REFORMING TEMPORARY ASSISTANCE FOR NEEDY FAMILIES: MISUSE OF WELFARE FUNDS LEAVES POOR FAMILIES BEHIND

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Chairman Smith, Ranking Member Neal, and members of the committee, thank you for hosting this important hearing. I am Sam Adolphsen, the Policy Director at the Foundation for Government Accountability (FGA). FGA has worked for many years on moving able-bodied adults from welfare to work, reducing fraud, and preserving resources for the truly needy.

Prior to joining FGA, I served as the Chief Operating Officer of the Maine Department of Health and Human Services (Maine HHS). In that role, I oversaw operations for Maine's welfare programs, including Temporary Aid to Needy Families (TANF), with direct oversight of the state's welfare fraud department.

TANF is a bipartisan success story, moving millions of able-bodied adults from welfare to work and giving them the hope of better lives. But more work can be done to crack down on loopholes that allow states to expand welfare beyond TANF's purpose and use TANF funds as a slush fund to cover unrelated state expenses. More work can also be done to rebalance program spending on work-related activities and combat fraud.

TANF is a bipartisan success story

In 1996, Congress passed a bipartisan overhaul of the nation's largest cash welfare program, replacing the Aid to Families with Dependent Children (AFDC) entitlement program with a new Temporary Aid to Needy Families block grant.[1] It passed the House 328-101 and passed 78-21 in the Senate.[2-3] Virtually all Republicans and most Democrats—including the current president—voted for the law.[4] Shortly thereafter, it was signed by President Clinton.[5]

Building on reforms first tested in the states, America's cash welfare programs were refocused on new goals: encouraging work, keeping families together, and reducing dependency. To achieve these ends, Congress capped the amount of time able-bodied adults could receive cash welfare and implemented commonsense work requirements.[6]

The reforms have worked. In 1995, nearly 13.7 million people were dependent on AFDC cash welfare.[7] By 2000, enrollment had been cut in half.[8] Today, enrollment stands at 2.8 million, a drop of nearly 80 percent.[9] Just 830,000 of these enrollees are able-bodied adults—half of whom live in California.[10] Better still, single mothers leaving welfare after the 1996 reforms entered the labor force in record numbers, boosting economic growth and leading to declines in child poverty.[11-12]

We have also seen this success at the state level. States adopting stronger work requirements and time limits have led to more employment, higher incomes, and less dependency.[13] Able-bodied adults who left dependency found work in more than 600 different industries, touching every corner of the economy.[14] Those families saw their incomes more than double within a year of leaving welfare, with higher wages more than offsetting the welfare checks they used to receive.[15] Moving able-bodied adults from welfare to work also helped boost the local economy and preserve limited taxpayer resources for the truly needy.[16] I witnessed similar results firsthand in Maine, as restarting time limits led to large reductions in caseloads and increased wages.[17-18]

The 1996 welfare reform law's focus on work is desperately needed in other welfare programs today, where most able-bodied adults receiving taxpayer-funded benefits do not work at all.[19-20]

More work can be done to crack down on loopholes

Highlighting TANF's success does not mean there are no problem areas. In many states, the program has drifted from its core mission. More accountability and stronger guardrails can help refocus the program on moving individuals from welfare to work and strengthening families.

One of the areas that makes TANF accountability challenging is the co-mingling that is allowed with other federal block grants with varying rules on usage. I witnessed this firsthand at Maine HHS.

By 2015, Maine had accumulated $92 million in unused TANF funds.[21] Federal law authorizes states to transfer a portion of the TANF block grant to the Child Care and Development Fund (CCDF) and the Social Services Block Grant (SSBG), which operate under different rules.[22] Washington, D.C. and 40 states transfer more than $2.1 billion annually from TANF to one of these other two funds.[23]

Maine HHS operated several programs with SSBG funds, including home-based services for seniors and individuals with disabilities, child welfare services, Meals on Wheels, transportation services, domestic violence resource centers, and sexual assault support centers. The first line of federal TANF law states that the grant can be used "in any manner that is reasonably calculated to accomplish the purpose of this part."[24] Additional federal guidance that "transferred funds are subject to the rules of the program to which they are transferred" led the state to believe it could use funding from TANF for certain services being furnished through SSBG to accomplish the mission of assisting low-income needy families.[25]

Over a period of a few years, Maine HHS sought guidance from ACF on this issue, with often unclear communications from the officials. After concerns raised by Maine auditors about some expenditures within the transferred TANF funds, and finally with formal communication from federal officials, Maine reversed some of the expenditures from the transfers and allotted the TANF funding elsewhere. More work can be done in federal law to provide states with more clarity on the flexibility of these transfers in advance of such expenditures. Fortunately, this experience also shaped a refocused effort on using the TANF funds to support work.

Regulatory loopholes have made TANF accountability challenging.

Federal law requires states to ensure that half of work-eligible TANF cases have enrollees who are working, looking for work, or participating in job training programs.[26] In 2022, just seven states met this threshold.[27] Among the 545,000 "work eligible" cases, just 194,000 were engaged in sufficient work activities—far below the 50 percent threshold.[28] Indeed, more than 54 percent of "work-eligible" able-bodied adults reported zero hours of work activities nationwide.[29]

States have gamed these requirements in numerous ways, including caseload reduction credits, "excess" maintenance of effort spending, and worker supplement programs.[30-33] This Committee has proposed several reforms to address these issues in recent years, including strong reforms in the House-passed Limit, Save, Grow Act last year and reforms later adopted in the Fiscal Responsibility Act, which are set to take effect in fiscal year 2026.[34-37]

Even if states do not meet the weakened work participation rate requirements, there is little risk of serious penalty. Although federal law allows HHS to reduce states' block grants for failure to meet these standards, penalties can be reduced or waived based on the "degree of noncompliance," when HHS finds "reasonable cause" for the failure, or if states enter "corrective compliance plans."[38-39] California, for example, has failed one or both of the work participation rate requirements every single year for the last 15 years.[40] Although federal officials assessed nearly $1.9 billion in penalties for these failures, they later reduced those penalties to just $64 million.[41]

Regulatory loopholes have encouraged states to expand welfare

Federal regulations have also allowed states to greatly expand the definition of "needy" families to expand eligibility. HHS officials identified at least 40 states operating programs with TANF funding with eligibility levels more than twice the poverty line.[42] In some states, individuals earning as much as five times the federal poverty line—roughly $156,000 for a family of four—can qualify for these programs.[43]

Worse yet, states have used TANF as a way to expand other taxpayer-funded welfare programs.[44-47] This is particularly egregious when the primary purpose of TANF is to "end the dependence of needy parents on government benefits."[48] Congress should eliminate this loophole by limiting what types of TANF-funded "benefits" can confer categorical eligibility to other welfare programs.

Little TANF funding goes to work support or job training activities

In 2022, taxpayers spent more than $31 billion on TANF and related maintenance of effort programs.[49] Just $2.5 billion of that spending went to job training, education, or other work-related activities, while another $385 million went to work supports.[50] TANF and MOE line items for pre-K and Head Start, refundable tax credits, and general program management each exceed total spending on job training, education, and other work-related activities.[51] To make matters worse, even the limited money spent on work-related activities often goes toward ineffective programs like funding four-year college degrees instead of practical efforts like vocational training.

One of TANF's core purposes is to end government dependency by "promoting job preparation, work, and marriage."[52] When less than 10 percent of funding goes to work-related activities or work supports, it is clear that Congress should step in to rebalance spending on core work-focused activities in the states. Congress could also guard against mission drift by ensuring TANF's work requirements transfer along with its funding to various other programs.

Discussions about caseload size too often center entirely around those receiving cash benefits, but there are tens of millions of able-bodied adults across the major welfare programs who could benefit from case management, family supports, and job training—the precise type of programs TANF is meant to fund.

TANF is not targeted and would benefit from additional oversight

States too often use TANF as a slush fund, unconnected to the goal of moving families from welfare to work. California, for example, annually redirects TANF funding to a tuition grant program for nearly 650,000 college students.[53-54] California has diverted more than $1 billion per year from federal TANF funds to these grants.[55] But eligibility for these TANF-funded grants has no real connection to furthering core TANF objectives.[56] Indeed, analysts for California's Joint Legislative Budget Committee internally refer to this scheme as a "fund swap" and "fund shift," whereby the state uses TANF funds to replace General Fund expenses.[57] Those analysts have repeatedly said that the redirected TANF funds offset "an equal amount of General Fund support" and that these fund swaps have "no programmatic impact."[58-59] To make matters worse, the state then uses these tuition grants to expand food stamp eligibility to college students who would not otherwise qualify.[60]

Other states have engaged in similar patterns. Michigan, for example, spends $100 million of TANF funding on student aid for college students, including millions for families earning more than $100,000 per year.[61] In 2023, HHS identified at least eight states that were spending TANF funds on college scholarship programs for adults without children.[62] These are just a few examples of states using TANF funding to replace General Fund expenses, though there are many more.[63]

Worse yet, HHS collects no information at all to monitor improper payments in TANF, unlike other major welfare programs.[64] However, the few audits conducted by the Office of Inspector General (OIG) have illustrated widespread abuse. In Michigan, for example, 40 percent of TANF cash welfare spending was flagged as improper.[65] In New York, auditors found an improper payment rate of 46 percent for TANF cash welfare payments.[66] Additionally, more than 21 percent of TANF cash welfare spending in Ohio and nearly 10 percent of TANF cash welfare payments in Minnesota were identified as improper.[67-68]

Individual cases of TANF fraud and abuse abound at the Department of Justice, everything from enrollees lying about their income to receive benefits to government employees trading $1.4 million in TANF funds for cash and sex.[69-70] Federal prosecutors have even gone after TANF directors for enrolling ineligible individuals as part of a kickback scheme and states for using TANF funds on ineligible aliens.[71-72]

HHS also collects no meaningful data on Electronic Benefit Transfer (EBT) card trafficking, despite its growing connection to the drug trade.[73-84] EBT transaction data is critically important in identifying fraud, including whether enrollees have moved out of state and are no longer eligible.[85-87]

Without collecting data on these issues, however, the publicly released information on raids, arrests, and prosecutions represents just the tip of the iceberg on potential waste, fraud, and abuse. Congress should require HHS to actually measure improper payments and monitor EBT trafficking and out-of-state use that indicates a change in circumstances affecting eligibility.

Congress provided flexibility to states to craft more tailored programs that could successfully move able-bodied adults from welfare to work. This flexibility is an essential component of TANF and the block grant structure. But that flexibility must be balanced with accountability for states and enrollees alike to ensure limited resources are preserved for the truly needy.

Conclusion

As we approach the bipartisan welfare reform's 30-year anniversary, we should recognize the law's success at moving millions of able-bodied adults from welfare to work and giving them the hope of better lives. But more work must be done to crack down on loopholes that allow states to expand welfare beyond TANF's core purposes or use TANF funds as a slush fund to finance unrelated programs.

Members of this committee have proposed several reforms to do just that. Congressman Smith has introduced legislation to put limits on states using TANF funding for programs with eligibility levels more than twice the poverty line.[88] Congresswoman Tenney has introduced legislation to stop states from using TANF funds as a slush fund to replace state and local spending, as California and other states have so brazenly done.[89]

Congress must also rebalance program spending on the program's core objective: ending needy families' dependency on government programs through work. Again, members have introduced several reforms to achieve that goal. Congressman Moore has introduced legislation requiring at least 25 percent of TANF funding go to work supports, educational resources, work activities, case management, and case management to assist individuals developing individual responsibility plans.[90] Congressmen Smucker and Wenstrup have introduced legislation to allow states to transfer TANF funds to workforce investment activities under the Workforce Innovation and Opportunity Act (WIOA).[91] And Congresswoman Steel has introduced legislation to reduce bureaucracy and cap administrative costs.[92]

Finally, Congress should take steps to combat fraud within the program to preserve these limited resources for the truly needy. Congressman Arrington has introduced legislation to ensure TANF programs must follow the same rules for monitoring, preventing, and addressing improper payments as other federal welfare programs, a critical first step.[93]

But the bipartisan 1996 reforms were not just a success at moving able-bodied adults from welfare to work. The reforms also successfully transformed a growing welfare entitlement into a stable, work-first block grant. This is an important lesson for other welfare programs, which have experienced massive increases in costs to taxpayers. Federal food stamp spending, for example, has increased nearly fivefold since 1996.[94] Federal Medicaid spending has increased nearly sevenfold.[95] As Congress eyes other opportunities to replicate TANF's successes on work and flexible-but-fixed funding in other programs, it is more important than ever to ensure states are using these funds appropriately to achieve TANF's core purpose of ending dependency through job preparation and work.

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working TANF enrollees for purposes of the work participation rate. These enrollees are also typically exempt from other TANF rules. About half of states currently operate these programs, and these monthly benefits are as low as a single dollar in some states.

34. The Limit, Save, Grow Act included provisions to recalibrate caseload reduction credits to the decline in caseloads since fiscal year 2022 instead of fiscal year 2005, eliminate the excess spending credit, and crack down on worker supplement schemes. See, e.g., H.R. 2811 (2023), https://www.congress.gov/118/bills/hr2811/BILLS-118hr2811eh.pdf.

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36. Even under the recalibration, the adjustments will still lower minimum work participation rates to zero in approximately 19 states and only increase the average minimum work participation rate by 2 percentage points. Further recalibration will be needed to fully address this issue.

37. It is likely that the $35 minimum threshold will do little to ultimately close the worker supplement scheme. When Congress established a similar minimum threshold to crack down on the standard utility allowance loophole in the food stamp program, 13 of the 17 states abusing the loophole simply increased payments to meet the new threshold. Further adjustments will be needed to fully address this issue. See, e.g., Food and Nutrition Service, "Regulatory impact analysis: Standard utility allowances based on the receipt of energy assistance payments under the Agricultural Act of 2014," U.S. Department of Agriculture (2016), https://downloads.regulations.gov/FNS-2016-0044-0002/content.pdf.

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stamps and bypassing federal eligibility standards. States do no eligibility verification for these fake "benefits." The brochures often reference services and programs that have no financial eligibility requirements, do not meet any of the required TANF purposes, and grant categorical eligibility even when no one in the household is eligible for any of the services listed. Auditors at the U.S. Department of Agriculture (USDA) even warned that states were granting categorical eligibility for these "benefits" based on brochures that applicants did not even receive. See, e.g., Office of Inspector General, "FNS quality control process for SNAP error rate," U.S. Department of Health and Human Services (2015), https://usdaoig.oversight.gov/sites/default/files/reports/2023-12/27601-0002-41.pdf.

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72. Office of Public Affairs, "Commonwealth of Pennsylvania to pay $48.8 million to resolve federal government's claims that it provided benefits to ineligible aliens," U.S. Department of Justice (2015), https://www.justice.gov/opa/pr/commonwealth-pennsylvania-pay-488-million-resolve-federal-governments-claims-it-provided.
73. In Lewiston, Maine, law enforcement raided a drug dealer's apartment, finding guns, $4,500 in cash, cocaine, and five EBT cards belonging to other people—what the prosecutor referred to as "a common currency for drugs." See, e.g., U.S. v. Paul Robinson, No. 2:14-cr-05-GZS (D. Me. 2014).
74. Another Lewiston case involved the Maine Drug Enforcement Agency (Maine DEA) raiding a dealer after receiving a tip that he was in possession of drugs and 20 EBT cards. Maine DEA identified at least 25 separate raids related to crack cocaine, heroin, fentanyl, prescription opioids, and other drugs in an 11-month window where they seized EBT cards belonging to others, typically known drug users. See, e.g., Mathew Cashman, "Testimony of Supervisory Special Agent Mathew Cashman in support of LD 607," Maine Department of Public Safety (2015).
75. In Ohio, federal prosecutors indicted Brandon Ojikutu after seizing fentanyl, cocaine, a Ruger 9mm handgun, and someone else's EBT card. See, e.g., U.S. Attorney's Office for the Northern District of Ohio, "Warrensville Heights man indicted on fentanyl, cocaine, firearms and food stamp fraud charges," U.S. Department of Justice (2018), https://www.justice.gov/usao-ndoh/pr/warrensville-heights-man-indicted-fentanyl-cocaine-firearms-and-food-stamp-fraud.
76. In New York, federal prosecutors charged Omar Alaidrus after a sting operation busted him trading fentanyl for EBT funds. See, e.g., U.S. Attorney's Office for the Northern District of New York, "Schenectady man charged with distributing fentanyl and xanax," U.S. Department of Justice (2024), https://www.justice.gov/usao-ndny/pr/schenectady-man-charged-distributing-fentanyl-and-xanax.
77. In another Ohio case, police arrested 14 individuals in a multi-year conspiracy involving trading EBT cards for cash, heroin, and other drugs. See, e.g., U.S. Attorney's Office for the Southern District of Ohio, "14 arrest warrants issued in alleged food stamp fraud, drug trafficking conspiracy," U.S. Department of Justice (2015), https://www.justice.gov/usao-sdoh/pr/14-arrest-warrants-issued-alleged-food-stamp-fraud-drug-trafficking-conspiracy.
78. In New Jersey, Rocco DePoder—the leader of a Gloucester City drug ring—pled guilty to trading opioids and other controlled substances for EBT cards. See, e.g., U.S. Attorney's Office for the District of New Jersey, "Ringleader of Gloucester City drug ring admits trafficking oxycodone, adderall, and xanax and engaging in SNAP fraud," U.S. Department of Justice (2020), https://www.justice.gov/usao-nj/pr/ringleader-gloucester-city-drug-ring-admits-trafficking-oxycodone-adderall-and-xanax-and.
79. In Missouri, Melanie Person was sentenced to six years in federal prison after trading methamphetamine for EBT cards. See, e.g., U.S. Attorney's Office for the Western District of Missouri, "Milo woman sentenced for SNAP fraud, meth trafficking," U.S. Department of Justice (2020), https://www.justice.gov/usao-wdmo/pr/milo-woman-sentenced-snap-fraud-meth-trafficking.

80. Even when not traded directly for drugs, enrollees can often trade these EBT cards for cash or prohibited items. In New York, the owners of a bodega were arrested for trading $20 million in EBT funds for cash and prohibited items like alcohol. See, e.g., U.S. Attorney's Office for the Eastern District of New York, “Two defendants charged with stealing or misusing $20 million in Supplemental Nutrition Assistance Program benefits,” U.S. Department of Justice (2024), https://www.justice.gov/usao-edny/pr/two-defendants-charged-stealing-or-misusing-20-million-supplemental-nutrition.
81. In New Jersey, the owner of a grocery store pled guilty to trading EBT funds for cash. See, e.g., U.S. Attorney’s Office for the District of New Jersey, “Camden, N.J., man admits that he exchanged more than $2.5 million in SNAP/food stamp benefits for cash,” U.S. Department of Justice (2013), https://www.justice.gov/usao-nj/pr/camden-nj-man-admits-he-exchanged-more-25-million-snapfood-stamp-benefits-cash.
82. USDA estimated that $1.3 billion in food stamp funds were trafficked annually between 2015 and 2017. More than one in five small grocery stores and convenience stores accepting EBT are believed to be trafficking benefits. These small stores make up nearly 56 percent of all authorized retailers in the food stamp program. See, e.g., Office of Policy Support, “The extent of trafficking in the Supplemental Nutrition Assistance Program: 2015–2017,” U.S. Department of Agriculture (2021), https://fns-prod.azureedge.us/sites/default/files/resource-files/Trafficking2015-2017-3.pdf.
83. Given the fact that food stamp spending grew by nearly 80 percent between 2017 and 2022, actual EBT trafficking costs are likely far higher than the 2015-2017 estimate, as it is even more lucrative for criminals today. See, e.g., Food and Nutrition Service, “Supplemental Nutrition Assistance Program participation and cost,” U.S. Department of Agriculture (2024), https://fns-prod.azureedge.us/sites/default/files/resource-files/snap-annualsummary-9.pdf.
84. Although USDA does not monitor TANF fund trafficking, food stamp benefits and TANF funds are loaded onto the same EBT cards, and virtually all TANF enrollees also receive food stamps. See, e.g., Census Bureau, “Current Population Survey: Annual social and economic supplement,” U.S. Department of Commerce (2024), https://data.census.gov/mdat.
85. A report by the Government Accountability Office found that more than one in four food stamp recipients make purchases with their EBT cards across state lines. More than 10 percent of these out-of-state transactions are made in states that do not border the state which issued the EBT card. See, e.g., Kathryn Larin and Seto J. Bagdoyan, “Supplemental nutrition assistance program: disseminating information on successful use of data analytics could help states manage fraud risks,” Government Accountability Office (2018), https://www.gao.gov/assets/700/694848.pdf.
86. In Utah, a state audit discovered hundreds of individuals who used their food stamp EBT cards for purchases exclusively made out of state for at least six months. The audit found individuals using their Utah-issued EBT cards exclusively in Florida for 17 months, in Oklahoma for a year and a half, and in Missouri for three years. One individual used his EBT card in four different states—none of them Utah—for more than a year. Of these egregious abuses discovered in the audit, the agency had flagged fewer than two percent for investigation. See, e.g., David S. Pulsipher, “A performance audit of data analytics techniques to detect SNAP abuse,” Utah Office of the State Auditor (2016), https://site.utah.gov/auditor/wp-content/uploads/sites/6/2013/05/Audit-Brief-Office-of-the-Utah-State-Auditor-A-Performance-Audit-of-Data-Analytics-Techniques-to-Detect-SNAP-Abuse.pdf
87. In Missouri, thousands of recipients were using their EBT cards for purchases made exclusively out-of-state for at least three months, including some who did so for up to 729 days, almost two years. These out-of-state recipients used their Missouri-issued EBT cards for purchases in every state in America. See, e.g., Nicole Galloway, “Supplemental Nutrition Assistance Program (SNAP) data analytics program,” Missouri Office of the State Auditor (2018), https://app.auditor.mo.gov/Repository/Press/2018032266672.pdf.

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90. H.R. 7441 (2024), https://www.congress.gov/bill/118th-congress/house-bill/7441.
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