for Child Care and Social Services*	(11,469,782)		
Revised TANF Award	$88,471,042		
Expenditures for Assistance			
Basic Assistance	$21,043,864	$14,327,524	$35,371,388
Transportation/Other Support	$2,830,968	$81,815	$2,912,783
Sub-Total	$23,874,832	$14,409,339	$38,284,171
Expenditures for Non-Assistance			
Education & Training	$18,998,869	$9,017,945	$28,016,814
Other Work Activities	$11,582,758	$1,315,359	$12,898,117
Transportation/Other	$0	$4,085,269	$4,085,269
Child Care	$1,268,068	$36,848	$1,304,916
Pregnancy Prevention	$3,220,867	$0	$3,220,867
Administration	$5,752,262	$3,824,392	$9,576,654
Information Systems	$2,543,623	$1,695,749	$4,239,372
Other**	$21,229,763	$1,541,839	$22,771,602
Sub-Total	$64,596,210	$21,517,401	$86,113,611
Total Program	$88,471,042	$35,926,740	$124,397,782

* As of December 2003, grants are administered by DSS.

** "Other" primarily involves expenditures for foster care, including salaries for foster care workers, and emergency rent and utilities.

Source: August 2003 financial report of expenditures and estimates for TANF.

Data About FI Recipients

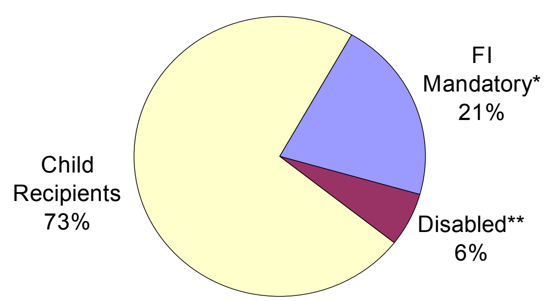
In this chapter, we provide information on the three measures required by the Family Independence Act.

- The number of families and individuals no longer receiving welfare.
- The number of individuals who have completed educational, employment, and training programs.
- The number of individuals who have become employed and the duration of their employment.

Families and Individuals on Welfare

As of December 2003, 45,592 individuals were receiving welfare in South Carolina. Of this number, 2,873 adults were categorized as disabled and 9,594 were categorized as mandatory, meaning that the recipient is required to participate in a work, education, or training program. Seventy-three percent of family independence (FI) recipients were children (see Chart 2.1), and 42% of the family independence cases were composed of child-only cases, meaning that the adult caretaker was not counted in the benefit group.

Chart 2.1: Family Independence Recipients, December 2003



* Mandatory clients are required to participate in a work, education, or training program.
** Disabled clients are disabled, caring for a disabled family member, or at least 6 months pregnant.

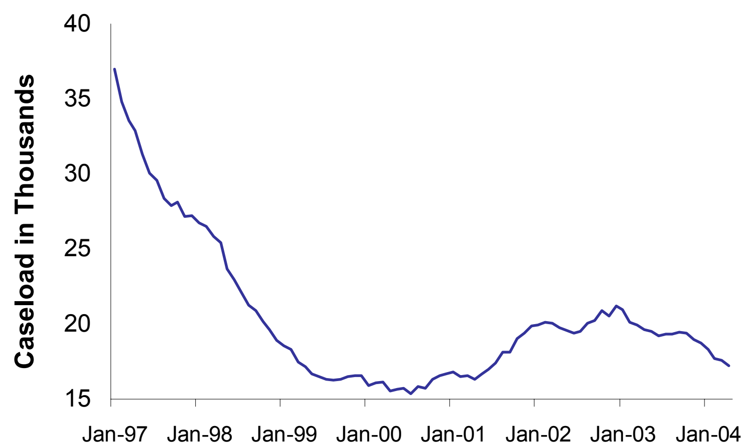
Source: DSS statistical reports.

Decrease in Welfare Recipients

Over a 24-month period (January 2002 through December 2003), the welfare rolls in South Carolina, and across the United States, went down. However, from August 2000 through January 2003, DSS experienced a 32% increase in welfare recipients. DSS staff believes this increase was primarily due to the downturn in the economy. In the first quarter of 2003, the rolls peaked at their highest level since September 1998 before beginning to decrease in the second quarter of 2003. According to DSS statistical reports, the FI client rolls fell from 19,928 in January 2002 to 18,757 in December 2003 (see Chart 2.2), a decrease of 5.9% over two calendar years. The average FI caseload, or households receiving FI, has dropped 2.74% from 2002 to 2003.

This decrease is similar to earlier years, 1997 through 1999, when the number of recipients decreased. The FI caseload in December 2003 was 51% less than it was in January 1997.

Chart 2.2: Changes in the Family Independence Caseload January 1997 Through January 2004

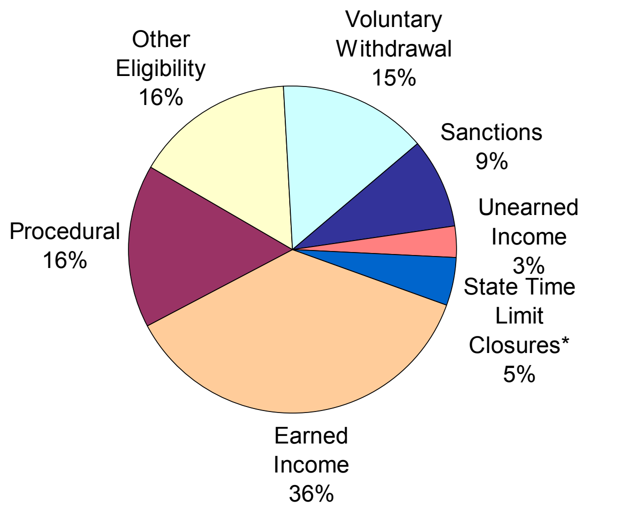


Source: DSS statistical reports.

People Leaving Welfare

From January 1, 2002 through December 31, 2003, 50,628 welfare cases were closed. The most frequently cited reason for case closure was earned income (see Chart 2.3). DSS statistics show that the number of cases closed has increased over the past two years while the reasons that they have been closed have remained relatively constant.

Chart 2.3: Reasons for Family Independence Case Closures January 2002 – December 2003



(Federal Time Limit Closures and Other Reasons are less that 1%.)

* Data collection for state time limit closures began in September 2002.

Source: DSS statistical reports.

Reasons for Decrease

According to DSS, there are several reasons why the FI caseload has decreased. These include the loss of the waiver, an increase in sanctions, state time limit closures, and voluntary withdrawals.

Loss of Federal Waiver

Due to loss of the TANF waiver in September of 2003, DSS must now comply with stricter federally-mandated participation requirements. Clients who do not meet work participation rates must be sanctioned by DSS, and have one month to meet requirements or leave the FI program. Previously, we found that, due to a new DSS policy, clients could no longer be sanctioned without the written consent of the county administrator. This policy led to a decrease in the number of recipients who were sanctioned by DSS.

Increase in Sanctions

Over the past two calendar years, the number of cases that have been closed due to sanctions has more than doubled. In 2003, DSS closed 2,767 FI cases due to sanctions (10.68% of all closures). Of the sanctions that were cited, failure to comply with the client agreement between DSS and the FI recipient was cited 2,317 times.

State Time Limit Closures

Since the Family Independence Act was signed in 1996, except as exemptions apply, FI clients may receive cash benefits for no more than 24 months out of 120 months, and no more than 60 months (5 years) within a lifetime. This group of FI clients, who have begun to meet the 60-month state time limit, make up a significant portion of the cases now being closed (8.34% of all case closures in December 2003).

Increase in Voluntary Withdrawals

Over the past two years, the number of clients that have voluntarily withdrawn from the FI program has also increased, making up 14.7% of all closures in 2002 and 2003. DSS staff stated that this may be due to the stricter participation requirements since the loss of the waiver. For example, if a full-time student was receiving FI benefits and going to school, the hours spent in school will no longer count toward the state's participation rate; therefore, the student would also be required to hold a full-time job in order to receive FI benefits. According to DSS staff, because of the lack of dependable transportation and childcare, this work requirement could be a major barrier to FI clients participating in alcohol or drug treatment programs, or going to school full time.

Number of Recipients Participating in Education and Training

In order to receive a welfare stipend, adult FI recipients are required to work or participate in education and training that can lead to full-time employment. Child-only recipients and recipients who are part of the Specialized Training and Rehabilitation (STAR) program are exempt from the work requirements (see p. 11). As of December 2003, 45% of DSS's active caseload were considered "mandatory cases," meaning the recipients were required to participate in work, education, or training activities (see Table 2.4).

Table 2.4: Number and Type of FI Cases, December 2003

Type of Case	Number of Cases	Percent of Total Cases
Mandatory	8,486	45%
Child Only	7,934	42%
STAR	2,554	13%
TOTAL	18,974	100%

Source: DSS outcome measures for December 2003.

In order to receive federal TANF funds, DSS must ensure that mandatory recipients meet certain participation rates set forth by the federal government. At least 50% of all FI families (those with at least one adult recipient) and 90% of two-parent FI families must participate in some kind of work, education, or training activities. Clients must participate an average of 30 hours per week. This is referred to as the participation rate. As of April 2004, DSS was meeting the participation rate for all FI families and the rate for two-parent FI families because of the caseload reduction credit (see p. 11).

The types of activities that qualify for participation can be divided into core and non-core activities. Core activities are those for which all hours can be counted when trying to meet the 30 hours per week requirement. These include:

- Full- or part-time work.
- Work experience.
- On-the-job training.
- Community service.
- Child care services (so that another individual can participate in community service).
- Job readiness (helping recipients learn general workplace expectations, behavior, and attitudes needed to successfully compete in the job market).
- Vocational education.

The hours spent in job readiness and vocational education activities can be counted in full, but only for a limited time. For job readiness, the limit is 6 weeks, and for vocational education the limit is 12 months in a lifetime.

Non-core activities are those with restrictions on the number of hours that can be counted toward the participation rate. For these activities to count, a person must also have at least 20 hours per week in a core activity. Non-core activities include:

- Job skills training directly related to employment.
- Educational activity directly related to employment.
- Attending high school or following a basic course of study leading to a general equivalency diploma (GED).

Table 2.5 shows the number of recipients who participated in the various activities for at least one hour in a month.

Table 2.5: Number of Recipients Who Participated in Various Activities for at Least One Hour, March – May 2004

	2004		
	March	April	May
Core Activities			
Employment	3,408	3,447	3,384
Community Service	1,664	1,513	1,625
Child Care Services	55	50	44
On-the-Job Training	34	27	26
Work Experience	357	311	285
Job Readiness*	701	660	647
Vocational Education**	281	255	238
Non-Core Activities			
Job Skills Training	483	443	365
Education Directly Related to Employment***	27	34	19
Satisfactory School Attendance***	522	498	496

* Limited to 6 weeks a year.
** Limited to 12 months in a lifetime.
*** Includes teens under 20, for which this is considered a core activity.

Source: DSS PATS.

Several changes have taken place that have had an effect on DSS's ability to meet the participation rates. These include the expiration of the federal waiver, the creation of the STAR program, the availability of programs, and the use of the caseload reduction credit. These changes are discussed below.

Federal Waiver

When the federal TANF act was passed in 1996, South Carolina was granted a seven-year waiver to operate its TANF program outside of specific federal regulations in two areas.

Exclusion of Recipients

South Carolina was allowed to exclude from the participation rate calculation certain groups of recipients, such as the disabled, those caring for the disabled, and mothers with a child under age one. Without the waiver, DSS estimated that its mandatory caseload (those required to participate in work, education, or training activities) would increase 37%.

Type of Work Activities

South Carolina was allowed to count certain activities when determining if the state was meeting the federal participation rate. South Carolina's list of countable activities was much broader than the federal list and included education, training, unlimited job-readiness activities, and counseling, when needed.

South Carolina's waiver expired on September 30, 2003. To estimate the impact of the loss of the waiver, DSS performed an analysis showing what the average participation rate would have been for the period October 2002 through September 2003 with and without the waiver. Without the waiver, South Carolina would not have been able to meet the federal participation rate for two-parent FI families and could have lost some of its federal TANF funding.

South Carolina has been able to mitigate the effect of losing the waiver through the creation of the STAR program, the use of the caseload reduction credit, and establishing new programs to serve clients.

STAR Program

In order to remain in compliance with state law requiring disabled adults and those caring for disabled family members to be exempt from mandatory work programs, DSS created a separate state program (SSP). This program allows the agency to remove a certain category of recipients from being counted when determining the state's participation rate. The Specialized Training and Rehabilitation program was established in October 2003 as South Carolina's SSP. The STAR program includes disabled individuals and those who provide care for a disabled person in their home.

As of December 2003, the STAR program included 2,554 active cases, 13% of DSS's total caseload (see Table 2.4). According to a DSS official, creation of the STAR program helped to offset the estimated 37% increase in the number of mandatory recipients that resulted from the loss of the waiver.

Caseload Reduction Credit

The caseload reduction credit is a provision in federal law that helps DSS to meet the federal participation rate by subtracting from the participation rate the amount of the credit. The credit is determined by taking the percentage difference between the average caseload in 1995 and the most recent caseload. Because of a dramatic decrease in caseload since 1995, this credit has had a significant impact on all states' abilities to meet the federal participation rate. For example, for federal fiscal year 2002, DSS's work participation goals were 50% for all FI families and 90% for two-parent FI families. South Carolina's caseload reduction credit for that year was 49.3%. This means that DSS's actual work participation goal for all families was 0.7% and for two-parent families was 40.7%.

Availability of Programs

In our 2002 report, we recommended DSS set goals to increase the number of clients in on-the-job training and work experience. We further recommended that DSS develop more activities that count toward meeting the federal participation rate and help more hard-to-place clients gain a work history.

As discussed above, the loss of the waiver has restricted the activities DSS can count for participation. DSS has tried to address these restrictions by creating new programs to serve clients. In particular, DSS created the Improving Communities and Neighborhoods (ICAN) program. This program is intended to provide a benefit to the community and help the recipient develop skills necessary for self-reliance. Recipients work at community service programs in hospitals and schools. According to a DSS official, DSS has also increased the number of recipients involved in its work experience and on-the-job training.

In our 2002 audit, we reported that DSS had contracted with Piedmont Technical College and Florence-Darlington Tech to provide training that leads directly to jobs for recipients. DSS has continued to fund these two contracts.

Possible Changes to Federal Rules

In our 2002 audit, we discussed several potential changes to participation requirements as a result of proposed changes to the federal law. The federal law has expired but has remained in effect through a series of continuing resolutions passed by the United States Congress. The most recent resolution extends the law in its current status through September 30, 2004.

There have been changes proposed to the federal law. These include:

- Increase the proportion of welfare recipients required to participate in work activities from 50% to 70% over the next five years.
- Phase out the caseload reduction credit and replace it with an employment credit OR move the base year for the credit forward from

1995 to a more recent year, which would have the effect of reducing the amount of the credit.

- Increase the required number of hours in work or other activities from 30 to 40 hours per week.

Conclusion

The expiration of the waiver and possible changes to federal law could make meeting participation rates more difficult. If DSS does not meet the rates, it could lose federal funding. In August 2003, DSS estimated the agency could lose $7.3 million in federal TANF funds during the first year with that amount increasing by $2 million every year thereafter.

Number of Individuals Employed and Duration of Their Employment

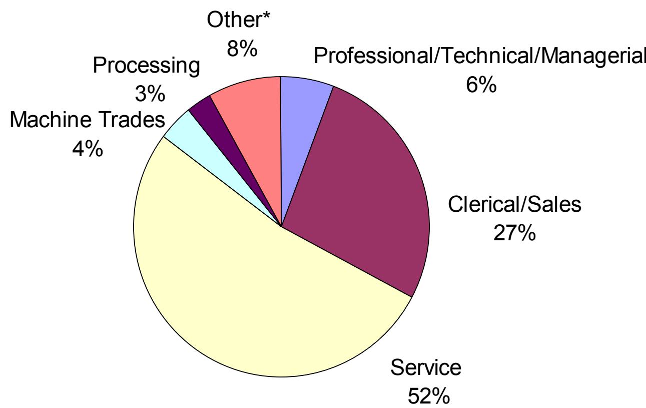
From January 2002 through December 2003, family independence clients obtained 13,616 full-time and 6,802 part-time jobs. A full-time job is 30 hours or more per week and a part-time job is 15 to 29 hours per week. Jobs do not have to be retained for a specific length of time to be counted by DSS. The average number of full-time hours per week was 35½ and the average number of part-time hours per week was almost 22 for FI clients, based on 21 months of available data. The average hourly wage for a job found by an FI client was $6.70, up 3% from our last review.

For the same two-year period, 13,964 FI cases were closed due to earnings from employment. More than one-half of all jobs obtained by FI recipients were in the service industry, with the second highest number of jobs in the clerical/sales field. See Chart 2.6 for all jobs obtained by category.

DSS maintains information on FI clients' job retention for up to one year after clients are employed. As of December 2003, an average of approximately 27% of clients who had been employed returned to the FI program within one year – an increase of 4% from our last review.

DSS has also tracked former welfare clients through a contracted study, the welfare leavers study, to determine how they are faring since leaving welfare. According to DSS officials, the agency may conduct some administrative reviews of leavers in the future, but will not be able to conduct in-depth studies due to a lack of federal funding and insufficient staff. The agency has used some of the information from the leavers study to guide program decisions.

Chart 2.6: Types of Jobs Obtained by FI Clients



* Other = Agricultural/Fishery/Forestry, Benchwork, Structural Work, Miscellaneous jobs.

Source: DSS statistical reports.

Welfare Leavers Study

In December 2002, the final report of the welfare leavers study was published. This was the third report on families who had left welfare in South Carolina between October 1998 and March 1999. These families were interviewed by telephone once each year for three years after leaving welfare to assess their overall well-being, including:

- Economic and employment status.
- Level of earnings and household income.
- Any hardships experienced since leaving welfare.
- Access to food and health care.
- The well-being of their children.

On the positive side, the study found that about 68% of the leavers were still off welfare at the time of the last round of telephone interviews and were either employed or living with an employed adult. Very few reported severe hardships since leaving welfare, even those who were unemployed. Part of the reason for this was that many of the leavers continued to rely on public assistance, such as Medicaid, food stamps, or living in public or subsidized housing. Very few respondents reported negative outcomes for their children, and most thought that their lives were better since leaving welfare.

However, the leavers contacted for the study did not make any progress in their employment rates between the first and third years after leaving the FI program. While some improvements were noted, results indicated that these former FI clients were not earning substantial wages.

Average Earnings

The average earnings increased from $1,020 per month after the first year to $1,126 per month after the second. No further increase was found in the third year.

Annualized Earnings

Approximately 60% of the employed leavers who were still off welfare had annualized earnings of $12,000 or higher; however 22% had annualized earnings of $9,000 or lower, and almost 10% had annualized earnings of $6,000 or less.

Earnings of Less than $6 Per Hour

After the first year of the study, 37% of employed leavers who were still off welfare were in jobs paying less than $6 per hour. After the second and third years, only 20% of employed leavers were making less than $6 per hour. The percentage of employed leavers making $7 per hour or higher increased from 39% after the first year to 57% after the third year.

For many of the findings in the study, the sanctioned and time-limited leavers (those clients who were regarded as “involuntary” leavers) were experiencing more hardships than those who left because they became employed. These included:

- Lower employment rates.
- Less continuity in employment.
- Low educational attainment.
- Fewer hours worked.
- Lower earnings.
- Higher percentage living at poverty level.
- Reliance on private sources of assistance such as regular gifts of money from family and friends.

South Carolina’s family independence program uses the “work first” model where the emphasis is placed on getting jobs for welfare recipients as soon as possible. While the study shows that the majority of the leavers had experienced some earnings gains in the first two years after leaving welfare, there was little evidence of welfare leavers moving in large numbers from low-skilled jobs (such as restaurant work or housekeeping) to more skilled jobs in office/clerical work, factory work, or health care. DSS expected that welfare leavers might gradually improve their employment status over time as they became more familiar with the work place and developed work experience and job skills.

The study also did not show much evidence of welfare leavers working more regular work hours, as opposed to evenings and weekends, or increasing their average weekly work hours over time. These findings would suggest that some welfare recipients would benefit from additional services while they are on welfare and after they leave welfare.

In our 2002 review, we reported that over one-half of the former FI clients in the welfare leavers study did not have their own vehicles. The latest report shows that over one-half still did not own a vehicle, and were depending on a ride with a relative, friend, or neighbor. DSS implemented a new program in 2002 offering transportation to FI clients to help them get to and from work (see below).

Programs to Help FI Clients Retain Jobs

In our last report, we noted two programs, Moving Up and Individual Development Accounts, which helped current and former FI clients. We recommended that, if proven successful, they should be expanded.

Moving Up

The Moving Up program offers assistance to former FI clients in the Pee Dee area to find jobs, pursue educational opportunities, and other services. From June 2001 through May 2004, DSS reports 1,163 employments and 339 advancements for the approximately 1,200 active clients in this six-county program. The federal research grant for this project expires in April 2005. However, according to DSS staff, the lessons learned from this project, including the importance of offering strong case management, will be incorporated into future training for FI caseworkers.

Individual Development Accounts

The Individual Development Accounts program allowed former and current clients to save money for post-secondary education, the purchase of a home, or to start or expand a business. These funds would be matched by DSS on a three-to-one basis up to the first $1,000. Over 100 accounts were established during the scope of the program. However, the contract ended in February 2003.

Wheels to Work

A new program, Wheels to Work, was established in October 2002 for Aiken, Allendale, Bamberg, Barnwell, Calhoun, and Orangeburg counties. Participants are referred from their local DSS county office for zero interest loans to purchase vehicles to use for transportation to and from work. The participants must be able to obtain a driver’s license and maintain insurance. This project is funded with TANF funds, and the grant ends in September

2005. According to DSS, as of April 15, 2004, 76 vehicles had been acquired, 74 had been placed, and the most placements (35) had been in Orangeburg county. DSS officials believe that this program is one way of addressing the transportation barriers facing many FI clients.

Transitional Services for Employed Clients

Family independence clients are eligible for transitional services for up to 24 months after leaving welfare. These services include transportation assistance, child care, Medicaid, and support services such as work uniforms, car repairs, and other work-related items. According to DSS staff, and as reported in our prior LAC audits, a lack of transportation is a significant barrier for FI clients trying to find and retain jobs. Also, child care is another significant area where FI clients need assistance.

In our last audit, DSS officials had commented that too few dollars were being budgeted for supportive services. The current need is even more apparent from this review. In FFY 02-03, DSS spent $249,702 for transitional services (excluding child care) to employed clients. This is a 67% decrease from the $760,388 which was expended in FFY 00-01.

For FFY 02-03, DSS spent approximately $2.5 million in state and federal funds on transportation for FI clients receiving a welfare stipend, and spent another $1 million for employed clients to provide transportation and other support. Both of these amounts are down from our last audit.

In previous years, DSS transferred TANF funds to DHHS for the Child Care Development Block Grant (CCDBG) and the Social Services Block Grant (SSBG) for child care assistance. In FFY 00-01, $11 million was transferred. In FFY 02-03, DSS transferred $6.6 million to DHHS; however, as of December 2003, administration for these block grants was transferred to DSS.

Education as a Barrier to Employment

Approximately 37% of adult FI clients do not have a high school diploma or equivalent. Of those surveyed in the welfare leavers study, 44% had not completed high school or obtained a GED. The study found that a high percentage of those who left welfare due to sanctions did not have a high school diploma.

Very few of those who returned to welfare mentioned child care or transportation as reasons for going back on welfare. The most common perceived barriers to leaving welfare cited by those who returned were lack of education, not being able to find a job that paid enough, and disability or illness. These findings suggest that the problem of welfare leavers returning to welfare in South Carolina cannot be resolved simply by providing assistance in areas such as child care and transportation.

According to the project director of the Moving Up program, it is difficult to place these clients in jobs because over one-half of them do not have high school degrees. At the very minimum, most jobs require a high school degree.

DSS officials are attempting to address this problem by continuing to refer clients to adult education services and technical colleges. Also, DSS supports FI clients in obtaining GEDs or diplomas by funding:

- Text books, activities, and other educational fees.
- Taking the GED exam.
- Adult education fees for literacy.
- Transportation and/or childcare expenses.

Follow-Up to 2002 Recommendations

One of our objectives was to follow up on recommendations made in our 2002 report. These included recommendations regarding the monitoring of contracts, increasing the stipend for FI recipients, using the FI outcome measures, and amending state law concerning our review of the Family Independence Act.

Current Status of Recommendations

In 2002, we reviewed 21 contracts funded almost entirely with federal TANF funds to determine how efficiently DSS managed its contracts. We found that DSS was not monitoring contractor compliance, and many of the contracts did not specify measurable, performance-based results. Also, all but one of the contracts were sole-source procurements and were not awarded based on competitive bids or proposals.

After our 2002 review, DSS staff conducted a review of all agency contracts and terminated 17 of the 21 contracts cited in our report. These contracts were valued at approximately $15 million. Our 2002 review also recommended that DSS redirect $5 million in TANF funds that had been committed to First Steps. According to DSS staff, the First Steps agreement has been terminated and the funds were redirected to an after-school program.

Contracts

In response to our 2002 audit, DSS developed a policy in May 2004 revising its contract procedures. However, as of August 2004, the policy had not yet been fully implemented. The policy states that the procurement division will work with the originator of the contract (program area) during the contract development. Each contract will have a designated “contract manager.” This DSS employee will have the ultimate responsibility for assuring that DSS obtains the goods or services which have been purchased.

The policy states that the originator of the contract in the program area will develop outcome measures and a detailed scope of service. In addition, a detailed budget and monitoring plan will be developed. Monitoring plans will address:

- The frequency and type of reviews and status reports that will be provided to the agency’s deputies.
- Comparing actual performance to agreed-upon performance indicators.
- Reviewing invoices for reasonableness of costs.
- Ensuring receipt of periodic financial and performance reports from the contracts, and reviewing the reports.

- Conducting meaningful onsite reviews and client surveys.
- Reviewing the inventory of goods or equipment, when appropriate.
- Documenting monitoring activities by keeping letters, reports, meeting notes, phone records, etc.

According to the policy, the contract manager will periodically submit brief status reports to the deputy, including information on whether the contractor is meeting performance measures. There will also be periodic random internal audits of DSS monitoring activities. DSS, as part of this policy, has developed a "Contractor's Compliance Guide" which summarizes items which need to be reviewed by DSS when dealing with a contractor.

At the time of this review, DSS had four contracts in effect which served FI clients totaling $2.6 million. We recommended in 2002 that DSS give first priority for TANF funds to contracts that meet the most critical needs of FI clients and award contracts based on the strategic goals for the FI program. As discussed earlier (see p. 4), DSS has redirected TANF funds to the agency's human services programs since it was determined that these programs were more critical.

First Steps

In our 2002 review, we noted that DSS committed $5 million in TANF funds for the First Steps program under a memorandum of understanding with the Governor's Office. We recommended that DSS and the Governor's Office proceed to redirect the use of TANF funds obligated for the First Steps program. According to DSS staff, that agreement has been terminated and the funds were de-obligated in FFY 01-02. This allowed DSS to redirect TANF funds to an after-school program.

Increasing the Stipend

In our 2002 report, we recommended that DSS consider the feasibility of increasing the welfare stipends for FI clients or explore ways to use a larger portion of the TANF grant for FI clients. According to DSS, South Carolina's current benefit level is $205 for a family of three with no income. The Southeastern average monthly payment for the same size family is $241, while the national average is $422. According to DSS, it would cost $7.3 million to raise the stipend amount by $35 per month for a family of three. However, during these difficult budget times, having adequate funding to increase the benefit without reducing other needed services is the primary issue.

In order to receive the full amount of federal TANF funds, South Carolina is required to maintain a certain level of state spending on TANF. This is known as maintenance of effort (MOE). According to DSS, states may count toward their MOE funds spent on needy families by other state agencies to meet the purposes of the TANF law. According to these officials, some of the state dollars spent by the Department of Education for four-K services for needy families may qualify as TANF MOE. This would allow DSS to use some of its own state funds previously used to meet the MOE requirement. DSS plans to shift money currently spent on child welfare and use it to increase the stipend to FI clients. DSS would have to amend the TANF state plan to reflect this change.

Use of FI Outcome Measures

In our previous audit, we recommended that DSS determine baseline data for family independence outcome measures, disseminate county assessments to program, policy, and oversight staff, and use county assessments for input into the FI budget. According to DSS officials, DSS's planning and quality assurance staff now distributes monthly reports concerning these measures to county and state offices. In addition, an internal budget review process was established which requires counties and state office divisions to justify their budgets before a budget review team comprised of senior staff and select county directors.

LAC Reviews

In 2002, we also concluded that DSS's reporting of its performance measures on an annual basis would result in the need for less frequent review of the FI outcomes by the Legislative Audit Council. Since 1996, the LAC has conducted five reviews of the Family Independence Act. During that time, the FI caseload has decreased dramatically. Restricting the Legislative Audit Council's review of DSS to just one program and requiring this review every two years may not be the most beneficial or cost-effective use of state resources. Broadening the programs which could be subject to audit could make DSS more accountable to the General Assembly and the public.

Recommendations

1. The General Assembly should consider amending S.C. Code §43-5-1285 to:

   - Eliminate the requirement that the Legislative Audit Council review the Family Independence Act every two years.

   - Require the Legislative Audit Council to review a Department of Social Services program every three to five years. The program would be determined by the General Assembly.

2. To ensure continued monitoring of the Family Independence Act, the General Assembly should consider amending S.C. Code §43-5-1285 to require that the Department of Social Services report on family independence outcomes every year to the Governor and the General Assembly.

Agency Comments

DSS
Serving Children and Families
KIM S. AYDLETTE, STATE DIRECTOR

September 2, 2004

HAND DELIVERY
Mr. George Schroeder
Director, Legislative Audit Council
1331 Elmwood Avenue, Suite 315
Columbia, SC 29201

Dear Mr. Schroeder:

Thank you so much for providing me an opportunity to review and comment on the final draft of your report, *A Review of the Family Independence Act 2002-2004.*

We appreciate the professionalism and attention to detail that your staff displayed throughout the audit process. We know that some of the Family Independence policy issues the Legislative Audit Council (LAC) staff dealt with were complicated and difficult to understand, but your staff managed these issues with ease.

The Department of Social Services is pleased with your recognition of the progress we have made in implementing the recommendations of your 2002 report. We are especially pleased with your recognition of the changes we have made in contract administration. As your report notes, we have reduced the number of TANF contracts from 21 to four, implemented processes to ensure competitive bidding for contracts, and developed a detailed process for contract monitoring.

Your report also notes that we de-obligated the $5 million dollars previously obligated to First Steps and redirected the funds to an after-school program. While this is true for fiscal year 01-02, the agency currently invests only $40,000 of our TANF block grant in after-school care. The remainder of the funds previously obligated to First Steps have been re-directed to the TANF program.

Again we thank you for the courtesy and assistance of your staff throughout this process.

Sincerely,

Kim S. Aydlette
State Director

KSA:dlm

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