South Carolina Legislative Audit Council

LAC

Report to the General Assembly

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Family Independence Contracts and Outcomes: 2000 to 2002

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Family Independence Contracts and Outcomes: 2000 to 2002
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Synopsis

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 fourth report about the Family Independence program and its management by the S.C. Department of Social Services (DSS).

We focused on how DSS has used welfare funds to contract with other state agencies and private organizations for services to low-income families. Federal Temporary Assistance to Needy Families (TANF) funds, together with state matching funds, are the primary sources of funding for the Family Independence program. In addition, we reviewed the three outcome measures as required by S.C. Code §43-5-1285 — the number of individuals no longer receiving welfare, the number of clients participating in education and training, and the number finding employment. Our findings include the following:

- We reviewed 21 DSS contracts, with a total budget of about $35 million in TANF funds, that were sole-source procurements. DSS committed these funds without first testing the market to ensure these contractors were the most qualified and cost-effective.

- DSS justified the sole-source procurements on the basis that each organization offered a unique program or was the only organization in the state providing the desired service. We found that several of the contracted services were available from several sources.

- DSS does not adequately monitor TANF-funded contracts for fiscal accountability, contractor compliance, or effectiveness of outcomes.

- Many contracts we reviewed did not clearly spell out program specifications such as the number and type of clients to be served, desired client outcomes, payment methodologies and schedules, and reporting requirements.

- DSS committed $712,598 in state and federal funds to a management and consulting contract that was competitively bid. However, the contract, as written, did not ensure effective or cost-efficient services.

- In September 1999, DSS committed $5 million in TANF funds for the First Steps program under a memorandum of understanding with the Governor's Office. As of the end of FY 01-02, only $542,758 had been spent. The First Steps program was appropriated $20.9 million in state funds for FY 02-03.

- The number of welfare recipients has increased for the first time since welfare reform was initiated. Welfare rolls have grown in South Carolina, as well as in other states, primarily because of a weaker economy. The number of welfare recipients in December 2001 was 24% more than the number in January 2000. Average monthly caseloads during this time increased 11%.

- About 57% of adult welfare recipients in South Carolina were participating in work or education and training that could lead to work. This rate met current federal requirements for TANF funding.

- It could be extremely difficult for DSS to meet new federal requirements for the number of clients participating in work and training activities. Proposed federal standards may require DSS to deal with more clients and develop more work and training opportunities for them.

- Family Independence recipients obtained 13,512 full-time jobs and 5,245 part-time jobs; however, about 23% of recipients who were employed returned to the FI program within one year. The average hourly wage of $6.53 was a 7% increase over the previous two years.

- Having transportation and child care on a sustainable and affordable basis is an on-going issue for both FI clients and working, low-income families. Transportation remains as the chief barrier to FI clients seeking self-reliance; in FFY 00-01 DSS spent $6 million on transportation for current and former FI clients, including $760,388 for transitional services for those employed.

- The terms of the TANF-funded contracts did not always specify that Family Independence clients were to receive priority for services.

- County DSS staff are responsible for reporting performance data through a self-assessment process, but the state DSS office has not used these outcome measures to manage the Family Independence program.

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 fourth report about the Family Independence program and the manner in which it has been implemented by the S.C. Department of Social Services (DSS).

For this report, we focused on how DSS has used welfare funds to contract for various services to low-income families. Federal Temporary Assistance to Needy Families (TANF) funds, together with state matching funds, are the primary sources of funding for the Family Independence program. We reviewed a selected number of contracts to determine how DSS monitored contractor compliance, if funds were used efficiently and effectively, and if contract outcomes benefited FI clients and needy families in general. Also, S. C. Code §43-5-1285 requires that the Legislative Audit Council identify "…other data and information the council considers appropriate in reporting to the General Assembly on the effectiveness of this act."

In addition, we are required to review three outcome measures of the Family Independence program:

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

Scope and Methodology

The period of this review is generally January 1, 2000, through December 31, 2001. We focused on outcome and performance measures showing the impact of welfare reform in South Carolina. Indicators and benchmarks were derived from agency policy, federal requirements, state statutes, and program goals. Criteria for contract review involved procurement standards for ensuring equity and access, contractor effectiveness, and contract monitoring. We sought to determine whether DSS policies and expenditures helped meet the FI mandate that "…the welfare system in South Carolina …assist families in poverty to become socially and economically independent."

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.
- Welfare reform reports and evaluations from various national sources, including the Urban Institute, the National Conference of State Legislatures, and the Welfare Information Network.
- DSS's in-house studies and external evaluations of the FI program.
- Quarterly cost allocation reports sent to the federal government as well as other DSS financial records.

This review follows up on previous findings only if the issues were still relevant to the current performance of the program. We solicited input from DSS county directors through a short survey, but did not review the FI program on-site at DSS county offices.

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. We did not perform tests on the reliability of the data from this system. However, 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.

Federal welfare legislation must be re-authorized by the U. S. Congress by the end of the current federal fiscal year (October 1, 2001 – September 30, 2002). Therefore, at the time of our review, the impact of changes in federal welfare requirements on South Carolina's FI program was unknown. (This is discussed further on page 32.)

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

Background: Welfare Funding

In the mid-1990s, welfare reform was initiated both on the federal and state level. Federal welfare reform legislation created the Temporary Assistance to Needy Families (TANF) program, which provides welfare funding as a block grant to states. Federal welfare reform ended the entitlement to welfare, required adults to engage in work or training activities, and required states to contribute a specific amount of matching funds. In 1995, South Carolina passed the Family Independence Act, which also required able-bodied adults to work or participate in training and education in order to receive benefits and set time limits on cash assistance. Both federal and state-level welfare reform changed the former welfare system into one which places a strong emphasis on self-sufficiency through work and training. We review the outcomes associated with the Family Independence Act in Chapter 3.

Since federal TANF funds are allocated to states as block grants, South Carolina gets the same amount of funds each year regardless of how many individuals are receiving welfare. In order to receive the full amount of federal funds allocated to the state, South Carolina must provide a required "maintenance of effort" of state funds for the welfare program. The federal TANF grant to the state is approximately $100 million, and the required state effort is $35.8 million.

Because of the decline in welfare caseloads, South Carolina, as well as other states, had a surplus of federal TANF funds. In 1999, South Carolina had a $45,000,000 reserve created by TANF program savings accumulated in FFY 96-97 through FFY 98-99. The funds had accumulated because the size of the TANF block grant stayed the same while the welfare caseload was rapidly declining. This created an unspent balance of funds that previously would have been spent on cash stipends and other direct benefits.

States had been permitted to carry forward unspent balances and spend them without regard to fiscal year. States are still allowed to spend TANF fund balances on basic assistance to recipients. However, according to federal regulations effective October 1999, funds used for other services (defined as "non-assistance") must be obligated in the year they were allocated and then spent within the next federal fiscal year.

DSS has obligated most of its surplus federal TANF funds for contracts that provide various services to low-income families, such as literacy, after-school care, substance abuse treatment, and early childhood programs. In FFY 00-01, DSS also transferred more than $11 million in TANF funds to the Department of Health and Human Services for child care and social services block grants. Unspent TANF funds have all been obligated, and the state has no "rainy day" fund in the event caseload increases would require more funds for basic cash assistance to recipients.

The following table shows expenditures for FFY 00-01 (October 1, 2000 – September 30, 2001). Less than one-third of expenditures were for basic (cash) benefits; the majority of funds were spent for education, training, pregnancy prevention, and other services which either help recipients find employment or avoid welfare altogether. In addition, DSS had a balance of $14.4 million, most of which has been obligated. Under federal law, TANF funds can be used to serve not only welfare clients but other low-income families (under 200% of federal poverty guidelines), as long as the expenditures help accomplish the purposes of TANF (see p.17).

Table 1.1: TANF FFY 00-01 Expenditures

	FEDERAL	STATE	TOTAL
TOTAL TANF AWARD	**$99,967,824**		
Transfer to Block Grants for Child Care and Social Services	(11,351,399)		
Revised TANF Award	$88,616,425		
EXPENDITURES FOR ASSISTANCE			
Basic Assistance	16,821,825	$14,041,014	$30,862,839
Transportation/Other Support	3,860,074	149,712	4,009,786
Sub-Total	20,681,899	14,190,726	34,872,625
EXPENDITURES FOR NON-ASSISTANCE			
Education & Training	17,922,792	8,935,023	26,857,815
Other Work Activities	3,806,032	837,966	4,643,998
Transportation/Other	2,008,388	77,026	2,085,414
Child Care	0	4,085,269	4,085,269
Pregnancy Prevention	6,232,985	0	6,232,985
Administration	6,379,203	4,082,249	10,461,452
Information Systems	3,952,940	2,635,293	6,588,233
Other	13,184,231	1,083,188	14,267,419
Sub-Total	53,486,571	21,736,014	75,222,585
Total Program	$74,168,470	$35,926,740	$110,095,210
BALANCE	$14,447,955	$0	

Source: Financial Report of Expenditures and Estimates for Temporary Assistance to Needy Families.

Contracts Funded With TANF Funds

In this chapter, we reviewed how DSS has managed contracts that provide services to low-income families. The list of procurements reviewed is on page 6, and includes the following:

- *Twenty-one current contracts that were funded almost entirely with federal TANF funds and which totaled more than $35 million.*
- *An additional contract with a management and consulting firm that was funded with a mixture of TANF, state, and other funds.*
- *The 1999 memorandum of understanding between DSS and the Governor's Office which committed $5 million in TANF funds for the First Steps program.*

We found that all but one of the contracts were sole-source procurements and were not awarded based on competitive bids or proposals. DSS currently does not adequately monitor contractor compliance, and many of the contracts did not specify measurable, performance-based results. In addition, DSS did not always give current FI clients priority for TANF-funded services.

DSS Contracts Reviewed

The 21 contracts listed below were in effect and funded from 2000 through 2002. Almost all of the funding used for these contracts was from the TANF program. Four of the 21 contracts were with state agencies or technical colleges; 17 contracts were with private organizations. These 21 contracts accounted for most, but not all, of the TANF/Family Independence contracts managed by DSS. We did not include in this review contracts which ended prior to the current fiscal year, small contracts that primarily affected one county, or contracts with transportation providers for FI clients.

Contractor	Contract Date	TANF Funding
Catawba Indian Nation — Summer & After-School Program	09/29/01 – 09/28/02	$663,775
Columbia Urban League, Inc. — Arthurtown After-School Program	09/29/01 – 09/28/02	80,750
Columbia Urban League, Inc. — Employment Support Network	07/01/01 – 06/30/02	158,000
Columbia Urban League, Inc. —Youth Leadership Development Institute	05/01/00 – 04/30/02	782,560
Communities in Schools of South Carolina, Inc. — After-School Program	09/30/99 – 09/30/02	21,331,943
Family Financial Literacy, LLC — Financial Literacy	09/29/01 – 09/28/02	95,000
Florence-Darlington Technical College — Client Training	12/01/01 – 07/31/02	72,000
Paxen Group, Inc., The — About Face Summer Program for Youth	05/15/01 – 04/30/02	340,128
Paxen Group, Inc., The — Business Adventure Year-Long Youth Program	11/01/01 – 08/31/02	822,776
Piedmont Technical College — Client Training	03/01/02 – 02/28/03	141,884
Prevent Child Abuse South Carolina — Healthy Families Services	09/30/99 – 09/29/02	3,278,243
Reach Out and Read, SC — Pediatric Early Literacy Program	12/01/00 – 06/20/02	220,838
SC Alliance of Boys and Girls Clubs, Inc. — After-School Program	06/15/00 – 06/30/02	1,400,000
SC Alliance of Boys and Girls Clubs, Inc. — After-School in Jasper County	12/01/00 – 06/30/02	75,000
SC Association of Community Development Corporations	10/01/01 – 02/28/03	192,375
SC Coalition Against Domestic Violence and Sexual Assault (SCCADVASA)	04/01/01 – 03/31/03	79,300
SC Department of Alcohol and Other Drug Abuse Services (DAODAS)	10/1/01 – 09/30/02	3,742,761
SC Department of Education — Even Start Early Childhood Program	09/29/01 – 09/28/02	250,000
SC United Methodist Church Conference — Family Literacy and Fostering Families Services to Low-Income Families	01/01/02 – 12/31/02	173,541
United Way of South Carolina — Early Childhood	09/30/99 – 11/30/02	1,140,000
Wesley United Methodist Church in Columbia — After-School Program	06/30/00 – 05/31/02	195,730
	Total TANF	$35,236,604

Other Procurements Reviewed	Contract Date	TANF Funding
First Steps Memorandum of Understanding	09/30/99	$5,000,000
Performance Vistas, Inc. — Management & Consulting Contract	09/5/99 – 09/4/02	$712,598*

*Total amount committed of $712,598 was a mixture of TANF, state, and other federal funds.

Sole-Source Procurements

The 21 TANF contracts we reviewed were sole-source procurements. "Sole-source" means that DSS did not seek competition through a bid or request for proposal process, but rather determined up-front that there was only one source for the required service. This approach to contracting shows that DSS did not test the market and has no assurance that these were the most qualified and cost-effective vendors. We disagreed with DSS's decision to sole-source contracts for TANF services primarily for the following reasons:

- DSS did not adequately document that the contractors used were the only source of the services needed.
- The reasons used by DSS to justify the sole-source contracts were not specifically allowed by state law.
- Competition among contractors serves as one of the primary controls to limit price and promote quality services.

Justification for Sole Source

South Carolina Code §11-35-1560 requires that sole-source procurements by state agencies be justified in writing by an agency official. The written documentation must include a determination and basis for the proposed sole-source procurement. Also, sole-source procurements are reviewed by the Office of General Services in the State Budget and Control Board. The Office of General Services reviewed all of DSS's sole-source and emergency procurements from July 1, 1998, through June 30, 2001, in an audit published October 23, 2001. This audit included 12 of the 21 contracts we reviewed.

The procurement audit did not question the justification or basis for the sole-source contracts. According to an Office of General Services official, the contracts were appropriately made as sole-source procurements. The audit did note that one of the TANF procurements — an $8 million contract — had not been properly reported as a sole source.

The Office of General Services conducts compliance audits to ensure that agencies follow the S.C. Consolidated Procurement Code. Our review has a wider scope and focused on whether DSS used welfare funding to provide services in the most efficient and effective manner. We reviewed 17 written sole-source justifications for the TANF contracts currently in effect with private organizations. The other four contracts were with state agencies or technical colleges, and did not have written sole-source justifications.

The Family Independence Act requires DSS to coordinate with or obtain services from other state agencies and technical colleges.

There were two primary justifications DSS used for not seeking competition from private contractors:

However, most of DSS's written justifications did not specify why each individual contractor or program was the only source that could satisfy the agency's needs.

- Each organization offered a unique program or was the only organization in the state providing these kinds of services or with the specific qualities sought.
- The organization had already been providing the services, had a proven track record, or was "nationally known."

However, most of DSS's written justifications did not specify why each individual contractor or program was the only source that could satisfy the agency's needs. For example, DSS contracted with a private organization to provide family literacy services. The justification did not document why this particular literacy program was the only program that could meet DSS's needs, and, in fact, DSS was also contracting with the State Department of Education for literacy services. We found that, rather than these contractors being the only source of the required services, some services were available from several sources.

For example, DSS had six different sole-source contracts for various after-school programs, and two or more of these programs were operating in 19 counties (although not necessarily in the same school district). Many of the sole-source contracts can be categorized in one of the following service groups.

Table 2.1: Services Provided by Sole-Source Contracts

Type of Service	Number of Sole-Source Contracts
After-School Care	6
Summer Programs for Youth	3
Literacy	3
Early Childhood Services	3

Each contract had some unique characteristic or was serving a specific area or segment of the community. But we could find no basis for DSS's assertion that each contractor was the only source of the required services. For example, Communities in Schools of South Carolina, Inc., and the S.C. Alliance of Boys and Girls Clubs, Inc., both have contracts with DSS to provide after-school programs. Communities in Schools targeted students in grades 6-8 and provided its services in 46 school districts. The Alliance of Boys and Girls Clubs targeted elementary and middle school students and provided services at approximately 50 Boys and Girls Club sites. Both programs emphasized homework assistance, tutoring, self-esteem, and pregnancy prevention.

There is potential for overlap or duplication of services when two or more vendors are providing similar services. The Boys and Girls Clubs contract specified that it not provide after-school care for middle school students in districts already served by a DSS-funded, middle school after-school program. However, based on program sites listed in the contracts, we found two instances where both programs appeared to be operating in the same schools.

In the case of after-school care, there may be a need that no single contractor can fill. However, DSS could seek competition based on ability to provide services within a region or county. DSS could also have sought competition based on other factors such as cost per child or desired performance outcomes.

Other Questionable Justifications

DSS also based sole-source decisions for TANF-funded services on the fact that the contractor was nationally known or had a proven track record. This does not mean that other organizations could not provide the same level of service, and the law does not specifically allow this rationale as a basis for a sole-source procurement.

In one instance, DSS contracted with a provider of home visitation services for families expecting a child or with very young children. The rationale for the sole-source decision was that the organization used a nationally-known model for its program and had a history of positive results. The contract was awarded without a scope of services specified. DSS then advanced the contractor $500,000 to establish a pilot program in S.C. In this case, it appeared that DSS made the decision not to seek competition before it knew exactly what services the department would be paying for. In another instance, DSS advanced $159,883 to an organization for services one year before it had a contract. The sole-source justification for the contract then stated the entity was "uniquely qualified."

State regulations specify that "Sole source procurement is not permissible unless there is only a single supplier." (S.C. Reg.19-445.2105.B) The regulations give several examples of circumstances which could necessitate sole-source procurement, including when the item is needed for trial use or testing, or when the item is one of a kind. It is unclear how the two sole-source contracts mentioned above met these criteria.

Emergency Procurements

Four of the sole-source contracts we reviewed were also emergency procurements made by DSS in September 1999. All of these contracts are still in effect. S.C. Code §11-35-1570 allows emergency procurements "…only when there exists an immediate threat to public health, welfare, critical economy and efficiency, or safety under emergency conditions…and provided, that such emergency procurements shall be made with as much competition as is practicable under the circumstances." State regulations define emergency conditions:

> An emergency condition is a situation which creates a threat to public health, welfare, or safety such as may arise by reason of flood, epidemics, riots, equipment failure, fire loss, or such other reason as may be proclaimed.…The existence of such conditions must create an immediate and serious need for supplies, services, or construction that cannot be met through normal procurement methods and the lack of which would seriously threaten:
>
> (1) the functioning of State government;
> (2) the preservation or protection of property; or
> (3) the health or safety of any person.

It is questionable whether DSS's use of the surplus TANF funds for these contracts was a matter of "critical economy and efficiency."

DSS based these emergency procurements on the need to obligate surplus TANF funds before the end of the federal fiscal year. Final federal regulations that went into effect October 1, 1999, required that any unobligated funds would have to be spent only on basic assistance, which includes welfare stipends and basic benefits to individual recipients. According to DSS's written justification:

> Limiting use of reserve funds to provision of assistance would restrict radically the state's ability to use those funds for certain innovative programs that would promote purposes of the TANF program….The variety and complexity of the programs DSS administers and the breadth of the state's needs did not permit an administration that came into office in January (1999) to reach decisions about using the reserve TANF funds in time to engage in usual competitive procurements that could be completed before the mandatory obligation date of September 30, 1999.

It is questionable whether DSS's use of the surplus TANF funds for these contracts was a matter of "critical economy and efficiency." Federal law would have allowed surplus funds to be used for basic assistance and other direct benefits to welfare clients. In this audit, we have noted a need for increased training and other services for unemployed clients as well as a need for increased transportation and transitional services for those who have left welfare due to employment.

Benefits of Competition

Competition among contractors serves as one of the primary controls to limit price and promote quality services. According to the National Association of State Purchasing Officials:

> In a competitive market, the consumer, including the government purchaser, attains the highest quality goods at the lowest possible prices or cost. Where vendors must compete, they cannot elevate prices and reduce quality without suffering a loss of customers. *[State & Local Government Purchasing Principles & Practices, 2001.]*

Federal TANF requirements emphasize the attainment of certain goals for states' caseloads, such as increased participation and job placement. Contracts funded with TANF funds should help the state attain these goals. The best way to ensure vendor compliance and performance that meets DSS's needs is through the request for proposals (RFP) process. The RFP can cover in detail what DSS expects the contractor to provide and can also encourage innovation. For example, some agencies have issued RFPs that ask bidders to suggest their own program solutions and services for a client population. Many states — including Pennsylvania, Indiana, Wisconsin, Virginia, Florida, and Delaware — use the RFP process for contracts to provide services for welfare clients. For example, an Indiana official who administers TANF contracts told us that all their contracts are competitively bid.

One of the underlying purposes of the S.C. Procurement Code is to ensure fair and equitable treatment of all persons who deal with the procurement system of the state. DSS's reliance on sole-source as the procurement method for TANF-funded services did not allow other bidders fair and equitable access to government contracts. In addition, the RFP process allows for contracts to be awarded to the bidder most *responsive* to the state's needs, not necessarily the lowest bidder. However, without testing the market, DSS cannot know that it has chosen the best contractor to perform desired services, and has no way to judge cost-effectiveness of services.

Even when it is not feasible to use the RFP process, DSS could at least test the market by publishing an "Intent to Sole-Source" notice in the South Carolina Business Opportunities publication. This could generate interest from other potential contractors and allow DSS to determine if other qualified sources of services were available.

The RFP process would also help DSS more clearly define contract requirements, desired outcomes, and costs. We found that DSS had not clearly established outcome measures or unit costs in many sole-source contracts (see p. 16).

Recommendation

1. The Department of Social Services should no longer sole source TANF-funded contracts, but should instead issue a request for proposals when it seeks to purchase services for clients. The request for proposals should clearly state what services are needed, what results are expected, and how costs are to be determined.

Need for Monitoring Contractors' Performance

DSS does not adequately monitor TANF-funded contracts for fiscal accountability, contractor compliance, or effectiveness of outcomes. According to the National Institute of Governmental Purchasing, a good contract monitoring system includes:

- Periodic reports provided by the contractor.
- Careful review of reports by the agency for compliance to the written contract.
- Verification that all services were received.
- On-site inspections by the agency, if possible, to compare results to requirements listed in the contract.
- Surveying users of the services, if possible.
- Documentation of unsatisfactory performance, which is provided to the contractor in writing.

We concluded that DSS has not held TANF contractors to measurable performance-based standards. The department has no way of knowing whether the contractor has complied with the contract terms or whether clients or agency officials were satisfied with the service.

Contract Monitoring

Other than contractors self reporting, DSS has no way to know whether the services paid for were delivered. According to DSS officials, no staff have been designated to monitor the Family Independence contracts. Approximately $35 million in TANF funds has been obligated for the contracts we reviewed. Also, neither the agency's internal audit nor the division of performance assessment have been routinely assigned to review any aspect of these contracts. DSS officials have stated that these contracts should be monitored and that they are working on establishing a monitoring unit; however, it is unclear when this unit will be operational. DSS has extended at least five contracts by amendment. We could find no evidence that DSS first reviewed the contractor's performance to ensure that it was satisfactory before extending the contract.

Measurable Results

Many contracts we reviewed did not clearly spell out DSS's expectations, including the number and type of clients to be served, desired client outcomes, payment methodologies and schedules, and reporting requirements. From our review of current contracts, we concluded that 14 of them did not specify measurable client outcomes such as the actual benefit to the client that would result from program activities.

For example, two contracts with the Paxen Group, Inc., totaling $1.2 million, were to provide youth, ages 13–17, with "real world" training, including life skills, computer literacy, business perspectives, and decision-making skills. Although the contract required the contractor to provide a spreadsheet showing all youth enrolled and completing the program, no other measurable results, such as improved school grades, were required by the contract.

In July 2002, after DSS had received a draft of our report, the department obtained information from Paxen showing the number of youth attending the spring and summer sessions of the "Business Adventure" program (the second Paxen contract for $822,776.) The program was to provide 48 hours of training per student in the spring session and 72 hours in the summer. We determined that the per-client cost averaged $2,273, based on the number of individuals enrolled in either session.

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The only result reported by the contractor was the number of students showing improvement on Paxen-administered tests. This was not further elaborated, and we could not obtain any more information from DSS staff that demonstrated positive results from this expenditure.

In addition, the contractor was guaranteed a performance payment without the contract specifying the results necessary to receive this bonus. As of April 2002, DSS had paid the contractor $44,033 as a performance bonus, without questioning what it was for. It was not until DSS received a draft of the LAC report that DSS staff inquired as to what this charge included. According to the contractor, it was an 'overhead fee for certain expenses incurred by the corporate office'.

In contrast, some contractors provided DSS with third-party evaluations. An evaluation of Communities in Schools of South Carolina, Inc., for example, looked at measurable outcomes such as the number of students who improved in at least one subject or the percentage decrease of students who were suspended from school.

Reporting and Contract Language

The contracts reviewed did not address certain issues such as uniform reporting. The standard language in these contracts stated that the contractor must make available certain records, etc., but there was no requirement that the contractor provide to DSS details on the outcomes expected, the number of clients served, the cost per client (or unit of service), or other specifics regarding their services. DSS has not developed a standard form or guidelines for contractors to use when reporting to the agency.

We reviewed documentation provided by contractors to DSS to determine what information was being reported. For those who provided documentation, the method of reporting varied. We found that several contractors provided outcome measures while other contractors either provided no information or incomplete information. A lack of reporting guidelines has resulted in inconsistent reporting from contractors.

A lack of reporting guidelines has resulted in inconsistent reporting from contractors.

For example, DSS awarded a $1.1 million contract to the United Way of South Carolina, which was to award grants to local United Way entities for services to expectant parents or families of preschool children. The goal of the contract was to enhance the ability of these families to care for their children, promote school readiness for preschool children, and provide financial help to expand day care programs. The United Way provided some information to DSS; however, the level of information on measurable outcomes varied by local United Way site. For example, one site reported the actual number of children and families receiving services and achieving certain objectives, such as obtaining Social Security cards. In contrast, another site only reported that, because of its efforts, "more children enter first grade ready to learn." DSS received no documentation of this statement.

In addition to requiring a more uniform reporting system in the contract language, DSS should require contractors to perform background checks on employees dealing directly with children. While some contractors may already conduct checks on their employees, this requirement should be in the standard language of future DSS contracts.

Cost Per Client/Unit

DSS has not generally required contractors to report on the cost per client or cost per unit of service. For example, in a contract with the Department of Alcohol and Other Drug Abuse Services (DAODAS), costs per client for in-patient care and out-patient care were not negotiated or established. DSS also could not separate costs for FI clients, as opposed to other DSS clients, who were receiving services from DAODAS under this contract. DAODAS bills DSS for a standard monthly amount (annual amount of contract divided by 12 months) without regard to the number of clients served. This method is not financially prudent in that DSS should know how many FI clients are receiving services and the cost per client in order to ensure cost-effectiveness of the contract. We did, however, find at least two contracts which stipulated a “per client” rate.

Good Practices

Other states are increasingly using “performance-based” contracts which typically pay a vendor only upon certain client milestones, such as job placement, retaining a job for three months, and retaining a job for six months. When an RFP (Request for Proposal) is designed, it must be clear on what results the agency expects and that those outcomes will meet the objectives of the agency. We identified at least three states using performance-based TANF-funded contracts that pay contractors only when performance goals are met. Agencies should establish a strategic plan and related performance goals before making contracting decisions. Staff responsible for contracts should be trained in how to write an effective contract, evaluate contractor performance, and make decisions on whether to renew or rebid the contract.

Recommendations

2. The Department of Social Services should designate and train staff to review and monitor contracts providing services to Family Independence clients.

3. The Department of Social Services should revise its standard contract language to specify requirements such as uniform reporting, documenting outcome measures, and conducting background checks on employees working directly with children.

4. The Department of Social Services should establish guidelines or a format for contractors to follow for reporting outcomes to the agency.

Needs of the Core Welfare Population

For FFY 00-01, less than one-third of welfare funding was used for basic assistance, such as cash benefits to recipients. The rest was used for other services offered to both FI recipients and other low-income families (under 200% of federal poverty). Federal laws give DSS great flexibility in using TANF funds as long as the expenditures help accomplish the four purposes of TANF:

- 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.

DSS has used excess TANF funds for some contracts to provide services that are mainly targeted to low-income families. For example, much of the funds for the contracts we reviewed were for after-school care and family supportive services. These contracts fill a gap in the services needed by low-income families. They may even help prevent some families from needing welfare. However, there may be more immediate needs of FI families that DSS could be using the TANF funds to meet.

... there may be more immediate needs of FI families that DSS could be using the TANF funds to meet.

Increasing Direct Benefits to FI Clients

DSS staff, in a 1999 memorandum identifying Family Independence program needs, prioritized their recommendations for the use of unobligated TANF funds. In establishing program priorities, staff focused on the needs of the remaining, hard-to-serve clients. Their recommendations included increasing the monthly welfare payment and more funds for child care, rehabilitation services, and home visitation. Federal law would have allowed surplus funds to be used for basic assistance and other direct benefits to welfare clients– South Carolina has one of the lowest welfare benefits in the nation and has not increased it in the past 13 years. The level of benefits is not established by statute; the method of calculating the cash stipend is specified by DSS regulations.

DSS has transferred some TANF funds to child care and social services block grants. However, DSS did not implement an increase in cash benefits for FI families.

More Employment-Related Services Needed

During this review, we also identified the need for more employment-related services targeted to former and current FI clients.

- More resources are needed for services to help with job retention and sustainable employment. Welfare applications have increased in the past two years because of higher unemployment rates.
- Potential changes in federal participation requirements may require DSS to deal with more clients and develop more work and training opportunities.
- Current FI clients may need more services to become employed due to multiple barriers to employment and a lack of a GED or high school diploma.

Low-Income Versus FI Clients

The terms of the TANF-funded contracts did not always specify that FI clients were to receive priority, and several contracts served low-income or foster care clients but were not necessarily serving FI clients. In 16 of the 21 contracts we reviewed, DSS did not specifically state that FI families have priority for the services provided under the contract. For example:

- THE SOUTH CAROLINA DEPARTMENT OF ALCOHOL AND OTHER DRUG ABUSE SERVICES provides intensive outpatient case management services to DSS clients and their children who are in need of assessment and treatment for substance abuse. The target group specified in the contract is “DSS clients,” which may or may not include FI recipients. As of April 2002, only 139 of the 475 clients served under this contract were identified as clients of the Family Independence program.

- UNITED WAY OF SOUTH CAROLINA provides day care programs for children, programs for preschool children to promote school readiness, and other services to expectant mothers to enhance the ability of families to care for their children. This contract did not specify any eligibility requirements other than the clients be expectant parents or families with preschool children.

Conclusion

DSS should give priority to serving the needs of the core welfare population. One use of the TANF fund balance could have been to increase the cash benefit for FI clients, but DSS has not used this option. Current FI clients also need more services to help them become employed and keep their jobs. About 70% of current welfare recipients are former clients who have returned to welfare, which indicates they may be "hardship" cases with multiple barriers to employment. Critical program needs also include child care, transportation, and other transitional needs of employed former recipients.

Recommendations

5. The Department of Social Services should give first priority for TANF funds to contracts that meet the most critical needs of FI clients. DSS should award contracts based on the strategic goals for the FI program.

6. The Department of Social Services should consider the feasibility of increasing welfare stipends for FI clients or explore ways to use a larger portion of the TANF grant for FI clients.

Management and Consulting Contract

In September 1999, DSS entered into a three-year contract with a management and consulting firm called Performance Vistas, Inc., (PVI). PVI was the sole bidder to a request for proposals issued by DSS. Total funds committed to the contract were $712,598; about one-third of the funding came from state appropriations and the rest from TANF and other federal funds. PVI was hired to advise DSS management on systems issues and processes; provide input on the development of outcome measures and strategic planning; oversee a workload and staffing analysis; and consult with the DSS staff development and training division. We reviewed this contract, the initial RFP, the proposal, monthly reports from the contractor, and PVI's invoices for payment. We concluded that this contract, as written, did not ensure effective or cost-efficient services.

Scope of Work

Some of the services that DSS required in the request for proposals were ill-defined and broad in scope. For example, specific work requirements included:

- Evaluate and advise management on systems issues and processes associated with the assignment of additional duties and expectations of front line management.

- Propose strategies for effective planning, implementation, and operation of decisions to decentralize certain elements of management control.

- Advise management on factors critical to the overall success of the organization.

The proposal did not specify what DSS programs, systems, and staff were to be included in the contractor's scope. Results and products were not specified except that the contractor was to provide a monthly written report and that any output of the work requirements was also to be produced in writing. Given the broad scope of services, the contract allowed PVI to be involved in any activity of DSS. For example, as of its April 2002 monthly report, PVI was involved in teen pregnancy prevention planning and a re-design of the adult protective services. With such non-specific contract goals, it was difficult to determine what the results of the contract should be or whether the contract contributed to improved management of DSS programs.

No Time Frames Specified

The contract did not require a specific time frame for when tasks would be completed. The initial contract period was for one year with automatic extensions of two more years. Some of the contractor's activities, however, have been in process since 1996. The two principals of PVI have been under contract with DSS since 1995 for various consulting projects. For example:

- In 1998, the consultants conducted a workload and staffing analysis of county DSS staff for several major programs, including FI. As late as January 2002, they were still reporting activities in this area in monthly reports to DSS.

- From 1996 – 1998, the consultants helped develop management and leadership training sessions. As late as March 2002, PVI was still involved in revising the management training curriculum.

Contractor Payments Not Tied to Costs

From July 2000 through March 2002, DSS had paid Performance Vistas $420,492. However, the contractor's invoices were not based on actual cost reimbursements or number of man-hours. Rather, the contract allowed the contractor to bill DSS in monthly installments, based on the total contract amount divided by 12.

This method of reimbursement ensured that PVI received the entire contract amount regardless of the time and resources the consultants spent on DSS projects.

In the contract, PVI provided a total budget that was based on the number of man-hours, with amounts for fringe benefits, overhead, travel, supplies, and other costs. The consultants, in their monthly reports, stated the number of days spent on-site and off-site on DSS activities. However, none of these factors were used to determine reimbursements.

This method of reimbursement ensured that PVI received the entire contract amount regardless of the time and resources the consultants spent on DSS projects. Given the broad scope of this contract, a more cost-effective payment system would pay a fixed amount per hour up to a total budget amount, with documentation of actual hours spent. Payments should also be tied to contractor performance and products delivered.

Recommendation

7. The Department of Social Services should ensure that future management and consulting contracts:

   - Include specific work products with due dates.
   - Specify what programs and staff are to be involved.
   - Are based on a reimbursement system that is tied to actual work performed.

TANF Commitment for First Steps

In September 1999, DSS committed $5 million in TANF funds for the First Steps program under a memorandum of understanding (MOU) with the Governor's Office. S.C. Code §43-1-240 states that DSS "must support, as appropriate," the First Steps to School Readiness initiative. However, a review of the accounts showed that very little of the funds had been spent. Based on information obtained from DSS, $542,758 had been spent on training child care providers, purchasing school readiness videos, and a pastoral conference. The bulk of the funding in the contract was intended for grants to local communities for early childhood development and education services to those children and parents who qualify under the TANF program.

Even though the obligated TANF funds have not been spent, the First Steps program received $22 million in state funds in FY 01-02, and was appropriated $20.9 million in state funds for FY 02-03. Either the federal funds should be spent first for the First Steps program, which could help reduce the amount of state funds needed, or DSS should take steps to de-obligate this funding and use it for FI program needs.

Recommendation

8. The Governor's Office and the Department of Social Services should proceed to redirect the use of TANF funds obligated for the First Steps program.

Data About FI Clients

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 under this act.*
- *The number of individuals who have become employed and the duration of their employment.*

We found that welfare rolls have increased, primarily because of the downturn in the economy and increased jobless rates. DSS needs to develop more education, training, and work activities for FI clients to ensure that they can meet participation rates, especially since those rates may be increased when the federal law is reauthorized. Lastly, DSS should continue to provide services to FI clients to help them find and retain jobs.

Background: Welfare Reform

In 1996, welfare reform dramatically changed the nation's welfare system into one that requires work in exchange for time-limited assistance. The new federal law created the Temporary Assistance to Needy Families (TANF) program, which replaced the former AFDC (Aid to Families with Dependent Children) program and ended 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 contribute a specified amount of state matching funds.

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

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 of the following year. 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 becoming self-sufficient through employment and employment-related activities. Except as exemptions apply, the Family Independence Act limits cash benefits to no more than 24 months out of 120, 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.

While Family Independence policies closely follow those of TANF, in some instances South Carolina's legislation deviates from the federal legislation. Because South Carolina had previously been granted certain terms and conditions under a waiver from the federal government, the state can continue to follow its own program, even where it is in conflict with federal legislation.

Requirements Placed on FI Recipients

In order to receive a welfare stipend (an average of $204 monthly per family with no other income), FI recipients in South Carolina must meet certain requirements.

- Parents are required to participate in education, training, and/or employment when their youngest child reaches age one.
- Minor recipients must attend school and 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 follow any of these requirements can result in disciplinary actions or "sanctions" by DSS, which eventually can lead to the loss of FI benefits.

In order to prepare clients for work and to help them maintain employment, DSS can provide recipients and former clients with services, including:

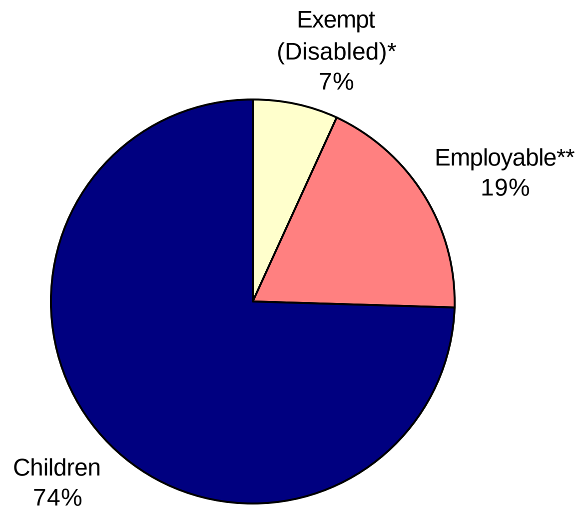
- Education and vocational training.
- Child care, transportation, and Medicaid benefits which continue for up to two years after the family leaves FI.
- Miscellaneous services such as minor car repairs, uniforms, and eyeglasses.

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

Families and Individuals on Welfare

As of December 2001, 47,247 individuals were receiving welfare in South Carolina. Of this number, 3,471 adults were categorized as disabled, and 9,318 were categorized as employable. Seventy-four percent of Family Independence recipients were children (see Graph 3.1), and 41.7% of the FI cases were composed of child-only cases, meaning that the adult caretaker was not counted in the benefit group. The proportion of children and disabled adults in the caseload has increased in the past two years, which may indicate that the more employable adults have found work and have left welfare rolls.

Graph 3.1: Welfare Recipients, December 2001



* Exempt recipients are disabled, aged, caring for a disabled family member, or at least 6 months pregnant.

** Employable recipients include mandatory clients (required to participate in a work program); clients exempt from work only because they have a child less than one year old; other clients who normally would be exempt but have volunteered to participate in work requirements; and clients whose status is unknown.

Source: DSS Client History and Information Profile (CHIP) reports.

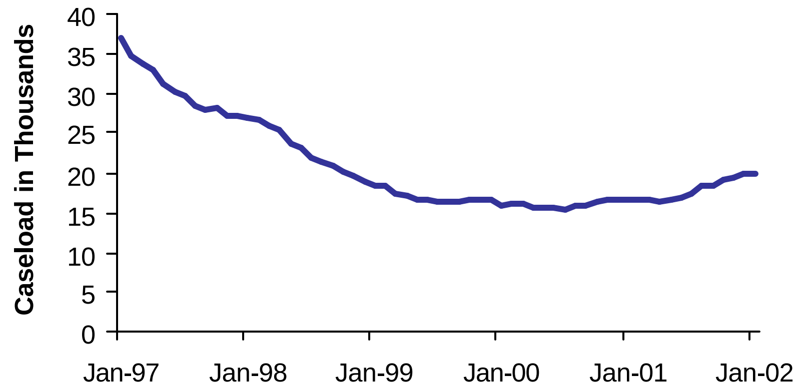
Increase in Welfare Recipients

For the first time since welfare reform was initiated, the number of welfare recipients has grown. A growing number of states, including South Carolina, have reported an increase in their welfare rolls within the past 24 months. A weakened economy and loss of jobs contributed to the increase in welfare recipients both nationally and locally.

According to DSS monthly statistical reports, by January 2000, 15,825 cases remained on the Family Independence rolls in South Carolina. At the end of December 2001, that number had risen to 19,688 cases, or 47,247 recipients — an increase of 24.4%. The average increase in monthly caseloads from 2000 to 2001 was approximately 11%.

Source: DSS Statistical Reports.

Graph 3.2: Changes in the Family Independence Caseload January 1997 – January 2002



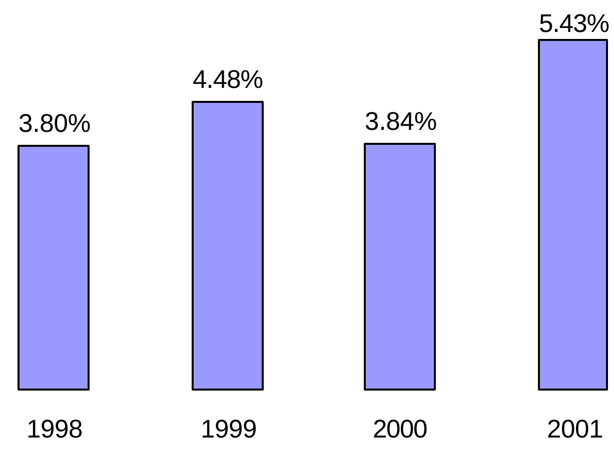
These increases are a change from earlier years when the number of recipients and the average monthly caseload were both steadily decreasing. However, even with the influx of welfare recipients, the caseload in December 2001 was still 42% less than it was in 1997.

Reasons for Increase

DSS staff has studied the reasons for the increase in the number of individuals receiving FI over the past two years. FI applications increased 13% from 2000 to 2001, an increase for which DSS staff believes a slowdown in the economy was largely responsible.

Likewise, the increase in the number of recipients has generally been with adult clients, both those considered employable and those who are disabled. The number of child-only cases has decreased. The number of individuals age 19 – 30 has increased because these may be the people affected the most by a downturn in the economy and job losses in the community. The jobless rate statewide averaged 4.48% in 1999; by 2001, it was 5.43% — a 21% increase.

Graph 3.3: South Carolina Unemployment Rate 1998 – 2001



Source: South Carolina Employment Security Commission.

According to DSS staff, the profile of welfare recipients has not changed, even though caseloads have increased. Approximately 70% of current welfare recipients had previously been on welfare, became employed, lost their jobs, and returned to welfare. The other 30% were new cases comprised of people who are coming on welfare for the first time. While the overall number of people on welfare has fluctuated over time, the percentages of people re-entering the system and those new to the system stayed the same.

A survey of DSS county directors in the 46 counties indicated that they believe one of the main reasons for the increase in the number of FI clients over the past two years, other than the economy, was the increased outreach efforts by the counties. This outreach has allowed more individuals to learn about the resources that DSS offers.

According to county directors, other factors that have contributed to the increase in the number of FI recipients over the past two years are:

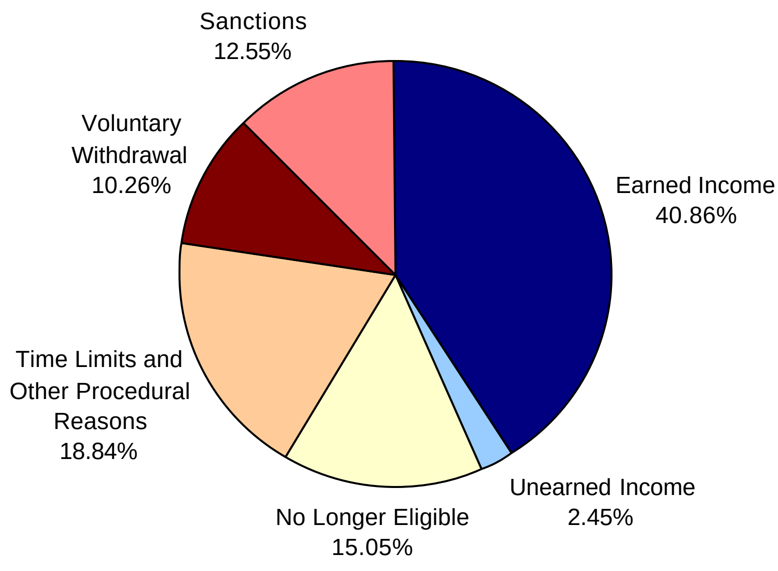
- Plant closures and subsequent layoffs.
- Families needing the support services (childcare and transportation) that FI provides.
- Hard-to-place clients remaining on the welfare rolls.

People Leaving Welfare

From January 1, 2000, through December 31, 2001, a total of 41,696 welfare cases were closed. The most frequently cited reason for case closure was earned income (41%). DSS statistics show that the number of cases closed have increased over the past two years while the reasons that they have been closed have remained relatively constant.

The one exception is the number of cases that have been closed due to sanctions, which have decreased 47% over the past two years. New DSS policy requires the caseworker to make every effort to assist the client in complying with FI requirements. If these efforts fail, the county director must approve the sanction in writing before the caseworker can take away benefits. The new policy has decreased the number of clients who left the FI program because of sanctions.

Graph 3.4: Reasons for Family Independence Case Closures January 2000 – December 2001



Source: DSS Statistical Reports.

Conclusion

Over the past two years, in South Carolina and nationally, welfare rolls have increased, largely because of the economy. The economic slowdown has had its biggest impact in South Carolina's rural counties, where it is exacerbated by a lack of transportation and the need for child care. Increased outreach efforts by counties have allowed more individuals to learn about the resources that DSS offers to clients and may account for some of the increase in the number of FI clients.

Data collected by DSS staff show that the profile of welfare recipients has not changed over the past two years. About 70% of people who are receiving welfare today are former clients who have returned to welfare. This implies that job retention and stability are key issues for former welfare recipients. DSS is attempting to work with some former clients on job retention issues, but so far, these efforts have been limited to only one area of the state (see p. 39). In order to continue past success with welfare reform and to improve employment prospects for more clients, DSS may need to focus more resources in the area of job retention and sustainable employment.

Number of Recipients Participating in Education and Training

In order to receive a welfare stipend, adult recipients are required to work or participate in education and training that can lead to work. Recipients who are disabled or caring for a child under age one are exempt from this requirement.

Both federal and state welfare laws have participation requirements. In order to receive federal TANF funds, DSS must ensure that at least 50% of the families are participating in education, training, or work activities for an average of 30 hours a week. Single parents caring for a child under age six need participate only 20 hours a week, and at least 90% of the two-parent families must participate 35 hours. In addition, states receive a "caseload reduction credit" which allows the state to meet a lower standard because of the overall decrease in welfare caseloads.

The Family Independence Act requires participants to agree to a "family support" plan which specifies a vocational goal and outlines the activities and services needed to find employment. An individual who is "job-ready" (has a high school diploma or previously worked), is enrolled in job-readiness classes and must start looking for a job. If the individual is not job-ready, Family Independence caseworkers can place him or her in education and training programs. Participation in these activities counts toward meeting the federal requirements.

Full- and part-time employment also count toward meeting the participation rate (if the client still is not earning enough to leave welfare.) DSS provides support services, such as child care and transportation, to recipients while they are participating. Welfare clients who refuse to follow their plans or participate as required are sanctioned, meaning they lose cash benefits, and can ultimately be dropped from the rolls.

Participation Rates

South Carolina's participation rate for all families (those with at least one adult recipient) was 54% for FFY 99-00 and, based on preliminary data, was 57% in FFY 00-01. This rate meets federal requirements, and means that 57% of the "mandatory" (required to participate) adults on welfare participated in an education, training, or work program an average of 30 hours a week. The participation rate for two-parent families was 78.4% and 71.6% for the two years. Even though the federal standard for two-parent participation is 90%, DSS met that standard because of the caseload reduction credit. The participation rates are calculated by the federal government based on a sample of client files provided by DSS.

While 57% participation is considered a successful program outcome and meets federal requirements, it does raise the question of what the other 43% of welfare clients are doing. According to DSS staff, there are several factors which influence participation statistics. For example, recipients can be fully complying with their family support plans but if they cannot meet the 30-hour per week average, they are not counted toward the participation rate for that month. Therefore, recipients who were sick, lacked transportation, or for other reasons missed several days of work or training, might not average 30 hours a week. A monthly DSS report showed that, on average over the two-year period, 86.6% of adult recipients were engaging in at least some level of work or training activity.

DSS does not regularly report data on how many clients have completed individual training components. For the purposes of Family Independence outcome measures, however, this information is not particularly relevant. For example, if the recipient fails to complete a training component because he or she found employment before the training was finished, that is considered a successful outcome.

More Stringent Federal Rules Possible

DSS should find more ways to help clients participate in education and training leading to employment. One reason is that federal requirements for participation may become more stringent. Congress is currently debating revisions to the nation's welfare system, since the 1996 welfare law is scheduled to expire September 30, 2002. Potential federal welfare changes that could have the greatest impact on South Carolina include stricter work participation requirements and the loss of South Carolina's waiver. Proposed federal requirements (as of April 2002) could:

- Increase the proportion of welfare recipients required to participate in work activities from 50% up to 70% over the next five years.

- Increase the required hours of work activities from 30 to 40 hours per week; 24 hours a week must be spent working and the remaining 16 hours in other activities (education, training, substance abuse counseling, etc.) that can help the recipient overcome barriers to work.

- More strictly define the kinds of activities that count as work for the 24 hours a week — only employment (subsidized and unsubsidized), work experience, on-the-job training, and community service would be allowable work activities.

- Override the state's current Family Independence waiver. DSS currently can count alcohol and drug treatment and any amount of education and job training toward meeting the participation rate. DSS can also exempt disabled adults from any work requirements and exclude them from the participation rate calculation. However, proposed changes may take away this kind of program flexibility.

... it could be extremely difficult for DSS to meet stricter federal requirements as currently proposed.

In short, DSS would have to both deal with more clients and develop more work opportunities and other "countable" activities for them. Based on the current mix of work and training programs and the number of clients participating, it could be extremely difficult for DSS to meet stricter federal requirements as currently proposed.

Client and County Needs

Current FI clients may need more services to become employed. Several welfare analysts have expressed the fear that some of the welfare recipients left on the rolls are the “hardship” cases who have multiple barriers to employment and highly specific, individual needs. As of December 2001, 2,331 FI clients were considered “not job ready” by DSS; this number had increased by almost 50% since January 2000. These are the clients who need education, training, and other services before they can become employed. Many clients may also have personal issues, such as substance abuse, illiteracy, domestic violence, or mental illness. In addition, another 2,800 clients considered job ready were not employed, which indicates that they also may need vocational training or have personal barriers. The job-readiness status for another 1,811 clients was unknown.

Another major hurdle many welfare clients face is the lack of a high school diploma, which makes it difficult to obtain full-time employment at more than minimum wage. According to DSS data, about 55% of mandatory welfare recipients do not have a high school diploma. While GED and adult education programs are available in every school district, it is up to individual county DSS caseworkers to ensure clients enroll in these programs and take the GED test.

Finally, welfare clients who do not receive services designed to help them become employed face the eventual loss of benefits due to the 24-month time limits established by the FIA. Data for calendar year 2001 show that 949 clients had to leave welfare because of the time limit on benefits.

Availability of Programs

We did find several instances where DSS had used TANF funds to create or enhance programs that help clients overcome barriers to employment. For example, DSS has contracts with the Department of Alcohol and Other Drug Abuse Services and with the S.C. Coalition Against Domestic Violence and Sexual Assault to provide services to FI clients. DSS also has a Memorandum of Understanding (MOU) with the S.C. Vocational Rehabilitation Department (VR), and refers clients who are eligible for and may benefit from VR services to obtain employment.

We could not tell from DSS’s current data reports if there were enough county resources to provide the education, training, and other services needed by these clients. In a survey of county directors, we found that about 12 of the 40 directors (30%) responding felt that there were not sufficient programs available in their counties. Rural counties in particular may not have vocational training resources available. About 65% of the county directors reported that caseworkers have difficulty in creating individual client plans with enough components so recipients are participating 30 hours a week. According to DSS staff, the state lacks resources that would both meet stricter federal mandates and help more recipients become employed. For example, on-the-job training (OJT) opportunities are not widely available. During 2000 and 2001, an average of only six clients were participating in OJT throughout the state.

DSS will need to focus its efforts on the needs of those still receiving welfare to help them overcome barriers to sustainable employment and self-reliance.

Similarly, a work experience program can help recipients obtain OJT, learn basic work habits, and improve their employability, and also would count toward meeting federal participation requirements. The recipient engages in work that is clearly defined and based on his or her vocational objective. The welfare stipend becomes the person's "salary" since the Fair Labor Standards Act requires that welfare recipients in a work experience program be compensated. However, according to FI program staff, use of work experience is limited because the calculation process to determine the added amount needed to meet the minimum wage is a manual procedure and cumbersome to calculate.

DSS currently has two contracts specifically designed to provide training that leads directly to a job for FI clients.

- Piedmont Technical College, in partnership with county DSS offices and Self Memorial Hospital in Greenwood, has developed a training and career program designed to place about 40 FI clients in entry-level jobs at the hospital. After the FI clients begin work at the hospital, they will enter an individualized training program to help them be promoted into higher-level jobs.

- Florence-Darlington Technical College has developed a training program to provide welfare clients with skills in underserved trade areas. The program will teach industrial maintenance, welding, and commercial and residential HVAC, with a total enrollment of 26 clients.

As indicated, these contracts will provide focused vocational training that leads directly into a job. However, these contracts will assist fewer than 100 clients, compared to a pool of more than 6,900 unemployed FI clients (based on December 2001 data).

Conclusion

While DSS meets federal requirements for participation in education, training, and work activities, the 6,900 unemployed clients may need increased services to help them obtain employment. DSS has used discretionary TANF funds to obtain contracts to provide targeted services, but many of these contracts are not directly related to the goal of helping FI recipients find and retain employment. While federal changes to welfare laws are not yet established, participation requirements may become more stringent. Tougher participation requirements and a more needy client base will require DSS to strengthen services for FI clients. DSS will need to focus its efforts on the needs of those still receiving welfare to help them overcome barriers to sustainable employment and self-reliance.

Recommendation

9. The Department of Social Services should set goals to increase the number of clients participating in on-the-job training and work experience, and should seek to develop more activities that count toward meeting federal participation rates and help more hard-to-place clients gain a work history.

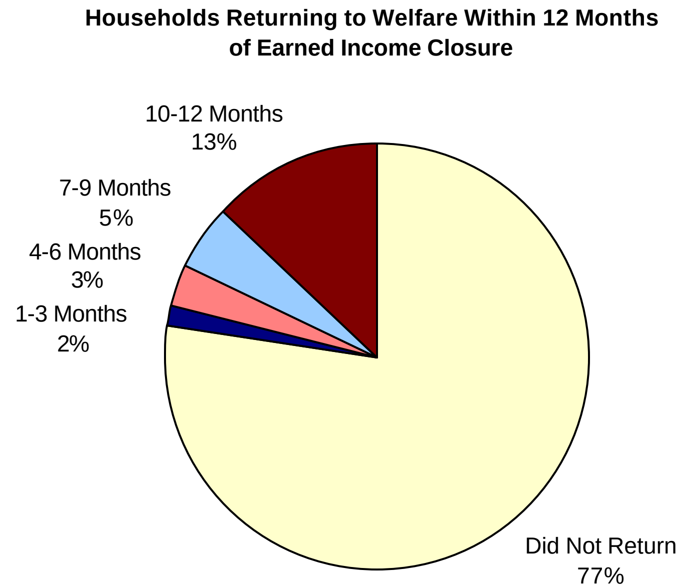
Number of Individuals Employed and Duration of Their Employment

Family Independence recipients obtained 13,512 full-time jobs and 5,245 part-time jobs from January 2000 through December 2001. Jobs do not have to be retained for a specific length of time to be counted; a job is considered to be full-time if it is 30 hours or more per week. A part-time job is 15 to 29 hours per week.

In the same two-year period, 17,037 cases were closed in the FI program due to earnings from employment. Approximately 41% of all closures were due to recipients obtaining jobs. When a client initially obtains employment, DSS allows a “disregard” of 50% of the client’s earnings for four months, which continues cash assistance for this time and gives the client a transition period before leaving welfare. The client’s case remains open until the disregard ends.

DSS tracks job retention for up to 12 months for recipients who are newly employed. As of December 2001, an average of 23% of recipients who were employed had returned to the FI program within one year. Graph 3.5 shows the number of households returning within 12 months of an earned income closure.

Graph 3.5: Job Retention, January 2000 – December 2001



Source: DSS CHIP System.

From January 2000 through December 2001, the average hourly wage for a job found by an FI recipient was $6.53 — up 7% from our 2000 review. The average wage is 27% higher than the minimum wage. For this period, individuals with full-time jobs were averaging almost 36 hours per week, and those with a part-time job were averaging 22 hours per week. Approximately one-half of all jobs obtained by FI recipients were in the service industry, with the second highest number of jobs (27%) being in the clerical/sales field.

In October 2001, there were 8,378 adult, able-bodied clients. During this same month, 839 jobs were obtained. Twenty-seven of the 40 county directors (67.5%) responding to our survey stated that it was difficult to find full-time employment for job-ready clients.

"Welfare Leavers" Study

The Department of Social Services has been trying to determine the needs, such as transportation and child care, of Family Independence clients who have left welfare. Under a federal research grant, DSS contracted with a consulting firm in June 1999 to conduct a "welfare leavers" study. The consultant followed families who left welfare in South Carolina between October 1998 and March 1999 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.

The study focused on four specific groups of welfare leavers including families who left due to earnings from employment, sanctions, the two-year time limit, or for other reasons.

In its April 2002 report, the consultant compared the status of these individuals at the end of the first year to their status at the end of the second year of the study period. The report indicated that those who left the system because they became employed were more likely to be earning a better wage and working steadily than those who left the system due to sanctions or time limits.

According to a DSS official, there will be a third and final report, expected to be published by the fall of 2002, showing the status of these clients at the end of year three. Determining the economic status of former welfare clients may give DSS some insight about how programs are working in regards to preparing families to be self-reliant. It may also aid the agency in planning for future contracted services for 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 prior LAC audits, a lack of transportation and child care are major barriers for FI clients trying to find and retain jobs. For example, all but three county directors responding to our survey reported transportation as a chief barrier keeping FI clients from becoming self-reliant. The leavers study stated in April 2002 that the percentage of all respondents who left welfare (for any reason) and owned vehicles had increased from 38% to 47%. This still leaves over one-half of the former FI clients possibly without transportation. The leavers study also examined child care needs of former FI clients, and reported that many clients were not getting financial assistance to help pay for child care. For example, 37% of respondents with pre-school children were using paid child care but less than one-half were receiving assistance from the state.

Although there is an obvious need to help FI clients maintain their employment, DSS officials stated that there are not enough TANF funds being budgeted for supportive services.

We reviewed the funds DSS allocated for child care, transportation, and other transitional services for FI clients, but further analysis of these services for FI clients was not within the scope of this audit. The department has not recently conducted a county-based analysis of FI clients' transportation needs. Therefore, it is difficult to determine the extent to which the need for transportation for FI clients is not funded. Having transportation and child care on a sustainable and affordable basis is an on-going issue for both FI clients and working, low-income families.

Transportation

For FFY 00-01, DSS spent approximately $4 million in state and federal funds on transportation for FI clients receiving a welfare stipend, and spent another $2 million for employed recipients to provide transportation and other support. The total for transportation represents only 6% of TANF expenditures. According to a DSS official, this money was primarily used for public or private "per mile" transit, but was also used for bus tokens, gas money, and car repairs. There continues to be a need for providing better transportation options, including possibly helping FI clients to purchase vehicles. According to this official, transportation is an extremely expensive service.

Of this amount, only $760,388 was expended for transitional services to employed clients (excluding child care and Medicaid.) Although there is an obvious need to help FI clients maintain their employment, DSS officials stated that there are not enough TANF funds being budgeted for supportive services.

Child Care Assistance

During FFY 00-01, DSS transferred $11 million in TANF funds to DHHS for block grants (CCDF — Child Care and Development Fund and SSBG — Social Services Block Grant), and spent another $4 million in state funds for child care. The child care funding system is managed by the Department of Health and Human Services. DSS is allowed to transfer up to 30% of the TANF block grant to CCDF and SSBG programs. According to DHHS's FY 00-01 accountability report, the total cost for the child care and development program was $65.7 million. This program's main goal is to provide low-income families with the resources to afford quality child care. While this program serves all low-income, working families, its priority is FI children. In FY 00-01, the program helped provide child care for 24,253 FI children.

It should also be noted that, although the lack of transportation and child care are still identified as major needs of former FI clients, the leavers study found that these were not significant reasons as to why people returned to the welfare system.

Employment, Retention, and Advancement

One focus of DSS has been to help clients find employment, retain their jobs, and assist them in advancing within those positions. In 2001, DSS began a five-year pilot project in the Pee Dee area called "Moving Up."

This project involves former FI clients in the counties of Chesterfield, Darlington, Dillon, Florence, Marion, and Marlboro. No matter the reason their cases were closed, former FI recipients are selected to be offered additional services to help with employment, retention, and advancement. Career consultants work with these individuals at least monthly to help them set goals. These individuals may also receive other assistance including:

- On-the-job training sponsored by DSS which reimburses employers 50% of gross wages paid to the former FI client.
- Transportation assistance (limited to four months for unemployed families).
- Transitional child care (if the individual is working full- or part-time).
- Referrals to other state agencies including Vocational Rehabilitation, Department of Mental Health, DAODAS, or the Housing Authority.

According to the “Moving Up” program coordinator, approximately 40% of former clients still living in the Pee Dee area are actively participating in this program. This DSS official characterizes the program as a “second chance” for former FI clients.

Individual Development Accounts

In October 2001, DSS entered into a contract with the S.C. Association of Community Development Corporations to help current and former FI clients save money for post-secondary education, the purchase of a home, or to start or expand a business. Each client is required to deposit a minimum of $25 monthly into the individual development account (IDA). This money will be matched by DSS on a 3 to 1 basis up to the first $1,000. During the first 18 months of this contract, 81 accounts were established in six counties. In order to be considered for additional funding, the contractor planned to open 60 new accounts. Offering FI clients matching funds for money they save is an incentive to help them plan for their futures and reach self-reliance.

Conclusion

While there is an obvious need for supportive services such as transportation and child care, DSS may not be devoting enough funds to these services. Of the approximately $35 million currently obligated in TANF contracts for low-income clients, none addresses this need.

According to the leavers study, the most common reason why people returned to the welfare system was being laid off from a job. Therefore, expanding programs such as the individual development accounts and “Moving Up” statewide may help clients after they have obtained jobs. DSS should also continue to document the status of former welfare clients to provide vital information about what services are needed.

Recommendations

10. The Department of Social Services should consider continuing the analysis of former FI clients, as was done through the welfare leavers study.

11. DSS should evaluate programs such as “Moving Up” and the individual development accounts. If proven successful, DSS should consider expanding these statewide. Additional programs which help clients retain jobs and improve wages are needed and should be developed.

Use of FI Outcome Measures

... the state DSS office has not used these outcome measures to manage the Family Independence program.

DSS has not yet fully incorporated its performance measurement process into overall management of the FI program. The Department of Social Services is attempting to shift the focus of the FI program to client outcomes. This means a focus more on program results as opposed to program policies and processes.

DSS has focused on four main outcomes — participation, job placements, improved family functioning, and client satisfaction. County DSS staff are responsible for reporting on these outcomes through a self-assessment process. Each county DSS sets goals based on community priorities and that county's individual strengths and weaknesses. Data are collected largely from the Client History and Information Profile (CHIP) system. This is the main computer system used by DSS to track client status and welfare benefits. Most of the outcomes we reported in this chapter are included in DSS's outcome measures and are routinely provided through the CHIP system. DSS is also trying, through the welfare leavers study, to follow former clients to determine whether the FI program has helped them achieve economic and social independence.

However, while the process should begin with county self-assessments, the state DSS office has not used these outcome measures to manage the Family Independence program.

- DSS did not establish baseline data as a starting point from which counties could assess their performance.
- The county self-assessments are not routinely disseminated to program, policy, and oversight staff.
- Budget and program staff do not use specific county needs to determine priorities for TANF funds.
- Current agency policy does not incorporate the county self-assessments and outcome measures with county biennial reviews performed by staff at the state DSS planning and research division.
- Counties have the option of using data that may not be from the CHIP system and which may not be externally verified for accuracy.

To be effective, the performance management process must include key staff throughout the agency and should be used as the basis for management decisions; otherwise, the effort put into collecting information would be wasted.

DSS could enhance its performance management process by ensuring that program, policy, and oversight staff are involved in the county self-assessments. DSS should continue to collect and report both county- and state-level data on FI program performance measures, and should also continue the welfare leavers study to ensure that FI policies have a positive impact. These results could be reported annually by DSS in a format established by the General Assembly. Then, it may no longer be necessary for the Legislative Audit Council to review FI outcomes every two years.

Recommendations

12. The Department of Social Services should 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.

13. The General Assembly may wish to amend S.C. Code §43-5-1285 to eliminate the requirement that the LAC review the outcomes of the FIA every two years.

14. To ensure continued monitoring of the Family Independence Act, the General Assembly should amend S.C. Code §43-5-1285 to require that:

    - DSS report on Family Independence outcomes and the welfare leavers study every year to the Governor and the General Assembly.
    - The LAC review DSS programs every 3-5 years as directed by the General Assembly.

Agency Comments

September 11, 2002

Mr. George Schroeder, Director
SC Legislative Audit Council
1331 Elmwood Avenue
Columbia, SC 29201

Dear Mr. Schroeder:

Thank you for the opportunity to respond to the Legislative Audit Council audit of the Family Independence program.

This audit was performed pursuant to S.C. Code § 43-5-1285, a provision in the state's welfare reform statute of 1995, which mandates a biennial audit of the Family Independence program to evaluate the success and effectiveness of the policies and programs created by the statute. Specifically, the General Assembly wanted information about "the number of AFDC families and individuals no longer receiving welfare, the number of individuals who have completed educational, employment, or training programs under this act, the number of individuals who have become employed and the duration of their employment" -- information which would help the members determine whether welfare reform was "working."

As the report acknowledges, the Family Independence program continues to perform very well, even in times of economic stress for the state and nation. Prior to the economic downturn, the number of welfare recipients in the state had been reduced by over 60%. Even after recent increases related to the economy, the welfare rolls remain down more than 40% from the year prior to welfare reform. President Bush, speaking in Charleston this summer, referred to South Carolina's caseload reduction as a "true success story."

Rather than focusing on the substantive issues in which the General Assembly had stated its interest, this report directs its primary attention to clerical and documentation issues related to a small percentage of TANF expenditures on after-school care, infant home visitation, and other programs that benefit poor South Carolinians and are aimed at preventing future welfare dependency.

Furthermore, the report's treatment of these contracting issues is simplistic and reflects an overly narrow view of management options in the area of contracting and contract management – a view which, if followed, would seriously limit the agency's ability to achieve the difficult and complicated objectives of the Family Independence program and other programs administered by the Department of Social Services.

Sole Source and Emergency Procurements

For instance, the report makes much of the agency's use of sole source contracts and the emergency procurement process to obligate $35 million in TANF funds that were freed up by the reduction in the number of persons receiving welfare benefits.

September 1999 Contracts. The bulk of this funding ($29.5 million) has been expended under four contracts initiated in September 1999 (including a contract with DAODAS that the report lists with a 10/1/01 contract date). As the report acknowledges, DSS entered into these contracts following a federal policy change during the summer of 1999 which would have stripped the state of its flexibility to use TANF funds for service programs if the funds were not obligated by the end of the federal fiscal year two months thereafter. This deadline could not be met without using the emergency procurement process and the sole source contractual approach.

The author of the report believes that the agency should have used the funds for direct assistance to welfare recipients (which would not have required adherence to the September 30 deadline), rather than for service programs such as after-school programs and assistance for parents of infants and toddlers. This was a policy choice; it was made by the authorized officials, and it has been shared with and accepted by the leadership of the General Assembly.

Applications for Funding. A number of the other contracts involve situations in which DSS received applications for financial support from organizations or community coalitions with an innovative program or program idea that would contribute to achieving the agency's goals. Because the agency did not have grant authority prior to July 2000, and was not set up to award grants until early 2001, funding for such projects prior to that time could only be accomplished through a sole source contract. Sole source contracts were used only where the characteristics of the vendor made it uniquely qualified to administer the type of project proposed.

Budget & Control Board Audit. **The Budget & Control Board's procurement auditors have conducted a review of most of the DSS sole-source and emergency contracts that are cited in this report, including all of those executed in September 1999, and these experts did not question the justification or basis for any of the contracts.**

Availability of Other Providers. The author of the report bases his/her questions concerning the use of the sole-source procedure on the fact that there were multiple potential contractors, citing as evidence the fact that DSS has contracts with multiple providers of both literacy and after-school programming. This conclusion is based on the seriously flawed assumption that programs are fungible just because they address the same problem; in fact, each is different in aspects such as curricula, philosophy, and community interaction. Contracting for social programs is not like buying pencils, where it doesn't really matter that much which vendor you use. It is more readily likened to hiring a band for a party, where it makes a big difference whether you get Lawrence Welk or the Rolling Stones. Different providers have significantly different products, even if they are all called, e.g., "teen pregnancy prevention." In each of the sole source contracts scrutinized in the report, the provider was uniquely qualified to provide the desired package of services to the desired client base in the desired location.

Low-Income Versus FI Clients

The report criticizes DSS for using TANF funds for services to low-income persons who are not clients of the TANF program. Again, this was a policy choice. The requirements for spending TANF funds are set by the federal government, and they do not require that the funds be used to serve only TANF clients. In fact, the federal goals for which the funds are to be used emphasize pregnancy prevention, which includes after-school programs for adolescents.

Monitoring Contractors' Performance

The report states that DSS does not adequately monitor TANF-funded contracts, and even goes so far as to say that "the department has no way of knowing whether the contractor has complied with the contract terms or whether clients or agency officials were satisfied with the service."

Discrete Monitoring Unit. This statement is not true, and demonstrates a fundamental misunderstanding of the management style of the current administration at DSS. The most that the author could accurately say is that the contract monitoring function is not structured into the agency in the expected way – that is, with a full-blown "contract monitoring" unit in the administrative branch of the agency. Currently there are limited staff in the administrative area with responsibilities for fiscal and technical aspects of contracting. The agency agrees that it would be desirable to have additional administrative staff to formally track contractor activity, but has been unable to increase staffing in this area because of budget cuts.

Multifaceted Whole-Agency Monitoring Approach. However, the absence of such an administrative unit does not evidence the lack of contract monitoring activity. In fact, we believe that the primary contract monitoring activity must be carried out by program, county and executive staff who understand the social issues being addressed, the best practice standards in the area, the unique qualities sought in the vendor, and the objectives the agency hopes to achieve through the contract.

Contracts supported with TANF funds are integrally connected with the DSS service programs that are administered by our county offices. The projects funded by these contracts take referrals from the county offices and provide services to the agency's clients. County staff interacting with these providers keep agency management informed about the quality and utilization of services.

State office program and executive staff work closely with contract providers on project planning, implementation, and evaluation. The State Director and the Deputy Director for Program, Policy & Oversight have on numerous occasions met personally with directors of the contract providers to discuss program issues, evaluation approaches, and budgets. For many of the contracts, particularly the large ones awarded in September 1999, the State Director received monthly reports for the first year of the contract period to ensure that contract activities were up and running in a timely fashion. Executive Staff, including the State Director, have made site visits to a number of contract providers, including but not limited to Women in Welding, Boys & Gils Club, Urban League, Paxen, and DAODAS' Pairs project. DSS staff also participate in advisory and planning work groups that oversee contract implementation, and they receive and review routine reports. Should any question arise concerning compliance with fiscal or administrative provisions of the contract, the Office of Audit & Quality Assessment Services conducts an audit of the program. Four of these have been conducted in the past year.

We believe that this multifaceted monitoring approach more effectively enables the agency to keep abreast of contractors' performance and to work with contractors to resolve any problems in a timely fashion. Through this monitoring approach, the agency has been able to obtain information about under-utilization, failure to meet changing agency needs, and other issues that has led to termination of several contracts, and reduction in funding or amendment to the scope of work of others.

Measurable Results. It should also be noted that meaningful outcomes are very difficult to measure in social service programs, particularly those aimed at prevention of phenomena such as future economic dependency. The agency receives data on utilization of the contracted programs and other easily measurable but superficial criteria. We are working with contractors to develop techniques for measuring more meaningful criteria. The work done by Communities in Schools in its evaluation represents the kind of qualitative performance measures we are working toward. Once we feel comfortable with these tools, we will replicate them in other after-school programs funded by the agency, and use them as a basis for developing analogous criteria for other service programs. However, it is highly unlikely that contracts of this sort will ever be appropriate for performance-based contracts as suggested in the report.

Use of FI Outcome Measures

The report states that the state DSS office has not used its outcome measures to manage the Family Independence program, citing the fact that county self-assessments are not routinely disseminated to program, policy, and oversight staff. In previous administrations, state office program staff may have had a direct role in overseeing implementation of programs at the county level. However, this administration places that responsibility on county operations staff in the State Office. County Operations staff are responsible for analyzing county self-assessments and outcome data, and working with county staff to effect needed improvements. County Operations staff also work with Program Policy and Oversight staff to assess areas in which policy changes may be needed, and assure that performance data are incorporated into management decisions, including funding decisions. Contrary to the report's conclusion, failure to assign these functions to program staff does not represent a failure to use the outcomes to manage the FI program, but merely a choice of which staff will perform this management function.

TANF Commitment for First Steps

Finally, the report highlights DSS' commitment in 1999 of $5 million in TANF funds to support the First Steps program, of which only $542,758 has been spent. From this, the report concludes that $4 ½ million are sitting at DSS unspent while scarce state dollars are being spent on First Steps.

First of all, the agreement between DSS and First Steps did not provide for DSS to provide funds directly to the First Steps program, but rather to use funds in support of the First Steps initiative. DSS had begun a process of issuing RFP's for local initiatives to create new child care programs or to improve those that already existed. However, due to the severity of DSS' FY2001 budget cuts, DSS and First Steps agreed not to go forward with this use of TANF funds, as DSS desperately needed the money for its mandated operations. Leaders of the House Ways & Means Committee were informed of this change. The above information was given to, but ignored by, the LAC audit team, whose treatment of this issue in the report is inexplicable.

As stated at the beginning of this letter, the Family Independence program is about moving families from welfare dependency to work and self-sufficiency. The agency's success in accomplishing this mission cannot be challenged. Over the past five years thousands of parents have been assisted in finding jobs and replacing welfare checks with paychecks. The Department of Social Services succeeded in this effort through hard work, determination and creativity. We used all the programs and resources available, and when those were not enough, we created new ones. Throughout this process, the agency never lost sight of our goal – to improve the lives of low-income families.

There is always room for informed and well-intentioned individuals to disagree about the details and the process for accomplishing a task. We believe the best standard is the success of the mission. We measure our success not just by the huge reduction in our welfare rolls but by the thousands of families in the state whose lives are better because of the agency's efforts.

Thank you for including these comments in your report.

Sincerely,

Elizabeth G. Patterson
State Director