Federal Drawdowns for the Temporary Assistance for Needy Families Program

Fiscal Years 1997 through 2001
The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Federal Drawdowns for the Temporary Assistance for Needy Families Program for fiscal years 1997 through 2001. If you would like a personal briefing, please call me at (609) 292-3700.

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Federal Drawdowns for the Temporary Assistance for Needy Families Program

Scope
We have performed an audit of the federal drawdowns for the Temporary Assistance for Needy Families (TANF) program for fiscal years 1997 through 2001.

The State of New Jersey’s federal government receivable at June 30, 2001 was over $1 billion. This balance has increased from $465 million since 1997. The TANF portion of this receivable amounted to $430 million at June 30, 2001.

Objective
The objective of our audit was to verify whether TANF funds were drawn down in a timely manner.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology
Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In planning and performing our audit, we reviewed the agreement between the state treasurer and the federal government relating to the Cash Management Improvement Act (CMIA). This act prescribes rules and procedures for the transfer of funds between the federal government and the states for federal grants and other programs. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our analysis. Expenditure and revenue amounts were obtained from the Department of the Treasury, Office of Management and Budget for all federal programs. We calculated
the accounts receivable balances for those programs having significant activity and reviewed financial trends.

**Conclusion**

We found that funds for the TANF program were not drawn down in a timely manner.
TANF funds were not drawn down in a timely manner.

Cash Management

The Temporary Assistance for Needy Families (TANF) program expenditures were not properly reviewed to ensure that federal funds were drawn down in a timely manner. As of June 30, 2001, the TANF program had an outstanding receivable balance totaling $430 million. Approximately $350 million pertained to costs incurred between fiscal years 1997 and 2000.

The TANF program is administered by the Department of Human Services (DHS). The federal Cash Management Improvement Act of 1990 requires states to minimize the amount of time lapsed between the disbursement of federal funds and the transfer of funds between the federal government and the states. The agreement between the U.S. Treasury and the State of New Jersey specifies that federal funds requested for the TANF program shall be the lesser of the quarterly grant award or the quarterly estimate of expenditures, divided by the number of biweekly pay periods in the quarter. Drawdowns were not consistent with the level of expenditures. Management took a conservative approach in drawing down funds to avoid potential federal penalties. However, oversight was inadequate to ensure that allowable costs were drawn down timely.

During January and April 2002, the department drew down approximately $280 million pertaining to expenditures prior to June 2000. The timely request and transfer of sufficient federal funds would improve the state’s cash flow and either increase investment earnings or reduce the state’s requirement for short-term borrowing.

The department has recently revised their methodology to provide for a more timely drawdown of federal funds.
**Recommendation**

We recommend that the department periodically review federal expenditures to ensure that funds are drawn down in a timely manner.

**Auditee’s Response**

TANF is a complex program with unique Federal funding and reporting requirements and processes. It requires State maintenance-of-effort (MOE) in regard to State funding participation and provides a capped amount of Federal funding. In addition, it allows for the transfer of funds under certain circumstances to the Social Services Block Grant and the Child Care and Development Block Grant.

It must be noted that due to the complexities of the program the use of the state accounting system, (CFS) to determine the amount of TANF funds available to be drawn down, at a point in time, would not be entirely appropriate. Funding advances to county welfare agencies or child care providers, which can be material, are identified as expenditures in CFS but are not eligible for federal reimbursement until expended and reported by the recipient agency for eligible services. The period of time between the expenditure being reported in CFS and when it becomes federally reimbursable can be lengthy. TANF funds transferred to the block grants are subject to the reporting requirements of the receiving program. As such, payments made in a current period may be charged back to a prior year in CFS. This could lead to an incorrect conclusion that TANF funds would have been eligible to be drawn in that prior year.

It was indicated in the draft report that the department took a conservative approach in drawing down TANF funds. It should be noted, however, that the funds were being drawn down in accordance with the provisions of the Cash Management and Improvement Act (CMIA) and with TANF program funding guidelines that were in effect during the audit period. These guidelines state that the State could be penalized by an amount equal to 5 percent of its TANF State Family Assistance Grant if it
draws down TANF funds outside the parameters of the CMIA agreement. This could result in penalties to the State in excess of $20 million per grant year. These guidelines indicate that the draw down of Federal funds should not exceed the federally funded portion of TANF expenditures taking into account the MOE requirement. With MOE representing approximately 45 percent of the total TANF related expenditures, draw downs of Federal funds could not exceed 55 percent of expenditures at any one time including those made from CFS TANF accounts.

With the issuance of revised TANF program funding regulations resulting from the requests of numerous States to amend the proportional draw requirement, the Department has revised our draw down methodology. As a result, we are drawing down TANF funds more expeditiously as well as continuing to maintain compliance with CMIA and TANF regulations.