
Department of Human Resources Fiscal 2006 Budget Overview

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

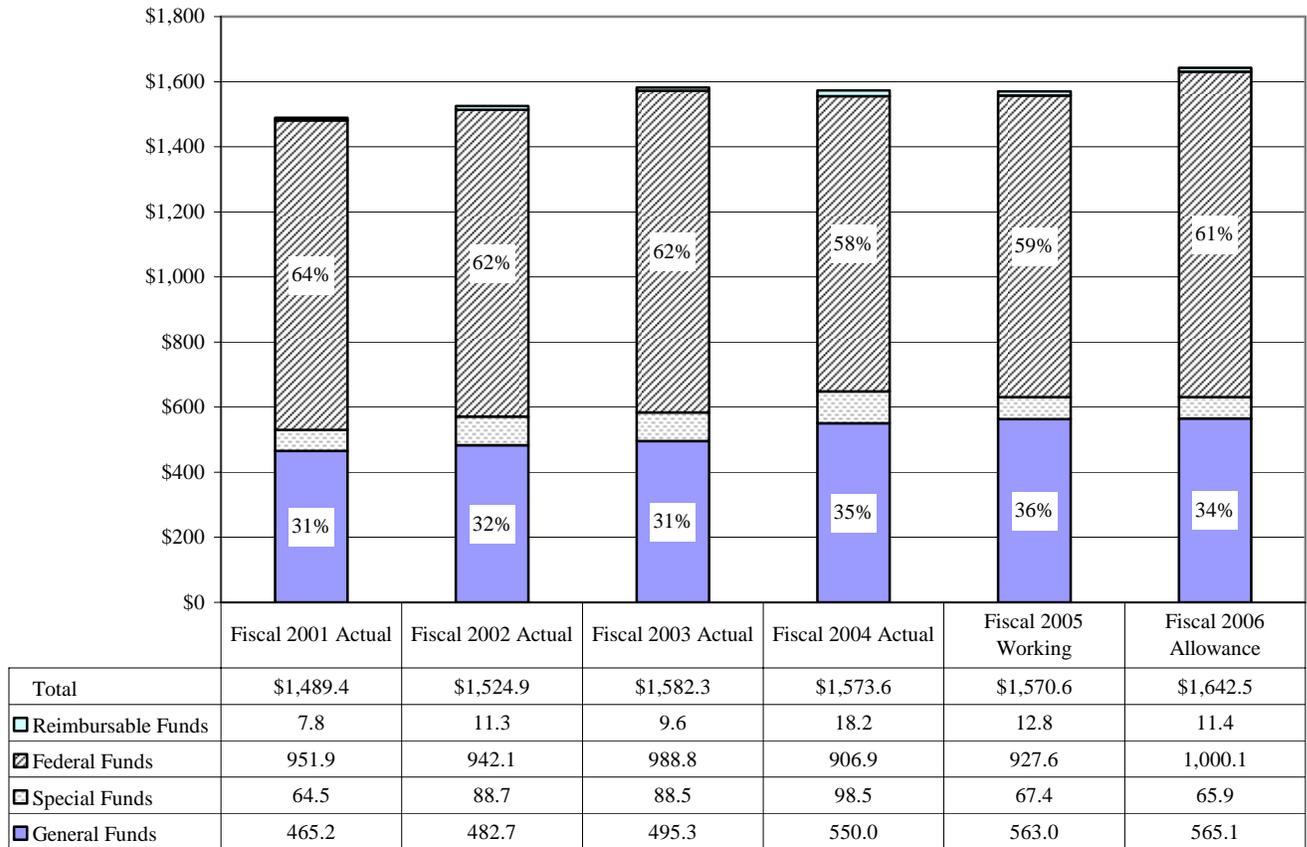
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For further information contact: Steve McCulloch

Phone: (410) 946-5530

Analysis of the FY 2006 Maryland Executive Budget, 2005

Department of Human Resources – Funding by Source
Fiscal 2001 – 2006
 (\$ in Millions)



Note: Numbers may not sum due to rounding.

Source: Maryland State Budget

The total Department of Human Resources (DHR) budget grows 4.6%, compared to the fiscal 2005 working budget. General funds in the DHR budget increase by one-half of one percent compared to fiscal 2005. The general fund portion (34.4%) of the budget decreases compared to recent years.

Special funds – derived primarily from assessments on electricity generating plants to fund the Home Energy Program, child support recoveries, and local government participation in aid programs – remain even as a proportion of the total budget at 4% but decline in actual dollars by \$1.4 million.

In actual dollars and in proportion, federal funds increase in the 2006 allowance accounting for 60.9% of the funding. The bulk of the \$72.5 million increase in federal funds is found in assistance payments including Food Stamps which account for nearly \$36.5 million of the increase.

N00 – Department of Human Resources – Fiscal 2006 Budget Overview

**Department of Human Resources
Budget Overview: All Funds
(\$ in Thousands)**

	FY 2003	FY 2004	FY 2005	FY 2006	FY 05-06
	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allowance*</u>	<u>% Change</u>
Family Investment	\$602,172	\$627,154	\$608,489	\$638,254	4.9%
Temporary Cash Assistance (TCA) Payments	132,876	123,791	123,682	117,939	-4.6%
TDAP Payments	30,817	29,487	24,431	24,431	0.0%
Food Stamps	242,007	283,761	250,108	286,598	14.6%
Other Public Assistance	9,305	17,866	17,708	17,914	1.2%
Work Opportunities	35,127	27,938	35,163	35,672	1.4%
Administration	152,041	144,310	157,397	155,700	-1.1%
Child Welfare	\$431,010	\$444,622	\$437,061	\$497,838	13.9%
Foster Care/Adoption	249,272	274,555	254,237	306,263	20.5%
Programs/Administration	181,739	170,068	182,825	191,575	4.8%
Child Care	\$176,410	\$132,417	\$136,918	\$125,831	-8.1%
Purchase of Care (POC)	134,780	106,434	111,835	103,064	-7.8%
Programs/Administration	41,630	25,983	25,082	22,767	-9.2%
Adult and Community Services	\$162,101	\$163,707	\$176,282	\$172,539	-2.1%
Child Support Enforcement	\$85,599	\$76,839	\$83,720	\$83,857	0.2%
Administration	\$125,028	\$128,853	\$128,162	\$124,184	-3.1%
Office of the Secretary	11,795	11,139	11,797	11,585	-1.8%
Operations	18,614	20,674	20,403	19,685	-3.5%
Information Management	54,527	56,706	54,025	49,380	-8.6%
Local Department Operations	40,091	40,335	41,936	43,533	3.8%
Total	\$1,582,321	\$1,573,591	\$1,570,632	\$1,642,503	4.6%
General Funds	495,315	550,021	562,954	565,103	0.4%
Special Funds	88,522	98,495	67,362	65,920	-2.1%
Federal Funds	988,839	906,912	927,557	1,000,111	7.8%

TDAP = Temporary Disability Assistance Program (formerly Transitional Emergency Medical and Housing Assistance)

*Includes \$2.8 million for deferred compensation matching funds slated for reduction contingent on passage of legislation.

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

N00 – Department of Human Resources – Fiscal 2006 Budget Overview

**Department of Human Resources
Budget Overview: General Funds
(\$ in Thousands)**

	FY 2003	FY 2004	FY 2005	FY 2006	FY 05-06
	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allowance*</u>	<u>% Change</u>
Family Investment	\$117,443	\$118,522	\$136,395	\$100,491	-26.3%
Temporary Cash Assistance Payments	9,667	23,283	43,640	16,696	-61.7%
TDAP Payments	26,097	24,379	19,428	19,428	0.0%
Food Stamps	655	0	0	0	--
Other Public Assistance	12,037	12,278	12,507	12,507	0.0%
Work Opportunities	0	0	0	0	--
Administration	68,987	58,583	60,820	51,861	-14.7%
Child Welfare	\$217,373	\$267,544	\$254,945	\$302,221	18.5%
Foster Care/Adoption	143,225	204,856	172,524	216,438	25.5%
Programs/Administration	74,148	62,687	82,421	85,783	4.1%
Child Care	\$39,477	\$44,957	\$49,004	\$43,617	-11.0%
POC	29,897	29,897	37,680	34,680	-8.0%
Programs/Administration	9,580	15,059	11,324	8,937	-21.1%
Adult and Community Services	\$36,795	\$38,145	\$42,786	\$42,923	0.3%
Child Support Enforcement	\$17,599	\$14,979	\$17,139	\$17,431	1.7%
Administration	\$66,628	\$65,874	\$62,686	\$58,419	-6.8%
Office of the Secretary	7,249	6,765	7,552	7,286	-3.5%
Operations	11,608	12,099	12,031	11,415	-5.1%
Information Management	24,860	24,662	21,049	17,900	-15.0%
Local Department Operations	22,911	22,347	22,054	21,818	-1.1%
Total	\$495,315	\$550,021	\$562,954	\$565,103	0.4%

TDAP = Temporary Disability Assistance Program (formerly Transitional Emergency Medical and Housing Assistance)

*Includes \$1.2 million general funds for deferred compensation matching funds slated for reduction contingent on passage of legislation.

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

**Department of Human Resources
Major Changes in the Fiscal 2006 Allowance
(\$ in Millions)**

	<u>Total Funds</u>
Administration	
Employee Salary Increments	\$7.6
Electronic Benefit Transfer System (EBTS) contract cost increase	1.3
Health Insurance	-10.3
CARES/Client Information System development	-4.1
CHESSIE funding transferred to IT fund	-2.3
Position abolitions	-2.2
Other personnel expenses	-1.3
Child Welfare	
Foster Care/Adoption Payments	46.0
Medical assistance for group home therapeutic treatment	6.0
Child Welfare Training Academy	1.7
Caseworker hiring and retention	1.4
Foster family recruitment	1.0
Family Support Centers	-0.7
Adult and Community Services	
Immigrant assistance – caseload reductions and changing priorities	-1.4
Transfer weatherization program to Dept. of Housing & Comm. Devl.	-1.1
Child Care	
Purchase of Care (POC)	-8.8
State Child Care Resource Center Network	-1.9
Enhance credentialing efforts	0.8
Child Support Enforcement	
Contractual cost increases	1.4
Family Investment	
Federal Food Stamp payments	36.5
Temporary Cash Assistance (TCA) caseload decline	-5.7
Other Adjustments	8.0
Total	\$71.9

CARES = Clients Automated Resource and Eligibility System

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

**Department of Human Resources
Caseload Estimates**

<u>Program</u>	<u>FY 2003 Actual</u>	<u>FY 2004 Actual</u>	<u>FY 2005 Estimated</u>	<u>FY 2006 Estimated</u>	<u>FY 04-05 % Change</u>
Cash Assistance					
TCA	72,554	70,745	67,206	65,697	-2.2%
TDAP	14,313	13,388	13,266	13,266	0.0%
Child Welfare					
Foster Care	8,009	8,078	7,791	8,094	3.9%
Subsidized Adoptions	5,899	6,880	7,499	8,174	9.0%
Child Care					
Child Care Subsidies	28,567	25,434	26,725	27,390	2.5%
Expenditures	\$134,780,252	\$106,433,926	\$88,835,167 ¹	\$103,064,217	16.0%
Child Support Enforcement					
TCA Collections	\$24,731,401	\$20,167,229	\$21,073,354	\$20,167,229	-4.3%
Non-TCA Collections	\$412,764,861	\$432,715,911	\$416,892,510	\$432,715,911	3.8%

TCA = Temporary Cash Assistance

TDAP = Temporary Disability Assistance Program (formerly Transitional Emergency Medical and Housing Assistance)

¹ Represents the fiscal 2005 working appropriation adjusted for \$23 million in planned transfers to cover estimated fiscal 2005 foster care and TDAP funding shortfalls (see Issue 1).

Source: Maryland State Budget; Department of Human Resources

- Child care caseload projections are puzzling in that the fiscal 2006 estimate of the number of children that will receive child care subsidies is higher than the actual number that received subsidies in fiscal 2004 despite lower funding included in the fiscal 2006 allowance. The fiscal 2005 estimate was likely not revised to reflect the planned fund transfers.

N00 – Department of Human Resources – Fiscal 2006 Budget Overview

**Department of Human Resources
Employment: Regular Positions**

	FY 2004 <u>Actual</u>	FY 2005 <u>Legislative</u>	FY 2005 <u>Working</u>	Change During <u>FY 2005</u>	FY 2006 <u>Allowance</u>	FY 05-06 <u>Change</u>
Child Welfare	2,472.40	2,552.12	2,587.12	35.00	2,571.62	-15.50
Family Investment	2,158.71	2,188.00	2,168.00	-20.00	2,161.00	-7.00
Administration	991.32	1,018.00	1,019.50	1.50	1,009.50	-10.00
Adult and Community Services	621.75	658.23	604.23	-54.00	597.03	-7.20
Child Support Enforcement	697.85	721.25	713.25	-8.00	705.75	-7.50
Child Care	198.00	208.50	204.50	-4.00	203.50	-1.00
Total Positions	7,140.03	7,346.10	7,296.60	-49.50	7,248.40	-48.20
% Change				-0.7%		-0.7%

Source: Maryland State Budget

- Authorized positions in fiscal 2005 decrease a net of 49.5 positions. Section 40 of the fiscal 2005 budget bill (Chapter 429, Acts of 2004) required that authorized State funded positions be reduced to a total of 52,834 – a reduction of 363 positions. DHR gave up 60 positions towards this effort. These reductions are partially offset by new positions in Child Welfare and DHR Administration. The new positions in fiscal 2005 are special and federal grant funded positions. These positions are exempt from the new position caps and are abolished when the grant ends. DHR abolished 6.5 grant funded positions in fiscal 2004 for this reason.
- Forty-eight positions are being abolished in the fiscal 2006 allowance as a cost saving measure. All positions are vacant.
- Current vacancy rates and budgeted turnover in fiscal 2006 suggest that the department has the funding necessary to fill 263 vacant positions. The greatest number of vacancies exist in the Family Investment (216.5) and Child Welfare (200.5) programs.

**Department of Human Resources
Employment: Contractual Positions**

	FY 2004	FY 2005	FY 2005	Change	FY 2006	FY 05-06
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>During</u>	<u>Allowance</u>	<u>Change</u>
				FY 2005		
Child Welfare	2.00	0.00	0.00	0.00	0.00	0.00
Family Investment	41.35	130.00	130.00	0.00	130.00	0.00
Administration	4.33	1.31	1.31	0.00	1.31	0.00
Adult and Community Services	3.20	3.80	3.80	0.00	3.80	0.00
Child Support Enforcement	0.55	0.00	0.00	0.00	0.00	0.00
Child Care	0.00	0.00	0.00	0.00	0.00	0.00
Total Positions	51.43	135.11	135.11	0.00	135.11	0.00

Source: Maryland State Budget

- Contractual positions remain unchanged from the fiscal 2005 legislative appropriation.

Issues

1. The Deficit That Did Not Bark

Since the introduction of the fiscal 2005 budget, a foster care deficit in the magnitude of almost \$40 million has been projected. One of the surprises of the fiscal 2006 budget as introduced is the lack of a deficiency appropriation for foster care. The Administration intends to cover the foster care deficit which it estimates to be \$36.3 million along with an estimated deficit of \$3.8 million in the Temporary Disability Assistance Program (TDAP) – formerly known as the Transitional Emergency Housing and Medical Assistance – through a series of fund transfers and use of a portion of the Temporary Assistance for Needy Families (TANF) bonus received in 2004 for reducing the number of out-of-wedlock births. **Exhibit 1** lists the sources and transfers to be used.

Exhibit 1
Fiscal 2005 Deficit Funding Plan
(**\$ in Millions**)

<u>Underfunded Programs</u>	<u>Shortfall</u>
Foster Care Deficit	\$36.3
TDAP Deficit	3.8
Total Fiscal 2005 Deficit	\$40.1
The Fix Is In (the Details)	\$40.1
Direct Transfers	\$10.8
POC general funds not needed for maintenance of effort	\$6.5
TCA caseload reduction savings – general funds	2.2
Medicaid payments for foster children in therapeutic placements	2.0
Child support for children in Voluntary Placements	0.1
TCA General Funds Available from Fund Swaps	\$29.3
POC TANF available due to wait list	16.5
Portion of \$25 million TANF bonus received 10/2004	12.8

Source: Department of Human Resources; Department of Budget and Management

Two of the items listed as direct transfers represent new funding sources. The ability to access Medicaid to pay for treatment for foster children in therapeutic placements, permissible under a recently approved amendment to Maryland’s Medicaid spending plan, is expected to yield \$2 million in new federal dollars in fiscal 2005 and an additional \$6 million is assumed in the fiscal 2006 budget as introduced. The Medicaid dollars will replace general funds or, if the child is Title IV-E eligible,

N00 – Department of Human Resources – Fiscal 2006 Budget Overview

Title IV-E funds that have been used in prior years to pay for needed therapy. There is no gain to the State for Title IV-E eligible children since the State cannot double bill the federal programs for the same service. The gain to the State results from the replacement of general funds with Medicaid dollars. Given the fact that fixing the fiscal 2005 deficit depends in part on receipt of these dollars and that a larger portion of foster care funding in fiscal 2006 is dependent on receipt of these dollars, it is incumbent upon DHR to ensure that the accounting system and procedures are in place and the providers are aware of the change so that the State does in fact realize these new federal dollars. **The Secretary should brief the committees on the status of the procedural and other changes that must be implemented in order for Maryland to begin receiving these Medicaid dollars.**

2. With Help of Bonuses, TANF Maintains Positive Balance

Although DHR has projected negative ending balances for TANF several times in recent years, DHR closed fiscal 2004 with a TANF balance of \$1.386 million and is projecting positive balances at the end of both fiscal 2005 and 2006 as shown in **Exhibit 2**. The positive fiscal 2004 ending balance was made possible by receipt of a high performance bonus (\$1.582 million), receipt of a bonus for reducing out-of-wedlock births (\$19.822 million), and a cancelled obligation from fiscal 2003.

Exhibit 2
Availability of TANF Funding
(\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>
Beginning Balance	\$1.386	\$35.516
TANF Grant	\$229.098	\$229.098
TANF Out-of-wedlock Births Bonus	25.000	
Cancelled Obligation – Fiscal 2003	16.422	
DHR Appropriation	-216.933	-227.720
Planned OCYF Transfer: Local Management Board Fund	-19.457	-19.457
Ending Balance	\$35.516	\$17.437

OCYF = Office for Children, Youth, and Families

Note: A budget amendment will be needed to authorize the planned fiscal 2005 spending of \$12.8 million of the bonus.

Source: Department of Human Resources

N00 – Department of Human Resources – Fiscal 2006 Budget Overview

As discussed in Issue 1, the \$25 million bonus received in fiscal 2005 will be used to help cover the projected deficits in foster care and the TDAP. Of the \$35.5 million balance rolling from fiscal 2005 to 2006, \$12.2 is the unused portion of the fiscal 2005 bonus.

DHR has expressed reservations about showing the fiscal 2003 cancelled obligation as available funds due to an ongoing review of prior year TANF expenditures. These reservations did not stop the department from expending \$3.9 million of the funds for Temporary Cash Assistance payments. The availability of these funds in fiscal 2005 might provide an opportunity for DHR to address much of the TANF shortfall discussed in Issue 6. **The department should comment on the feasibility of using the cancelled obligation to help close the TANF shortfall from previous years.**

The bonuses awarded in fiscal 2004 and 2005 and the cancelled obligation from fiscal 2003 will allow TANF spending to exceed the base annual TANF appropriation of \$229 million for both fiscal 2005 and 2006 as shown in **Exhibit 3**. Future spending will have to be reduced or supplemented with other funds should the State not continue to receive bonuses.

Exhibit 3
Changes in TANF Spending in DHR’s Budget
Fiscal 2004 – 2006 Allowance
(\$ in Millions)

<u>Activity</u>	<u>FY 2004</u> <u>Actual</u>	<u>FY 2005</u> <u>w/o Bonus</u>	<u>FY 2005</u> <u>w/ Bonus</u>	<u>FY 2006</u> <u>Allowance</u>	<u>FY 05 - 06</u> <u>Change</u>
Cash assistance	\$94.0	\$72.5	\$85.3	\$94.9	\$9.6
Foster care maintenance payments	6.9	6.9	6.9	6.9	0.0
Work opportunities	27.9	35.2	35.2	35.7	0.5
Caseworkers and other LDSS family investment services	22.5	37.7	37.7	44.9	7.2
Child welfare social workers, local services, and related administrative support	16.2	17.1	17.1	14.6	-2.5
Administrative support	5.2	13.2	13.2	16.8	3.6
Local Adult and Victims' Services	4.0	2.7	2.7	2.8	0.1
Purchase of Care and Child Care Administration	0.0	18.0	18.0	10.3	-7.7
Other	0.5	0.8	0.8	0.9	0.1
	\$177.2	\$204.1	\$216.9	\$227.8	\$10.9
Other Agencies	28.6	19.5	19.5	19.5	0.0
Grand Total	\$205.8	\$223.6	\$236.4	\$247.3	\$10.9

LDSS = local departments of social services

Note: Fiscal 2005 does not reflect the planned transfer of \$16.5 million from Purchase of Care to Cash Assistance to help fund deficits in Foster Care and the Temporary Disability Assistance Program (See Issue 1.)

Source: Maryland State Budget; Department of Human Resources

N00 – Department of Human Resources – Fiscal 2006 Budget Overview

Exhibit 3 has not been adjusted to reflect the planned transfer in fiscal 2005 of \$16.5 million in TANF spending from Purchase of Care (POC) to Cash Assistance as part of the effort to cover deficits in Foster Care and the TDAP. The funds are available in POC due to the continuation of the waiting list. This issue will be discussed more fully in the Child Care analysis.

To allow for continued monitoring of DHR's TANF expenditures, DLS recommends the following committee narrative:

Quarterly Reports on Temporary Assistance for Needy Families (TANF) Spending: The committees would like to continue monitoring TANF expenditures of the Department of Human Resources (DHR). DHR should submit quarterly reports to the committees that track TANF expenditures by budget code, obligations by budget code, and report the TANF balance available at the end of each quarter. DHR should submit its first quarterly report on September 1, 2005, and this report should cover the quarter ending June 30, 2005.

3. Fiscal 2006 TANF MOE Depends on Non-traditional Sources

In return for its annual TANF block grant of \$229.1 million, the State must spend \$177.7 million of its own money to meet federal Maintenance of Effort (MOE) requirements. Spending for assistance that helps needy children stay in their own or relatives' homes and programs that promote job preparation, work, or marriage count toward MOE. **Exhibit 4** provides a summary of the MOE funding in the fiscal 2004 budget and estimates for fiscal 2005 and 2006.

As in the past, DHR continues to rely on cash assistance spending to account for a large amount of MOE spending. In fiscal 2006 DHR plans to claim over \$30 million, or 17.2% of the MOE requirement, on cash assistance. Spending on child care subsidies, employment services, caseworkers, administration related to the Family Investment Program, and foster care payments for kinship care are also counted toward traditional spending. To meet the balance of MOE, DHR has turned to other spending on eligible families, including the State's refundable earned income tax credit, Poverty and Targeted Improvement grants, and the Electric Universal Service Program.

With changes in educational funding resulting from the Bridge to Excellence effort; however, the ability to track the spending formerly distributed through the Poverty and Targeted Improvement grants has largely been lost. Spending of only \$1.5 million per year is estimated from this source for fiscal 2005 and 2006 compared with \$28 million that was counted in fiscal 2003. The fiscal 2006 Poverty and Targeted Improvement number may be understated. In a December 2004 TANF MOE status report, DHR reported nearly \$5.4 million in expenditures for Poverty and Targeted Improvement grants for the first quarter of fiscal 2005. To help make up for the decline in Poverty and Targeted Improvement grants, DHR has determined that the Montgomery County Earned Income Tax Credit can be counted toward the State's maintenance of effort since the county receives a block grant from the State to fund its local department of social services in lieu of the State maintaining the office as it does in other jurisdictions. In all, the State plans to claim an estimated \$93.3 million in

Exhibit 4
TANF Maintenance of Effort
Fiscal 2004 – 2006 Allowance
(\$ in Thousands)

	FY 2004	FY 2005	FY 2006	FY 05-06
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Traditional Sources of MOE				
Cash Assistance	\$37,089	\$28,469	\$30,476	\$2,007
Child Care Subsidies	23,301	23,301	23,301	0
Employment Services/Caseworkers Administration	14,891	13,403	17,974	4,571
Kinship Care/Foster Care Payments	7,686	11,107	14,095	2,988
Social Services Administration	7,545	8,800	4,653	-4,147
Child Care Administration	72	0	0	0
Subtotal	\$90,584	\$85,080	\$90,499	\$5,419
Other Sources of MOE				
Refundable State Earned Income Tax Credit	\$70,092	\$81,000	\$81,000	\$0
Montgomery County Earned Income Tax Credit	0	7,800	7,800	0
Local Government/State Agencies	0	1,500	1,500	0
Poverty and Targeted Improvement Grants (MSDE)	14,790	1,500	1,500	0
Electric Universal Service Program	1,500	1,500	1,500	0
Subtotal	\$86,382	\$93,300	\$93,300	\$0
Total	\$176,966	\$178,380	\$183,799	\$5,419

MSDE = Maryland State Department of Education

Source: Department of Human Resources

fiscal 2006 from non-traditional sources. **The department should comment on the arrangements it has with the Maryland State Department of Education (MSDE) to track MSDE spending for MOE purposes.**

Estimates of the MOE show that in fiscal 2006 DHR will be able to claim \$183.799 million or just over \$6 million more than the federal government requires. This difference provides the General Assembly flexibility in reducing general fund spending in these areas without the risk of federal financial penalties. The constraint on this opportunity is the extent to which other funds or cost-saving measures are available to avoid potential shortfalls.

4. Still Waiting on Federal TANF Reauthorization

On September 30, 2004, the President signed the eighth temporary extension of TANF program since September 2002. The law continues TANF as is through March 31, 2005. The U.S. House of Representatives passed its version of TANF reauthorization in February 2003. On September 10, 2003, the Senate Finance Committee passed its version, but the full Senate has yet to act. Child care funding and work requirements are the primary issues to be resolved by congressional negotiators.

Changes to work requirements would have a significant effect on Maryland. Maryland's current work requirement is very low, due to credit the State receives for reducing the overall caseload since 1995. Stricter work requirements would likely require greater investments in job readiness programs and child care. With available TANF at DHR fully subscribed, any changes necessary to comply with the welfare reform law will require DHR to realign its expenditures to meet these needs. **The Secretary should comment on the extent to which the department would have to shift its spending patterns to accommodate possible changes in the law.**

The current TANF extension expires March 31, 2005. What Congress will do and when it will happen are both uncertain. Another extension is possible. New federal policies may require changes in current Maryland policy. New federal money may be available. In any case, should Congress act, or should the effective date of congressional action occur while the General Assembly is not in session, the General Assembly should ensure a process through which it has input into any decision made to alter programs, policies, or spending in response to the reauthorization. **DLS recommends the following budget bill language:**

Provided that it is the intent of the General Assembly that the department spend federal Temporary Assistance for Needy Families (TANF) funds in accordance with the budget detail presented to the General Assembly. If federal legislation reauthorizing the TANF program or extending it with changes, is signed into law, the department shall provide the budget committees with a report on the provisions of the federal law, their implications in Maryland, and the opportunities and challenges presented by the federal law. The report shall be due to the committees within 30 days of final passage of the federal law reauthorizing TANF or extending it with changes. Should the department wish for any reason to make a regulatory, policy, procedural, or budgetary change that transfers among programs, increases, or decreases TANF funds of \$500,000 or more, it shall notify the budget committees of its intent, and the committees shall have 45 days to review and consider the proposed change before it becomes effective.

5. DHR Late in Providing Notice to Committees on TANF Funding Changes

Language substantially similar to that recommended above in Issue 4, was added to the fiscal 2004 deficiency appropriation for DHR and the 2005 appropriation for DHR during the 2004 legislative session. In closing out the fiscal 2004 budget, DHR moved funds between programs to cover a shortfall in foster care, similar to the process described in Issue 1. These fund moves

included TANF funds well in excess of \$1 million yet the required notification letter was sent well after the July 2, 2004, date the language requires. The letter was dated August 23, 2004, and not received until October. **The Secretary should explain to the committees the reasons timely notification could not be made and steps the department intends to make to ensure that in the future required notification complies with the law.**

6. Prior Year Accrual and Expenditure Problems Remain Unresolved – \$24.2 Million General Fund Appropriation May Be Required

The Office of Legislative Audits' *Statewide Review of Budget Closeout Transactions for Fiscal Year 2004* notes that two problems noted in prior year closeout reports have yet to be corrected. The first relates to revenue accounting entries as far back as March 1999 in which DHR claimed reimbursements of 75% of foster care expenditures against a grant which allowed only 50% reimbursement. While the federal review is still ongoing, federal auditors advise it is unlikely the ruling will go in favor of DHR. The amount under review is \$6.9 million.

The second problem relates to TANF expenditures in which DHR had apparently spent \$17.3 million in TANF funds twice, charging two programs' expenditures against the same revenue. To help avoid future repeats of this problem, DHR has hired a new grants administrator. The \$17.3 million problem still remains, however, in the form of a receivable on DHR's books which will never be realized. DHR indicates that its plan to address this issue is to chip away at the amount by substituting general funds as they become available. To date, no excess general funds have been identified to begin this process. **The Secretary should comment on the likely timeframe for resolving these issues and discuss any other possible ways of resolving these issues including the possibility of using the \$16.4 million cancelled obligation from fiscal 2003 as discussed in Issue 2.**