



**REPORT OF  
THE  
STATE AUDITOR**

**Colorado Works Diversion Program  
Department of Human Services**

**Performance Audit  
August 2002**

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**STATE OF COLORADO**

Joanne Hill, CPA  
State Auditor

**OFFICE OF THE STATE AUDITOR**  
(303) 869-2800  
FAX(303) 869-3060

Legislative Services Building  
200 East 14th Avenue  
Denver, Colorado 80203-2211

August 14, 2002

Members of the Legislative Audit Committee:

This report contains the results of the performance audit of the Colorado Works Diversion Program administered by the Department of Human Services. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department.

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## TABLE OF CONTENTS

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	<b>PAGE</b>
<b>REPORT SUMMARY</b> .....	<b>1</b>
<b>Recommendation Locator</b> .....	<b>7</b>
<b>OVERVIEW</b> .....	<b>11</b>
<b>FINDINGS AND RECOMMENDATIONS</b>	
<b>USE OF TANF FUNDS FOR STATE AND COUNTY</b>	
<b>DIVERSION PROGRAMS</b> .....	<b>19</b>
<b>Diversion Payments and Compliance</b> .....	<b>23</b>
<b>Review County Plans</b> .....	<b>28</b>
<b>Clarify Requirements for Programs</b> .....	<b>30</b>
<b>Verify Recipient Income and Identity</b> .....	<b>34</b>
<b>Case File Documentation</b> .....	<b>36</b>
<b>Innovative Practices</b> .....	<b>40</b>



**STATE OF COLORADO  
OFFICE OF THE STATE AUDITOR**

**REPORT SUMMARY**

**JOANNE HILL, CPA  
State Auditor**

**Colorado Works Diversion Program  
Department of Human Services  
Performance Audit  
August 2002**

**Authority, Purpose, and Scope**

This audit of the Colorado Works Diversion Program was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit was performed in accordance with generally accepted auditing standards. The purpose of the audit was to review the Department of Human Services' controls over the administration of the Diversion Program within Colorado Works and determine if payments to diversion recipients were made in accordance with state and federal laws and regulations and county plans. We interviewed department and county staff, reviewed documentation, and analyzed information. In addition, we performed case file reviews at nine counties representing a sample of urban and rural counties and different geographic areas of the State. In total, we reviewed 239 case files representing \$480,200 in diversion payments in Calendar Year 2001 (approximately 12 percent of the total diversion payments for the sample counties). Case files were selected through a combination of random sampling (27 percent) and risk-based sampling (73 percent). Field work was performed between February and July 2002.

We would like to express our appreciation for the assistance and cooperation extended by management and staff at the Department and at the county departments of social services.

**Overview**

The Colorado Works program was created in response to federal Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) enacted in 1996. PRWORA established federal welfare reform requirements and created the Temporary Assistance for Needy Families (TANF) program to replace the Aid to Families with Dependent Children (AFDC) program. The TANF program was designed to provide time-limited cash assistance to needy families with dependent children who qualify under certain income and resource limitations. TANF allows states to design programs responsive to their particular recipient populations.

*For further information on this report, contact the Office of the State Auditor at (303) 869-2800.*

## **SUMMARY**

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In July 1997 the Department of Human Services implemented Colorado's TANF program, known as Colorado Works, under Senate Bill 97-120. The program is overseen by the Department's Office of Self Sufficiency, which provides assistance through trainings, conferences, and ongoing technical assistance, and issues agency letters on department policies and other matters. The Field Audit Section within the Department conducts various financial reviews of the counties. Colorado Works is administered by county departments of social services, which determine eligibility and issue benefits. One of the primary purposes of TANF and Colorado Works is to help participants end their dependence on government assistance through the promotion of job preparation, work, and marriage.

TANF is largely funded by federal funds. States are required to maintain a certain level of expenditures toward the TANF program. For example, Colorado is required to contribute expenditures of about \$88.4 million annually toward TANF. This contribution is composed primarily of state general funds and local funds. Under federal regulations the Department is responsible for the oversight of the TANF/Colorado Works Program and compliance with federal requirements.

Federal TANF rules allow states to create programs providing lump-sum cash payments to TANF applicants in lieu of enrolling them into ongoing monthly basic cash assistance. These lump-sum payments were to represent short-term benefits to a family to help it deal with a specific crisis or need rather than to meet recurrent or ongoing needs. These benefits were intended to be a nonrecurrent payment that would assist a family to maintain or secure employment, stabilize the family, and "divert" the family from long-term assistance.

Colorado Works includes two alternative, or "diversion," programs.

- C **State diversion** is designed for families who meet the income eligibility limits for TANF/Colorado Works basic cash assistance but who are determined to have a short-term need for assistance.
- C **County diversion** is designed for families who are ineligible for TANF/Colorado Works basic cash assistance but who have incomes below a county-specified limit.

Therefore, under county diversion, families may receive assistance who would not otherwise be eligible for either basic cash assistance or state diversion. These families also must be determined to have a short-term need.

Under diversion, assistance does not count against an individual's federal lifetime limit of 60 months on cash assistance. Individual payments may exceed the amount provided in one month of basic cash assistance. In addition, diversion recipients are not required to relinquish child support payments to the State, as must recipients under basic cash assistance.

Total expenditures under the two Diversion Programs have risen from about \$1.4 million in Fiscal Year 1998 to over \$8.8 million in Fiscal Year 2002 (about a 500 percent increase). Diversion expenditures have also risen as a percentage of total County Block Grant expenditures for TANF during this period from slightly over 1 percent to about 6.3 percent.

## Summary of Findings

While we identified instances in which diversion payments appeared to serve the intent of TANF and Colorado Works and noted several positive innovations by the counties, we also noted that the limited statutory guidance, coupled with a lack of adequate programmatic and fiscal guidance and oversight by the Department, has resulted in program weaknesses at the county level. Overall, we identified problems with 77 of the 239 cases in our sample, or 32 percent. Some case files had multiple problems. In total, we identified questioned costs of \$94,000 out of total payments tested of about \$480,200 (20 percent). These are instances in which payments authorized and issued by the counties did not meet federal and/or state program requirements. In some cases, these problems could result in federal disallowances. Because the majority of our sample items were selected on the basis of risk (e.g., unusually large payment amount), error rates are not necessarily reflective of the entire population of diversion payments. Nonetheless, we believe these error rates are unacceptably high and indicate a need for additional efforts to ensure counties' compliance with regulations. Additionally, the lack of adequate oversight and controls over diversion exposes the State and the counties to the risk of fraud and irregularities within the Diversion Program. Further, we determined that the State could be subject to substantial federal sanctions due to the Department's lack of compliance with federal verification requirements for all TANF applicants under the Income Eligibility Verification System. The problems identified are summarized below.

**Payments not in compliance with requirements.** We found a total of 30 case files in which diversion payments made by the counties were not consistent with requirements; some cases had more than one problem. Some examples of the problems identified include:

- C 1 case in which the county paid \$5,400 in county diversion to a family in which both parents were fugitive felons. State and federal regulations prohibit payments to felons.
- C 11 cases receiving a total of \$41,000 in which families did not meet the appropriate income requirements for the diversion payments they received.
- C 4 cases receiving a total of \$7,232 in which county staff had previously determined the recipients were not complying with specific components of their Individual Responsibility Contracts (IRC). Each recipient of Colorado Works is required to sign an IRC outlining the county's expectations and terms the recipient must meet to receive assistance.

## **SUMMARY**

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In addition to these compliance issues, we noted that not all counties in our sample had a policy requiring that efforts be made to recover overpayments under diversion. We identified 3 cases in which families received overpayments totaling \$12,160 due to caseworker error. According to department staff, recovery is only required for overpayments of public assistance. Federal rules classify diversion payments as “nonassistance,” and the Department considers diversion participants to have been “diverted” from public assistance (i.e., from basic cash assistance). Thus, the Department does not require that counties include policies for the recovery of state or county diversion overpayments as part of their county plans for Colorado Works.

Finally, we identified 28 payments totaling approximately \$33,000 (not included in total questioned costs) for mortgage payments and related late fees, sports equipment, driving fines, furniture, cable television, a television set, a computer, personal loans, and past due credit card bills. While payment for these needs is not specifically prohibited by Colorado Works regulations, these purposes appear to represent recurring and/or nonessential needs, and file documentation did not substantiate that these needs represented short-term crisis situations.

**Lack of review of county plans.** We found that the Department does not review the annual plans counties are required to submit outlining their Colorado Works program policies. We identified problems with two of the nine county plans reviewed for Calendar Year 2001.

**Lack of clarity on requirements for allowable programs.** One of the county plans we reviewed had established a county Diversion Program that does not appear to meet certain federal or state requirements. For example, the county appears in some instances to be providing long-term recurring cash payments instead of using county diversion to address families’ short-term needs. Out of the 13 county diversion cases from this county in our sample, in 12 instances these recipients received recurring diversion benefit payments during Calendar Years 2001 and 2002 to meet multiple, general, ongoing needs rather than a demonstrable, specific, short-term need. In addition, the payments and/or families did not meet other county diversion requirements.

**Lack of compliance with federal requirements to verify TANF applicants’ information.** Under TANF the federal government requires that all TANF recipients’ income information and identity be verified through the federal Income and Eligibility Verification System (IEVS) at the time of application. Although the Department reports it verifies information on TANF applicants for basic cash assistance through IEVS, we found that the Department does not use IEVS to verify reported income for either state or county diversion applicants. States can be penalized for failure to conduct IEVS matches by up to 2 percent of their total TANF grant award. For Colorado, a two percent penalty since the inception of the TANF program in Federal Fiscal Years 1998 through 2001 would result in a penalty of \$11.6 million when calculated on the basis of the entire TANF award.

**Lack of adequate documentation in case files.** In some instances, documentation was not sufficient to determine if payments made to recipients were appropriate, and in other instances, required documents were lacking. In total, we found 16 files with documentation problems. In seven of these instances, county staff were unable to locate the files altogether. These seven recipients received about \$18,400 in diversion payments in Calendar Year 2001.

We also found that counties were not following state regulations that require verification of applicant-provided information not confirmed through IEVS. State rules require counties to verify additional information not verified through IEVS such as identity, residency, family composition, income not reported in IEVS, and any other factors required that affect eligibility. In total, we found that counties did not properly verify this information in 54 (23 percent) of the 239 cases in our sample. We identified two cases involving overpayments totaling \$18,870 that resulted from the lack of verification of critical information.

On the basis of our findings, we recommended that the Department improve its oversight and monitoring of counties' state and county Diversion Programs and verify information submitted by all TANF applicants, including diversion applicants, through the federal Income and Eligibility Verification System and other means as necessary. We also recommended that the Department require that counties identify policies in their annual county plans for recovering diversion overpayments in a timely manner. The Department agreed with all seven of the recommendations in our report. A summary of our recommendations and the Department's responses can be found in the Recommendation Locator.

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## RECOMMENDATION LOCATOR

All recommendations are addressed to the Department of Human Services.

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Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	27	Establish adequate controls to ensure that Colorado Works diversion expenditures are in compliance with requirements and meet the program's intent by (a) reviewing diversion case files as part of its periodic and ongoing TANF/Colorado Works monitoring process at county departments of social services, and follow up timely on issues identified; (b) using COIN data on diversion payments to perform periodic risk analyses on counties' Diversion Programs and to perform other follow up; (c) developing written policies defining appropriate expenditures for diversion and communicating these to county departments of social services; and (d) requiring that all counties identify policies in their annual county plans to identify and recover diversion overpayments and reviewing the implementation of recovery policies.	Agree	a. October 2002 b. October 2002 c. Ongoing d. October 2002
2	29	Institute a formal review process for county Colorado Works annual plans for diversion by (a) assigning staff to review annual county plans, (b) establishing a method for providing feedback to counties regarding appropriateness of their plans within a specified time frame and ensuring that required changes are made timely, and (c) determining counties' compliance with their county plans through ongoing case file reviews.	Agree	a. January 2003 b. January 2003 c. October 2002

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## RECOMMENDATION LOCATOR

All recommendations are addressed to the Department of Human Services.

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Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
3	33	Take immediate steps to address the problems identified in the audit regarding county “transitional” programs under TANF/Colorado Works diversion including (a) conducting detailed case file reviews of recipients and payments under county transitional programs and addressing and resolving instances of noncompliance and (b) ensuring that counties are adequately informed about the requirements for payments or services to appropriately be classified as “other assistance.”	Agree	a. October 2002 b. Ongoing
4	35	Verify identity and income information submitted by applicants for Colorado Works diversion by (a) processing all diversion applicants through IEVS on a timely basis, (b) submitting all identified identity and income discrepancies to the counties for investigation and follow-up, (c) requiring counties to address and resolve discrepancies identified through IEVS in a timely manner.	Agree	a. October 2002 b. Ongoing c. September 2002
5	38	Ensure information in Colorado Works diversion case files is adequate by (a) establishing and communicating policies that outline the type of documentation to be maintained in county case files and (b) ensuring that counties implement existing state regulations requiring verification of specific applicant-provided information and other information affecting eligibility for diversion.	Agree	Ongoing

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## RECOMMENDATION LOCATOR

All recommendations are addressed to the Department of Human Services.

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Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
6	39	Require that counties have policies in their county plans for granting any TANF benefits or services to county employees. Policies should ensure that eligibility determination is performed in compliance with requirements and that potential conflict-of-interest issues are addressed.	Agree	January 2003
7	41	Identify innovative and successful program components implemented by counties for their Diversion Programs, and communicate these best practices to other counties.	Agree	Ongoing

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# Overview of the TANF/Colorado Works Diversion Program

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## Background

In 1996, Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), established federal welfare reform requirements and created the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558) to replace the Aid to Families with Dependent Children (AFDC) program. The TANF federal grant program was designed to provide time-limited cash assistance to needy families with dependent children who meet earning levels that may inhibit the positive development of the family. Under TANF, states are allowed to design programs that are responsive to the needs of their particular recipient populations.

TANF is largely funded by federal funds. In addition, states are required to maintain a certain level of expenditures toward the TANF program. For example, Colorado is required to contribute expenditures of about \$88.4 million annually toward TANF. This contribution is composed primarily of state general funds and local funds.

The four purposes of PRWORA are:

- C To provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives.
- C To end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.
- C To prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies.
- C To encourage the formation and maintenance of two-parent families.

PRWORA required that states establish plans approved by the US Department of Health and Human Services that outline how the state will conduct its program for meeting the basic purposes of the law, such as providing assistance to needy families and providing parents with job preparation, work, and support services to enable them to leave the

program and become self-sufficient. Under Sec. 26-1-109(1), C.R.S., the Department of Human Services is the sole state agency for administering state plans submitted to the federal government for public assistance and welfare programs not designated to another state agency. Accordingly, in July 1997 the Department implemented the Colorado state plan for TANF, known as “Colorado Works,” as enacted under Senate Bill 97-120.

The TANF/Colorado Works program is overseen by the Department’s Office of Self Sufficiency and administered locally by the county departments of social services. The goals of the Colorado Works program are to:

- C Assist participants in terminating their dependence on government benefits by promoting job preparation, work, and marriage.
- C Develop strategies and policies that focus on ensuring that participants are in work activities as soon as possible so that the State is able to meet or exceed work participation rates specified in the federal law.
- C Allow counties increased responsibility for the administration of the Colorado Works program.

Under Sec. 26-2-715(1), C.R.S., counties are required by their annual performance contracts with the Department to outline their specific Colorado Works program policies within annual county plans.

## **TANF Diversion Programs**

Under the federal TANF rules, states were granted the authority to create programs to provide lump-sum cash payments to TANF applicants in lieu of enrolling them into ongoing monthly basic cash assistance. These payments were to represent short-term benefits provided to a family to help it deal with a specific crisis situation or episode of need rather than meeting recurrent or ongoing needs. This type of benefit was intended to be a one-time or nonrecurrent payment that would assist a family to maintain or secure employment, stabilize the family, and keep the family, or “divert” it, from needing long-term assistance.

Colorado has created two types of these alternative, or “diversion,” programs as part of the Colorado Works program.

**State diversion** is designed for families who meet the income eligibility limits for TANF basic cash assistance but who are determined to have a short-term need for assistance.

**County diversion** is designed for families who are ineligible for TANF basic cash assistance but who have income below a county-specified limit. Therefore, under county diversion, families may receive assistance who would not otherwise be eligible for either basic cash assistance or state diversion. These families also must be determined to have a short-term need for assistance.

The specific eligibility requirements for the two types of diversion payments are outlined in the following chart.

<b>Department of Human Services Colorado Works/TANF State and County Diversion Program Comparison</b>		
<b>Program Requirements</b>	<b>State Diversion</b>	<b>County Diversion</b>
Applicant meets eligibility requirements for basic cash assistance. <sup>1</sup>	U	
Applicant is not eligible for basic cash assistance.		U
Applicant does not need long-term cash assistance.	U	U
Applicant demonstrates need for specific item or type of assistance.	U	U
Applicant enters into a written mutual agreement (Individual Responsibility Contract, or IRC) documenting why participant does not need ongoing basic cash assistance and outlining expectations and terms of the diversion grant.	U	U
Diversion payments are not to extend past four consecutive months.	U	U
Recipient must agree not to apply for further Colorado Works assistance during an established period of time after receiving diversion payment.	U	Optional
Applicants are not required to relinquish child support payments to the State.	U	U
Months on diversion do not count toward 60-month maximum time period for TANF basic cash assistance.	U	U
<p><b>Source:</b> Office of the State Auditor’s analysis of the Colorado Department of Human Services Rules and Regulations for the Colorado Works Program.</p> <p><sup>1</sup> To qualify for basic cash assistance, a family’s income as defined under regulations may not exceed specified levels. For example, for a family of four, including one caretaker, income may not exceed approximately 64 percent of the federal poverty level (about \$943 per month in Fiscal Year 2002).</p>		

Three primary advantages that the state and county Diversion Programs offer recipients over enrollment in basic cash assistance are:

- C Diversion assistance does not count against a recipient's lifetime limit under TANF of 60 months on cash assistance.
- C Diversion assistance provides a lump-sum payment that can exceed the amount provided in one month through basic cash assistance.
- C Diversion recipients are not required to relinquish child support payments to the State, as must recipients under basic cash assistance.

In addition, states may benefit from making diversion payments to recipients rather than basic cash assistance (BCA) payments. For example, while states are required to include BCA recipients in their work participation percentages as either participating in a work activity or not participating, states are not required to count diversion recipients in these calculations. Thus, a non-working diversion recipient will not lower a state's work participation rate. A state can be sanctioned if it does not meet its federally established work participation rates.

County TANF caseworkers determine eligibility for TANF basic cash assistance and state and county diversion. They have discretion within general established guidelines to determine if an individual should receive a state or county diversion payment, as well as the amount and nature of the payment.

### **Historical Levels of Colorado TANF Expenditures**

Total expenditures under state and county diversion have risen substantially from about \$1.4 million in Fiscal Year 1998 to over \$8.8 million in Fiscal Year 2002, an increase of over 500 percent. Diversion expenditures have also risen as a percentage of total TANF expenditures during this period from slightly over 1 percent to about 6.3 percent. These expenditures are detailed in the following table.

<b>Department of Human Services TANF State and County Diversion Expenditures and County Block Grant Expenditures</b>					
	<b>State Fiscal Year</b>				
	<b>1998<sup>1</sup></b>	<b>1999<sup>1</sup></b>	<b>2000<sup>1</sup></b>	<b>2001<sup>2</sup></b>	<b>2002<sup>2</sup></b>
State Diversion	\$910,569	\$1,495,672	\$1,742,868	\$2,512,570	\$2,391,632
County Diversion	\$519,757	\$1,159,756	\$2,291,386	\$4,323,999	\$6,434,387
Total Diversion Expenditures	\$1,430,326	\$2,655,428	\$4,034,254	\$6,836,569	\$8,826,019
Total TANF County Block Grant Expenditures <sup>3</sup>	\$126,182,037	\$107,770,310	\$106,145,401	\$123,896,531	\$141,100,017
Total Diversion as Percentage of Total TANF County Block Grant Expenditures	1.1%	2.5%	3.8%	5.5%	6.3%
<b>Source:</b> Office of the State Auditor analysis of Department of Human Services COIN data and federal ACF-196 reports.					
<sup>1</sup> Fiscal Year 1998, 1999, and 2000 diversion and County Block Grant expenditures are from COIN summary reports.					
<sup>2</sup> Fiscal Year 2001 and 2002 diversion and County Block Grant expenditures are from federal ACF-196 reports and related supporting documentation.					
<sup>3</sup> County Block Grant expenditures do not include maintenance of effort expenditures for state department functions, Family and Children's Programs, Child Care, or the Low Income Energy Assistance Program.					

The majority of counties use diversion as part of their TANF/Colorado Works program. However, counties differ widely in the level to which they use diversion payments to assist TANF families. With respect to county diversion, in Fiscal Year 2001, 47 (73 percent) of Colorado's 64 counties made county diversion payments. Participating counties issued total payments ranging from \$647 in Routt County to \$881,616 in Jefferson County.

With respect to state diversion, in Fiscal Year 2001, 46 counties (72 percent) made state diversion payments. Participating counties issued total payments ranging from \$500 in Jackson County to \$767,348 in El Paso County.

## **Audit Purpose and Methodology**

The purpose of our audit was to determine if adequate controls are in place and operating over state and county diversion payments to ensure that payments made to diversion recipients meet state and federal requirements and are consistent with the legislative intent of the Diversion Program. As part of our audit, we reviewed a sample of 239 case files for diversion recipients who received a total of \$480,200 in diversion payments in Calendar Year 2001. The nine counties chosen for review were selected to represent a sample of urban and rural counties and different geographic areas of the State. The case files reviewed were selected through a combination of random sampling (27 percent of cases selected) and risk-based sampling (73 percent of cases selected). For example, unusually large payments were one criterion used to identify higher-risk items. Our sample represented approximately 12 percent of total diversion payments of almost \$4 million for the counties in our sample. In turn, the nine counties in this sample accounted for about 64 percent of total diversion payments for the period.

In addition, we interviewed Department and county staff and reviewed documentation on the TANF/Colorado Works Diversion Program related to the legislative history and intent of the program, fiscal management and oversight, and provision of services under the program. The nine counties in our sample were:

### **Counties With Site Visit and Case File Review**

- C Denver County
- C Adams County
- C El Paso County
- C Jefferson County
- C Mesa County
- C Pueblo County

### **Counties With Case File Review Only**

- C Kit Carson County
- C Las Animas County
- C Park County

**Colorado Works Evaluations.** Since the implementation of Colorado Works at the beginning of Fiscal Year 1998, the Office of the State Auditor has contracted with

Berkeley Planning Associates (BPA) to conduct a series of evaluations of the Colorado Works program, including trends, effects, and outcomes. These evaluations are required under state law. State and county TANF/Colorado Works Diversion Program was addressed in the report dated August 2001, *Evaluation of the Colorado Works Program, Third Annual Report, Part 1: Diversion Programs and Work Activity Participation* (Report No. 1260). In performing its review, BPA analyzed data entered by the counties into Department of Human Services systems and conducted interviews with department and county staff.

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# Use of TANF Funds for State and County Diversion Programs

## Chapter 1

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### Background

As discussed in the Overview section, the purpose of the TANF/Colorado Works program is to assist needy families with dependent children to obtain and sustain self-sufficiency through time-limited cash payments. TANF regulations allow states to provide lump-sum, non-recurring cash payments to families rather than recurring monthly basic cash assistance payments. These short-term benefits are intended to address a family's specific crisis or episode and assist the family in maintaining or gaining employment, and thereby divert the family from requiring long-term assistance. Some examples of short-term needs that could qualify under diversion are car repairs, apartment security deposits and rent, and utilities. In 1997, Colorado created two Diversion Programs for families with short-term needs: state diversion and county diversion (see Overview for a description of the requirements for the two programs).

The Department of Human Services is the primary recipient of the TANF federal grant award. In large part, the Department passes these funds through to county departments of social services. These local departments are responsible for administering the Colorado Works program within their county under the terms of the county's performance contract with the State. Under federal Office of Management and Budget *Circular No. A-133: Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D.400(d), the Department is responsible for making the county departments aware of all federal laws and regulations and any supplemental state requirements, as well as for monitoring the activities of the county departments to:

... ensure federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Thus, the Department is responsible for the oversight of the TANF/Colorado Works Program and compliance with federal requirements.

Within the Department, the Office of Self Sufficiency (Office) oversees the program. Sec. 26-2-716(2.5), C.R.S., gives the board of county commissioners in each of the 64 counties the authority and responsibility to adopt policies for Colorado Works including a description of the types of assistance available, any eligibility criteria for assistance that may be unique to the county, and the process for determining such eligibility and assistance on an individual basis.

County TANF/Colorado Works caseworkers determine a family's eligibility for TANF basic cash assistance and state and county diversion. Caseworkers have discretion within general established guidelines to determine if a family should receive a state diversion payment rather than basic cash assistance payments, as well as the amount and nature of the payment. In addition, caseworkers have discretion within guidelines outlined in each county plan to determine families' eligibility for county diversion payments. In order for a county to receive state and federal reimbursement for TANF diversion payments, all diversion information must be entered by county caseworkers into the Department's welfare benefit payment system, COIN (Client-Oriented Information Network).

The Department has established two primary ways by which it oversees the Colorado Works program at the county level. First, the Office of Self Sufficiency provides assistance to the counties through periodic trainings, conferences, and ongoing technical assistance. The Office issues agency letters as needed in order to communicate changes in policies or program regulations or other information. Second, the Field Audit Section within the Department conducts desk reviews of all county annual financial audits to identify compliance problems reported in the audits. In addition, on the basis of its assessment of various factors, this Section performs reviews of audit workpapers and conducts on-site examinations of counties' social services expenditures.

## **Diversion Expenditures**

To evaluate the implementation of the TANF Diversion Program in Colorado, we selected a sample of case files for review. These case files were for families receiving TANF diversion payments during Calendar Year 2001 from the following nine counties: Adams, Denver, El Paso, Jefferson, Kit Carson, Las Animas, Mesa, Park, and Pueblo. During Calendar Year 2001 the nine counties in our sample authorized state and county TANF diversion payments totaling almost \$4 million, or 64 percent of the total diversion payments authorized statewide during that time. The table below summarizes each of the nine county's diversion case totals and the average payment per case for Calendar Year 2001.

<b>Department of Human Services Colorado Works Diversion Activity by County Calendar Year 2001</b>						
<i>County</i>	<i>Diversion Case Totals</i>				<i>Average Payment Per Case</i>	
	<b>State Diversion</b>		<b>County Diversion</b>		<b>State Diversion</b>	<b>County Diversion</b>
	<b>No. of Cases</b>	<b>Amount</b>	<b>No. of Cases</b>	<b>Amount</b>		
<b>Adams</b>	41	\$91,545	497	\$381,799	\$2,233	\$768
<b>Denver</b>	73	\$67,976	809	\$595,303	\$931	\$736
<b>El Paso</b>	1,696	\$767,348	444	\$341,217	\$452	\$769
<b>Jefferson</b>	128	\$268,353	474	\$881,616	\$2,097	\$1,860
<b>Kit Carson</b>	4	\$11,449	0	\$0	\$2,862	\$0
<b>Las Animas</b>	2	\$5,855	8	\$24,787	\$2,928	\$3,098
<b>Mesa</b>	95	\$110,321	267	\$118,842	\$1,161	\$445
<b>Park</b>	13	\$56,631	0 <sup>1</sup>	\$0	\$4,356	\$0
<b>Pueblo</b>	80	\$78,125	197	\$172,529	\$977	\$876
<b>TOTALS</b>	<b>2,132</b>	<b>\$1,457,603</b>	<b>2,696</b>	<b>\$2,516,093</b>	<b>\$684</b>	<b>\$942</b>
<b>STATEWIDE<sup>2</sup></b>	<b>2,640</b>	<b>\$2,276,176</b>	<b>3,782</b>	<b>\$3,974,730</b>	<b>\$862</b>	<b>\$1,051</b>

**Source:** Office of the State Auditor's analysis of information obtained from the Colorado Department of Human Services COIN system.

**Note:** Case figures and dollar amounts are all based on the calendar year, not the state fiscal year.

<sup>1</sup> Park County does not provide a county Diversion Program.

<sup>2</sup> Statewide figures include amounts from all 64 counties.

Through our case file review, we determined the most common purposes for diversion payments authorized in Calendar Year 2001 for our sample. The three most frequent recipient needs stated were rent, transportation, and utilities. In many instances, a lump-sum payment was made to address multiple needs.

Federal and state legislation for TANF/Colorado Works give limited direction in the types of needs to be met and the amount and duration of payments to be made through Diversion Programs. For example, federal legislation allows for “nonassistance payments,” which are identified as nonrecurrent, short-term benefits for crisis situations. Likewise, the original state legislation for the TANF/Colorado Works program stated that a diversion payment “may be in the form of a one-time lump sum cash amount for a specific need.” As noted earlier, state law has provided extensive authority to counties to create customized programs and determine how TANF diversion funds will be spent.

Department personnel report that the diversion component of the Colorado Works program has provided counties with an effective tool for assisting recipients in remaining off welfare. While we identified instances in which diversion payments appeared to serve the intent of TANF and Colorado Works and noted several positive innovations by the counties, we also found that the limited statutory guidance, coupled with a lack of programmatic and fiscal guidance and oversight by the Department, has resulted in program weaknesses at the county level.

Specifically, we found payments to ineligible recipients, payments for unallowable costs, payment errors, and a lack of adequate case file documentation to support payments. Overall, we identified problems with 77 of the 239 cases in our sample, or 32 percent. (Note: Some case files had more than one problem and thus may be reflected in more than one section of this report.)

In total, we identified questioned costs of \$94,000 out of total payments tested of \$480,200 (20 percent). These are instances in which payments authorized and issued by the counties did not meet federal and/or state program requirements. In a number of instances, the payment failed to meet more than one requirement—for example, the payment was to an ineligible recipient, and in addition there was a lack of sufficient documentation to support the payment. About 73 percent of our sample was selected on the basis of risk factors (see Overview for additional discussion of the sample); therefore, the error rates we identified are not necessarily reflective of the entire population of diversion payments. Nonetheless, we believe these error rates are unacceptably high and indicate a need for additional efforts to ensure compliance with regulations at the county level. Further, we determined that the State could be subject to substantial federal sanctions due to the Department’s lack of compliance with federal verification requirements for all TANF applicants under the Income and Eligibility Verification System.

We recognize that the Colorado Works program was intended to provide discretion to the counties in developing their individual programs and that the federal TANF program was designed to allow for state program flexibility. However, the lack of adequate oversight and controls over diversion payments exposes the State and the counties to the risk of fraud and irregularities within the Diversion Program. Although we did not identify specific

instances of these problems, the types of errors we found, combined with the lack of controls and amount of discretion allowed within diversion, raise serious concerns.

As described earlier, the Department is responsible for the Colorado Works program's overall administration, including both county and state diversion, and will ultimately be held responsible by the federal government for any inappropriate payments or program elements authorized or implemented by the counties as part of their Diversion Programs. This means that any federal disallowance due to noncompliance with federal program requirements will be charged to the State. Thus, the Department needs to establish adequate controls and oversight for the diversion component of the Colorado Works program.

In this report we address the importance of Department oversight and guidance. Specifically, we discuss the necessity for strengthening controls over program payments, county-instituted program components, case file documentation, and verification of applicant-provided information. We also address the need for the Department to review county Colorado Works plans and case files. Finally, we discuss innovative Colorado Works program components that counties have implemented.

## **Diversion Payments and Compliance With Regulations**

As discussed, a state or county diversion cash payment should be a nonrecurrent payment to a recipient to assist the family in dealing with a specific crisis situation or episode. Federal regulations for "nonassistance" (i.e., payments that are not considered "assistance," such as basic cash assistance payments), which apply to Diversion Programs, require that diversion payments be directed toward recipients who do not need long-term assistance. Recipients must demonstrate a need for a particular type of assistance. Federal and state regulations do not clearly define the specific types of needs that may be met by Diversion Programs. However, federal regulations do prohibit the use of TANF funds for some types of costs, such as medical services other than pregnancy planning services and capital construction, as well as payments made to fugitive felons.

We found a total of 30 cases in which diversion payments made by the counties were not consistent with federal and/or state requirements (some payments had more than one problem and appear in more than one category).

- C In one case, the county provided county diversion payments totaling \$5,400 from November 2000 through September 2001 to a family in which both parents were fugitive felons. Of these payments, \$4,800 was provided to the**

family after the information on the recipients' arrest warrants was obtained by the county. Both federal and state regulations prohibit payments to fugitive felons.

- C **In 11 cases, with payments totaling \$41,000, the families did not meet the appropriate income requirements for the diversion payments they received.** Three of the eleven families had income exceeding the county-established guidelines for county diversion and thus were not eligible for either state or county diversion payments; these recipients received \$14,200 in county diversion payments. The other eight received almost \$27,000 in county diversion payments but were only eligible for state diversion or basic cash assistance.
  
- C **In 4 cases, families received a total of \$7,232 after county staff determined the recipients were not complying with specific components of their Individual Responsibility Contracts (IRC).** According to state laws and regulations, in order to receive a diversion payment, each recipient is required to sign an IRC that outlines the county's expectations and terms the recipient must meet to receive assistance.
  
- C **In 7 cases, counties provided payments totaling \$3,279 for medical services including hospital bills, prescriptions, and miscellaneous unspecified medical bills.** According to federal regulations, TANF funds are not to be used for medical services other than pre-pregnancy planning services or limited medical costs previously allowed by the State under the federal JOBS program.
  
- C **In 9 cases, with payments totaling \$14,344, the families did not appear to be appropriate candidates for diversion.** Our review of case file documentation indicated these recipients had no current or future job prospects or otherwise had ongoing, long-term needs that would not be met by short-term diversion payments. Therefore these payments did not qualify under state regulations requiring that diversion participants not have a need for long-term cash assistance.

In addition to these compliance issues, we noted that not all counties in our sample had a policy requiring that efforts be made to recover overpayments under diversion. We identified 3 cases in which families received overpayments totaling \$12,160 due to caseworker error. According to department staff, recoveries are not required under federal law, state statutes, or state regulations; recovery efforts are only required for overpayments of public assistance. Federal rules classify diversion payments as "nonassistance," and the Department considers diversion participants to have been

“diverted” from public assistance (i.e., from basic cash assistance). Thus, the Department does not require that counties include recovery policies for state or county diversion as part of their county plans for Colorado Works. Nonetheless, we noted that in one instance a county did attempt to recover a diversion overpayment.

Finally, in 28 cases we identified payments totaling approximately \$33,000 (not included in total questioned costs of \$94,000) for mortgage payments and related late fees, sports equipment, driving fines, furniture, cable television, a television set, a computer, personal loans, and past due credit card bills. While payment for these needs is not specifically prohibited by Colorado Works regulations, these purposes appear to represent recurring and/or nonessential needs. Documentation in the case file did not substantiate that these needs represented crisis situations that would be appropriately met through diversion payments. In addition, the counties we visited had varying beliefs regarding whether payments for these types of purchases in general were allowed or otherwise appropriate.

### **Additional Controls Over Diversion Payments Are Needed**

While the Department has established various controls over the Colorado Works program, these findings indicate that the controls over the diversion component of the TANF/Colorado Works program are not adequate. First, the Department does not routinely review diversion payments to assess adherence to the legislative intent of the program or to otherwise ensure counties are meeting program requirements. A review could be accomplished in two complementary ways.

- C The Department should review actual case files of diversion recipients on a periodic basis. This should be done as part of the Department’s ongoing on-site reviews of Colorado Works at county departments. With respect to these on-site reviews, in our Fiscal Year 2001 financial audit of the Department, we found that the Department had discontinued these monitoring visits for Colorado Works. That audit recommended that the Department reinstate this review process, including case file reviews, in order to identify problems in areas including eligibility determination and benefit payments. The Department agreed with this recommendation. During this audit of the Diversion Program, the Department provided us with the plan and schedule it had developed to perform on-site monitoring at the counties on a four-year cycle for the Colorado Works program. The first of these visits was scheduled for June 2002.

It is imperative that diversion case files be included in those reviewed during site visits. Many of the problems identified in our audit of state and county diversion, in both this section and later sections of this report, could have been identified and

resolved by the Department—and perhaps prevented—if it had had an ongoing monitoring process in place to review diversion case files. These reviews should include follow-up discussions with county staff regarding any findings or questions and resolution of any problems. During this process the Department can also obtain information to identify trends, best practices, and areas in which technical assistance is needed.

- C In addition to performing on-site monitoring, the Department should review diversion payments by performing analytical reviews of the payments on a periodic basis. Department staff have access to Colorado Works payment information on the COIN system; however, the Department does not review COIN to identify possible problems. For example, department staff could review diversion payments by focusing on payments issued by individual county caseworkers, on large diversion payments, and on recurring payments to the same recipients. This type of analytical review is important in order to provide ongoing and timely feedback to the counties. In this way, the Department can supplement the feedback to counties that is provided under the on-site monitoring plan, which is designed to cover all 64 counties over a four-year period. Information from the analytical review could also aid the Department in identifying high risk counties and scheduling the on-site visits.

In addition to reviewing payments through case file reviews and analyzing COIN data, the Department should provide additional guidance to the counties to further assist them in becoming aware of and adhering to program requirements. While federal and state regulations have given wide discretion in determining what payments are appropriate under Diversion Programs, there are specific requirements that must be met for eligibility and for allowable types of expenditures. The problems we identified reflect payments that appear questionable under state and/or federal requirements and thus, in a number of instances, could be disallowed by the federal government.

Finally, the Department should ensure efforts are made to recover all overpayments made with public funds, regardless of whether or not it classifies payments as “public assistance.” The Department should require that counties develop policies to recover identified overpayments under diversion in a timely manner. We believe that this should be a consistent requirement across all county plans with diversion components.

Federal regulations require that the Department ensure federal requirements are met for funds passed through to the counties. Similarly, while state law grants the counties broad authority to administer their Colorado Works programs, statutes place the ultimate authority for ensuring compliance with state laws and regulations with the Department. Sec. 26-2-716(4) (a, b), C.R.S., states:

A county may not use county block grant moneys except as specifically authorized pursuant to the provisions of this part 7 [Colorado Works] and rules promulgated by the state board or state department . . . . If the state department has reason to believe that a county has misused county block grant moneys and has given the county an opportunity to cure the misuse and the county has failed to cure, the state department may reduce the county's block grant for the succeeding state fiscal year by an amount equal to the amount of moneys misused by the county. Any county found out of compliance with its performance contract or any provision of the works program may be assessed a financial sanction. . . .

Therefore, the Department should ensure that state and federal requirements are met for state and county diversion under Colorado Works.

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### **Recommendation No. 1:**

The Department of Human Services should establish adequate controls to ensure that Colorado Works expenditures for diversion are in compliance with state and federal requirements and meet the intent of the program by:

- a. Reviewing diversion case files as part of its periodic and ongoing TANF/Colorado Works monitoring process at county departments of social services. This process should include timely follow up with the counties on issues identified and resolution of problems.
- b. Using COIN data on diversion payments to perform periodic risk analyses on counties' Diversion Programs. Results of the analyses should be used to assist with decisions on scheduling county Diversion Program monitoring visits and to perform other follow up as appropriate.
- c. Developing written policies defining expenditures that are consistent with requirements and with the legislative intent of the Diversion Program and communicating these policies to all county departments of social services.
- d. Requiring that all counties identify policies in their annual county plans submitted to the Department to identify and recover diversion overpayments in a timely manner. The Department should review the implementation of counties' recovery policies during Diversion Program monitoring visits.

## **Department of Human Services Response:**

Agree.

- a. The ongoing county program reviews include diversion-specific questions that will focus on the accuracy of payments, state and/or federal law compliance, and county compliance with its own policies. The Department will then issue a detailed report with recommendations to the county and forward copies to the Department's Audit Division. Based on the reviews, appropriate counties will receive more intensive training. Implementation Date: October 2002 and ongoing.
- b. The Department will initiate periodic risk analyses on counties' Diversion Programs. These results will be utilized as part of the overall county monitoring process. Implementation Date: October 2002.
- c. Written policies defining expenditures that are consistent with requirements and legislative intent is a good control; however, these policies are already defined in state and federal statute and regulations, and county social service departments have had and continue to have access to this information on a regular basis. The Department will continue to provide counties with guidance on these policies and help in the development of policies at the local level. Implementation Date: Ongoing.
- d. Federal TANF law does not require counties to recover overpayments. Colorado statute gives counties the programmatic flexibility and funds to make these decisions at the local level. However, the Department will require that all counties identify policies in their annual county plans with regards to recovery of diversion overpayments. The Department, through its ongoing county program reviews, will verify proper implementation of the county recovery policies contained in the annual county plan. Implementation Date: October 2002 and ongoing.

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## **Review County Plans for Compliance With Program Regulations**

Another weakness in the Department's oversight of the Diversion Program is its lack of review of county plans. Counties are required by their performance contracts with the

Department of Human Services to submit plans annually to the Department that outline their Colorado Works program policies. As discussed, state law provides counties discretion in creating and implementing their Colorado Works programs while still requiring them to adhere to federal and state TANF rules. We identified problems with two of the nine county plans we reviewed for Calendar Year 2001. In one case, the plan outlines the county's creation and implementation of a separate program component that is not consistent with state or federal TANF regulations. The problems we identified with this particular component of that county's plan are described in the next section of this report.

In the second plan in which we identified problems, the plan noted that the county would make diversion payments to recipients for unreimbursed medical expenses. However, TANF regulations do not allow medical services other than prepregnancy services to be provided with TANF grant funds. In addition, this county did not provide an income limit for county diversion in its county plan, although state regulations require counties to establish income maximums for county diversion eligibility.

In its federally required biannual state plan for the TANF program, the Department states that it is responsible for ensuring that all counties are complying with the terms of their county plans. This is consistent with the Department's responsibilities as the primary recipient of federal TANF funds. However, the Department has no process in place for reviewing annual county Colorado Works plans. Some of the inappropriate payments identified in our audit could likely have been prevented if the Department had reviewed the counties' plans and provided feedback regarding program components that did not appear to be in line with state and federal regulations

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## **Recommendation No. 2:**

The Department of Human Services should institute a formal review process for county Colorado Works annual plans by:

- a. Assigning staff to review annual county plans.
- b. Establishing a method for providing feedback to counties regarding appropriateness of their plans within a specified time frame (e.g., 30 days) of submittal and ensuring that required changes are made timely.
- c. Determining counties' compliance with their county plans through ongoing case file reviews.

## Department of Human Services Response:

Agree. The Department agrees that improvements regarding the appropriateness of counties plans with regard to state and federal compliance issues can be achieved. Determining compliance with plans and policies through ongoing case file reviews is already a part of the established county program review process. As part of the ongoing county program reviews of all 64 counties within the next four years, the Department will conduct a thorough review of counties' plans and policies and provide specific feedback to counties regarding issues of non-compliance with regulations. Additionally, the Office of Self Sufficiency will work internally with the Department's Divisions of Field Audits and Field Administration and externally with county departments themselves to establish a review tool to more effectively and timely review counties' plans and policies. It is anticipated that after development of this review tool, feedback would be given to counties within 90 days of plan submittal. Implementation Dates: Parts (a) and (b): within 90 days of receipt of new county plans starting January 1, 2003. Part (c): October 2002 and ongoing.

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## Clarify Requirements for Allowable Programs

Several of the counties we reviewed have instituted Colorado Works Diversion Programs for families leaving basic cash assistance because the recipient had obtained employment, and therefore, the family's resources exceeded eligibility requirements for ongoing cash payments. We found that one county's program for these families, referred to as its "transitional" program, does not appear to meet certain federal or state requirements. For example, under this transitional program, the county appears in some instances to be providing recurring cash payments instead of using county diversion to address families' short-term needs. Out of the 13 county diversion cases from this county in our sample, in 12 instances recipients received recurring diversion benefit payments during Calendar Years 2001 and 2002 to meet multiple, general, ongoing needs rather than a demonstrable, specific, short-term need. In addition, the payments and/or families did not appear to meet other county diversion requirements. The problems we found are identified below (some cases had more than one problem).

- **Nine of the families each received between 9 and 34 cash payments during Calendar Years 2000 and 2001.** One of the nine families received 27 payments over the two-year period, including four rent payments and two car insurance

payments. The insurance payments each covered a full year of premiums. Under federal regulations, “transitional” services are to be paid only for stabilization of housing or transportation, and the payment must be for a nonrecurrent, short-term benefit addressing a discrete crisis rather than ongoing needs. Total payments to individual families ranged from \$3,121 to \$7,000.

- **Seven of the families received cash payments in six or more consecutive months. In one case, the family received payments for 11 consecutive months.** Federal regulations that apply to diversion state that cash payments to recipients are limited to four consecutive months for a specific need. Our file review indicated that the same ongoing needs were being used by the county as the basis for payments beyond the four-month limit.
- **Six of the families did not appear to meet income guidelines for the county’s Diversion Program.** State regulations require that families served in county diversion must not be eligible for basic cash assistance or state diversion. For these six families, both the case files and Department of Labor and Employment records indicate the families had low-income levels that would *require* that they be served through either basic cash assistance or state diversion; county diversion is intended to serve families at higher income levels. These six families received a total of 119 county diversion payments during the two-year period totaling \$24,203.
- **Three recipients that received a total of 32 county diversion payments totaling \$9,000 did not work at all or worked only a few months during the two-year period we reviewed.** While regulations do not require that diversion recipients be employed, we question whether payments to chronically unemployed individuals meets the goals of Colorado Works to promote job preparation and ensure participation in work activities as soon as possible. Our review of file documentation indicated these recipients were receiving payments on the basis of long-term ongoing needs throughout the period, rather than for short-term crises. We also noted that by placing these recipients in diversion, the county was not required to include these recipients when calculating its work participation rate.

Additionally, we noted that because the county was providing ongoing cash payments to these recipients through diversion, these payments were not being counted against the recipients’ 60-month TANF lifetime limits for ongoing cash assistance. We believe this is a misuse of county diversion. Federal and state regulations require that in order for cash payments to qualify as “nonassistance” or diversion, the payments must be solely for short-term or transitional needs. If the payments do not meet these requirements, then the

payments are considered cash assistance and must be counted against a recipient's lifetime limit for cash assistance payments.

The county believes the ongoing cash payments under its transitional program are permitted by TANF regulations under the category of "other assistance." However, we are concerned that under both federal and state TANF regulations, "other assistance" is intended to provide support services (e.g., child care) to employed families that are receiving basic cash assistance. "Other assistance" is not intended to take the form of cash payments, and it is not intended for unemployed persons or "post-TANF" individuals after leaving basic cash assistance. Therefore, it appears that the county is using its transitional program to make payments that are not allowable under federal regulations either as "other assistance" or as "nonassistance" (i.e., diversion).

The county stated that its transitional program was not part of diversion and, therefore, was not subject to federal or state TANF/Colorado Works regulations. However, the county is using TANF funds to make payments under its transitional program, and the county is reporting the payments on COIN as TANF diversion payments. This transitional program is therefore part of the TANF/Colorado Works program.

### **Action Should Be Taken to Ensure Compliance With Regulations**

The Department should take immediate action to ensure that federal and state requirements are clear to counties and that counties are in compliance with these requirements. This should include completing a detailed review of this county's plan, as discussed in the previous recommendation, and requiring the county to make necessary changes to the plan. Additionally, the Department should perform an extension of the case file review undertaken in our audit with appropriate follow-up at all counties that have in place "transitional" Diversion Programs to identify all instances of noncompliance. These steps are critical to ensuring the program is operating according to regulations and that any instances of possible fraud or irregularities are identified and addressed. As stated earlier in this report, the Department should also ensure that all counties with diversion as part of their Colorado Works program have policies in place to recover diversion overpayments.

In addition to the risks of noncompliance and misuse presented by this situation, we are concerned that this county's transitional Diversion Program is, in effect, being used in some instances to provide ongoing cash assistance with no time limits. This is contrary to one of the basic intents of Colorado Works and TANF: to end dependence on government benefits.

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### **Recommendation No. 3:**

The Department of Human Services should take immediate steps to address the problems identified in the audit regarding county “transitional” programs under TANF/Colorado Works diversion. This should include:

- a. Conducting detailed case file reviews of recipients and payments under county transitional programs and addressing and resolving instances of noncompliance with federal and state regulations.
- b. Ensuring that counties are adequately informed about the requirements that must be met in order for payments or services to be appropriately classified as “other assistance” under TANF.

### **Department of Human Services Response:**

Agree.

- a. As part of the ongoing county program reviews of all 64 counties within the next four years, the Department will include some diversion-specific questions that will focus on whether the payments made were accurately, within state and/or federal law, and within the county’s own policies. A detailed report of any noncompliance issues and recommendations for resolution will be issued to the county with a copy sent to the Department’s Audit Division. Further, counties identified with having a significant number of noncompliance issues will be targeted for more intensive training. Implementation Date: October 2002 and ongoing.
  - b. The Department will continue to provide guidance to counties—through training, agency letters, technical assistance, etc.—on the policy requirements, both federal and state, that must be met and the areas where there is flexibility to develop county-specific policies. Implementation Date: Ongoing.
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## **Verify Recipient Income and Identity Through IEVS**

The TANF program has considerably more flexibility than Aid to Families with Dependent Children (AFDC), the program TANF replaced. However, under TANF the federal government continued one of AFDC's basic requirements: that recipients' income information and identity must be verified through the federal Income and Eligibility Verification System (IEVS) at the time of application. IEVS provides states with income information on TANF recipients from the Social Security Administration, the Internal Revenue Service, and the Colorado Department of Labor and Employment. Through IEVS, recipients' social security numbers are matched with these agencies' records to identify instances in which TANF recipients have potentially understated their earned and unearned income and resources. This requirement must be met for all TANF applicants, regardless of whether they are applying for basic cash assistance or another type of assistance such as diversion.

In our review, we found that although the Department reports that it verifies information on TANF applicants for basic cash assistance through IEVS, the Department does not use IEVS to verify the accuracy of reported income for either state or county diversion recipients.

Staff explain that they have not run diversion recipients' social security numbers through IEVS since the inception of the Colorado Works program because diversion recipients receive a one-time payment and the State might not be able to locate the individual to recover an overpayment by the time the IEVS match identified a discrepancy. However, federal regulations require that information on all TANF applicants, including those applying for diversion, be screened through IEVS. In addition, we noted that many recipients receive more than one diversion payment throughout the year. Therefore, IEVS could identify discrepancies with applicant-provided information that could be investigated and resolved prior to a recipient's returning for additional assistance.

Under federal regulations, states can be penalized for failure to conduct IEVS matches by up to 2 percent of the total TANF grant award. For Colorado, a 2 percent penalty since the inception of the TANF program in Federal Fiscal Years 1998 through 2001 would result in a penalty of \$11.6 million.

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## **Recommendation No. 4:**

The Department of Human Services should verify identity and income information submitted by applicants for Colorado Works diversion by:

- a. Processing all diversion applicants through the federal Income and Eligibility Verification System (IEVS) on a timely basis.
- b. Submitting all identified identity and income discrepancies to the counties for investigation and follow-up to ensure discrepancies are resolved promptly.
- c. Requiring counties to address and resolve discrepancies identified through IEVS in a timely manner. In instances where discrepancies exist, if counties use alternative information to determine eligibility, the Department should ensure that counties obtain verification of this information.

## **Department of Human Services Response:**

Agree.

- a. Agree. The Department shall create an automated process by which all applications for federal TANF benefits are processed through the IEVS system. Implementation Date: October 2002.
  - b. The Department will continue to follow the Settlement Agreement of Darts, et al. v. Berson Civil Action No. 91-S-1003 that required the Department to implement minimum verification requirements for applicants and verify earned income, social security numbers and pregnancy. Other verification may be required if the information provided by the applicant is questionable. The lawsuit settlement allows the State Department to verify only those items directly relating to eligibility for public assistance. Implementation Date: Ongoing.
  - c. The Department will issue guidance to counties regarding timely identification and resolution of discrepancies identified through IEVS. The guidance issued will also include verification of any alternative information utilized to determine eligibility. Implementation Date: September 2002.
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## Case File Documentation Is Insufficient

We also found that counties need to improve case file documentation. In some case files, documentation was not sufficient to determine if payments made to recipients were appropriate, and in other instances, required documents were lacking. Both state and federal regulations require states and counties to maintain adequate case records related to services provided. Case records should assist caseworkers reach valid decisions, ensure assistance is based on factual information, and provide for continuity when a caseworker is absent or when a case is transferred. The Department requires counties to, at a minimum, obtain an application, an Individual Responsibility Contract (IRC), and documentation of income earned in the last 30 days. Federal and state regulations both require the maintenance of records regarding applications, determinations of eligibility, and provision of financial assistance.

We identified problems with the documentation for recipients' diversion payments at each of the nine counties we reviewed. These problems were identified in a total of 16 cases (some files had more than one error and may appear in more than one category below).

- C **Seven case files could not be located by county staff.** These recipients received about \$18,400 in diversion payments in Calendar Year 2001.
- C **Five case files contained no supporting documentation for payments totaling about \$4,200.** Thus, the counties were unable to substantiate the payments' appropriateness and adherence to program regulations.
- C **Five case files involving payments of over \$12,200 did not contain a state-required Individual Responsibility Contract (IRC).** This contract specifies the recipient's need for assistance and the type of assistance being provided, the county's expectations and terms for the recipient, and the reason the participant does not need a basic cash assistance grant.

## Lack of Verification Has Led to Overpayments

In addition to the need to maintain adequate documentation, we found that state regulations were not being followed that require verification of applicant-provided information not confirmed through IEVS. Specifically, state rules require counties to verify additional information not verified through IEVS such as identity, residency, family composition, income not reported in IEVS, and any other factors required that affect eligibility, such as specific need for a type of assistance under diversion. Department rules require counties

to obtain and verify a social security number for each individual listed on the Colorado Works application, income earned by each family member within the past 30 days, and pregnancy if not observable. Verification is defined as confirming the correctness of information by obtaining written evidence or other information that proves such fact or statement to be true.

In total, we found that counties did not properly verify applicant-provided information in 54 (23 percent) of the 239 cases in our sample. In some instances, this resulted in the counties' issuing improper payments. The nonverified information included income, employment, identity, and specific need for a type of assistance. We also found that four of the nine counties reviewed do not require applicants to provide social security cards, identification cards, or any other proof of identity. They only require an applicant to provide a social security number for each of the family members. Lack of requirements for adequate documentation and verification increases the risk of fraud and irregularities occurring within the Diversion Program.

We identified three specific overpayments that resulted from the lack of verification:

- C **One county discovered it had overpaid a recipient by \$9,630. When staff attempted to recover the overpayment, they found the recipient had provided false information and was not eligible for any payment.** Staff discovered that the recipient's children were not living in the household, the employment information was false, and the home address was not a residence but a business. If this information had been validated prior to payment, this situation could have been averted. While the county had made attempts to recover the overpayment, as of the end of our audit the county had not been successful in recovering any of the overpayment from the recipient.
  
- C **Another county inappropriately paid two recipients \$9,240 in county diversion, although the recipients' incomes exceeded the county limit for the program.** Proper verification of the recipient-provided income information might have prevented the overpayments.

In one of these latter instances, the recipient was a TANF caseworker in one of the county departments. This individual received diversion payments totaling \$5,000, despite the fact that the person's income exceeded the county's maximum level for county diversion. The county had excluded routine overtime pay in the calculation of the individual's income, although information on both regular and overtime pay were documented in the file. Overtime pay must be included in the calculation of income.

Issuing benefits to county workers is an area of potential conflicts of interest, and counties should have policies in place to ensure such applications are handled appropriately. While the county had a policy requiring management review of such decisions, the county did not perform adequate verification of supporting documentation to determine the payment was appropriate.

### **Clarify Policies on Documentation and Verification**

Regulations require verification of recipient-provided information and define verification as obtaining written evidence proving the information is correct. This indicates that the information should be maintained in recipient case files. Colorado Works rules also state that a county cannot delay payments to applicants while waiting for information from IEVS “if other appropriate verifications are obtained to determine eligibility.” Thus, counties must verify essential applicant-provided information through IEVS or alternate sources prior to authorizing payments.

Counties note that regulations do not provide detail about how much documentation must be maintained in case files. Through its policies and procedures the Department should ensure that applicant-provided information is verified and that case files contain appropriate documentation to ensure payments are made to eligible individuals, payment amounts are appropriate, and payments are adequately supported. As part of the annual county plans, the Department should require that counties identify policies for granting TANF benefits to county employees. Policies should ensure payments are made only to eligible individuals and address conflict-of-interest issues.

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### **Recommendation No. 5:**

The Department of Human Services should ensure information in Colorado Works diversion case files is adequate by:

- a. Establishing and communicating policies that outline the type of documentation related to eligibility to be maintained in county case files for diversion recipients.
- b. Ensuring that counties implement existing state regulations requiring verification of specific applicant-provided information, as well as other information affecting eligibility for diversion.

## **Department of Human Services Response:**

Agree.

- a. The Department will continue to provide guidance to county departments of social services on the types of documentation necessary to be included in case files for diversion recipients through its various training/information-sharing opportunities, such as its annual professional development conference, its quarterly administrator meetings and through its ongoing county program review process. Implementation Date: Ongoing.
- b. County departments are required to meet all requirements of *Darts, et al. v. Berson*, Civil Action No. 91-S1003 and at a minimum verify earned income, social security numbers and pregnancy if not observable for all applicants. County departments may, under current Colorado Works rules (3.604.1 C), require verification of any information that is questionable or inconsistent as documented in the applicant's case file. Through the county monitoring activities, training and agency letters the Department will monitor case files to assure that case files include appropriate documentation and verification consistent with state Colorado Works rules. Implementation Date: Ongoing.

## **Recommendation No. 6:**

The Department of Human Services should require that counties have policies in their county plans for granting any TANF benefits or services to county employees. Policies should ensure that eligibility determination is performed in compliance with state and federal requirements and with the county plan, and that potential conflict-of-interest issues are addressed.

## **Department of Human Services Response:**

Agree. The Department will require counties to include in their county plan a policy for granting TANF benefits or services to county employees. In a county-administered system, counties make decisions on the appropriateness of and the eligibility for any payments under the TANF program. The Department will encourage counties to establish fair and objective policies for the provision of diversion payments to staff in their employ, including the review of such requests by an impartial party prior to such payment being made. Implementation Date: January 2003 and ongoing.

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## Counties Have Identified Innovative Practices for Diversion Programs

Finally, although our review identified a number of problems with the Diversion Program, during our review of the nine counties in our sample we identified several effective and innovative approaches counties are using within their TANF/Colorado Works Diversion Programs. Specifically:

- C Centralized payment approval process.** One county has instituted a centralized approval process for all diversion payments. One of four Colorado Works program managers must approve each state or county diversion payment for appropriateness and reasonableness before it is issued. If a request for diversion is denied by a supervisor and the caseworker disagrees with the decision, the supervisor and caseworker will meet to discuss the case and make a final decision on payment. The county reports that this practice has provided for more consistent, equitable treatment of recipients.
- C Verification of recipient-provided information through online sites.** Several counties are using available online Web sites to verify eligibility information provided by recipients. These sites include the Department of Labor and Employment Web site for income verification, as well as county Web sites containing property records for residence verification.
- C Employment incentive payments.** Four of the six counties we visited provide employment bonuses to diversion recipients after they have worked for a specified number of months. One of these four counties previously offered incentives to recipients as soon as they had obtained employment and the caseworker had verified the job; however, this county has recently modified its program to require the recipient to maintain employment for a set period of time before receiving an incentive payment.
- C External review unit.** In one county, staff that are external to the TANF program review a sample of TANF payments including diversion payments on a monthly basis. Staff in the external unit conduct case file reviews and review recap reports showing all TANF supportive services payments made during the month. According to county staff, the reviewers look for large, duplicate, and frequent payments. When the review staff are finished, they send memos to the TANF supervisor stating their findings. If any negative findings are noted, the supervisor and caseworker responsible for the error must correct the problem and respond to the review staff.

- C **Community Resources/Service Organizations.** Section 26-707.5, C.R.S., gives county departments the authority to use county TANF block grant moneys to invest in the development of community resources that support the four purposes of TANF, which include ending the dependence of needy parents on government benefits by promoting job preparation, work, and marriage, and encouraging the formation and maintenance of two-parent families. During our audit we found several counties that use community resources to promote these goals. For example, one county contracts with an organization for the homeless to supply transportation-related services such as car repairs. Another county contracts with a literacy program that attempts to enhance the skills of the entire TANF family and allows parents to go to school with their children. Finally, a third county contracts with the local transportation authority to provide low-cost bus transportation for TANF recipients and other low-income families in their communities.
- C **Required budgeting classes.** One of the counties we visited requires Colorado Works diversion recipients to attend a two-hour budgeting skills class before receiving a payment. During this class, recipients learn the basics of how to manage their money more wisely. For example, they are taught how to make better purchasing decisions, how to save money, how to plan for the future, how to lower expenses, and how to get involved with long-term investing. If a diversion applicant fails to complete the class, diversion assistance will be denied.

As discussed throughout this report, federal guidance is minimal for the diversion component of the TANF program. In addition, the State has provided counties with wide discretion in implementing program components. As such, it is especially important for the Department to provide guidance and “best practice” information regarding TANF/Colorado Works service delivery for Diversion Programs to counties.

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## **Recommendation No. 7:**

The Department of Human Services should identify innovative and successful program components implemented by counties for their Diversion Programs and communicate these best practices to other counties.

## **Department of Human Services Response:**

Agree. The Department will continue to highlight best practices through its various training/information-sharing opportunities, such as its annual professional development conference and its quarterly administrator meetings. It will also

continue to look into developing its Web site to allow for counties and others to learn more about what counties are doing by way of implementation of the Colorado Works program. Implementation Date: Ongoing.

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